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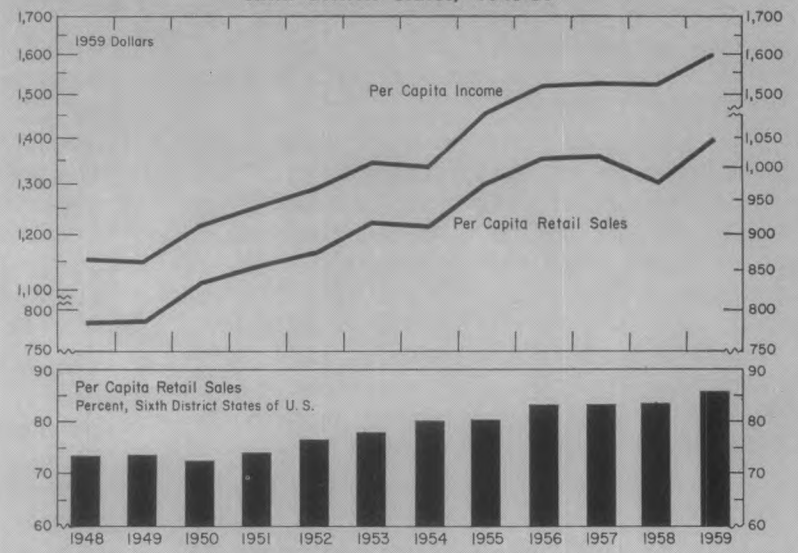
Consumption, Saving, and Southern Economic Growth

How well it satisfies the wants of consumers is the final test of the success of any economic system. Factories, farms, transportation facilities, mines, and all other parts of the productive apparatus are merely means to an end. If this is so, the success of economic growth in the South can be determined by ascertaining how much better consumer wants are satisfied now than they were before the growth.

By this test, the economy of the Sixth Federal Reserve District was doing a much better job of satisfying the wants of consumers at the end of the 1950's than at the beginning. Data used as the basis for this judgment cover those states that lie wholly or partly in the Sixth District—Alabama, Florida, Georgia, Louisiana, Mississippi, and Tennessee. On a per capita basis, consumers in District states were spending $357 more at retail stores in 1959 than they were ten years earlier. Even though those dollars bought less in 1959, the rise in real terms was substantial—$214 measured in constant dollars of 1959 purchasing power. For the average family, this meant $706 of additional purchases at the retail level, about a fourth more than in 1950. Along with this increase in goods buying were similar ones in purchases of services and housing and in other consumption expenditures. Per capita expenditures at service establishments, for example, were $56 greater in dollars of 1959 purchasing power in 1958 than in 1948.

Per Capita Income and Retail Sales
Sixth District States, 1948-59



Income growth in District states during the 1950's was accompanied by growth in consumer buying at retail stores. Because retail sales increased at a greater rate in this District than in the United States, per capita retail sales in the District drew closer to the United States average, rising from 73 percent in 1948 to an estimated 86 percent in 1959.

An improvement in the level of living, as measured by additional goods and services consumed, characterized the whole American economy during the 1950's. What distinguishes the improvement in the Southeast is that it was greater, measured either by percentage rate of increase or by actual dollar expenditures. Per capita retail sales, in dollars of constant purchasing power, increased 26 percent in District states from 1950 to 1959; per capita sales throughout the United States increased 6 percent. The increase in per capita sales, measured in dollars of constant purchasing power, in the same period in the District was much greater than the figure of $66 for the nation. Clearly, the South, if the Sixth District is typical, was one of the most rapidly growing markets for consumer goods in the country.

There are two basic reasons for this "explosion" in spending. The first is that income grew at a rapid rate in the South, which has been discussed in earlier issues of this year's *Review*. The second was that Southern consumers went out and spent more of their additional income than consumers elsewhere. For each dollar increase in per capita income in District states between 1950 and 1959, per capita retail sales increased 62 cents; for each dollar increase in United States per capita income, per capita retail sales increased 41 cents.

