

THE ALL-IMPORTANT CONSUMER

Most discussions of current economic prospects include some mention of what the consumer is expected to do. The strength of the recovery depends crucially on whether households will decide to spend most of their income or whether they will continue to save an unusually high proportion of their income. Personal saving as a percentage of disposable personal income, or the saving rate, has reached relatively high levels during the past few quarters. During the third quarter of 1970 this rate moved above 8% to its highest level since 1952; since then it has remained over 8%. This higher saving rate has been interpreted by many to mean that the consumer is uncertain about the future state of the economy and is consequently postponing durable goods purchases.

Many observers have pointed to the abnormally high saving rate as a source of economic recovery, provided that the consumer's confidence can be restored. Thus, most speculations about the success of President Nixon's new economic program hinge in some measure on the state of consumer confidence. Since the excise tax reduction will effectively reduce domestic automobile prices, and since prices in general may be expected to rise after 90 days, the consumer may, indeed, reduce his saving and begin buying more. On the other hand, to the extent that income influences consumer spending patterns, the President's policy could have a different effect. For example, persons who were hard-hit by the wage freeze might well postpone their durable goods purchases until they know more

about their future income. In order to investigate the prospects for increasing consumer expenditures, a series of charts has been prepared to show the past actions of the consumer.

The U. S. Department of Commerce estimates personal consumption expenditures for each quarter. The estimates are classified into expenditures for durables, nondurables, and services. Analysis of spending by component is useful because the predictability of change in the three components is different. Consumer spending for services, for example, has been quite predictable in the past. Service expenditures have increased approximately 2% per quarter for the past several years, excluding disturbances for strike effects. The other two expenditure components are considerably more difficult to predict accurately.

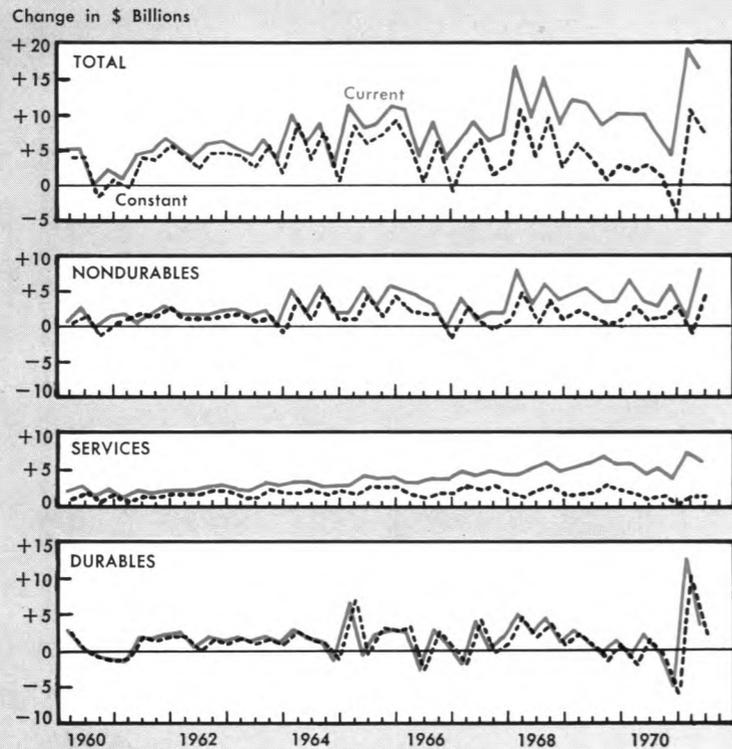
Both durable and nondurable goods expenditures vary with changes in the consumers' disposable income. Nondurable spending, however, maintains a closer relationship to disposable income and can be

predicted more accurately than durable goods expenditures, once something is known about the future state of consumers' incomes.

Durable purchases are influenced by income, but they are also influenced by expectational and other erratic forces. Durable expenditures consist, in large part, of spending for automobiles and consumer appliances. In order to gain some insight into the state of durable spending, therefore, it is often useful to investigate the automobile sales data and the state of new housing starts and completions, in addition to the state of consumer income. Housing starts, as the chart shows, have been recovering rather substantially in recent months. Preliminary figures indicate that automobile sales have also picked up considerably since the inception of the President's new program. If housing starts continue their recovery and automobiles continue to sell at their recent high rate, then a recovery in consumer spending for durables will probably come about.

