

## The Business Situation

The domestic economy moved further ahead in May, and early returns for June suggest continued, though moderate, strength. In May, industrial production, non-farm employment, and housing starts each registered its fourth sizable gain in a row, while personal income advanced appreciably for the third consecutive month. Retail sales, on the other hand, continued to fluctuate within a narrow range, with weekly data for June also showing no improvement over the level reached in February. June production figures indicate a substantial rise in automobile assemblies, but a decline in steel ingot production. The recent agreement on a steel labor contract, while enhancing the prospects for sound long-run growth, is expected to lead to some further slackening in steel production over the near term, as steel users bring their inventories down into better balance with normal needs. Although manufacturers' inventory expectations point to some slowdown in their over-all rate of stock accumulation in the third quarter, this slackening may be offset by increases in outlays for plant and equipment. According to the latest Government survey, businessmen's plans for capital spending for the last half of 1963 are somewhat stronger than had been indicated earlier.

The recent economic gains have not helped to ease the serious unemployment problem. Although the over-all unemployment rate fell off somewhat in June, it remained at a higher level than a year earlier for the fifth consecutive month, in large part reflecting a marked over-the-year rise in unemployment among young people. There are nearly a million more 16-year-olds in the population this year than last, and on average roughly a third of them are expected to be looking for jobs during the year. Various measures have been suggested to deal directly with the problems created by this large influx of teen-agers. An increase in the skills and training of the labor force will in itself contribute to economic growth, but, in turn, an expanding economy is required if direct measures are to be effective.

### PRODUCTION ORDERS, AND RETAIL SALES

The Federal Reserve's index of industrial production advanced by another one percentage point in May to 124

per cent of the 1957-59 average. This was the fourth consecutive month in which the index has risen by one point or more. Gains in May were largest in the materials producing industries—notably iron and steel—but there were also widespread advances in other industries. It is noteworthy that output of business equipment rose by nearly 1½ per cent in May, the first increase in this sector since last December and the largest gain in over a year.

Production figures for June pointed to a substantial rise in the rate of automobile assemblies, as producers tried to end up the 1963 model run with enough cars in inventory to carry through the model change-over period. Steel ingot production, on the other hand, declined somewhat in June. The recently announced settlement of the steel labor negotiations is expected to bring about a reduced level of ingot production in the several months ahead. That the settlement was reached without any formal announcement of a strike deadline and that the contract falls well within the Administration's wage guidelines should, however, help to provide a sound basis for long-run growth in the industry as well as in the economy as a whole.

The prospect for continued near-term advances in production was reinforced in May by the fifth consecutive advance in the backlog of unfilled orders held by manufacturers of durable goods. The increase brought backlogs to the highest level in three years. Although the volume of incoming new orders for durables slipped a bit in May, it was still at its second highest level on record and was 4 per cent above the May rate of sales. Moreover, the decline in new orders was more than accounted for by a slackening in orders for steel. New orders for machinery, in contrast, increased in May after having shown virtually no change during the preceding seven months.

In contrast to the gains in production, consumer spending continued to mark time in May as retail sales remained on the high plateau reached last February. Sales of new cars declined slightly in May, but dealers still were selling at a seasonally adjusted annual rate of well over 7 million units, about 10 per cent higher than a year earlier. At the same time, retail sales of items other than automobiles and parts advanced to a new record. Weekly data for June suggest a continuation of the May pattern, with a further decline in auto sales being approximately

offset by gains in other categories. It is interesting that despite this edging-off in the rate of auto sales and despite the fact that recent surveys have reported some reduced buoyancy in consumers' attitudes about the over-all performance of the economy, these surveys indicate that consumers' intentions to purchase new cars have remained at the advanced levels shown earlier in the year.

