



Business Trends

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SOME IMPLICATIONS OF THE RATE OF SAVING

The way in which consumers or individuals spend and save their personal incomes has a marked effect upon the rate of business activity of the nation, and consequently upon the amount of employment or unemployment that prevails at any given time.

For example, suppose that a very large proportion of the people in the United States should suddenly decide, today, for one reason or another, to save as much as possible out of their current incomes and to put the money in their savings accounts, savings bonds, or in old tin cans. The reasons behind such a decision might be a fear of unemployment or the belief that prices were about to fall sharply so that money would soon become worth more than it is now.

What would be the effects of such a mass decision to halt spending wherever possible? First of all, a lot of spending would continue almost totally unaffected. People would still pay out about the same amounts of money for food, although spending for the most expensive cuts of meat, fancy fruits, vegetables, and pastry might be curtailed somewhat. They would continue to replace their clothing and household linens as these wore out, but if ample supplies were in closets they might be able to postpone replace-

ments for a period of time. The rent or monthly instalment due on the new house would be met, and all the other ordinary expenses would go on such as for cigarettes, gas, oil and repairs for the car, hair cuts, laundry, and so on. In other words, spending for consumer nondurable goods would be fairly well maintained.

There are other kinds of consumer goods, however, that don't wear out quickly and people are able to make them last for a long time or to do without them for a number of years. These would include automobiles and the major household appliances such as refrigerators, washing machines, stoves, radios, vacuum cleaners and the like. The mass decision to save, then, would show up strikingly in this area with a sharp drop in sales of these items and would very soon be followed by considerable unemployment in the factories and shops that make them. On the heels of such restrictions would follow lay-offs in the steel mills, coal mines, and railroads that supply these industries. The durable goods industries, then, are exceptionally vulnerable to this type of situation.

There is still one additional major reaction that should be noted. A substantial part of individual savings is ordinarily invested in new residential

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housing. The mass decision to hold savings in the form of cash or savings accounts, would thus reduce considerably new contract construction activity and consequently employment in the building trades and material producing industries.

The end result of a sudden mass decision to save as much income as possible would be to plunge the nation rather quickly into a sharp depression that would continue until consumer spending again began to assume normal proportions for durable goods and the building of new homes.

Since spending and saving of incomes is so important in determining the rate of economic activity, it might be of interest to note their general magnitude at this time. In 1948 it was estimated that the total of disposable personal incomes in the United States was about \$193 billion. This was the grand total of all income left in the hands of individuals after paying personal federal, state, and local taxes of \$21 billion.

About 80 percent of this disposable income or \$155 billion, was spent for nondurable goods and services such as food, clothing, rent, laundry, medical care, and entertainment. Nearly 12 percent, or \$23 billion was spent for durable goods such as automobiles and household appliances. The balance of 8 percent, or \$15 billion, was saved.

It should be pointed out that included in the estimate for savings are not only additions to savings and bond accounts, but such items as

investment in residential housing, insurance, and reduction of consumer short-term debt such as instalment credit. The net addition to liquid savings for the year is estimated at about \$5 billion.

This elementary analysis of spending and saving would indicate that the principal accelerating or decelerating elements in our economy lie in a relatively small area, i.e., in the 20 percent segment that is saved or spent for housing and durable goods, since the proportion used for consumption goods is relatively constant.

Sales of passenger cars, the most important single kind of durable good, were up 13 percent over last year in the first quarter, and still larger gains are anticipated in the present quarter. This was the only kind of durable good to show a gain, however. Department store sales of major household appliances were down at least 30 percent. Residential building is also lagging. In the first quarter, the number of square feet of floor area in residential contracts awarded was 25 percent below a year ago.

A further indication that consumers are becoming unwilling to increase their purchases at this time is the fact that savings accounts are now increasing more rapidly than a year ago.

Weakness is thus developing in the most dynamic sector of our economy and tending to drag down the general rate of business activity. In a future broadcast, we will discuss more fully the present situation with regard to savings, construction, and durable goods production.

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