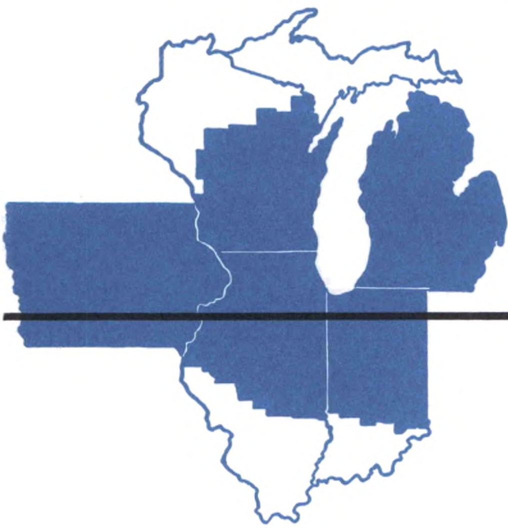
A review by the **Federal Reserve Bank of Chicago**

Business Conditions



1958 August

Contents

THE Trend OF BUSINESS

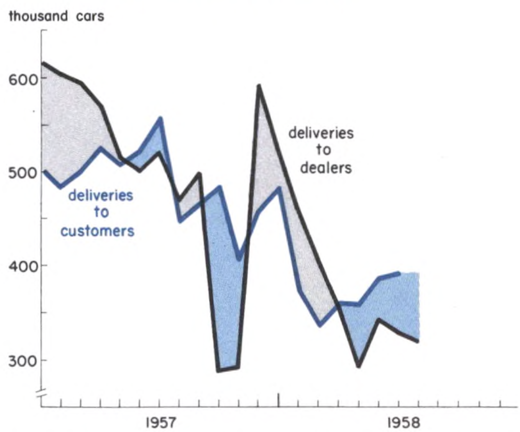
Since the recent postwar recession touched a low point last spring, attention has centered on the question of the speed of the recovery. Reports for May, June and early July suggest that improvement has come somewhat faster than had been anticipated. Unfortunately, seasonal fluctuations are so large in July and August that developments during these months often do not contribute much toward a clarification of the picture.

July is the most important vacation month for Americans, partly because of the popularity of plant-wide shutdowns in midsummer. Industrial production in July is usually 7 per cent below the year's average. Moreover, buying of summer goods by consumers is heavily concentrated in May and June, and back-to-school purchases do not begin on a large scale until August. As a result, the July total for department store sales must be adjusted upward by 20 per cent to bear comparison with the yearly average. In August, activity typically takes a long stride upward. Whether this movement is greater or less than the usual seasonal rise often is not apparent until comprehensive documentation is available, in September or later.

One thing is certain. After several years of rapid expansion of new plant and equipment and several months of retrenchment in output, the nation is in a position to expand its output very sharply, perhaps at the fastest rate in the postwar period. Following the small gains in May and June, industrial production was still almost 10 per cent short of the peak reached a year and a half earlier. The extent to which facilities have been expanded since late 1956 suggests that manufacturing industries in the aggregate may be operating 20 per cent below potential.

How many months or years will elapse before the high-water marks recorded by the economy in 1957 are equaled or exceeded? An optimistic answer to this query is suggested by the studies of the National Bureau of Economic Research which indicate that the swiftness of a cyclical upturn has been related historically to the speed of the previous decline. (The 1957 drop was the most rapid of any in the postwar period.) This conclusion would be consistent with the view

Passenger car inventory reduction under way since February



Note: Figures adjusted for trading days.

that excessive demand will soon begin to press on available resources again, thereby rekindling inflationary forces. A contrasting view is offered by those who believe that a return to full prosperity must await the higher levels of marriages and births indicated for the 1960's. These individuals believe that the resulting creation of new "needs" will be required to offset the tendency toward underutilization of resources.

The upturn broadens

Whatever the speed of the recovery, most businessmen expect to face intensely competitive markets for a long time to come. Under present conditions of substantial unused capacity, prosperity for individual enterprises will depend more heavily upon the success of their individual production and selling programs than upon the course of the general economy.

Agriculture provides the prime example of a contra-cyclical industry in the current recession. But this appears to have resulted largely from a more or less fortuitous combination of circumstances not necessarily related to the general trend in business. Prosperous Iowa owes its well-being largely to this factor. Other farm areas of the Midwest have also benefited. Crop prospects are generally excellent except in Indiana where floods have damaged sizable areas. Prices, for the time being, at least, are holding near their advanced levels.

In Michigan, over-all conditions, as usual, are closely linked to the automotive industry which is now in the process of cutting back production to make way for new models. Passenger car inventories at midyear were somewhat below the same date in 1957. However, sales have been about 30 per cent below the previous year so that the inventory disposal problem probably will require greater restriction of output in the third quarter than in previous postwar years.

Lead time on purchases by business firms may be stretching out again

Buying policy	0-30 days	30-60 days	60-90 days	Over 90
June 1955	12	47	31	10
June 1956	20	46	31	3
June 1957	33	54	10	3
March 1958	51	45	3	1
June 1958	44	49	6	1

SOURCE: Purchasing Agents of Chicago.

Illinois, Indiana and Wisconsin trends show the effects of continued cutbacks in sales of industrial machinery and equipment. For some months, there have been reports of an increase in orders for road-building equipment, and recently there have been announcements of the call-back of laid-off workers at some of these plants. However, output of most types of capital goods produced in this area, such as machinery, trailers and railroad equipment, remains far below year-ago levels and is still headed downward in some lines.