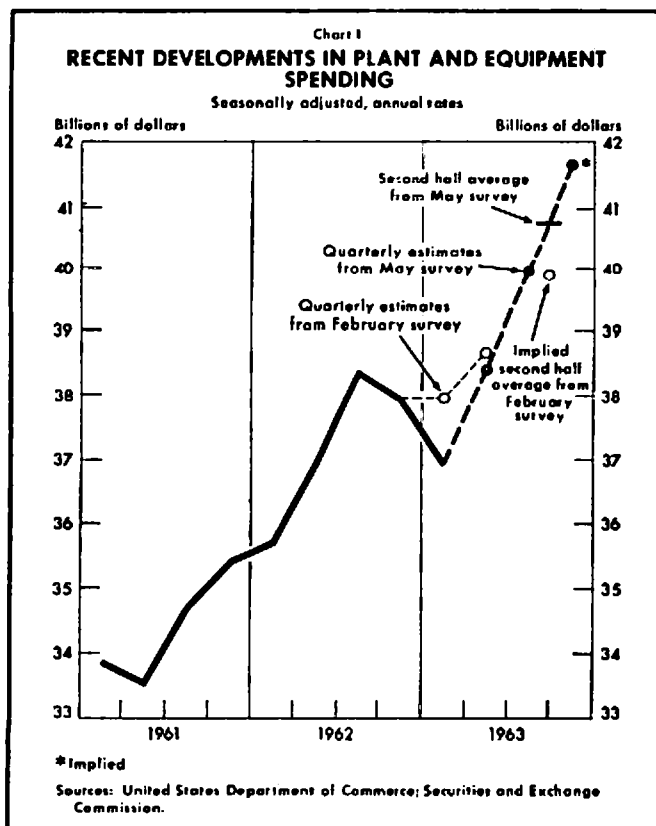
#### PROSPECTS FOR BUSINESS SPENDING

Recent information on manufacturers' inventory spending plans suggests some reduction in the planned rate of accumulation in the immediate months ahead. According to a survey taken by the Commerce Department in May, manufacturers expected their inventories to rise by \$600 million during the third quarter, compared with an expected advance of \$900 million in the second quarter. In a similar survey taken last February, manufacturers had expected only an \$800 million increase in inventories in the second quarter. In part, the slowdown anticipated for the third quarter reflects the expectation of a cutback in steel stocks. Achievement of a higher than anticipated rate of sales could, however, cause manufacturers to make

upward revisions in their over-all third-quarter inventory spending plans. Indeed, just such a factor may have been partly responsible for the upgrading in their second-quarter expectations. Last February, manufacturers had expected sales to decline in the second quarter. When surveyed in May, in contrast, they expected a 3 per cent increase in sales in the second quarter and another 1½ per cent rise in the third quarter.

The outlook for capital spending appears to be somewhat stronger than earlier. Thus, according to the May survey by the Commerce Department and the Securities and Exchange Commission, businessmen's plans now point to a 5.2 per cent increase in outlays for plant and equipment in 1963. This is a slightly larger rise than the 4.8 per cent advance shown in the Commerce-SEC survey taken last February. (A 7.4 per cent gain had been indicated in the McGraw-Hill survey taken in April and May. The McGraw-Hill survey, however, concentrates more heavily on large firms than the Commerce-SEC survey and, in the past, has always indicated a somewhat higher level of spending than the Government survey.)

To be sure, there still are uncertainties in the capital spending area. For example, the latest survey by the National Industrial Conference Board indicates that net new capital appropriations by large manufacturing firms declined by 22½ per cent in the first quarter, following the sharp increases in the third and fourth quarters of last year. At the same time, the Commerce-SEC survey indicates that actual outlays for capital equipment in the first quarter and the expected volume of spending for the second quarter turned out to be lower than the levels previously expected (see Chart I). Indeed, expenditures in the first quarter now show a \$1 billion (seasonally adjusted annual rate) decline from the fourth quarter of 1962, marking the second quarter in a row in which outlays moved downward. On the other hand, the estimated rise from the first quarter to the second quarter of the year is now nearly twice as large as shown in the February survey, and an even larger rise is expected for the third quarter. From the first half of the year to the second half, businessmen now expect about double the increase that had been implied in the February survey.



#### RECENT DEVELOPMENTS IN UNEMPLOYMENT

Although most broad measures of economic activity have scored new records during the first half of 1963, unemployment has continued to be about as high and widespread as last year. To be sure, the seasonally adjusted unemployment rate in June edged off to 5.7 per cent of the civilian labor force from the 5.9 per cent level

reached the month before. The June level, however, still was either the same or higher than the rate in ten of the months of 1962, a year which in turn was marked by substantially higher unemployment rates than the period following the 1954 recession.<sup>1</sup> Indeed, unemployment rates were higher in 1962 than in 1957—and in most cases appreciably higher—for every age group (except 14- and 15-year-old girls) and for every industrial group for which the Labor Department publishes separate data (see Table I). Unemployment rates for every occupational group save farmers and farm managers were also higher in 1962 than in 1957 (Table II shows these rates for 1962).

