

## Patterns of Consumer Spending

CONSUMER spending and income advanced further in March to new high levels. Meanwhile, the prices consumers pay for goods continued to show little change.

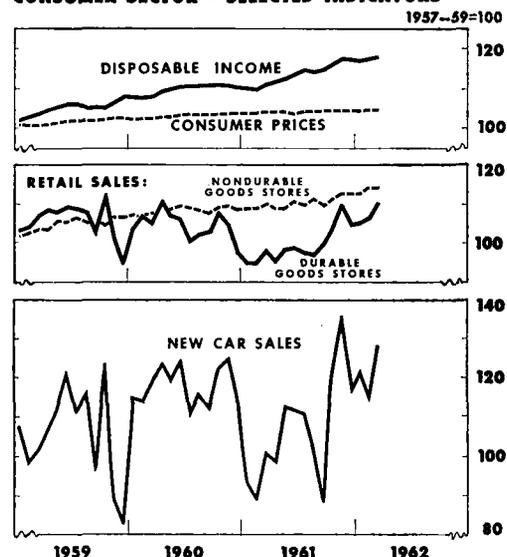
Sales at durable goods stores showed substantial improvement, principally because of a rise in automobile sales. Sales of new domestic automobiles increased to 6.6 million units, seasonally adjusted annual rate, up sharply from the first 2 months of the year but still not up to last November's high.

A strong performance by department and general merchandise stores in March was offset by some declines elsewhere, and sales for the nondurable goods group as a whole were unchanged from February's advanced level. In early April, sales at automobile dealers and at department stores continued at a brisk pace.

For the first quarter as a whole, consumer purchases of goods and services were up 6 per cent from their cyclical low a year earlier. This rise was about the same as in the comparable period of the 1958-59 upswing but less than in 1954-55. Most of the growth in consumer buying over the past year represents a rise in physical volume, for average prices of goods and services have increased little. Growth in population last year was slightly less than the postwar annual average of 1.7 per cent, and per capita expenditures increased about 4 per cent.

The rise in spending, particularly for goods, has been at an uneven rate during this recovery, and this has raised questions from time to time as to whether consumer buying was lagging the growth in income.

### CONSUMER SECTOR - SELECTED INDICATORS



NOTE.—Monthly figures, adjusted for seasonal variation except for prices. Based on data from Department of Commerce, Bureau of Labor Statistics, and Ward's Automotive Reports. Monthly disposable income interpolated from Commerce quarterly data. Latest figures shown, March 1962; prices estimated by Federal Reserve.

As compared with a year earlier, disposable income in the first quarter was up somewhat more than consumer spending. In contrast, at the comparable stage of the two preceding upturns the reverse had occurred, with spending up more than income.

### A YEAR OF CYCLICAL EXPANSION

Consumer purchases of nondurable goods have been rising for more than a year. Spending on such staple items as food, beverages, tobacco products, drugs, and toilet articles has increased throughout the period, but spending for clothing and shoes did not

begin to rise until after mid-1961. Service outlays have maintained their persistent advance, but at a less rapid rate as price advances have slowed.

The pace of recovery in durable goods spending in 1961 was closely related to changing levels of automobile sales. Sales of new domestic automobiles advanced unevenly during the first half of the year; in the third quarter they fell sharply because of an unusually early model-changeover and work stoppages. Sales then spurted in the fourth quarter to an annual rate of 6.4 million units, a rate not exceeded in any quarter since 1955. For the year as a whole, sales totaled 5.5 million units, down 10 per cent from 1960. Imports accounted for an additional 380,000 units.

Sales of new domestic cars turned down again in January and February 1962. But the March advance brought the first quarter rate up to 6.3 million units.

An upturn in spending on furniture, appliances, television, and other household equipment began early in 1961 and coincided with a rising volume of residential construction. Late in the year such spending was back almost to its 1959 high. After declining

in January and February, it turned up a little in March. The weakness during the winter may have been associated with the decline in housing activity.

