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CONSUMER PLANS FOR SPENDING AND SAVING

Shifts in consumer spending and saving are important influences upon economic activity. Waves of consumer buying in the third quarter of 1950 and again in early 1951 contributed substantially to inflationary pressures. Subsequently in 1951 curtailed expenditures for durable goods, together with a sharp increase in consumer saving and the accumulation of a large part of these savings in liquid form, were important factors in the relative economic stability which characterized the remainder of the year. In the coming year consumer actions may be critical in determining whether potential inflationary pressures remain relatively dormant or again become a serious threat to stability.

Information on the plans and attitudes of a representative national sample of consumer spending units can be helpful as an indicator of consumer actions over the near-term future. Annual Surveys of Consumer Finances conducted for the Board of Governors of the Federal Reserve System by the Survey Research Center of the University of Michigan gather information on buying plans, attitudes as to whether the present is a good or bad time to buy, expectations concerning supplies, prices, and incomes, investment preferences, and the financial position of consumers. These Surveys are still largely experimental, but over the past six years Survey findings have provided helpful clues to prospective tendencies in consumer purchases of durable goods and houses.

Preliminary results of the seventh annual Survey of Consumer Finances based on interviews with a cross-section of American consumers in January and February of this year indicate that consumers in 1952 are likely to be moderate in their purchases of durable goods and to save about as large a portion of their incomes as they did in the last three quarters of 1951. The investment of saving in houses may continue as large as in 1951.

GROWTH IN CONSUMER INCOME

Aggregate personal income, as estimated by the Department of Commerce, expanded sharply in the last half of 1950 and early 1951. Income increased moderately in the last half of 1951 and, for the year as a whole, personal income was nearly 12 per cent above 1950.

The increase in personal income in 1951 was particularly pronounced in the wage and salary sector. Income of farm operators in 1951 was also substantially above 1950, largely as the result of higher prices for farm products. Income of nonfarm business proprietors was only moderately above that of 1950. Dividend and interest receipts also increased moderately. These income developments are reflected in the Consumer Finances Survey finding of an increase in the proportion of spending units having

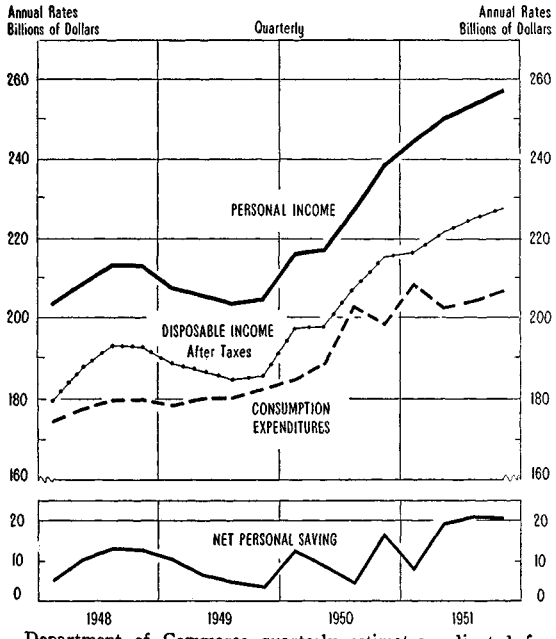
annual money incomes of $4,000 or more.

Average annual income data for the whole population do not, of course, furnish a current picture applicable to all groups in the population. Over two-fifths of the nonfarm spending units, according to the Consumer Finances Survey, were making more money at the beginning of 1952 than a year earlier. About one-third were making about the same. These proportions are roughly similar to those obtained in the Survey conducted in early 1951. Chiefly because of the increase in taxes and prices, however, the number of people who believed that they were worse off financially in early 1952 than a year earlier was slightly larger than the number who believed they were better off.

Decline in Consumer Spending

Consumer expenditures for goods and services fell off sharply in the second quarter of 1951 and continued at a lower level during the remainder of the year, as shown in the accompanying chart. Consumer demand moderated in the face of continued growth in personal incomes, with the result that consumer spending absorbed a smaller proportion of disposable personal income (income after taxes) in the last three quarters of 1951 than at any other time in the postwar period.

PERSONAL INCOME, CONSUMPTION, AND SAVING



Department of Commerce quarterly estimates, adjusted for seasonal variation.

The decline in consumer spending was particularly concentrated in durable goods, reflecting in part a reaction from large purchases in earlier postwar years as well as from the accelerated rate of purchase of automobiles and other durables following the Korean outbreak. By early 1951 consumers were unusually well stocked with durable goods. The total number of automobiles in active service early in 1951 was half again as large as in 1939 or in 1945; consumer stocks of major household appliances had increased even more rapidly. The tightening of terms of instalment credit through readoption of Regulation W in the latter part of 1950 also contributed to the curtailment of consumer demand for durable goods.

The purchase of new housing, which is regarded as an investment rather than a consumption expenditure, also declined appreciably in 1951 from the extraordinary level reached in the second half of 1950. This decline reflected in part a reaction from the post-Korean buying wave and in part the prior satisfaction of much of the wartime backlog of housing needs. Another important factor was the tightening of mortgage credit brought about by general credit measures and by specific restraints on mortgage terms under Regulation X and related FHA and VA regulations.