While such detailed statistics are not available on a seasonally adjusted basis for 1963, it appears that each of these unemployment rates has continued at a high level so far this year. The seasonally adjusted data that are available indicate that in June the jobless rates for married men and for men over 20 years of age were somewhat below their 1962 averages, while the rate for women over 20 years of age was about the same as its 1962 level. The average for each of these rates in the first six months of this year was about the same as the average in 1962.

In contrast, the unemployment rate for workers under 20 years of age has so far this year averaged significantly higher than in 1962. Indeed, in May the seasonally adjusted unemployment rate for teen-agers rose to 17.8 per cent, the highest rate since the Labor Department started keeping such data in 1949. The rate fell back somewhat in June, but at 16 per cent was still at a level which until this year had been exceeded only during the 1958 recession. Whereas in 1962 teen-agers accounted for 20½ per cent of the total number of unemployed persons, their share of seasonally adjusted total unemployment in the second quarter of this year had risen to nearly 25 per cent. Less than 9 per cent of the seasonally adjusted labor force in the second quarter was under 20 years of age.

This rise in teen-age unemployment in part reflects a large influx of young people into the labor market this year, which in turn is an echo of the baby boom after World War II. Birth rates increased markedly in 1946-47. Fourteen years later, in 1961, as the first wave of these young people reached labor force age, the number of 14- and 15-year-olds in the population jumped by 913,000.

<sup>1</sup> After the 1954 recession, the over-all unemployment rate fell to near 4 per cent by May 1955 and remained at about this level until late 1957. The period following the 1958 recession was marked by a steel strike in 1959 and then by another recession beginning in May 1960, and thus is generally not considered an appropriate standard of comparison.

**Table I**  
UNEMPLOYMENT AS A PERCENTAGE OF THE CIVILIAN  
LABOR FORCE, BY AGE AND INDUSTRIAL CLASSIFICATION  
1957 AND 1962

Classification	1957	1962
Over-all unemployment rate .....	4.3	5.6
Unemployment rates by age group:		
14-15 years of age .....	7.6	7.7
16-17 .....	12.5	16.2
18-19 .....	10.9	13.7
20-24 .....	7.1	9.0
25-34 .....	3.9	5.1
35-44 .....	3.1	4.1
45-54 .....	3.3	4.0
55-64 .....	3.4	4.2
65 and over .....	3.4	4.5
Unemployment rates by industrial group:		
Agriculture .....	6.7	7.3
Mining, forestry, and fisheries .....	6.3	8.6
Construction .....	9.8	12.0
Durables manufacturing .....	4.9	5.7
Nondurables manufacturing .....	5.3	5.9
Transportation and public utilities .....	3.1	3.9
Wholesale and retail trade .....	4.5	6.3
Finance, insurance, and real estate .....	1.8	3.1
Service industries .....	3.4	4.3
Public administration .....	2.0	2.2

Note: Figures represent the number of unemployed in each classification as a percentage of the civilian labor force in each classification.  
Source: United States Department of Labor.

Labor force participation rates in this age bracket have in recent years averaged only about 22 per cent for boys and 12 per cent for girls. This year, however, this same group is reaching the 16- to 17-year age bracket, at which point labor force participation becomes considerably higher—averaging about 45 per cent for boys and more than 25 per cent for girls. As a result, the number of 16- and 17-year-olds in the labor force in May (the latest month for which detailed data are available) was 265,000 (13.6 per cent) higher than last year. By 1965 the first crop of war babies will be 18 to 19 years old. If typical past experience is repeated, nearly three fourths of the boys in this age bracket and one half of the girls can be expected to participate in the labor market.

The net result of this increase in population, according to Labor Department projections, is that over the five-year period from 1960 to 1965 the number of 14- to 19-year-olds in the labor force may be expected to increase by about 320,000 persons per year (see Chart II). In contrast, the average annual increase of this group over the decade of the 1950's amounted to only about 75,000 persons. The projections indicate, moreover, that this initial group of young people will be followed by yet another wave during the last half of the present decade. Thus, from 1965 to 1970, the already large size of the 14- to 19-year-old bracket is expected to expand still further by about 140,000 persons per year. By 1970, therefore, the prospect is that there will be nearly 20 million persons

under 25 years of age in the labor force—an increase of 6 million persons, or 45 per cent, over the number in this age bracket in 1960. During the 1950's, the size of this age bracket grew by 360,000, or less than 3 per cent.