Propensity to Consume

Economists have coined the term "propensity to consume" to describe the way consumers tend to divide their incomes between spending and saving. They use "marginal propensity to consume" to describe the way consumers spend additions to their income. On the basis of these definitions and our spending and savings data, the average consumer in the District had a higher marginal propensity to consume during the 1950's than other American consumers. This tendency varies from state to state, according to data for 1948 and 1958, years for which state data on sales are available.

The other side of the picture, of course, is the marginal propensity to save. This, we would expect from what we have learned about spending, to be lower in the South than throughout the nation, and available savings data support this conclusion.

We get a fairly good picture of the changes in total savings by looking at changes in certain forms of long-term savings—time deposits at commercial banks, savings and loan shares, life insurance equities, United States savings bonds, and postal savings deposits. The total of these long-term savings, on a per capita basis, increased in District states from $549 in 1950 to $978 in 1959. The dollar increase for District states of $429, as we would expect, was lower than the national one of $513. Were measures of other types of savings available, they would probably show similar relationships.

Why did Southerners spend such a large share of their increased income? Economists and other scholars have devoted years of concentrated effort trying to answer that question as it applies to consumers in general. They have found that like answers to other economic questions, the answer is extremely complex. In general, however, they

Retail Sales and Savings as Percent of Income

District States and United States, 1948 and 1958

Consumer spending in District states, as in most parts of the South, tends to be higher in relation to income than elsewhere in the nation, and savings in relation to income are lower. As income in the District has increased, however, the ratio of spending to income has declined, and the ratio of savings to income has increased.

conclude that "other things being equal" the lower the income, the greater the proportion of the income spent and the smaller the proportion saved. It follows that a larger share of added income will be spent by those with lower incomes than by those with higher incomes.

At the beginning of the 1950's, per capita personal income in the District was much higher than it had been during preceding years, but it was still only 67 percent of the national average. True to the theory, spending in 1950, as measured by per capita retail sales, was higher in relation to per capita income than in the nation, 68 percent compared with about 64 percent. Yet, we cannot explain the state-to-state differences in spending rates solely by differences in income. These differences are also explained by such factors as average family size, age distribution, proportion of urban or rural population and so on, all of which influence consumer spending habits.

In general, the changes in these factors that accompanied economic growth in the 1950's were the kinds that encouraged spending. Among these was the shift from the farm to the city. As a rule, persons living in urban areas tend to spend more of their incomes for consumer goods than those living on farms. Thus, since the number of persons living in metropolitan areas in the District increased from 39 percent of total proportion in 1950 to 47 percent in 1960, there was a continued stimulus to a higher rate of spending from the greater urbanization.

Another change was the out-migration from the South, which left the area with a higher proportion of its population in the non-productive age groups, the young and the old, than was true of the United States. Spending in relation to income is generally high when an area's population is heavily concentrated in these age groups. Since the number of persons less than 21 years of age and over 65 increased from 48 percent of the area's total population in 1950 to 51 percent in 1958, some stimulus to spending may have come from this development.

A Rapidly Expanding Consumer Market

Reasons for the higher propensity to consume in this part of the South could be explored further. The important thing for businessmen, who are seldom interested in finely spun theories, however, was the rising demands for goods and services. These demands created a better market.

To meet these new demands, retail establishments added more workers; some of them refurbished and enlarged their stores. National chains, always on the lookout for new opportunities to sell, opened outlets in the area; sales managers of firms with nationwide distribution, after seeing rising sales curves for their Southern territories, found it worthwhile to establish distribution centers and area offices and to send experienced personnel from other parts of the country into the South. Some manufacturers, who had formerly met the demands for their products exclusively from factories outside the South, opened branch plants to supply the Southern market. Bankers found the new high incomes of Southern consumers a sound basis for increased consumer credit.

