

predictions must be evaluated with some skepticism. The surveys can be taken to reflect correctly the mood of the business community at the time they were taken. But they probably reflected a reaction to the sharp increase in real consumption expenditures, which between the fourth quarter of 1967 and the third quarter of 1968 had been rising at an annual rate close to 7 percent. Assuming that the slowdown in consumer expenditures in the fourth quarter of 1968 carries forward into 1969—and no other assumption seems valid—businessmen will tend to revise their investment plans. If they did not they would merely be creating the basis for a later slump because the margin of unused capacity was undesirably large even at the peak of demand, and if it is substantially added to while demand slows down, will rapidly become intolerable.

RESIDENTIAL CONSTRUCTION

In terms of social need there is a serious housing shortage. Vacancy rates are abnormally low, and there is a backlog of overcrowded housing, and of actually substandard housing which ought to be replaced. But effective demand is another matter. It is doubtful that residential construction can expand significantly as long as that demand is held back by exorbitant interest rates, as well as the excessive cost of speculatively held land and the high-cost, obsolescent nontechnology which burdens the residential construction industry.

High interest rates hit residential construction from the supply side as well as from the demand side. On the one hand, they impose heavy financial burdens on buyers, which many would-be buyers cannot meet. On the supply side, builders experience increasing difficulties in obtaining mortgage money. At times of rapidly rising interest rates, the savings and loan associations, which account for a substantial proportion of all mortgage loans, find it difficult to compete for deposits because they suffer from the disability that the bulk of their funds are invested in long-term loans granted at a time when interest rates were much lower. Consequently, savings which would normally go to these associations are diverted to other institutions which can pay higher interest rates, and are then used for purposes other than mortgage loans.

For these reasons it is likely that residential construction will tend to stagnate at current levels, or even to decline in the coming months. Any sustained upswing will depend on a reversal of the present monetary policy.

In summary, these are the factors which will tend to slow down the economy in the first half of 1969:

- The deflationary fiscal policy which tends to reduce the purchasing power originating in the private sector;
- The exorbitant interest rates which tend to depress private residential construction and public investment of State and local governments;
- A further slowdown of real consumption expenditures resulting from a larger tax bite which cannot continue to be offset by lower savings;
- Eventually a downward adjustment of real inventory spending and real fixed investment spending in response to the slowdown of the activities in other sectors.