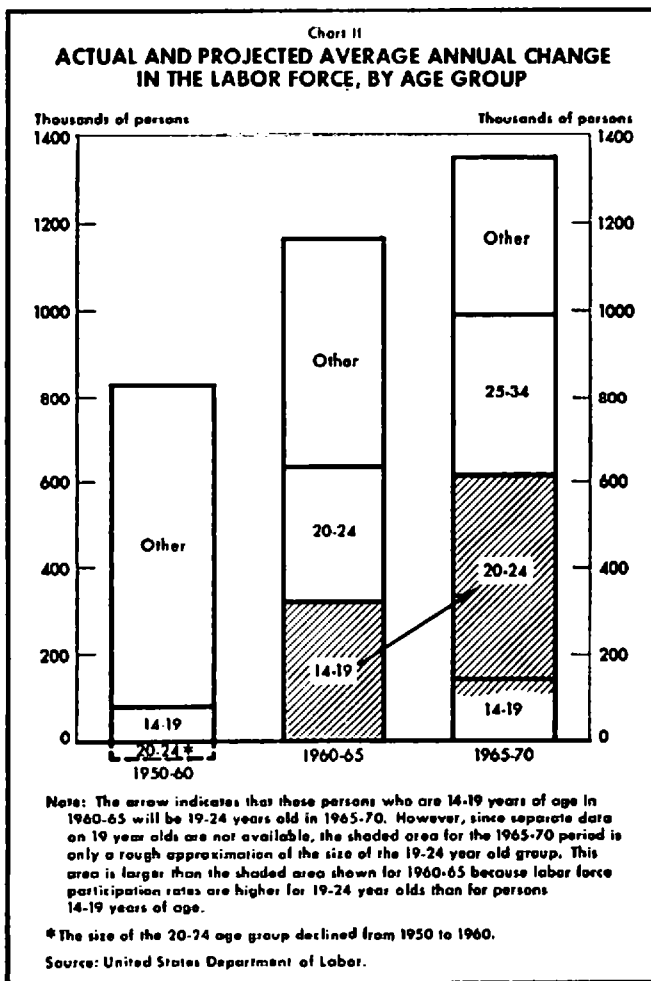
The sheer size of this group looking for jobs makes for at least a transitional unemployment problem of unusual magnitude. Most teen-agers are inexperienced and must compete for jobs with persons who in many cases have several years of experience behind them. In recent years, moreover, 30 to 40 per cent of all teen-agers have dropped out of school before completing high school. In view of the substantial upgrading of the general educational level of American workers over the past several decades, job opportunities for these dropouts are severely limited. According to a Labor Department study, of the 350,000 young people over 16 years of age who dropped out of school before graduation between January and October 1961, an estimated 27 per cent were unemployed

in the latter month. In contrast, only 18 per cent of 1961's high-school graduates, who probably were slightly older on average than the dropouts, were unemployed that October.

While most school dropouts have in the past eventually found at least some sort of job, the handicap of a limited education continues to affect their employment opportunities for the rest of their lives. Indeed, with rapid changes in technology that place higher and higher educational requirements on workers, it is open to question whether even graduation from high school will in the future prepare the worker for steady employment. In March 1962, nearly two thirds of the persons in the labor force who had completed less than four years of high-school education were in the blue-collar and service occupations (see Table II). These occupations had higher than average unemployment rates and, except for service workers, showed little or no growth in employment over the postwar period. In contrast, only 22 per cent of the persons who had not finished high school were able to find work in white-collar occupations, which have been growing more rapidly and had lower than average unemployment rates.

Some of the teen-agers—and a substantial portion of the school dropouts—are Negroes. In March 1962, only 31½ per cent of the nonwhite labor force 18 years of age and over had graduated from high school (90 per cent of the nonwhites are Negroes). In contrast, nearly 57 per cent of the whites had reached that level of educational achievement. The median number of school years completed by the nonwhites was only 9.6 years, compared with 12.2 years for the white labor force. This lack of education makes the nonwhite worker especially vulnerable to unemployment. Racial discrimination, of course, plays a role in this lack of training and, at the same time, adds to the burden faced by many nonwhites as they try to find jobs. Thus, the unemployment rate among nonwhites has in every year since 1954 been at least twice that for whites, and even in the immediate postwar period never fell below 1½ times the white unemployment rate. In 1962, nonwhites made up only 11 per cent of the civilian labor force, but accounted for 22 per cent of the unemployed.