For the District as a whole, the performance of the regional economies can be summed up as follows: Iowa, above the national average; Michigan, well below average; Illinois, Indiana and Wisconsin, somewhat below average.

For the nation, general barometers, such as industrial production, employment, personal income, the average factory work week, construction contract awards and housing starts, all displayed additional strength in late spring. Inventory liquidation, which had averaged 700 million dollars per month in the first five months of the year, probably was slowing in June and July as output rose.

Even though no drastic anti-recession measures were adopted by the current Congress, there was a combination of steps which must be rated as plus factors in the business outlook. These include the acts boosting spending on Government payrolls, extension of unemployment benefits, military procurement, and road-building and housing programs, together with the abolition of the 3 per cent tax on freight revenues of common carriers. The impact of most of these programs will be increasingly evident in the months ahead.

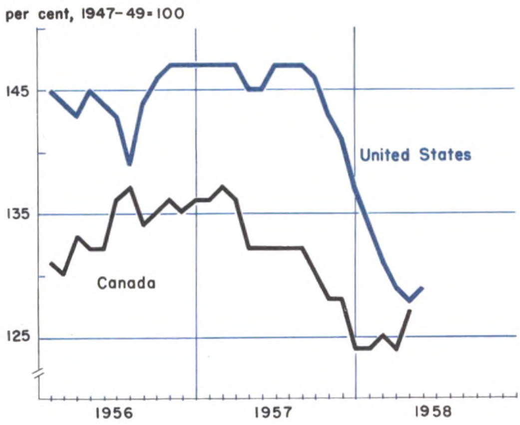
In June, manufacturing employment increased for the first time during 1958 as a number of industries—especially steel, building materials, household goods, and packaging materials—began to increase hirings. There was also a rather sharp increase in average hours worked by factory production workers, thereby reducing the "underemployment" of many individuals.

Recent improvement in business orders and sales has been related closely to the better tone in the market for industrial raw materials. Crude oil, coal and iron ore extraction rose in June, and demand for such items as scrap iron, copper, and rubber has strengthened. Inventory reduction last year was accomplished first in purchased materials, and it is natural that holdings of these items have been reduced below what would be comfortable levels when sales begin to rise.

Price changes have been frequent in recent weeks but no basic trend is evident. Declines have been featured as well as increases. All of the larger mail order houses have reported that the average prices in their fall catalogs have been reduced significantly. Textile prices, particularly work clothes, have weakened at both the manufacturing and retail levels. Small appliances have been reduced whereas major appliances are generally somewhat higher than last year. Carpet prices have declined while plywood has risen. It is said that capital goods are available at lower prices as producers seek additional sales. Perhaps the most significant price news has been the *absence* to date of increases in the steel and aluminum industries despite higher wage rates.

Over-all, the price picture reflects the mixed trends which can be expected in the early stages of business revival. Some commodities, such as copper and plywood, had been deflated to such a degree that any improvement in demand was likely to bring increases. In the case of machinery and equipment, price increases during the 1955-57 capital spending upsurge had been especially large and concessions could be expected as order backlogs declined.

Recessions in U. S. and Canadian factory production compared



Cold weather a trade factor

Retail trade in June was slightly less than the improved level of April and May. General merchandise stores in many areas reported substantially poorer sales in June than in the same month of last year. However, in the Midwest and East, the coolest weather for the month in years contrasts with the relatively high temperatures which helped to support sales in June last year. Summer clothing, air conditioners and fans are particularly susceptible to early summer thermometer readings. A prolonged period of unseasonable weather may mean that many prospective sales of these items are postponed indefinitely. Sales of other goods are also affected because of the reduced flow of traffic through the stores.

Production trends abroad

The experience of the 1957-58 recession once again calls into question the notion that any decline in American activity is certain to have magnified repercussions in the rest of the world. Actually, the principal European countries were maintaining production relative to a year ago in the early months of 1958, and one nation, France, continued to report substantial gains.

The effect of developments in international trade, in fact, has been adverse to production trends in the U. S. In the first four months of the year, merchandise exports of this nation were 19 per cent below 1957, whereas imports were off only about 2 per cent.

In Canada, the business trend has been fairly similar to that in the United States. However, the decline in production in that nation developed earlier, was not as sharp, and was reversed earlier than was the case here.

A pronounced drop in manufacturing output occurred in April of 1957 in Canada, whereas October marked the first sizable decline in the United States. By December, Canadian production was 9 per cent below its high but that proved to be the low point. At the April low, U. S. manufacturing output was 13 per cent below its peak.

Another evidence of the lesser extent of recession on the Canadian economy is found in the employment figures. Although unemployment increased substantially in Canada during 1957 and early 1958, the number of persons employed last spring averaged slightly above the year-ago total in contrast to a 4 per cent decline in the United States.

Flexible markets at work

In recent months, the securities markets have experienced one of the most violent adjustments in prices and yields on record. This development was triggered last November by a discount rate reduction signaling an end to an extended period of monetary restraint. The degree to which the nation's credit environment has been altered since then is indicated by the decline in the coupon rate on new Treasury certificates of indebtedness from 4 per cent last August to 1¼ per cent in mid-June.

