

# FEDERAL RESERVE BULLETIN

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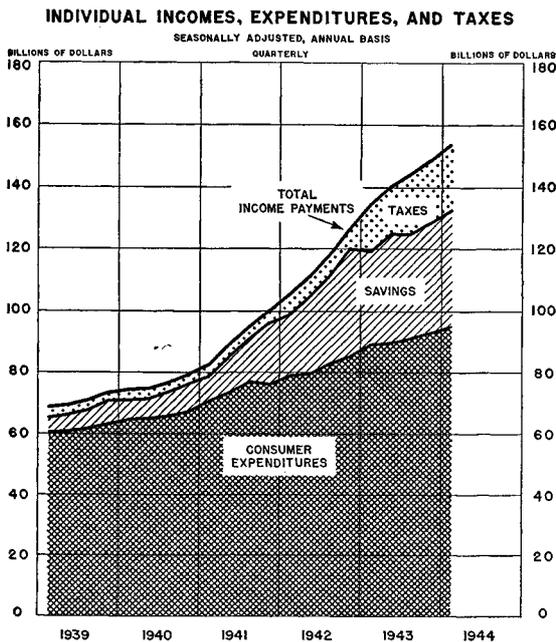
April 1944

NUMBER 4

## CONSUMER INCOMES AND EXPENDITURES IN WARTIME

Incomes of individuals have continued to expand in recent months and for the first quarter of 1944 are estimated at an annual rate of 154 billion dollars as compared with 144 billions last summer and 135 billions in the first quarter of 1943. Recent increases

dependents have increased further, incomes of railroad workers and other employees engaged in the distribution and service industries and agricultural incomes have shown less decline than is usual at this season, and payments of interest and dividends to individuals have been larger. Pay rolls at factories, however, declined 3 per cent from November to February, reflecting decreases in employment in most industries, as well as some reductions in average hours worked in munitions plants and in shipyards.



Department of Commerce data with estimates for first quarter of 1944 and minor changes in seasonal adjustments for consumer expenditures by Federal Reserve. Amounts indicated as "Savings" represent excess of individual incomes over consumer expenditures and taxes.

have been substantial, although not as large as in 1941, 1942, and the early part of 1943 when the physical output of industry was increasing at a rapid pace. Since November payments to the armed forces and their

### MAINTENANCE OF CIVILIAN SUPPLIES

Although there has been a steady decline during the past year in employment in a number of industries producing consumer goods, aggregate supplies available for purchase by civilians have been maintained. That this has been possible, notwithstanding increased use of consumer goods in the armed forces, has been due to several different developments. In such industries as meatpacking and tobacco products, production has increased, in spite of a decline in employment, as the result of a lengthening of working hours and some rise in output per man-hour. In some other industries like those producing woolen goods and processed vegetables a larger share of production has recently become available for civilians as Government purchases have declined

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during this period. Manufacturers and distributors of civilian products have also drawn on their inventories of materials and finished goods.

Output of consumer durable goods has continued in small volume, although available supplies of metals have increased somewhat in recent months. On account of shortage of manpower and difficulty of obtaining component parts, output of these goods has been limited to replacement parts and the more essential items. Continued restriction on output of these goods has been feasible because civilians have found it possible to use durable goods in their possession much longer than had been customary before the war. Also, consumer stocks of these products had been built up in 1940 and 1941 before our entry into the war.

Production of nonmanufactured foods, such as citrus fruit, potatoes, eggs, and milk, has been in large volume during the past year, though the supply of fluid milk has not been large enough to avoid some limitations on its sale to civilians. In the service, trade, and public transportation industries the volume of services available to civilians has declined somewhat, but not below the level of 1941, which was considerably above that of peacetime years.