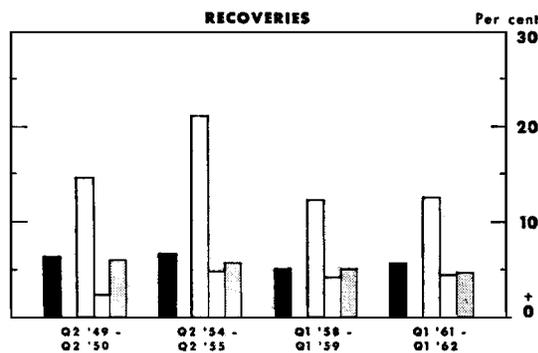
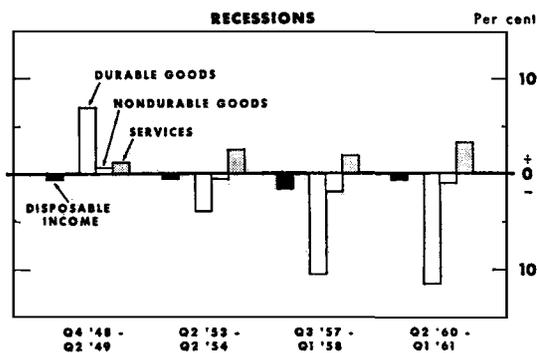
Consumer instalment credit began to expand in the fourth quarter of 1961. The rise came a little later after the trough in general activity, and the increase was somewhat less, than in the comparable periods of the 1954-55 and 1958-59 upswings. In early 1962 instalment credit increased at about the same rate as in the fourth quarter of 1961.

**CYCLICAL PERFORMANCE IN PERSPECTIVE**

The uneven advance in consumer purchases of goods over the past year has raised questions about the underlying strength of consumer demands. A comparison of recent performance with earlier postwar cycles—as measured by peaks and troughs in the gross national product—may shed some light on this issue.

**Changes in income and spending.** During the contraction and recovery phases of the four postwar cycles, consumer incomes have followed strikingly similar patterns. Purchases

**CYCLICAL CHANGES IN INCOME AND SPENDING**



NOTE.—Based on Department of Commerce quarterly figures in constant dollars, adjusted for seasonal variation. Figures for

first quarter 1962 based on Council of Economic Advisers estimates; deflators estimated by Federal Reserve.

of nondurable goods and services have also moved similarly, but durable goods have shown some important differences. These comparisons, which are shown in the chart, are based on constant dollar data. It should be stressed that small differences in cyclical performance may not be significant.

The first striking similarity in consumer income patterns is the slightness of the decline during the contraction phase: in 1957-58 disposable income declined 1.5 per cent. In the other three contractions, including 1960-61, it fell only a half of 1 per cent.

The small size of these declines has partly reflected, partly contributed to, the generally moderate nature of contractions in economic activity as a whole. In particular, the stability of incomes has reflected the countercyclical influence of unemployment compensation programs and the steady rise in other transfer payments, as well as the sustained growth in service and State and local government employment.

A second striking similarity is the narrow range of the increases—from 5.0 to 6.5 per cent—in disposable income in the first four quarters following the lows in aggregate activity. The rise in such income over the first three quarters of the recent expansion was sharper than in the preceding two recoveries, but it slowed down in the first quarter of 1962, along with aggregate activity.

Total consumer purchases, after adjustment for price changes, have also changed little from peak to trough of postwar contractions. On the whole, however, consumer spending was better maintained in 1948-49 (up 1.5 per cent) and in 1953-54 (no change) than in 1957-58 (down 1.5 per cent) and 1960-61 (down .8 per cent).

The greater strength in the two earlier recessions, as the chart indicates, is attributable mainly to purchases of durable goods.

These purchases increased 7 per cent in the 1948-49 recession, when output was just about beginning to cope with backlog demand, and declined only 4 per cent in 1953-54. Such purchases declined more than 10 per cent in both 1957-58 and 1960-61.

Typically, purchases of nondurable goods have declined only slightly during recessions, and purchases of services have continued to advance although less rapidly than during expansions.

In three of the four postwar expansions, including the current one, total consumer purchases increased between 5 and 5.5 per cent in the first four quarters after the cyclical trough. In 1954-55 purchases increased 7 per cent, primarily because of the extraordinary expansion in car sales.

According to these income and spending comparisons, the 1960-62 performance both in contraction and in the first year of recovery compares favorably with 1957-59 but is significantly less vigorous than in 1953-55.