However, this is the segment of the market in which declines have been most substantial and persistent. After a sharp initial reaction, rates on longer issues have fluctuated within a rather narrow range. Thus the stimulation to recovery provided by sharply lower costs of obtaining long-term funds was mainly in the early months of the recession. Undoubtedly, this rapid drop in rates was in part responsible for the very large volume of corporate and state and local borrowing in the securities markets since last December.

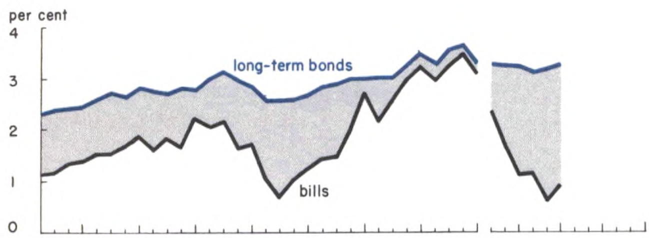
Two recessions compared

In terms of absolute change, the decline in long-term rates has almost exactly matched that which was experienced in the 1953-54 recession—about 65 basis points for long-term Government bonds and a little less for corporates. But while the decline from the May 1953 peak occurred gradually and continued over a span of more than a year, the major part of the more recent adjustment was accomplished within the space of two months. Moreover, because rates were so much higher at the 1957 peak than in May 1953, the level at which the decline was arrested by an upsurge in borrowing was higher than in the 1953-54 period. This was particularly true because much of the added corporate borrowing was for the purpose of refunding bank debt which had been incurred at still higher rates.

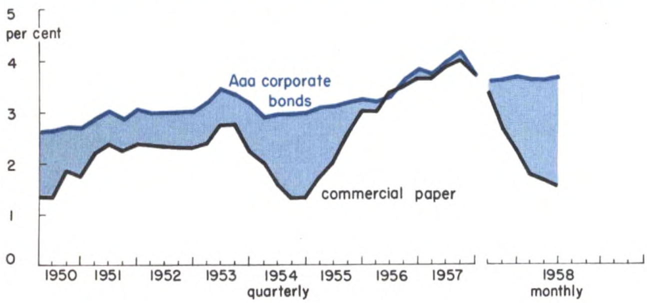
On the other hand, short-term rates, which had also risen to much higher levels than in 1953, plunged faster in late 1957 and continued downward, with minor variations, through the first half of this year. At its lowest point, reached late in May, the market yield on 3-month Treasury bills was actually less than at the 1954 trough. The current recession has thus brought about a much greater expansion in the spread between long- and short-term rates than was the case four years ago.

In general, the widest gap has developed in the Government sector. In mid-October last year, the 3-month bill rate was 3.64 per cent—only 12 basis points below the long-term bond average. At the end of May, bills yielded .58 per cent while the bond average had declined to 3.13, widening the rate differential to 255 points. Concurrently, yields on 1-year and intermediate 3- to 5-year issues, which had exceeded the long rates through the summer and early fall of 1957, fell to 212 and 93 points, respectively, below them. This new pattern has generally persisted to the present

The current spread between yields on long- and short-term Governments exceeds that of 1954



. . . and similarly, the long-short corporate differential is now greater than four years ago



time and has been closely duplicated in the corporate and municipal markets. Meanwhile, the stock-to-bond yield margin remains surprisingly narrow as stock price levels have been maintained in the face of some shrinkage in dividends.

The apparently uneven impact of credit ease is actually a natural phenomenon of the operations of free and flexible markets. While the level and direction of interest rates generally reflect monetary policy, market forces determine the changes in relationships between various rates. Foremost among these market forces are the demands for both long- and short-term funds from businesses, consumers and governments, modified by the judgments of professional investors and security traders as to the timing and relative strength of such demands. On the supply side are investor preferences for some types of liquid assets as compared with others. These, in turn, vary with the basic motivations of security buyers and their expectations as to the trend of credit policy and demands.

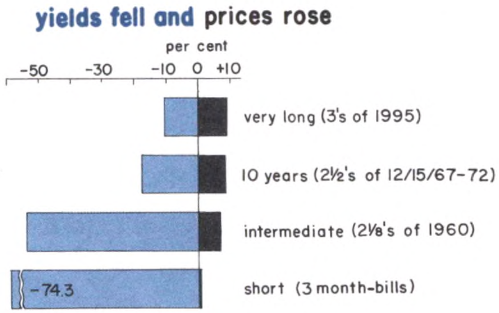
Yields vs. capital gains

Some people invest in securities for earnings purposes. Others buy them in anticipation of profits from subsequent sale at appreciated prices, sometimes after very short periods of time. The former group is thus primarily concerned with yields, while the latter is more interested in prices. In a period of declining yields and rising prices, the relatively large rises in the prices of longer-term securities are attractive to the speculator-investor, who naturally assumes a more important role in the market. This additional activity in itself can contribute to changes in rate differentials.

Normally, the close linkages between various segments of the market are sufficient to force realignment of rates all along the line. Both suppliers and users of funds have a number of alternatives—stocks, long-, intermediate- or short-term debt instruments—all with a wide variety of terms and conditions of repayment. Although probably not all of the possibilities are open to all market participants, there is usually a range of substitutability, and choice is apt to be on the basis of relative market prices or yields. If long rates are high relative to short ones, some borrowers tend to gravitate to the short area while investors have an incentive to put more funds into longer issues, thus tending to narrow the range in rates.

