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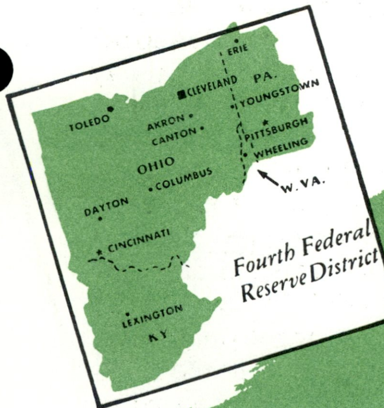


# Business Trends

Prepared in the Research Department of the
**FEDERAL RESERVE BANK OF CLEVELAND**
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## A BILLION A DAY AND HOW IT'S SPENT

For each day during 1961, disposable personal income in the United States averaged $1 billion, setting a new landmark in the annals of economic history for this or any other country. For the year as a whole, disposable personal income (which means estimated income after taxes) advanced by $13 billion, or by a rate of increase of about 3-1/2 percent. This was the largest expansion in disposable personal income for any recovery year in the past decade. For example, the expansion in income after taxes during 1958 amounted to less than 3 percent, and in 1954 expansion in such income was well below 2 percent. (The years 1954 and 1958, like last year, were marked by a shift from recession to recovery in the course of the year, although the turning points occurred in different months of the three years.)

Although the flow of income during 1961 increased by 3-1/2 percent, personal consumption expenditure rose by only 3 percent, resulting in a somewhat higher rate of savings. That pattern also differed from the experience of 1958 and 1954, insofar as expansion in consumer spending was more closely attuned to the flow of disposable personal income in '58 and '54 than in '61.

The slower expansion in personal consumption during 1961 reflected principally a slowing in the purchases of durable goods. In fact, expenditures for services continued their uninterrupted growth, with the increase during 1961 matching those of recent years.

The rapid growth in expenditures for services, which include housing costs, household operations, transportation, and personal care, means that such expenditures are taking an ever increasing share of the consumer's income. During 1961, such expenditures accounted for approximately 39 percent of disposable personal income, which compares with 35 percent in 1957 and only 31 percent in 1950.

To round out the picture, about 43 percent of disposable personal income in 1961 was spent for purchases of nondurable goods, chiefly food and clothing items; about 11 percent was spent or invested in durable goods, which in addition to autos include furniture and appliances as well as lumber and building materials; 7 percent of disposable income was saved.

Retail Sales Down Slightly in 1961. For the first eight months of 1961, sales of all retail stores were running on an average of about 2 percent below the 1960 level. However, the long-expected upsurge in retail sales which occurred during the final quarter of last year put the total for the year in a photo finish race with 1960.

*Broadcast by George Polak, Associate Economist, Federal Reserve Bank of Cleveland, over WGAR, Cleveland, with Charles Day, News Editor, WGAR, Sunday, March 4, at 10:15 p. m.*

While the drop in retail sales during 1961 amounted to only about 0.3%, it was the first time in the entire postwar period that total retail sales for the year failed to exceed the year-ago volume, in dollar terms. All of the decline, however, was in sales by durable goods stores (as is usually the case in recession), and was particularly marked in the automotive group, with such sales falling \$2-1/2 billion short of those of 1960. Most of the decline in automobile sales occurred during the first quarter of 1961. Lower sales for the year were also posted by furniture stores as well as by lumber and building materials dealers.

By contrast, nearly all types of nondurable goods stores showed increases in sales during 1961, largely offsetting the decline in durables. There was little significant variation among the major categories of nondurable lines, except for department stores, which showed up better than the rest of the soft-goods lines. The over-all increase in department-store sales during 1961 amounted to nearly 4-1/2 percent, while the increase for all nondurable goods stores was less than 2 percent. (Department stores are classified with the nondurable goods stores because the preponderance of their sales is in soft goods.)

Slow Start for 1962. A report for January by the U. S. Department of Commerce reveals that retail sales during the month, after adjustment for seasonal variation, slackened for the second successive month. At \$18.7 billion, January sales were 1 percent below the preceding month and about 2 percent below the most recent high reached in November.

Such an unfavorable showing at this stage of recovery (and it should be pointed out that the decline in retail sales in January was accompanied by declines in industrial production and personal income) has left some observers with doubts as to whether consumers have abandoned their recession-inspired cautiousness. As compared with past performances, expansion in retail sales so far has not assumed strong proportions. By way of illustration, while total retail sales in January 1962 (the eleventh month after the low point of the recession) were only slightly more than one-half of one percent above the pre-recession high (as measured from a three-month average) such sales in the comparable month of the 1957-58 cycle were nearly 6 percent above the three-month average of the preceding peak, and in the 1953-54 cycle, they were up 8% at a corresponding time.

Moreover, the latest (January) Federal Reserve Quarterly Survey of Consumer Buying Intentions indicates little significant change in consumer attitudes and plans. The Survey notes that in January somewhat more consumers reported plans to buy new automobiles than in the three preceding January surveys, but fewer expressed plans to buy used automobiles or household durable goods.

What, then, is the outlook for retail sales for the remainder of this year? A number of signs suggest that consumer demand may soon increase: 1. There is a real possibility that the recent steel negotiations will result in a peaceful settlement well before the present contract expires. This may encourage some with a wait-and-see attitude to spend more freely. 2. With personal savings higher and a debt burden reduced to the lowest level since the end of 1959, consumers are likely to be more willing to incur additional debt. 3. The late date of Easter, as it comes this year, is always a favorable factor for sales, especially for sales of apparel.

Considering these and other factors some observers expect that retail sales will exceed the \$20 billion monthly level later in the year, as compared with the \$18.7 billion seasonally adjusted score for January.

*Additional copies of "Business Trends" are available upon request.*