The same general results appear, but some additional perspective may be gained, if one compares income and spending, in constant dollars, 1 year after the cyclical low in gross national product with the levels at the preceding cyclical peaks, as shown in the tabulation below:

Peak	1 year after trough	Disposable income (percentage increase)	Consumer purchases (percentage increase)
Q4 '48	Q2 '50	5.7	6.8
Q2 '53	Q2 '55	6.0	7.4
Q3 '57	Q1 '59	3.3	3.8
Q2 '60	Q1 '62	5.2	4.8

**Spending rates.** Another basis for appraising consumer spending in the current recovery is to relate spending directly to income. Spending rates for total consumption and the three major groups, based on current prices, are shown in the next chart.

Total expenditures rose more slowly than income in the first two quarters after the 1961 trough, and the spending rate consequently declined. In contrast, the spending rate increased during the first two quarters after the 1954 low and in the first quarter after the 1958 low. In the third quarter of the 1961-62 recovery the spending rate rose slightly, and in the most recent quarter it increased further despite some slowing in the rise of consumer purchases.

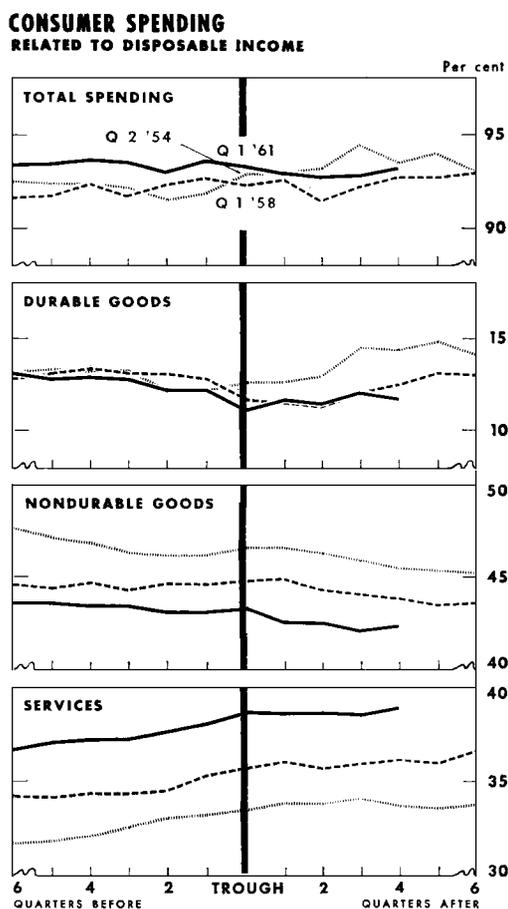
By the first quarter of 1962—a year after

the trough—total consumption expenditures had advanced 6 per cent while disposable income had increased 6.5 per cent. At this stage of the two preceding recoveries, spending had risen more than income. In the year and a half preceding the 1961 trough, however, the spending rate was higher than in the similar period of the two earlier cycles, and the rate is higher now than at the comparable phase of the 1958-59 recovery.

Associated with changes in the proportion of disposable income spent for total goods and services are varied patterns for the major consumption groupings. Maintenance of the total spending rate during recessions stems mainly from the persistent growth in service expenditures—many of which represent relatively fixed charges on consumers' incomes—while both outlays and the spending rate for goods are curtailed. Recovery is marked by a pick-up in outlays for goods, especially durables. While service outlays continue to rise in the upturn, the spending rate tends to level off.

The spending rate on goods and services has fluctuated between 92 and 94 per cent in recent years, well below early postwar years when consumers were drawing on liquid assets accumulated during World War II and rapidly expanding their use of credit. At current income levels, a change of 1 per cent in the spending rate would be equivalent to nearly \$4 billion of purchases.

**Liquid assets.** Spending at various stages of the cycle may be influenced by the volume of liquid assets—demand deposits, currency, and various types of financial savings—consumers hold in relation to their income. Consumer liquid assets have increased steadily over the past decade, about in line with disposable income. Depending on the phase of the cycle, the amounts held have ranged



NOTE.—Based on Department of Commerce quarterly figures, adjusted for seasonal variation. Figures for first quarter 1962 based on Council of Economic Advisers estimates.

from 75 to 80 per cent of the annual rate of disposable income.