The longer the bond
. . . the bigger the price change
. . . the smaller the yield change

from October 31, 1957 to July 10, 1958



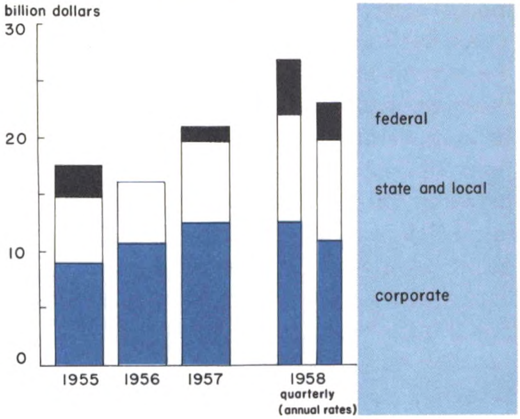
The purchase of securities in anticipation of capital gains works in the same direction. But because attention is centered on price, the yield-narrowing effects are likely to be smaller since substantial profits ensue from relatively small yield changes on long-term obligations. For example, on a 10-year bond a drop of 10 basis points in yield means a profit of roughly $8.50 per thousand, whereas on a 1-year obligation the equivalent yield decline involves an increase in value of only $1 per thousand. These relationships are reflected in the accompanying chart which compares actual movements in prices and yields in representative market segments from last October to mid-July. Moreover, when the speculator acts to realize his profit, his selling activity tends to weaken that segment of the market where his activity is concentrated.

Long market crowded

A number of factors affecting the demand for funds have contributed to the persistence of the wide spread between long- and short-term rates. In the past few months, demands for short-term money have been drastically reduced. While business has repaid bank borrowing, the volume of short-term instruments has not kept pace with the general thirst for liquidity. The volume of securities offered in the long-term market, on the other hand, remained high relative to the amount of long-term funds seeking investment.

Despite sharp cutbacks in business capital expenditures, the volume of corporate issues in the first quarter of 1958 was maintained at a rate matching that of 1957. While the second-quarter volume was lower, it still was relatively large. Some of these funds have been used to repay bank loans which, of course, tends to abet the ease in the short-term area. Meanwhile, state and local security issues have exceeded last year's volume in the first half of 1958. Finally, in its efforts to lengthen the Federal debt and simplify its problems of debt management, the Treasury has been adding to its obligations in the over-five-year category fairly heavily in recent months. Since the first half of the calendar year showed net repayment of borrowing by the Federal Government on balance, these operations were accompanied by

The heavy volume of long-term securities sold in the first half of 1958 has held long rates up



a net reduction in the supply of short-terms, a factor tending to induce further ease in that area.

Pattern in perspective

During much of the past thirty years, the market has tended to associate longer maturities with higher yields on instruments of comparable quality. The market linkages described above tend to perpetuate this pattern. Nevertheless, cyclical swings have typically been of much narrower amplitude in the long-term area, and, in a few periods of extreme financial stress, short rates have moved above long ones. The spread between long and short yields in the Government market shrank gradually from mid-1954 to unusually narrow dimensions last summer and fall. Part of the recent difference in rates of decline has thus represented a return to a more "normal" pattern of rates. The present spread is, however, larger than any the market has experienced in recent years. Much this same picture applies to the corporate market, where the decline in rates on commercial paper relative to Aaa bonds has resulted in a spread considerably above that reached at the culmination of the "easy money" effects in 1954.

An even greater contrast is presented by the movements of stock yields compared with those on high-grade business indebtedness. In comparison with its substantial proportions of earlier years, the yield differential between these two segments disappeared in mid-1957 as stock prices climbed to their peaks. Anticipation of an improved bond market accompanying the shift in monetary policy restored part of this spread late last year. In the first half of 1958, however, poor earning reports have failed to dampen a brisk market and the margins over bonds has again been narrowing.

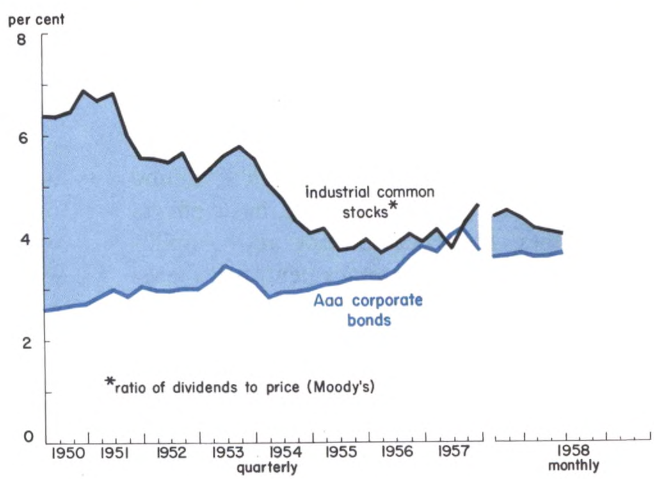
More adjustments ahead?

Uncertainties as to the business outlook, combined with the unsettling effects on the securities markets of the Treasury's recent financing operations, have left no clear indication of the direction of additional adjustments in the rate pattern. On the supply (of funds) side, the speculator is likely to play a less significant role, both because much of the expected price adjustments have already taken place and also because the memory of losses sustained in connection with the June Treasury securities is still keen. Moreover, there are indications that many investors have already satisfied their liquidity needs and may now become more interested in longer maturities.