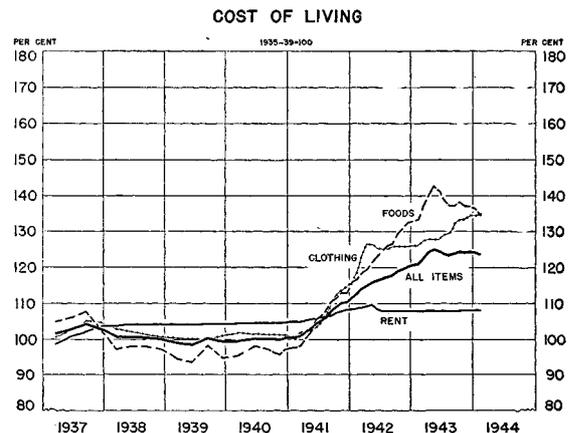
## EXCESS BUYING POWER

Incomes of individuals, after increased tax payments, have continued to be substantially in excess of the supply of goods and services available for purchase as is shown on the chart on the preceding page. During 1943 and the early part of 1944 this surplus amounted to about 27 cents out of every dollar of income after taxes. This surplus spending power has been added to the public's large holdings of liquid assets and has not been used to bid actively for the

available supply of goods. This has been due principally to wartime controls over prices and purchases of goods, combined with a public realization of the importance of saving rather than spending. Cash, bank deposits, and Government security holdings of individuals and unincorporated businesses have increased by about 70 billion dollars in the past three years.

## PRICE MOVEMENTS

Prices generally have been fairly stable in recent months. Some commodities previously in great demand for the war program have declined in price owing chiefly to greatly expanded supplies of new or substitute products. These commodities



Bureau of Labor Statistics indexes. Last month in each calendar quarter through September 1940, monthly thereafter. Mid-month figures, latest shown are for February 1944. Groups not shown are fuel and lighting, housefurnishings, and miscellaneous.

include mercury, secondary metals, used machinery, and synthetic drugs. Prices of some metals will be affected by the announced reduction in Federal premium payments made for the purpose of encouraging domestic production. In consumer markets prices of some wartime substitute products have been reduced in anticipation of a larger production of regular peacetime products. On the other hand, wholesale prices of wood pulp, furniture, lumber, farm

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products, and low-priced clothing have increased recently. The cost-of-living index of the Bureau of Labor Statistics has shown little change since last spring, as shown in the chart. Prices of foods have declined from the high level reached at that time, while prices of other goods and services, except rents, have risen.

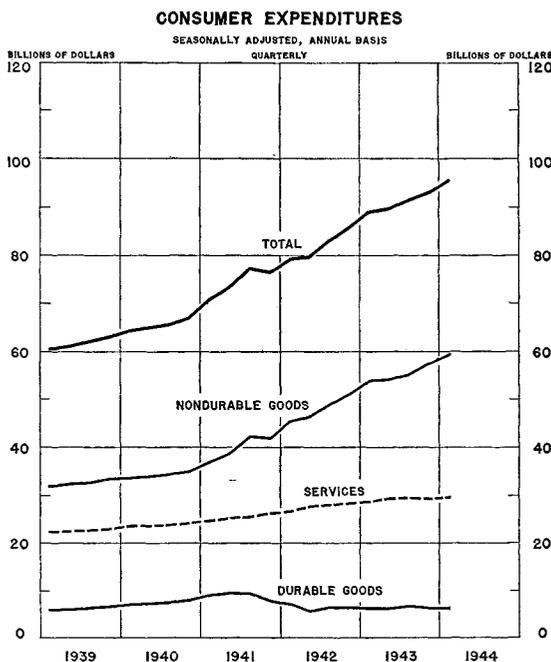
SHIFTS IN CONSUMER EXPENDITURE

Total consumer expenditures, according to estimates of the Department of Commerce, were at an annual rate of 93 billion dollars during the fourth quarter of 1943, as shown on the chart. During the first quarter of 1944 they advanced further to a rate 7 per cent higher than in the corresponding period of last year. The increase since the first quarter of 1941, when consumer expenditures were at a rate of 71 billion dollars a year, has been due mainly to the rise in prices paid by consumers for goods and services. The largest increases in retail prices have been in nondurable goods. In the case of durable goods, price advances have been less marked, but purchases of such goods, other than new houses, make up only a small part of consumer expenditures—about 10 per cent in 1939 and much less now.

