THE CHAIRMAN OF THE
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

December 4, 1970

MEMORANDUM FOR THE PRESIDENT

Subject: Talking Points on Business Conditions

1. The stock market reached a high of 985.21 (Dow Jones industrials) on December 3, 1968, a low of 631.16 on May 26, 1970 and closed Thursday at 808.53. Trading volume has recently been heavy with 20,420,000 shares traded on the big board Thursday, December 3.

2. Interest rates have been moving downward more rapidly. The 3-month Treasury bill yield was 8.1 percent the week of January 2, 1970, and 5.1 percent this week. A new Aaa corporate issue was marketed for 9.30 percent on June 9 (the year's high), and the rate now is down roughly a full percentage point.

3. Retail sales (which include autos) have been sluggish, but soft goods sales have been running 6-7 percent above year-ago levels. Durables, heavily reflecting the air pocket in auto sales, are 9-10 percent below levels a year ago.

4. Auto sales seem sluggish beyond the effect of the GM strike, though the test will be when GM's cars become fully available again. Sales ran at a 9.0 million annual rate (seasonally adjusted) in September, a 7.4 million rate in October, and at only a 5.0 million rate for the first two 10-day periods in November.

5. Plant and equipment expenditure prospects are looking more stable than some had feared. The latest government survey projects outlays for the first half of 1971 1-1/2 percent above the 1970 volume, and National Industrial Conference Board Survey of new projects being approved by manufacturers in the third quarter were 7 percent higher than in the second quarter. Machine tool companies, however, continue to look at a bleak order picture.

6. Price level developments have been mixed. The 0.5 percent increases in the consumer price index for September and again in October were disappointing. The wholesale price index, on the other hand, was unchanged from September to October and declined 0.2 percent in November. The wholesale price index of industrial commodities was unchanged from October to November, which is moderately encouraging.

7. <u>The GM strike</u>, we now estimate, may have knocked $12 billion out of the 4th quarter GNP, and added by its echo effects 0.5 percent to unemployment. (Those directly on strike are not counted as unemployed.)

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