To be sure, the social problems created by the high rate of teen-age unemployment are rather different from those associated with unemployment among other age groups. Relatively few of the younger workers are married and trying to support a family—though in May the unemployed of this age group did include about 10,000 married males and 46,000 married females. Many teen-agers, moreover, are looking only for summer or part-time jobs. In cases where parents have sufficient income, failure to obtain such jobs may involve no particular hardship. In other



**Table II**  
**DISTRIBUTION OF EMPLOYED PERSONS EIGHTEEN YEARS OF AGE AND OVER, BY OCCUPATION AND EDUCATION, MARCH 1962, AND UNEMPLOYMENT RATES, BY OCCUPATION, 1962**

Occupation	Total employees	Years of school completed			Unemployment rates
		Less than four years of high school	Four years of high school	More than four years of high school	
<b>Total:</b>					
Thousands of persons .....	63,939	28,920	20,688	14,331	5.6*
Per cent .....	100.0	100.0	100.0	100.0	
<b>White-collar workers</b> .....	46.3	22.2	53.9	83.7	2.8
Professional and technical workers .....	12.8	1.9	6.7	43.3	1.7
Managers, officials, and proprietors, except farm .....	11.8	8.7	12.4	17.3	1.5
Clerical workers .....	15.6	7.3	27.3	15.3	3.9
Sales workers .....	6.1	4.2	7.5	7.8	4.1
<b>Blue-collar workers</b> .....	35.1	30.2	31.5	9.9	7.4
Craftsmen and foremen .....	12.9	16.1	13.7	5.0	5.1
Operatives .....	17.6	26.4	14.8	4.0	7.5
Laborers except farm and mine .....	4.6	7.6	3.0	0.9	12.4
Service workers, including private household .....	12.3	17.5	10.4	4.5	6.0
Farm occupations .....	6.4	10.2	4.2	1.9	2.2

Note: Because of rounding, figures do not necessarily add to totals.

\* Includes unemployed persons for whom no occupational category is listed.

Source: United States Department of Labor.

families, however, failure to obtain a summer job may mean the loss of much-needed additions to parental incomes or of resources required to meet college expenses. Moreover, a large number of teen-agers "out of school and out of work" can always create an atmosphere of frustration and unrest—adding significantly to delinquency and other equally serious social problems. These could develop, as Dr. James B. Conant has stated, into "social dynamite". Finally, it must be remembered that the problem of teen-age unemployment is not necessarily a temporary phenomenon that will no longer exist once the young people who are now entering the labor force in large numbers grow somewhat older. The fact that the teen-age unemployment rate has itself risen substantially in recent months means that a larger proportion of youths than in the past will be moving into the older age brackets without some of the training that they should have acquired in order to have a satisfactory labor market experience.

Special government programs already initiated, or to be enacted in the future, can be a significant factor in the solution of the teen-age unemployment problem. Provisions for effective vocational training are certainly needed for some of these youths, as are measures that will cut down the rate of school dropouts and raise the over-all level of skills through the expansion of the quality and availability of general education. At the same time, the success of such measures will depend importantly on a more general recognition among teen-agers (and the population

generally) that, to an increasing extent, the achievement of the rising income and consumption levels that they desire is dependent upon the extent of their training. And even special government programs will still leave some frictional unemployment associated with such factors as seasonal swings in business activity and the voluntary movement of workers from one job to another, as well as unemployment associated with situations where excessive wage demands in effect price the worker out of the market.

Better training and education, the elimination of job discrimination, and other steps designed to help overcome structural difficulties are not, of course, the only prerequisite to the solution of the current unemployment problem and of the potentially aggravated unemployment problem associated with a more rapidly increasing labor force over the next decade. A healthy rate of over-all economic growth, without inflation, is itself essential. Such growth can help to absorb into employment those unemployed who already have the needed skills and training. Moreover, adequate growth provides an environment in which the incentives to add to skills are high, since jobs are then available when training is completed. Indeed, without adequate growth, training can go to waste and even add to feelings of frustration. Job discrimination against members of minority groups is also minimized when their employment arises from additional job opportunities and thus does not jeopardize the positions of those presently employed.