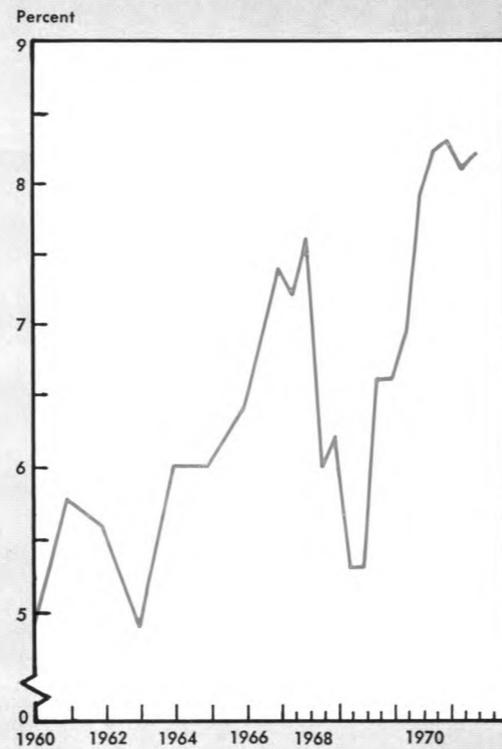
William E. Cullison

PERSONAL CONSUMPTION EXPENDITURES



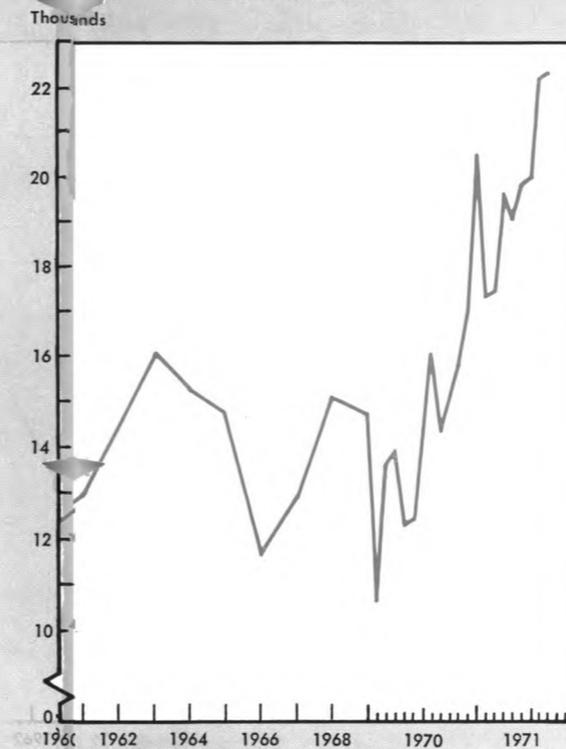
Source: U. S. Department of Commerce.

PERSONAL SAVING AS A PERCENTAGE OF DISPOSABLE PERSONAL INCOME



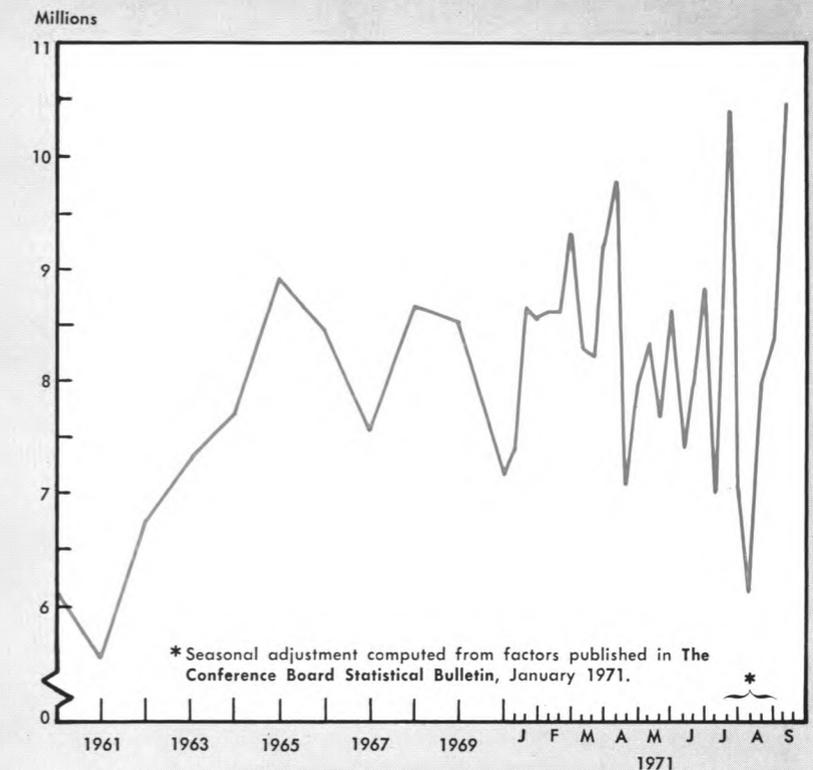
Source: U. S. Department of Commerce.

NEW PRIVATE HOUSING UNITS STARTED (Annual Rates)



Source: U. S. Department of Commerce.

AUTOMOBILE SALES (Annual Rates)



Source: The Conference Board Statistical Bulletin, August 1971, p. 11.