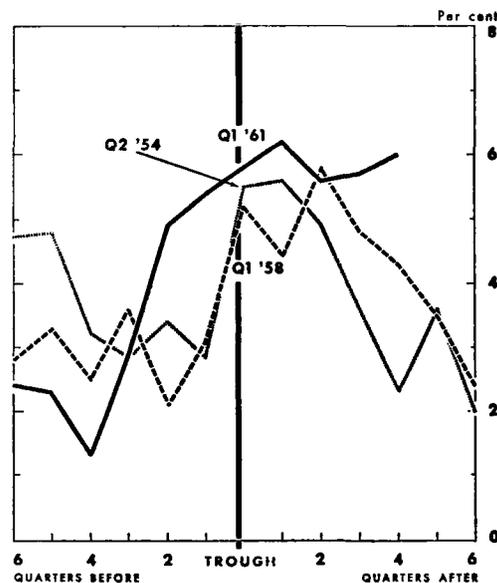
Consumers tend to add more to their liquid assets during recessions when spending is reduced, than during expansions when spending is increased. Also, they are more reluctant to go into debt when incomes are declining and more willing to increase debt when incomes are rising. These tendencies toward increased liquidity in a downturn tend to prolong it, but at the same time they help prepare the way for recovery.

The recent pattern of increase in consumer liquid assets, in relation to disposable income, has differed in important respects from that in the two preceding cycles, as may be seen in the chart. During the 1960-61 downturn, additions to consumer liquid assets increased steadily and sharply in contrast to a delayed and somewhat smaller build-up in the two earlier recessions.

Moreover, consumers have continued to make large additions to their liquid assets through the recovery period to date. Particularly noteworthy is the increase in the two most recent quarters; at this stage of the two previous cycles, consumers were adding successively smaller amounts to liquid assets.

Over the current cycle, the build-up of liquid assets has reflected, to a larger extent than usual, shifts out of marketable securities as consumers have responded to changing yield differentials. One influence in the first quarter of 1962 was the rise in interest rates paid on time deposits. Another factor in the recent growth in liquid assets may have been the decreased volume of purchases of new single-family houses as compared with earlier recoveries. Also, the recent build-up may have reflected the failure of consumption expenditures to rise as fast relative to income as in earlier recoveries.

ADDITIONS TO CONSUMER LIQUID ASSETS  
RELATED TO DISPOSABLE INCOME



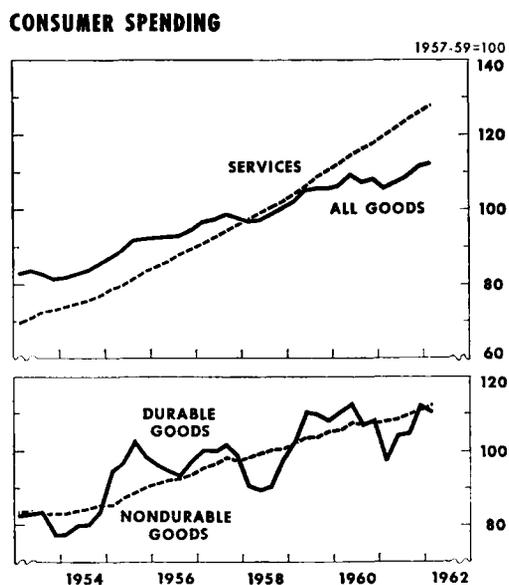
NOTE.—Based on Federal Reserve and Department of Commerce quarterly figures, adjusted for seasonal variation. Figures for first quarter 1962 estimated; income from Council of Economic Advisers.

#### CHANGING CONSUMPTION PATTERNS

Consumers have increased their spending on services more sharply than on goods during the postwar period. As a result, the composition of expenditures has changed importantly. Consumers today are allocating 10 cents more to services out of each dollar spent, and 10 cents less to goods, than in 1947.

About half of the postwar gain in relative importance of services, however, reflects higher prices. Prices of services have risen steadily and rapidly—although the pace slowed after 1953—and by 1961 averaged 53 per cent above 1947. Prices of durable goods are 19 per cent higher than in 1947, and prices of nondurable goods 22 per cent. Prices of both durable and nondurable goods have shown little change over the past few years.

**Less for goods.** Food and clothing are much less important in the consumer budget today than in 1947. One reason is that families with rising incomes tend to spend proportionately less on basic needs. Gas and oil expenditures have gained in importance, but most of the rise occurred in the first half of the postwar period and was associated with the rapid build-up in car numbers.



NOTE.—Based on Department of Commerce quarterly figures, adjusted for seasonal variation. Figures for first quarter 1962 based on Council of Economic Advisers estimates.