Increase in Consumer Saving

In the last three quarters of 1951 personal saving, as measured by the excess of

disposable income over personal consumption expenditures, amounted to more than 9 per cent of disposable income. This was a sharp rise from the earlier part of the postwar period.

Much of the growth of saving was in such forms as time deposits, shares in savings and loan associations, and insurance and pension reserves. The accompanying table shows the increase after the first quarter of 1951 in the volume of saving going into time deposits of commercial and mutual savings banks and savings and loans shares. Individuals also purchased a large volume of securities, representing equity or indebtedness of business corporations or obligations of State and local governments, and expanded further their holdings of currency and demand deposits. Preliminary results of the System's annual Survey of Ownership of Demand Deposits of Individuals, Partnerships, and Corporations indicate that individuals increased their holdings of such deposits over the year ending January 31, 1952, by roughly 6 per cent, or at about the same rate as the growth in total demand deposits.

SAVING IN SELECTED FORMS

[Changes in amount outstanding, in millions of dollars]

Period	Total of savings in selected forms	Time deposits		Savings and loan shares
		Commercial banks	Mutual savings banks	
1950	+2,392	+168	+737	+1,487
1951p	+4,278	+1,286	+891	+2,101
1950—1st Q.	+1,228	+354	+427	+447
2nd Q.	+933	+219	+223	+491
3rd Q.	−546	−519	−23	−4
4th Q.	+777	+114	+110	+553
1951—1st Q.	+286	−114	+91	+309
2nd Q.	+1,490	+581	+282	+627
3rd Q.p	+1,044	+419	+218	+407
4th Q.p	+1,458	+400	+300	+758

p Preliminary.

Source.—Federal Reserve BULLETIN and Home Loan Bank Board.

On the other hand, growth in other forms of individual saving, for example, investment in housing and noncorporate business, slackened, although the amounts going into these forms continued at a high level relative to earlier years. Consumer indebtedness, which is an offset to saving, increased much less than in 1950, reflecting increased repayments of debt accompanying continued expansion of borrowing.

Altogether, consumers made a substantial addition to their holdings of liquid assets during 1951, probably equal to between 3 and 5 per cent of their holdings at the beginning of the year. Not all spending units, however, shared in the increase in liquid asset holding; about 3 in 10 indicated that they had no liquid assets in early 1952. This was a slightly larger proportion than a year earlier.

CONSUMER BUYING PLANS FOR 1952

Consumer behavior in spending and saving has changed quite sharply in the past and may be expected to do so in the future. Information obtained through the Surveys of Consumer Finances as to consumer spending and saving plans, economic attitudes, and financial situations has been found to be useful in estimating how consumers will act in the future. This information, however, is merely one guide to possible consumer action; it is not a forecast of what people will do. Plans may be changed to a significant extent because of important developments that were not foreseen by consumers at the time they were interviewed. Past observations, however, suggest that, in the absence of major unanticipated developments, spending patterns over the short-run are likely to follow the indications given by reported buying plans.

Major household goods. Consumer plans to purchase major household goods in 1952 appear to be somewhat less frequent than

those expressed for 1951 in the Survey a year ago. The indicated volume of planned purchases appears to be within the production limit permitted by the supply of materials. While the preliminary Survey data regarding specific goods should be interpreted with particular caution, the findings are that intentions to buy refrigerators, console radios, and washing machines have fallen off somewhat more than planned purchases for the group of major household goods as a whole. Demand for television sets appears to be close to the 1951 level.

Prospective purchases of refrigerators in 1952 were concentrated in the first half of the year, while a more even distribution of television purchases over the year was indicated. In 1951, plans to buy and actual purchases of television sets and refrigerators were concentrated in the first six months.

Automobiles. Somewhat fewer consumers planned to buy new cars in 1952 than expressed similar plans at the beginning of 1951. Plans to buy used cars were at least as numerous as a year ago. Consumer intentions at the beginning of 1951 indicated a softening of the market for new cars, which did occur, although the sharp falling off in the frequency of intentions to buy overstated the extent of the decline. It would again appear that the number of consumers with plans to purchase new cars in 1952 is, as in 1951, substantially less than the number of new cars that will probably be purchased during the year.

Past experience with Survey data suggests that, at prevailing price levels and credit terms, demand for new cars in 1952 will be no greater than the output that is possible under current and prospective material limitations. Consumers appear to be highly price conscious and to some extent are limiting or postponing car purchases because of present price levels. Higher income taxes, especially for the income groups that buy new cars most frequently may also affect buying intentions.

Houses. The number of consumers expressing fairly definite intentions to buy houses (new and existing) in the coming year was about the same as a year earlier. There was, however, some decline in the number of people tentatively considering such purchases. Buying plans suggest that the number of new houses that will be purchased in 1952 is about the same, or slightly less, than last year, provided that material, price, quality, and credit factors do not change significantly. There is some evidence that the middle income groups ($3,000-$7,500) constitute a larger proportion of the new house market in 1952 than they did in 1951. Intentions to buy existing houses continue at about the same high level as in 1951. Altogether, the findings with respect to house purchase plans in 1952 point to continued strength of demand in the housing market.

