*Irving Schweiger**

1973 Forecast of Gross National Product, Consumer Spending, Saving, and Housing

In 1973, the U.S. economy will enjoy what it has been missing for nearly a decade—a comfortable economic boom that can be sustained with no undue strains.

The expansion will be broadly based. Unlike 1972, when a host of powerful governmental stimuli were utilized to accelerate economic recovery, the motive forces in 1973 will be increasingly in the private sector. Business investment in plant, equipment, and inventory plus consumer expenditures, particularly for durable goods, will contribute more heavily to expansion in 1973. As the year progresses, government (state and local plus federal) will shift from a large deficit to a neutral and then a net surplus position.

The forecast I am presenting is more optimistic than any other of which I am aware. My estimate is that GNP will total $1,268 billion in 1973, a gain of $115 billion or 10 percent over 1972. After adjusting for price change of 2.8 percent, output of real goods and services will increase about 7 percent over 1972.

Expansion will be most rapid in the first half of 1973, partly due to the refunding of $8–$10 billion of overwithheld personal income taxes and the resultant consumer and business responses. By the fourth quarter, real GNP will be increasing at a 6.0 percent annual rate, with prices rising at a stable 2.8 percent rate. In current dollars, fourth-quarter GNP will total $1,307 billion.

Unemployment will be reduced significantly during the year in the face of another abnormally large increase in the labor force. By the end of 1973, the present unemployment rate of 5.5 percent should fall to the range of 4.8–5.0 percent. In 1973, gain in personal income in real terms will set a record and will be very widely distributed. Consumer spending will respond vigorously and confidently to provide the economy with a resilient basis for a sustained expansion.

Is it possible for the output of the U.S. economy to increase by 7 percent in real terms in 1973 and do it without spurring new inflationary pressures? I think it possible and likely. There is still considerable unused plant capacity and unemployed and less than fully employed labor. A 7 percent advance would still leave the economy 2 percent below the theoretical full employment "potential" as calculated by the

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Council of Economic Advisers. There is probably an even larger margin for expansion without serious strain because the council measure appears to underestimate capacity for growth to date and over the next few years. The council estimate assumes an average increase in the labor force of 1.75 percent per year since the fourth quarter of 1969. However, the civilian labor force has been growing at a one-third greater rate (2.4 percent), partly because of abnormally large increases in the labor force and partly because of reduction in number of armed forces. Both trends are likely to continue for a time.

Ability to increase real GNP by 7 percent during 1973 without undue strain is facilitated also by a shift in demand to output of industries of high productivity—machinery, automobiles and appliances, steel, instruments, heavy construction, etc.—where considerable unutilized capacity is available. The gain in output of 7 percent could be generated readily by three factors: a 3.5 percent or greater increase in productivity of the private nonfarm labor force (compared with 4.86 percent in 1972), an increase in the employed labor force of more than 2.5 percent, and a lengthening of the average workweek by one-third of an hour.

Prices are expected to rise an average of 2.8 percent during 1973, the smallest annual advance since 1966. Price and wage controls in some form are likely to continue through the year.

Interest rates will continue to move along different paths in 1973 as in 1972. Long-term rates will change little, with any change in a downward direction, while short-term rates will advance during the year to narrow the abnormal gap between them.

Let me state my assumptions and reasoning regarding the most important sectors in 1973. A step-up of 11 percent in spending for plant and equipment in 1973 was planned by business according to the October 1972 McGraw-Hill survey. I believe that the plans were based on an underestimate of the magnitude and duration of economic expansion and are likely to be raised, particularly in the latter part of 1973. I anticipate that plant and equipment spending will be 15 percent greater for 1973 as a whole and about 21 percent greater on a fourth-quarter comparison.

Unlike 1972, when inventories rose less than proportionately with sales, investment in inventory by business is expected to increase substantially throughout 1973. Continued reduction in the ratio of stock to sales in recent years has probably exhausted the current potential for such reductions. The ratio may even increase slightly in 1973 because of longer delivery periods and greater uncertainty of on-time availability.

The role of government will be changed considerably in the coming year. In 1972, policy was to stimulate recovery of the economy through a massive federal deficit and an expansive monetary policy while curbing cost-push inflation and altering expectations of price rise through comprehensive price and wage controls. In 1973, as the private sector develops a weighty momentum toward growth and expansion and the rate of price rise is below 3 percent, government policy will probably become more neutral, guiding with a loose rein. The attempt will be to keep the economy from accelerating too rapidly and bringing on a heightening of inflation and of inflationary expectations.

