

rate) and declining in January by more than 210,000. The January figure was below that for August 1967 and only 2,000 above that for June 1967. The average for December and January, at 1,217,000 was only 5,000 above the level of October 1967. A leveling off at approximately that number of permits during the remainder of the year would be consistent with the starts forecast of the National Association of Homebuilders.

The Council attempts to minimize the effects of high interest rates on housing demand and actually proposes lifting the interest ceilings on FHA and VA mortgages. Its report says:

The events of 1967 have shown quite clearly that housing demand is strong enough to support a high and rising level of building even when mortgage interest rates are high—provided funds are available at thrift institutions.

But the 1967 rise in housing starts prior to December may have been merely catchup for the immediately preceding period when home construction was sharply depressed by the restricted availability of mortgage funds. Families who could afford high interest rates could proceed with their housing plans as mortgage money became available in 1967; but many less well-off undoubtedly were kept out of the housing market by interest costs. Given the steady, sharp decrease in real housing expenditures after 1963 (which persisted into 1967) and the urgent need for housing, demand undoubtedly would have been significantly higher last year if not for the level of interest rates. The leveling off of housing starts and permits in the past 2 months may reflect the rise in mortgage interest rates which began in June 1967 after a decline earlier in the year. It may also indicate that the catchup phase is ending and that high interest rates are now becoming the predominant influence on home construction. If that should prove to be the case, fulfillment of the Council's apparent expectation that interest rates will continue to be high could result in a downturn rather than a mere leveling off of housing expenditures.

GOVERNMENT SPENDING

The Council predicts that State and local purchases of goods and services will rise at about the same rate as last year. Federal purchases, however, are expected to increase by only \$6 billion as compared to \$13 billion from 1966 to 1967. This marked slowdown in the rise of Federal spending will retard the growth of GNP both directly and indirectly. The 1967 increase in purchases by the Federal Government accounted directly for nearly one-third of the total increase in GNP and, indirectly, it undoubtedly contributed substantially to increases in other components of GNP. The much smaller increase in Federal purchases projected for 1968 will reinforce the factors tending to slow the rise in fixed business investment and inventory accumulation.

CONSUMER SPENDING

Of the \$61 billion total increase in GNP that the Council projects for 1968, about \$33 billion, or more than half, is expected to come from an increase in consumer spending. As previously noted, however, the Council concedes that the consumer sector is "an area of particular uncertainty." It acknowledges also that "the latest evidence indicates that consumers are still spending cautiously." Surveys of consumer