

Chairman PATMAN. Thank you very much, sir.
 Professor Perry, we will be very glad to hear from you, sir.

**STATEMENT OF GEORGE L. PERRY, PROFESSOR OF ECONOMICS,
 UNIVERSITY OF MINNESOTA**

Mr. PERRY. Thank you, Mr. Chairman.

In order to be brief, I shall limit this statement to a summary of my forecast for output, prices, employment, and the budget surplus, plus a couple of observations on some policy implications of this forecast.

I can fill in some more detail of the forecast if you would like during the question period.

The forecast assumes the surtax rates are extended and projects Federal expenditures at very near the levels estimated in the January budget. Also, in the forecast, interest rates do not rise significantly from present levels and are expected to ease, but only a little, as the year progresses. Under these conditions:

I expect the gross national product to increase by 7.2 percent or \$62 billion, from \$861 billion now indicated for 1968 to \$923 billion this year.

I am not as optimistic as the Government in 1969 President's Economic Report about the likelihood of a substantial slowdown in prices this year. There should be some deceleration of prices as the year progresses. But more than half of my forecast GNP increase for 1969 is due to the rise of almost 4 percent that I expect in the GNP deflator. With real output increasing more slowly than the economy's potential, I expect the unemployment rate to average a little above last year's 3.6 percent and to approach 4 percent before the end of this year.

Consistent with outlook for GNP, I expect a 7½-percent growth in personal incomes and very little change in corporate profits in 1969.

I expect the Federal budget, on the national income accounts basis, will show a modest surplus for the year.

While the pattern of GNP advance in the forecast can be characterized as somewhat faster in the second half of the year than in the first, I do not expect a dramatic shift in the growth rate of real output. In particular, I would not characterize the year as another 1967 when a big change in the rate of inventory building resulted in a sharply different rate of advance between the first and second halves. This year, the modest pickup expected in the second half is due to the Government pay increase, which contributes to GNP but not directly to real output; and to other Government policy actions, both budgetary and monetary, which could well change from present projections.

Finally, if I had to project what now seem the most likely places where this forecast might go wrong, I would list the most policy-sensitive sectors of demand, particularly—

Residential construction, where I now forecast a 1.5 to 1.6 million rate of housing starts for the year, a figure that could prove too high if determinedly tighter monetary policy were pursued; and

Purchases by all levels of Government, where the decidedly larger increases I expect in the second half of the year compared to the first could be pared if present budget plans are revised.