Spending for durable goods has fluctuated rather widely, in large part because of swings in demands for autos. The share of the consumer dollar going to durable goods rose to 15 cents in the boom automobile year of 1955 but is now back to 12 cents, the same as in 1947.

**More for services.** Service outlays have nearly tripled since 1947. Especially dramatic have been the increases in expenditures for medical care, personal business, and private education and research. Each

of these three groups now accounts for a significantly larger share of total outlays for services than in 1947.

In 1960, individuals spent \$20 billion on medical care—including such items as doctor and hospital bills, and health insurance premiums—up 78 per cent from 1953 and 189 per cent from 1947. Rising medical costs, medical progress, and a longer life span have been contributing factors.

Outlays for private education and research have tripled since 1947. The sharpest advances have come in recent years with the rise in number of youths of college age and the heightened interest in education. Spending on brokerage and legal fees, interest on consumer debt, and other personal business services has more than tripled.

Expenditures for housing have increased substantially, but somewhat less rapidly in recent years than earlier when rents and house purchases were increasing sharply. Spending for household operation—including electricity, gas, water, and telephone services—has increased steadily and is 184 per cent above 1947.

An important question is whether the postwar shift toward increased spending on services will continue. The rapid rise early in the period reflected largely corrections of supply and price distortions arising out of the war. The advance in recent years, however, has been just as large as earlier. Currently, service outlays account for about the same proportion of the spending dollar as in 1929 and also in the late 1930's.

Increased demand for services has resulted in rising employment in the service industries even during recession, and this may have had a generally stabilizing effect on employment and on the economy as a whole. It is not easy, however, to evaluate

the effect the shift has had on investment in fixed capital, because the service group encompasses a heterogeneous assortment of activities, ranging from such intensive capital-using industries as electric utilities, transportation, and communication to the domestic and personal service industries where fixed capital needs are comparatively small.

**Leisure activities.** Americans are devoting greater amounts of time and money to leisure activities than ever before. Sports equipment, the theater, books, foreign travel, and the like have been taking an ever-larger share of the consumer dollar.

In 1960 people spent more than \$2 billion on foreign travel, almost double the amount for a year as recent as 1953. Spending on sporting goods rose 76 per cent over the same period as people turned to active participation in all types of games and sports including boating, riding, and flying. Expenditures on books increased 77 per cent,

and apparently all types of books—fiction and nonfiction, hardcover and paperback alike—have shared in the rising trend.

Spending for sporting events has risen considerably less than other leisure categories and less than total consumer expenditures. Purchases of radios and television sets, in the meantime, have about kept pace with total spending since 1953.

#### GROWTH RATES

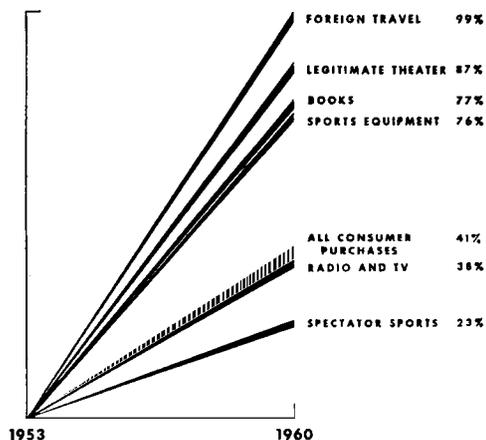
Notwithstanding shifts in consumer preference for various goods and services, total consumer purchases, measured in constant dollars, have grown at a remarkably stable rate since World War II. Growth since 1947 has averaged a little less than 3.5 per cent a year.

Service outlays have grown more than 4 per cent a year with the pace even more rapid since 1954 largely because of the stepped-up spending on medical care, personal business, and education. Expenditures on public transportation services have the lowest postwar growth rate among the major service categories.

Among nondurable goods, food and clothing have risen about 2 per cent a year, a little faster than population growth. Gas and oil have averaged 6 per cent a year, but growth has been less rapid in recent years.

Durable goods purchases have grown about 4 per cent per year over the whole period. Since 1954, however, the rate has been less than 3 per cent. Purchases of autos and parts, which were increasing more than 8 per cent a year in the first half of the period, have shown only a slight annual rise in recent years.

**SELECTED LEISURE ACTIVITIES**  
CHANGES IN EXPENDITURES



NOTE.—Based on Department of Commerce annual figures.