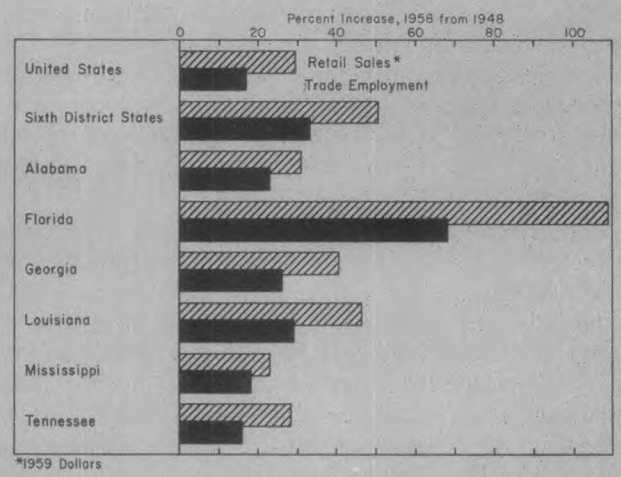
So intertwined is our distribution system with other types of economic activity that it is impossible to measure exactly the impact of increased consumer spending upon the structure of the area's economy. The number of persons employed in retail and wholesale establishments is about the best measure available. Between 1950 and 1959, some 237,000 workers were added to the payrolls of retail stores and wholesalers in District states. Service employment increased 99,000. For the entire District, the increase in trade employment was far greater than that in factory employment. Wage and salary income from trade in the six states in 1959, making up 19 percent of total wage and salary payments, was $2 billion greater than it was in 1950.

These figures are inflated to some extent by the tremendous growth in Florida, where satisfying the needs of tourists is such an important activity. Nevertheless, the growth of employment in trade was greater than in manufacturing in each District state except Mississippi and Tennessee; in these two states the gain in trade employment was not far behind that in manufacturing. Thus, the growing consumer market has been a strong inducement on willingness to invest in manufacturing plants, although it cannot be measured statistically.

Stimulus or Drag to Economic Growth?

Not everyone has been happy about this upsurge of spending and the tendency of Southerners to spend rather than to save out of their larger incomes. Some economists, as well as others interested in economic development in the South, have wondered if this high rate of spending has hampered income growth. Consumption, they argue, is the result and not the cause of income growth. The growth in trade employment, they point out, merely paralleled the income growth; it did not cause it. Income, they say, can grow in the South only if the South's economy becomes more productive and if higher productivity results largely from more capital investment. Investment must be financed out of savings, they argue, and in the final analysis savings consist of spending for investments rather than for consumption. If Southerners insist on spending

Retail Sales and Trade Employment
District States and United States
Percent Increase, 1948-58



The growth in employment at wholesale and retail trade establishments in the District accompanied the growth in buying at retail stores.

so much, Where are the investment funds to come from? they ask.

Anyone taking the trouble can show, for example, that if the increase in per capita long-term savings in the District between 1950 and 1959 had borne the same relation to the increase in per capita income there that it did in the United States, per capita savings in the District in 1959 would have been $1,025 instead of $978. Would this have meant more capital available for investment and hence greater income growth?

Were the South a separate country with legal and other barriers preventing access to capital investment funds from other areas, as is sometimes the case in underdeveloped areas in many other parts of the world, it would be easy to see that Southerners' high propensity to consume had hampered economic growth. But the South is not a separate country; it is part of a nation where investment funds are free to flow to wherever economic opportunity beckons. Fortunately for its economic growth, the South did not have to rely entirely upon resources made available by its own savers.

The substantial flow of investment funds into the area has been described from time to time in this *Review* (See Readings in Southern Finance No. 1, *Sources and Uses of Investment Funds in the Southeast*). Yet some types of enterprises, such as those started and carried on by small businessmen, do not always have easy access to funds outside the South, and it is possible that the contribution to income growth from expansion in these types of businesses may have been limited by inadequate local savings. The inducement to make investments to satisfy a growing consumer market in the area, however, may have compensated for this by attracting investment funds into the area. Certainly the record shows a tremendous expansion of capital investment in the Southeast despite the high rate of consumption. Even if consumers in the area had spent less and saved more, local savings would have been inadequate to finance the investment that occurred.