Consumer expenditures for services have increased considerably since 1939 and about one-half of the increase has reflected higher prices. These services, which include rent, household maintenance, and payments for utilities, transportation, medical care, and recreation, represented a little over one-third of total consumer outlays in 1939, but owing to the subsequent sharp rise in expenditures for nondurable goods, they were a smaller part of the total in 1943.

Within the service group there have been wide shifts in expenditures during the war period and, although the aggregate volume

of services available to civilians may still be as large as in 1941, the range of choices has been restricted. Of total expenditures for transportation, a much larger proportion is now being made for public transportation, both local and intercity, than for private automobile travel. Increases in expenditures for theater attendance have more than offset declines in expenditures for some other forms of amusement. Expenditures for household utilities have shown relatively moderate increases in this period of



Department of Commerce data with estimates for first quarter of 1944 and minor changes in seasonal adjustments for nondurable goods and total made by Federal Reserve.

high consumer incomes because utility rates have been fairly stable and, with the volume of services available restricted by existing capacity in many areas, steps have been taken to discourage the use of electricity, gas, and telephone by civilians. Nevertheless, kilowatt sales of electricity to residential consumers were 7 per cent larger in 1943 than in 1942 and 36 per cent larger than in

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1939. Electricity sales to rural consumers were 53 per cent higher in 1943 than in 1939 as a result of sharp expansion of rural incomes and of special efforts to make available to farmers larger amounts of power for production purposes. Enactment of Federal excise taxes since 1939 on telephone charges and admission prices has also contributed to increases in consumer expenditures for services. On April 1 a further increase in these taxes became effective.

Higher excise taxes for luxury durable goods, especially jewelry, were also effective April 1. Retail sales by jewelry stores in 1943 were 30 per cent higher than in 1942 and 170 per cent higher than in 1939. There has been a sharp reduction in stocks of quality silverware and other jewelry, while supplies and sales of the trinket variety have increased considerably. Production of furniture, housewares, and various household supplies was in fairly large volume but often of low quality in 1943. The shorter period of usefulness of many of these products and also of various nondurable products necessitates more frequent replacement purchases.

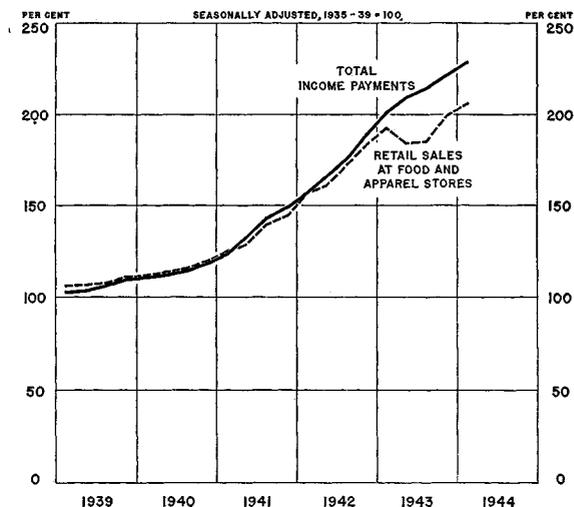
In recent months many consumers appear to have become more selective in their buying of substitute goods and to have shown more resistance to higher prices.

## EXPENDITURES FOR FOOD AND CLOTHING

Purchases of most food and many clothing products are not easily deferrable, with the consequence that price increases in these lines usually have been accepted by the public. As shown in the chart, from 1939 through the first quarter of 1943, changes in retail sales by food and apparel stores followed closely changes in income payments to individuals. During most of 1941 and 1942 and also in the first quarter of 1943 the

rise in sales reflected mainly increased prices; the quantities sold generally remained unchanged or increased moderately. From the first to the second quarter of 1943 prices increased further but for a number of food and clothing products the quantity sold declined. The margin shown on the chart between incomes and the value of sales after the first quarter of 1943 is accounted for in part by this decline in the quantities sold. Price controls for foods were broadened in May and maximum prices for meats and butter were reduced in June by means of Federal subsidy payments. Another development that limited sales of food and clothing during this period of further advances in consumer incomes was the sharp increase in Federal income taxes paid by individuals beginning in the first quarter of 1943. The large expenditures shown during that quarter reflected in part heavy purchases of food and clothing stimulated by the announcement of rationing programs.

