



Business Trends

Prepared in the Research Department of the
FEDERAL RESERVE BANK OF CLEVELAND
 Serving the Fourth Federal Reserve District

THE CAUTIOUS CONSUMER

At this stage of the current recession, more than the usual amount of attention is being focused on consumer spending, present and prospective. With businessmen reducing inventories and scaling down capital investment programs, the consumer sector is being examined closely for indications of a possible stimulating effect on total business activity. Some commentators, in fact, assume that recovery from the recession depends on what happens to consumer demand in 1961.

If a position had to be taken on this issue, and that is not the purpose of this presentation, it would be that changes in consumer spending probably depend more on changes in activity in the business and government sectors of the economy than the other way around. Despite that dependent relationship however, consumer spending bulks so large in the total economy (roughly two-thirds of Gross National Product) that it is important to follow closely changes in the volume and pattern of such spending. Furthermore, it cannot be denied that consumer spending has been a stabilizing force in earlier postwar recessions.

As of this writing, consumers are reacting as they might be expected to in a period of declining production and incomes; they are reducing expenditures for goods, especially for the postponable durable items, while maintain-

ing their consumption of services. According to indications from the latest (October) Federal Reserve Quarterly Survey of Consumer Buying Intentions, the outlook for 1961 is for lower consumer purchases of durables, including new and used cars and major appliances.

Retail Sales Down in January. Preliminary data for January indicate that the decline in retail sales which began in November continued through a third month. Sales of all retail outlets totaled \$17.7 billion in January, after seasonal adjustment, representing a reduction of about 2 percent from the previous month and a drop of about 6 percent from the most recent, and all-time, high, reached in April of last year.

The December-January shrinkage in sales was shared equally by the durable and non-durable goods groups. The largest relative declines, however, were reported in sales of automobiles and other consumer durables, as well as in department store sales. Severe winter weather conditions in some areas of the country in January may have been a contributory factor in the decline.

Although the most recent drop in retail sales took place in both the durable and nondurable goods groups, most of the decline in retail sales since April, 1960, is accounted for by durable

Broadcast by Robert O. Brunner, Associate Economist, Federal Reserve Bank of Cleveland, over WGAR, Cleveland, with Charles Day, News Editor, WGAR, Sunday, February 26, at 10:15 p. m.

goods stores, whose sales dropped from \$6.3 billion last April to \$5.4 billion in January of this year. Sales by nondurable goods stores, in contrast, were \$12.2 billion in January as compared with \$12.6 billion in April, seasonally adjusted.

Record Retail Sales in 1960. The downtrend in retail sales during most of 1960 did not prevent the year from ringing up a new record for all retail sales of \$220 billion, or a 2 percent gain from 1959. All the increase, however, was in sales by nondurable goods stores, while sales by outlets selling durable goods were slightly below the 1959 total. Sales by stores in the food group showed the largest gain; increases were also made by stores in the general merchandise and apparel groups, as well as by gasoline service stations and eating and drinking places.

Among the durable goods outlets, the low rate of homebuilding in 1960 was reflected in a sharp drop in sales by lumber, building material, and hardware stores (which sell to builders as well as consumers) and in lower receipts of stores in the furniture, home furnishings, and appliance group. The much increased volume of new car sales in 1960 did not result in a proportional increase in dollar receipts by automobile dealers because of lower average prices for new cars (in part due to the acceptance of compact cars) and because of the sharp drop in prices of used cars during the year.

Slower Growth in Consumer Credit. Consumer reluctance to incur new debt is evident in recent developments in instalment credit, which are closely related to changes in sales of durable goods, since purchases of durable goods tend to be financed by the use of instalment credit. The downdrift in sales of durable

goods during 1960 was accompanied by a marked slowing in the growth of instalment credit after midyear.

Instalment credit was increasing at a monthly average of \$429 million in the second quarter, but in the third quarter the gain dropped to a monthly average of \$179 million. In December, instalment credit increased by only \$76 million as a result of a drop of \$31 million in automobile credit; that was the smallest monthly net increase for instalment credit since October, 1958. (All figures are seasonally adjusted.) For 1960 as a whole, instalment credit increased by \$3.4 billion, or by \$2.4 billion less than in 1959. The net increase in automobile credit during 1960 was \$1.3 billion, or \$1 billion less than the 1959 gain.

The slower growth of consumer credit in 1960 was, in turn, one of the factors causing an increase in personal savings during the year. For 1960 as a whole, disposable (after-tax) personal income was 5 percent higher than in 1959, but retail sales were only 2 percent larger in dollar volume. Part of the difference represents increased expenditure on services, but part was due to larger savings. To add to retailers' difficulties, during the closing months of 1960, when consumers had apparently reduced their rate of savings somewhat, personal income turned down; total personal income declined in November, December, and January.

Fourth District Developments. Available figures for the Fourth Federal Reserve District suggest that retail sales in the District have been affected more seriously by the recession than have sales in the nation as a whole. Thus, sales of all retail outlets in the District that report monthly to the Census Bureau were 9 percent lower in the first eleven months of 1960 than in the comparable period of 1959 while U. S. sales were showing an increase.