On the demand side, the size of the prospective Federal deficit seems to assure the market that there will be at least no further reduction in the volume of short-term securities in the second half of 1958. Also, long-term corporate borrowing is expected to drop off sharply in the weeks ahead.

Much depends, however, on the trend of business and the degree to which there is a rise in the temperature of the cold war. The persistence of relatively low rates of return in the stock market, primarily reflecting higher prices for equities, suggests that investors remain basically optimistic about the early advent of a business upturn, as well as confident of long-run business growth. If, later in the year, the recovery gains momentum and the demand for funds becomes sustained, an associated upward response in short rates, both absolutely and in relation to long-term yields, is to be expected. Intensification of international tensions could bring this about even more quickly.

The margin of stock returns over bond yields, which disappeared in mid-1957, bulged briefly in early 1958 but has narrowed again recently



Personal financial saving during recessions

Individuals have continued to increase their financial savings despite the downswing in economic activity. By the end of May their time deposits in commercial and mutual savings banks had reached a new high of 93.7 billion dollars; the amount of U. S. savings bonds held by the public had ceased its monthly decline, stabilizing around 48.1 billion dollars; and share capital of savings and loan associations had climbed to a record 44.3 billion dollars.

The increase in these three major forms of personal liquid saving during the first five months of 1958 totaled 7.7 billion dollars or 4.3 per cent. This compares with the 2.7 per cent gain during the comparable period of 1957.

Thus, saving in these forms picked up this spring notwithstanding declines in employment and wage and salary income. Attempts have been made to explain this phenomenon. One which focuses on family saving habits and the motivation behind saving decisions suggests that job and income uncertainties foster saving "for the rainy day" and provide some restraint on spending, especially for postponable items. However, adjustments in spending and saving in response to current and expected changes in family income are diverse and not subject to easy summation or simple explanation.

Another possibility is that liquid savings have gained at the expense of other types of saving. In other words, individuals may not have raised their total saving rate but merely shifted their saving from one form to another.

How do people save?

Individuals' savings may be held in many forms, ranging from cash tucked under the mattress to "idle" deposits in checking accounts, to investment in houses and household equipment. Generally speaking, however, the many forms in which people accumulate and hold savings fall into four broad categories:

1. *Holdings of cash and near substitutes for cash.* Savers may store their accumulated savings in currency or in demand deposits in a bank. In either case the funds are immediately available for expenditure. Most savers, however, prefer a form for their savings which yields a return even though immediate availability may be limited under certain circumstances. They put savings in savings accounts of banks, or into share accounts of savings and loan associations, or with credit unions or with the Government as U. S. savings bonds. In any of these forms savings have one major feature in common—they possess a relatively high degree of liquidity. That is, these institutions normally stand ready to repay the amounts left with them in cash and at face value when demanded by the saver. Legal responsibility to do this varies among the institutions, but in practice they all attempt to honor withdrawal requests with immediate payment.

2. *Investments in fixed obligations,* like corporate, municipal and marketable Gov-

ernment bonds and real estate mortgages. These types of assets also involve the borrower's pledge to repay at face value, but only at some specified future date rather than upon demand. If the saver wishes to liquidate his holdings before then, he must sell the security to someone else, possibly at some sacrifice from face value in order to obtain cash.

3. *Contractual savings agreements,* like payments into pension and retirement funds, contributions for social security and other Government insurance programs, and the portion of premium payments on life insurance policies added to reserves. In recent years, these types have been the most rapidly growing forms of savings. The main intent of the programs is to provide an accumulation of funds for specified uses at some future date, often for some future contingency: death, disability or retirement. Such funds usually are invested largely in long-term instruments.

4. *Equity interests* in businesses, real estate and other capital goods. These include holdings of corporate stock, ownership of farms and unincorporated businesses, owners' equities in homes, cars, appliances and other household possessions of enduring usefulness. Additions to equity interests can come from either the outright purchase of any of these assets or the paying down of existing indebtedness incurred to purchase them. But wherever direct ownership of a physical asset

The data

Estimates of individuals' saving are released quarterly by three Government agencies. The Federal Home Loan Bank Board issues reports showing time and savings deposits, postal savings accounts, savings and loan and credit union shares, U. S. savings bonds and cash value of private life insurance. Individuals saved 14.2 billion dollars in these forms in 1957.

The Securities and Exchange Commission reports cover individuals' financial saving—including *liquid saving* (net additions to individuals' holdings of currency, bank deposits and securities, and shares of savings and loan associations and credit unions), *contractual saving* (increases in individuals' equity in insurance and pension funds), and *decreases in personal debt*. During 1957, according to these estimates, individuals saved 16.6 billion dollars, compared with 13.6 billion dollars in 1956. As a percentage of disposable income, saving increased from 4.7 per cent to 5.4 per cent. In addition, the SEC provides estimates of the construction of non-farm homes and purchases of consumer durables.

The Department of Commerce estimate of personal saving includes, in addition to the financial items of the Securities and Exchange Commission and excepting the net accumulation of funds in Social Security and other Government pension and retirement plans, data on physical saving, after allowance for depreciation, through purchases of houses and other capital assets. In 1957, individuals bought fewer new homes, and unincorporated business firms (included in the data for individuals) reduced their rate of inventory accumulation; thus personal saving by this broader definition declined to 20.7 billion dollars from 21.1 billion in 1956. Unlike the Securities and Exchange estimate which shows a rise, the ratio of personal saving to disposable income fell, from 7.2 per cent to 6.8 per cent.