The shift in policy will take very deft handling. Many analysts feel that it cannot be done, that a large inflationary federal deficit is inevitable in 1973 given the programmed rise in federal expenditures and an anticipated lesser rise in receipts. I question such analysis on three counts: (1) it is too limited in that it ignores the sizable surplus on current account of state and local governments; (2) it underestimates, I believe, the increase in receipts in the boom I foresee for 1973; and (3) also may be too pessimistic regarding ability to cut, eliminate, or postpone expenditures in 1973.

For the government sector as a whole (state, local, and federal governments), receipts and expenditures are expected to be in approximate balance by the third quarter of 1973, and there should be a substantial surplus in the fourth quarter.

Fiscal restraints are likely to be assisted by a monetary policy that is less accommodating than in 1972. Monetary policy is not likely to be overly stringent, however, because of persistence of unemployment above a 5 percent rate for most of 1973 as well as a continuation of price rises at less than 3 percent. In addition to indirect fiscal and monetary controls, a version of direct wage and price controls will probably be on the books throughout 1973, which should have a salutary effect upon inflationary expectations in addition to any other effects.

The underlying trading position of the United States will improve during 1973, but this will be masked by the import requirements of our boom.

Now, to discuss the household sector. Consumer behavior in the past year has indicated growing willingness to spend the record incomes received. I interpret recent surveys of consumer buying plans to mean that consumers will raise their spending readily as income advances. Contributing to this behavior will be greater employment security, a more tolerable rate of inflation, and substantially improved incomes.

My estimate is that disposable personal income will total $865 billion in 1973, a gain of 9.1 percent. Consumers will increase their total spending by about 9.7 percent and thus furnish solid support for the expanding economy.

The gain in real disposable income (adjusted for price changes) will be the largest on record both in the aggregate and per individual. Real income per capita is estimated to be 6 percent larger than in 1972. The rate of personal saving will decline by nearly ½ of 1 percent in 1973. I will not be more specific because the U.S. Department of Commerce is planning to revise the definition of saving.

Reflecting the striking gain in income and greater inclination of consumers to spend, purchases of new automobiles in 1973 will set a record of 11.7 million units, nearly 1 million more than in 1972, the previous record year. Domestic producers and their supplier industries —steel, glass, rubber, etc.—will reap most but not all of the gain as imported cars will again begin to increase slightly their share of the U.S. automobile market.

The boom in residential construction in 1972 continues to outpace the most optimistic forecasts, supported by continued ready availability of credit, government subsidy, and greater undetected backlogs of demand than anticipated. Some decline should occur in 1973 based on a reduction of government subsidy, a slightly lessened availability of credit, and a working down of the backlog. In 1973, total residential starts and mobile home shipments are estimated at 2,800,000 units compared with 2,940,000 in 1972. The decline is expected to be wholly in the conventional housing sector with mobile home shipments rising from 570,000 units in 1972 to 625,000 in 1973. Relative cost advantages continue to favor mobile home sales. Record housing output of 8.3 million units in the 3 years 1971–73 indicates that nearly one in every eight households in the population will have had new housing made available to it in this period. It is unprecedented and should assist materially in easing the housing "shortage."

Purchases of consumer durable goods other than automobiles (furniture, television sets, dishwashers, boats, etc.) will set another record of $72 billion in 1973. The annual gain of $9 billion following a $6 billion gain in 1972 will make it two consecutive record increases for this class of goods. A substantial portion of the increased expenditure stems from furnishing and equipping the 8.3 million new homes produced in 1971–73. Providers of consumer installment credit can look forward to an active year.

Spending for nondurable goods and services as a group, including clothing, food, and vacations will total about $660 billion, an increase of $55 billion or 9 percent over 1972. The gain will be slightly less than proportional to the increase in disposable income.

In summary, the U.S. economy in 1973 is expected to make a fairly successful transition from a recovery phase with dependence on highly stimulative governmental policies to a period of high prosperity that is near self-sustaining. The country will enjoy a comfortable boom that is likely to continue into 1974. Gains in personal income and spending power will be the largest on record and very broadly distributed. Unemployment will move below the 5 percent rate by year's end.

There will be little further progress in the control of inflation during 1973, but the rate of price rise should stabilize around 2.8 percent, less than in any year since 1966.

The gap between short-term and long-term interest rates will continue to narrow, with short-term rates rising and long-term rates steady to somewhat lower.

Sales records will be set in numerous consumer markets with automobiles at 11.7 million units and mobile homes at 625,000 units as outstanding examples. The growth in sales of furniture and appliances, as a group, will be record breaking for a second successive year. In the three years, 1971–73, nearly one in every eight households in the nation will have moved into a newly built home.

If no serious mistakes in fiscal and monetary policy are made, 1973 should see a further easing of many of the economic strains and frustrations that began in the inflationary environment of 1966. I think the economy will expand strongly in 1973 and in a fashion that will benefit nearly all groups in the population.

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