

buying intentions indicate that they will continue their caution in the months ahead. Yet, the Council bases its surcharge proposal on the assumption that the rise in consumer spending will be large enough to trigger a capital goods boom and inventory speculation if the surcharge were to fail of enactment.

The Council's projected \$33 billion increase in consumer spending assumes a small decline from the 1967 saving rate "essentially" as a result of a catchup in automobile purchases from the effects of the Ford strike. This view must be examined in the light of the facts that (1) the Council was grossly in error last year in predicting the 1967 savings rate; (2) savings were still on the rise at the end of last year and the continued caution of consumers reflected in the surveys provides no basis for projecting a decline; and (3) the expected catchup in auto sales does not appear to be materializing.

In its 1967 report, the Council predicted that:

The saving rate in 1967 should remain close to the 1966 level of 5¼ percent, a little below the average of recent years.

As it turned out, the saving rate shot up to 7.1 percent, which was not only far above the average for recent years but, in fact, the highest rate since 1953. During the fourth quarter of 1967 the rate was 7.5 percent. The Census Bureau survey of consumer buying expectations certainly provides no indication of a spending spree that would reduce the saving rate in the months ahead. And Professor George Katona, who conducts consumer behavior studies for the University of Michigan's Survey Research Bureau, is quoted in *Newsweek* magazine for February 26, 1968, as saying that, in the absence of some dramatic news such as a Vietnam peace proposal, "we could have several quarters more of high savings".

The record of retail new car sales thus far this year provides little support for the belief that auto sales catchup will reduce the saving rate. During the first 20 days of January, when catchup should have been most strongly felt, seasonally adjusted unit car sales (excluding overseas imports) ran at an annual rate of only 7.8 million compared to actual sales of approximately 7.6 million last year. Subsequently, factory-promoted dealer sales contests were widely in effect. Despite the combined effects of catchup and the sales contests, the annual rate of sales from the start of the year through February 20 was only 8.1 million. This figure, boosted though it was by temporary factors, is nevertheless short of forecasts by the major auto producers which called for sales in 1968 of 8.2 to 8.5 million cars (again excluding overseas imports). Based upon the sales record thus far this year, Mr. Lynn Townsend, chairman of the board of the Chrysler Corp., has already reduced his original forecast for 1968.

The Council's forecast of a "sizeable advance in consumer spending" rests in part on expectation that:

Expenditures on household durables should receive particular support from the continued high level of homebuilding.

However, homebuilding, as noted above, may fall short of the Council's expectations, and the census survey of consumer buying plans shows no signs of a spurt in purchases of durables. In fact, the survey (as analyzed by Prof. Paul W. McCracken for the Commercial Credit Co.) indicates dollar purchases of major appliances and furniture in