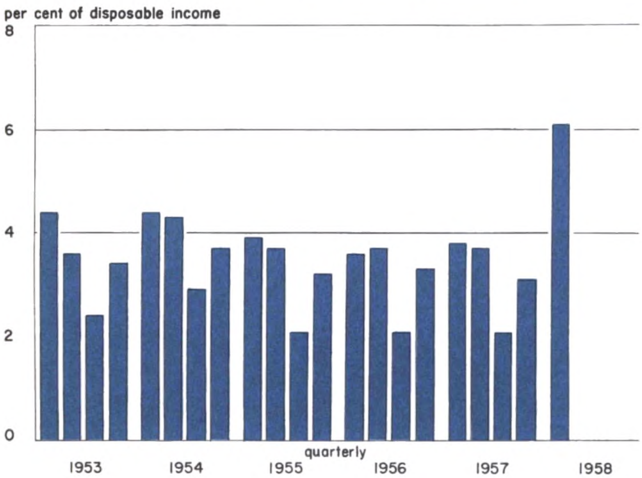
is involved, allowance must be made for the extent to which the asset depreciates over time. The ease with which savings in equity forms may be converted to cash varies widely, ranging from the ready marketability of corporate stocks traded on organized exchanges to shares in proprietorships or specialized real estate that are traded so infrequently as to have no certain market. In these forms the investor is exposed to the risk of relatively large fluctuations of values.

Early postwar trends in liquid savings

It is apparent, therefore, from the variety of forms into which savings can be put that changes in the rate of growth of saving in a particular form such as monies or near monies does not necessarily reflect a similar change in total personal saving. However, since these are the types of savings most accessible and therefore most easily adjusted, changes in the amount of saving in these forms tend to show the first response to income fluctuations and sometimes provide an indication of changes which are developing in total personal saving. Furthermore, information on changes in the amounts of these kinds of savings are available much more currently than for most other forms.

During a significant portion of the early postwar period, individuals' liquid financial saving did not respond to income fluctuations, largely because of the pent-up demand for hard goods. Having accumulated large liquid savings during the war, consumers drew on these funds in the early postwar years, in addition to utilizing an increasing share of their current income, to purchase automobiles, household appliances and other goods which wartime shortages had for so long made it well-nigh impossible to secure.

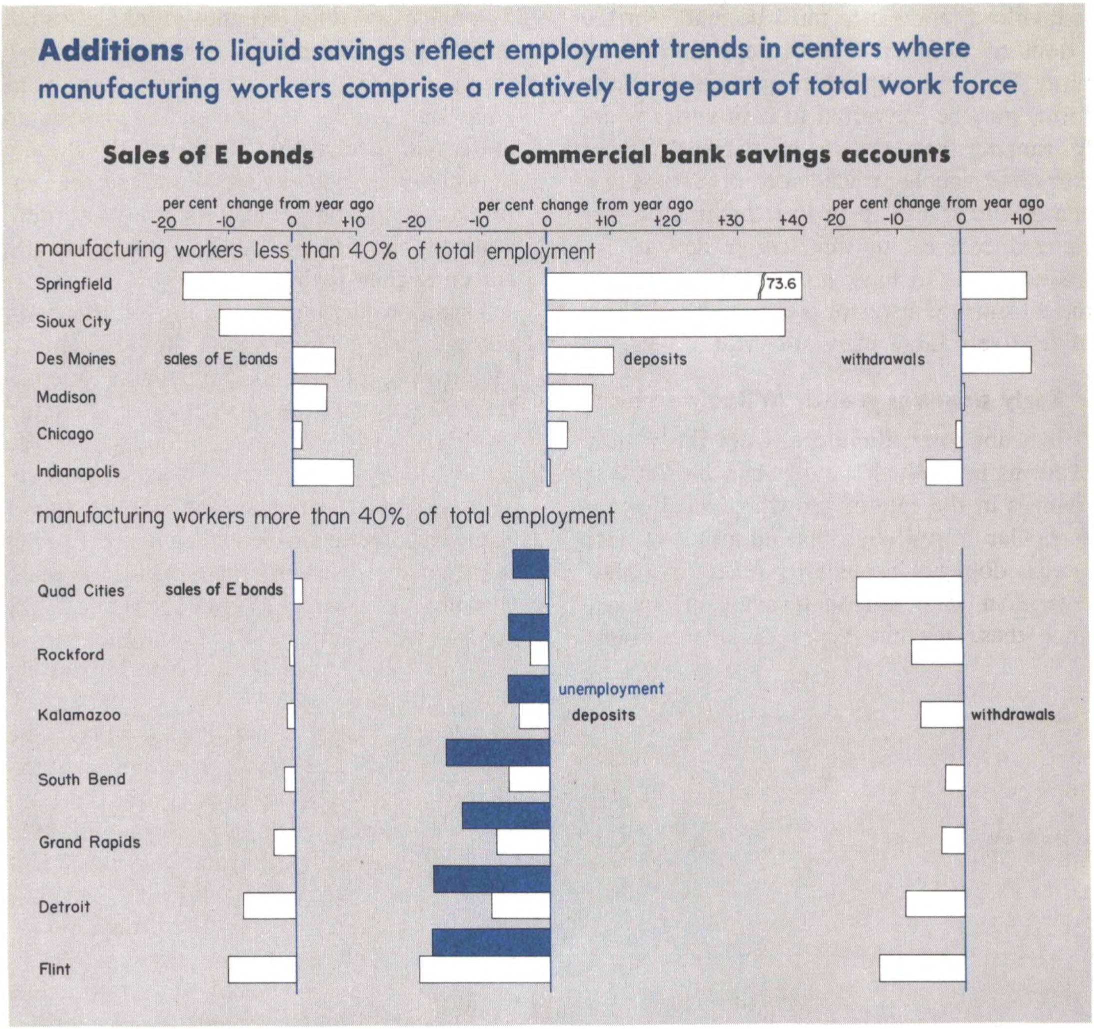
Liquid financial saving was highest relative to disposable income early in 1954 and 1958, both periods of reduced business activity