Some further light is thrown on future prospects in the housing market by reports on buying plans for 1953. These plans for transactions 12 to 24 months in the future, however, are necessarily more tentative than those for the coming 12 months. The number thinking, in early 1952, that they might purchase a new house in 1953 is at least as large as the number with such plans for 1952.

Attitudes and Expectations

Survey reports of the attitudes and expectations of consumers provide important supplementary information for interpreting their buying plans.

Good or bad time to buy. Approximately 6 in every 10 consumers with opinions expressed the view that the current year is a

bad time to make large purchases such as automobiles or refrigerators. Less than 3 in 10 consumers believed the present to be a good time to buy, while the remainder were undecided. The significance of these attitudes is indicated by the fact that consumers who in early 1952 considered the present a poor time to buy generally had plans to buy durable goods during the year at only half the rate found for those consumers who felt the present a good time to buy. As compared with early 1951, the number viewing the present as a poor time to buy had increased, and the number considering it a good time had fallen. This shift in consumer attitudes is consistent with the declining rate of durable goods purchases during 1951 and the moderation of buying intentions for 1952.

Many factors help to determine consumers' attitudes as to the wisdom of buying at this time. The Survey obtained suggestive, although incomplete, information concerning some of these factors. At the beginning of 1952, as a year earlier, high prices were the chief reason advanced for the belief that the present is a bad time to purchase. For some, this reflected a feeling that prices were too high in relation to what is considered a proper price level. For others, this view appeared to reflect a belief that prices would decline at some time in the future, and for still others it may have been an indirect way of saying that prices are out of line with incomes. Direct indications that people could not afford to make purchases were more frequently expressed early this year than a year ago. The decline in the past year in the number of consumers who considered the present a good time to buy was apparently related to lessened fear of shortages of goods as well as of price increases. Very few people indicated that their buying plans were affected by fear of shortages.

Consumer expectations of price and income changes. At the beginning of 1952 about 6 in every 10 consumer spending units felt that prices of the things they buy would rise during the coming year. It is highly significant that, despite this belief, relatively few people (less than 1 in 10) consider the present a good time to buy before prices go higher. The general opinion that prices would rise was similar to that in early 1951, although somewhat fewer had this opinion than was the case a year earlier. Belief that prices would remain at current levels was held somewhat more widely than in early 1951, by 3 as compared with 2 in every 10 consumers. A very small number continued to believe that prices would fall in the ensuing 12 months.

Increases in income during 1952 were expected with considerably greater frequency than declines (4 compared with 1 in every 10 spending units). The ratios were approximately the same as a year earlier. In both years the number of people anticipating price rises was considerably larger than the number expecting increases in income, although the differential was somewhat less this year. Approximately one-third of the spending units did not expect their incomes to keep pace with prices during the year.

Preferences in Investing Savings

Consumer attitudes toward different types of investment and investment plans for the coming year are also available from the Survey. Consumers with incomes of $3,000 or more were asked to state their preference for various forms of investment.

Some change occurred in consumer attitudes toward specific assets, but the rapid growth in popularity of assets of fluctuating

value—real estate and common stock—that took place in 1949 and 1950 did not continue in 1951. United States savings bonds continued to be the most popular type of investment in early 1952, being preferred by nearly half of all people questioned on this point. The proportion of consumers preferring these bonds declined somewhat further, however, continuing a gradual shift that has been under way since 1949. The chief reasons given in favor of savings bonds were safety, interest return, and patriotic motives.

Last year's Survey showed that approximately half of the people reporting plans concerning savings bonds maturing within the following two years planned to retain the funds in savings bonds. This year's Survey showed some increase in the proportion of holders with such intentions for bonds maturing in 1952 and 1953.

The slight decline in popularity of savings bonds from early 1951 to early 1952 was associated with slight increases in the proportions of consumers favoring bank deposits and common stock. This shift in investment preferences was apparent particularly among consumers with incomes of $5,000 or more. This group, while not large in number, accounts for a large proportion of the aggregate saving and wealth of consumers. The chief reasons that consumers gave for preferring bank deposits were liquidity, safety, and interest return, while the reasons for common stock preference were high income return and protection against inflation. There was little change during 1951 in the proportion (nearly 2 in 10) giving real estate other than a home as a first choice for investment.

Summary Comment

The information on consumer plans, attitudes, and financial positions provided by the Survey of Consumer Finances is helpful in assessing current and prospective developments in 1952 in a major sector of the economy. Such information, however, should not be considered as conclusive evidence of what consumers will do. Changes in the international situation or in the level of business or governmental expenditures may affect substantially incomes, prices, availability of consumer goods, and, accordingly, the climate of consumer attitudes and plans. It is relevant, nevertheless, to know that in the economic climate of early 1952 consumers were planning, as in early 1951, to purchase durable goods in moderate volume in relation to income. Such a volume of purchases would be consistent with a continued high level of consumer saving which, if channeled into investment in Government securities, might provide a significant anti-inflationary force.