Future Income, Spending, and Saving

The tremendous upsurge in consumer spending during the 1950's has been explained by the high rate of income growth and the propensity of Sixth District consumers to spend a substantial share of their increased incomes. Thus, the future trend of spending in this part of the Southeast depends upon answers to two questions: Will income continue to grow? Will Southerners continue to spend a larger share of this increased income than consumers elsewhere?

Earlier articles in this series on income growth have indicated that the future of the Southern economy is tied closely to that of the nation. If we assume that this nation's economic growth will continue, we may also conclude, on the basis of experience, that the South will continue to increase its share of expanding income. Under these conditions, consumer spending will continue to grow somewhat more rapidly in this area than elsewhere.

As incomes increase, however, and the average income in the South more closely approaches that in the nation, the strength of factors that brought about a tendency for Southerners to spend more of their incomes tends to diminish. As his income has increased, the Southern consumer has become more like the average American consumer. He saves more and spends less. Indeed, this has been going on ever since the South began to catch up in income. Nevertheless, an elimination of the still existing differential between the District and the United States in the immediate future seems unlikely. In 1959, per capita retail sales in the District were still 65 percent of per capita income, compared with 57 percent for the United States.

The 1960's, therefore, are likely to see the South continue as one of the nation's most rapidly growing consumer markets in relation to income growth. The pace of activity, in terms of rates of growth, may be a little slower than it has in the past because Southerners may be expected to more nearly approach the savings habits of the nation. If a shortage of local savings has indeed hampered economic growth, the growth in savings accompanying income expansion may help solve the problem. In the 1960's, the South will probably continue to be a very attractive market for consumer goods, but it will also offer an improved opportunity for savings institutions to attract a greater part of Southerners' income. In any event, the Southern consumer should be better off.

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Seasonal Adjustment

An Aid to Economic Understanding

Scattered throughout the *Monthly Review,* frequently making up a part of the labeling for the charts, you will see statistical series described as "seasonally adjusted." Sometimes, to vary the reference, economists and statisticians speak of changes "after allowance for seasonal variations," or "after adjustment for seasonal influences." Whatever the form of expression, it is clear that something has been done to the basic data. To those unfamiliar with the terms, however, it may not be clear just what has been done and why and how. The sceptic might consider seasonal adjustment a deliberate effort to confuse the interpretation of economic developments. In reality, however, it is an effort to clarify them.

What

The accompanying chart showing changes in department store sales is used here to illustrate what we mean by "seasonal adjustment." The line portraying changes in the actual dollar volume of department store sales before adjustment reveals what every shopper knows from her own experience with the changing size of shopping crowds: The department store business typically booms with the approach of Easter in either March or April and really zooms with the approach of Christmas. These changes, because they repeat themselves in more or less the same pattern every twelve months, are called seasonal variations. The adjusted line in the chart differs from the unadjusted in that these seasonal variations have been removed. In other words, the figures have been "seasonally adjusted."

Swings in consumer demand associated with holidays explain the major seasonal changes in department store sales, but department store owners will tell you that changes in the weather also have a strong influence on the demand for their goods. This is particularly true of specific items such as air conditioners and refrigerators, which sell in largest volume during warm weather. Most types of business activity experience similar swings in demand associated with calendar dates and the weather. In the automobile industry, for example, such swings are related to good driving weather and to the introduction of new models each autumn. Similarly, the advent of cold weather brings an increase in the demand for fuels.

Seasonal variations in the supply of goods are also important in many types of business activity. A good example of this is the seasonal increase in farm income associated with the harvesting of crops. Seasonal changes are important not only in agriculture but also in other outdoor activities such as construction work.

Why

Although the term "seasonal adjustment" may have seemed confusing, you now undoubtedly recognize seasonal variations as a phenomenon with which you have been familiar in many phases of your everyday life. You will also recognize that you have made allowances for, or adjustments to, these seasonal variations in planning activities that might be affected by them. The shopper knows when to expect crowds in department stores and so plans to either avoid them or brave them. Your own