Note: Includes individuals' saving in time and savings deposits, savings and loan associations and U.S. savings bonds.

Thus, smaller amounts were added to savings in time deposits at banks. However, the pace of the growth in savings and loan shares remained virtually unchanged and individuals' net purchases of U. S. savings bonds continued to rise, insulated by an extremely flexible redemption pattern and probably buoyed up by the inertia of payroll savings plans. But this increase in saving through the purchase of savings bonds was not sufficient to offset the decline, relative to income, in other forms of financial saving. The drop was further accentuated at outbreak of the Korean hostilities when spending was stepped up in a wave of scare buying.

The strong demand for durable



Note: Per cent of labor force unemployed is on an inverted scale. Employment data compare latest month reported with same 1957 month. Bond sales and bank savings figures compare first five months of 1958 with same period of 1957.

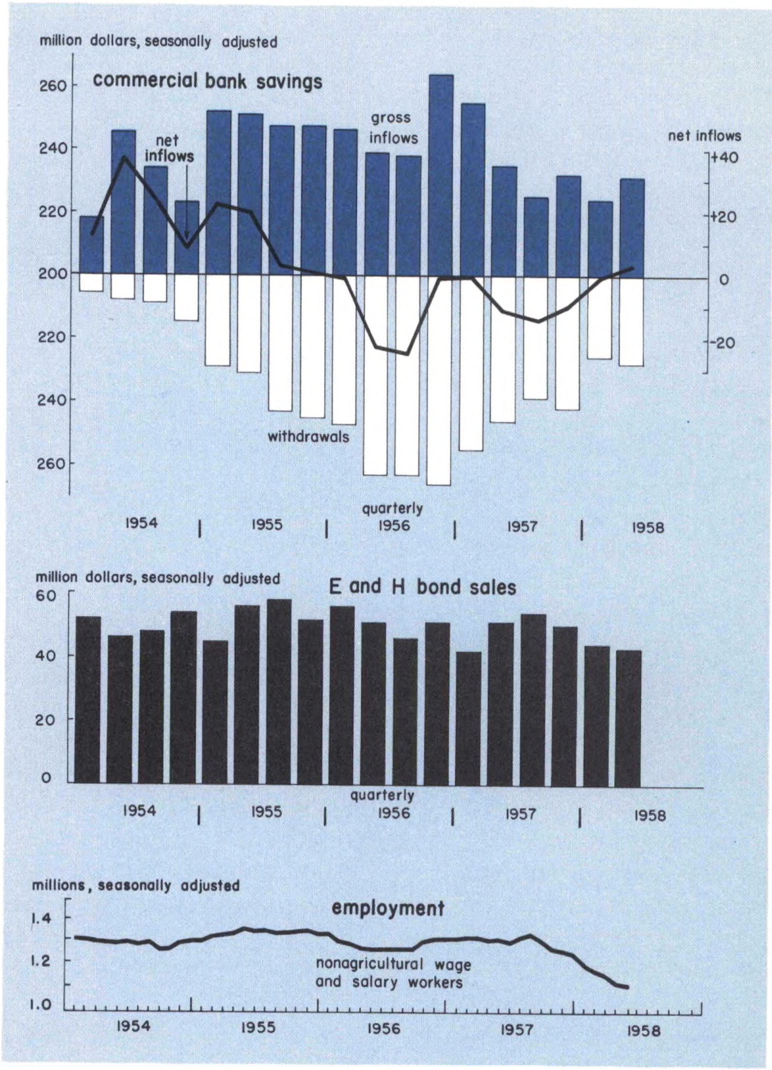
goods also affected consumer credit extensions. When credit control was removed in mid-1949, although business activity had slumped somewhat, extensions of instalment credit rose rapidly, along with the rise in consumer purchases of durable goods.

Savings over short periods

After Korea, with the backlog of demand for hard goods largely liquidated, the pattern of savings behavior once again became more responsive to income changes. This is evident, for example, in the cyclical behavior of net additions to individuals' holdings of savings bonds, time deposits and savings and loan share accounts.

A more complete picture of the effects of income changes can be obtained if inflows or deposits and outflows or withdrawals of liquid savings are examined, in addition to changes in net balances. Movements in the two gross measures are often in opposite directions. A sudden drop in income, for example, will generally be accompanied by a reduction in the gross inflow of savings. This reflects the fact that over short periods, saving is more flexible, usually, than consumption and thus is apt to show the bigger adjustment. On the other hand, some consumers, fearing a spread in unemployment or anticipating lower prices, will want to build up their cash balances and, consequently, will choose to spend less and save more out of their current income.