INCOME PAYMENTS AND SALES OF FOOD AND APPAREL



Department of Commerce data; quarterly figures; first quarter of 1944 estimated by Federal Reserve. Composite food and apparel series compiled by Federal Reserve from data on sales of retail stores with food store sales index weighted 3 and apparel store sales index weighted 1. Seasonal adjustments modified by Federal Reserve.

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During the past six months sales of food and clothing products have advanced again, as is shown in the chart. Marketings of livestock, especially hogs, have been exceptionally large and ration points have been lowered to permit larger consumption. Production of fruits and vegetables has also increased. Clothing production for civilians in recent months has been about as large as a year ago and the retail value of clothing sold has increased, reflecting higher prices.

SUPPLIES OF FOOD AND CLOTHING

The large rise in retail prices of food and clothing during the war period has been due in part to the difficulty of expanding and maintaining output of these products to fill the large military requirements and to meet increased civilian demands. Production of food and clothing requires a considerable utilization of labor—customarily low-priced labor—initially in agriculture and secondarily in manufacturing. The effect of wartime changes in employment opportunities and wage scales has been to increase production problems in these fields. Where labor shortages have not been a factor in the raw material stages of production, they have been important in the manufacturing process. For example, there is an ample supply of raw cotton owing to carry-overs from earlier years and raw wool stocks are at exceptionally high levels but the declining number of workers at textile mills and in the apparel industry is a limiting factor in the production of clothing for civilian use.

Total agricultural production in 1943 was 28 per cent larger than in the 1935-39 period and agricultural production of foods was 32 per cent larger. Although requirements for military and lend-lease purposes

took an important share of food products, the average quantity of food consumed by civilians is estimated by the Department of Agriculture as being 6 per cent higher per capita in 1943 than the 1935-39 average.

Total production of apparel for civilians reached a peak of about 130 per cent of the 1935-39 average during the summer of 1941 and averaged 122 per cent for that year. Since that time, as shown in the table, there has been a considerable reduction in this total. Production of men's clothing for civilian use has declined sharply and in 1943 was 16 per cent less than the prewar period, owing mainly to a decline in the number of men in the civilian population, while production of women's clothing, as a group, has been maintained in large volume. Increases in output of certain articles of women's apparel have been offset by decreases in output of other items and these changes have restricted the range of choice considerably in some lines.

PRODUCTION OF CLOTHING FOR CIVILIANS  
[1935-39 average = 100]

	1939	1940	1941	1942	1943
Total.....	108	105	122	111	106
Garments:					
Women's and children's.....	110	108	124	127	131
Men's and boys'.....	108	105	124	102	84
Shoes, hosiery, hats, and gloves....	107	101	117	103	99

NOTE.—Indexes of Board of Governors. Production for civilians excludes production for the armed services and for lend-lease export. Garments include dresses, coats, suits, work clothing, and underwear.

At the same time there have been large and widespread increases in consumer incomes—especially for people previously unemployed. As a result, lower income groups are often able to buy more clothing, and also more food, and there is less available for those consumers formerly accustomed to buy freely. These scarcities, reflecting largely increased demands, are likely to continue to be an important

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problem in maintaining price stability so long as consumer incomes continue at present levels and supplies are restricted.

To recapitulate, the supply of goods for civilians during the war period has been maintained and increases in expenditures for goods and services have been moderate and have reflected almost entirely price advances. While funds available for spending by civilians have increased enormously, a large share of the increase has been added to the civilians' holdings of cash, deposits, and Government obligations and has not been active in bidding for the limited stock of civilian goods. This has been due princi-

pally to increased taxes, Government controls over prices and rationing, war loan drives, pay roll savings plans, scarcity of many types of goods, and a public attitude that has favored saving rather than spending. It is important that the controls and the inducements to save be continued in full force during the war period in order to reduce the pressure of increased incomes and accumulated buying power on limited supplies of goods and services. The manner in which the accumulated liquid assets will be used after the war will have an important influence on economic conditions during the period of readjustment.