In Detroit, savings bond sales and bank savings tend to move in the same direction as employment



During a recession, savings withdrawals may rise to cover living expenses, but it is also possible they may fall because of the unwillingness of consumers to draw on their liquid hoards for purchase of big-ticket items.

Inflow and withdrawal activity will also be affected by shifts among savings outlets.

Savers interested principally in yield or pessimistic about the business outlook may find the variable return of stock investments less attractive and transfer funds out of stocks into bonds and savings accounts. Meanwhile other consumers may draw down their liquid savings while maintaining their contractual savings (repayment of debt, life insurance premiums, etc.). The amount of saving an individual does is influenced also by such factors as assets, age, and family size, but these are more often longer-term considerations.

Smaller inflows

In the current recession, a drop in savings inflows is showing up in several Midwest areas. In Michigan automobile centers, without exception, either E and H bond sales or gross commercial bank savings inflows have declined during the first five months of 1958. In Detroit, as in Flint, Muskegon and Saginaw, both types of liquid saving inflows have fallen below the year-ago amounts.

In contrast, savings inflow is brisk in Iowa, reflecting the general prosperity of that region. Farmers' cash receipts from marketings in 1957 topped the preceding year by 3.2 per cent in the state and showed a much larger gain during the first half of 1958. In Des Moines, nonfarm employment during most months of 1957 ran above the year-earlier level, and both E and H bond sales and commercial bank savings showed increases.

In some areas, any cyclical impacts on savings have been obscured somewhat by shifts in savings media. In Milwaukee, for instance, even though factory employment is down, gross additions to bank savings accounts during the first five months of 1958 were more than 30 per cent greater than during the same period of last year. This reflects in part the continued effects of last year's increases in interest rates on savings deposits. This surge in inflow to bank savings is offset in part, however, by a reduction in sales of savings bonds. During this period, savings bond sales were under the year-ago amount by 8.6 per cent, which is a greater decline than in any of the other 32 Seventh District metropolitan areas except Muncie and Flint.

In all areas combined, savings bond sales this spring followed the national pattern. Sales during the initial five months of 1958 exceeded the year-ago volume by 2.5 per cent. The boost in yield on savings bonds in early 1957 has helped to strengthen sales.

Gross inflows to commercial bank savings accounts in the 32 Midwest areas combined during January-May of this year were virtually unchanged from the amount deposited during the same period of last year. This showing resulted primarily from the sharp increases in Springfield, Sioux City and Milwaukee, for in 20 of the 32 areas, savings additions were smaller than during the same months last year. In all three cities showing the large gains, banks had announced higher interest rates on savings during 1957. In contrast to the gross inflow of savings, net holdings of commercial bank savings increased more rapidly than in the year-ago period. This was chiefly because of the widespread appearance of a decline in withdrawal rates.

Lower turnover

In Indianapolis, where around 7 per cent of the labor force is unemployed, the rate of withdrawals from bank savings accounts during the initial five months of 1958 was 5.8 per cent below the year-earlier rate.

The data relating to the nation's savings and loan associations reflect a similar drop in withdrawal activity. During the first five months of 1957, members' share withdrawals were 15.6 per cent more than during the same period of the previous year. In 1958, the increase was only 3.1 per cent.

If savings and loan flows are combined with those of bank savings accounts in five major Midwest areas, the same pattern is observed. The rate of additions to balances rose as a result of the drop in withdrawals during the initial five months of the current year.

Against the fall in the rate of increase in new savings in commercial banks and savings and loan associations, the step-up in savings bond sales appears unusual. But the upsurge in bond sales this spring was substantially helped by increased saving of groups other than individuals. Effective January 1, 1958, state and local governments, labor unions, fraternal organizations and other institutional groups became eligible to buy E and H bonds. While E bonds are available in denominations of $25, H bonds are sold only in denominations of $500 and higher. They are therefore more often bought by small investors than wage earners. In E bonds alone, redemptions continue to exceed sales. The increase in January-May E bond sales over those of a year earlier was 1.3 per cent, against the 46.9 per cent upsurge in H bond sales. Since institutional investors tend to buy early in the year up to the maximum annual amount allowed such purchasers, savings bond sales figures in succeeding months may provide a better indication of saving by individuals.

The strong showing of savings bonds this spring also arises from the "depressed" level of sales last year prior to the boost in interest rate on these bonds. Thus, when sales last year are compared with current figures, a large gain is registered which may not be at all indicative of the cyclical movement of saving in this form.

Continued growth?

It appears, therefore, that gross additions to savings held in the form of near monies may remain relatively stable during a recession, but liquid savings balances rise at an accelerated pace due to a decline in withdrawal demand. In this situation, individuals though they have not stepped up their rate of additions to savings, have strengthened their ability to enter the market for goods and services at a future time. Furthermore, the fact that their holdings of liquid assets have grown will tend eventually to enhance their desire to spend and their creditworthiness if they desire to utilize credit to help finance purchases.

Since the pickup in net liquid financial saving which started this spring has resulted largely from a decline in withdrawals and not primarily from gains in inflows, the savings uptrend would appear to be related to the slower pace of buying of houses, autos and other consumer durables. That being the case, it is quite likely that any significant gain in the pace of consumer spending for big-ticket items would be accompanied by a step-up in withdrawals and a slowing in the rate of growth in net additions to liquid financial savings.

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