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OUTLOOK FOR SAVINGS

Synopsis of talk by
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before the
Fifth Annual Conference on Operations, Audit and Control
of the National Association of Mutual Savings Banks
Bellevue-Stratford Hotel, Philadelphia, Pa.
February 18, 1953

The buying waves touched off by the invasion of South Korea in June 1950 and by the discovery of Chinese in the Northern Armies early in 1951 are two dramatic illustrations of the slithery ground we are covering when we try to appraise the topic that has been assigned to me: The Outlook for Savings. These two spurts of spending show up clearly as sawteeth in charts of the quarterly estimates of net personal saving published by the Department of Commerce.

It is less well known that these aberrations seem to wash out when we move from quarterly to yearly data. In other words, the spending sprees were followed by saving sprees. In retrospect it appears that for calendar years as a whole the amount that individuals saved in 1950 and again in 1951 was just about in line with the postwar pattern of savings that has developed. Of course, there are always some individuals who save and others who spend beyond their incomes. I am speaking now of net saving of our entire population.

With this qualification, let me indicate what I mean when I say savings were about in line. We seem in the last twenty-five years to have developed four distinct patterns of saving. In the period 1929 to 1941, we did no net personal saving when our personal income after taxes was less than, say, $50-$55 billion a year. Below this level we ended up with negative saving - a word that is as rough as the condition it is used to describe. Out of each dollar of income beyond this level, however, we saved about 20¢.

During the war period, as you all know, we saved much more than 20¢ out of each additional dollar of income. (I must confess parenthetically that I become disturbed when I remember what happened to the size of the Government debt and to our money supply and then follow custom by glibly talking about wartime savings. But this is a complicated subject that I shall not pursue here.)

After the war we developed a reconversion pattern of saving during which we saved less and less despite rising personal incomes.

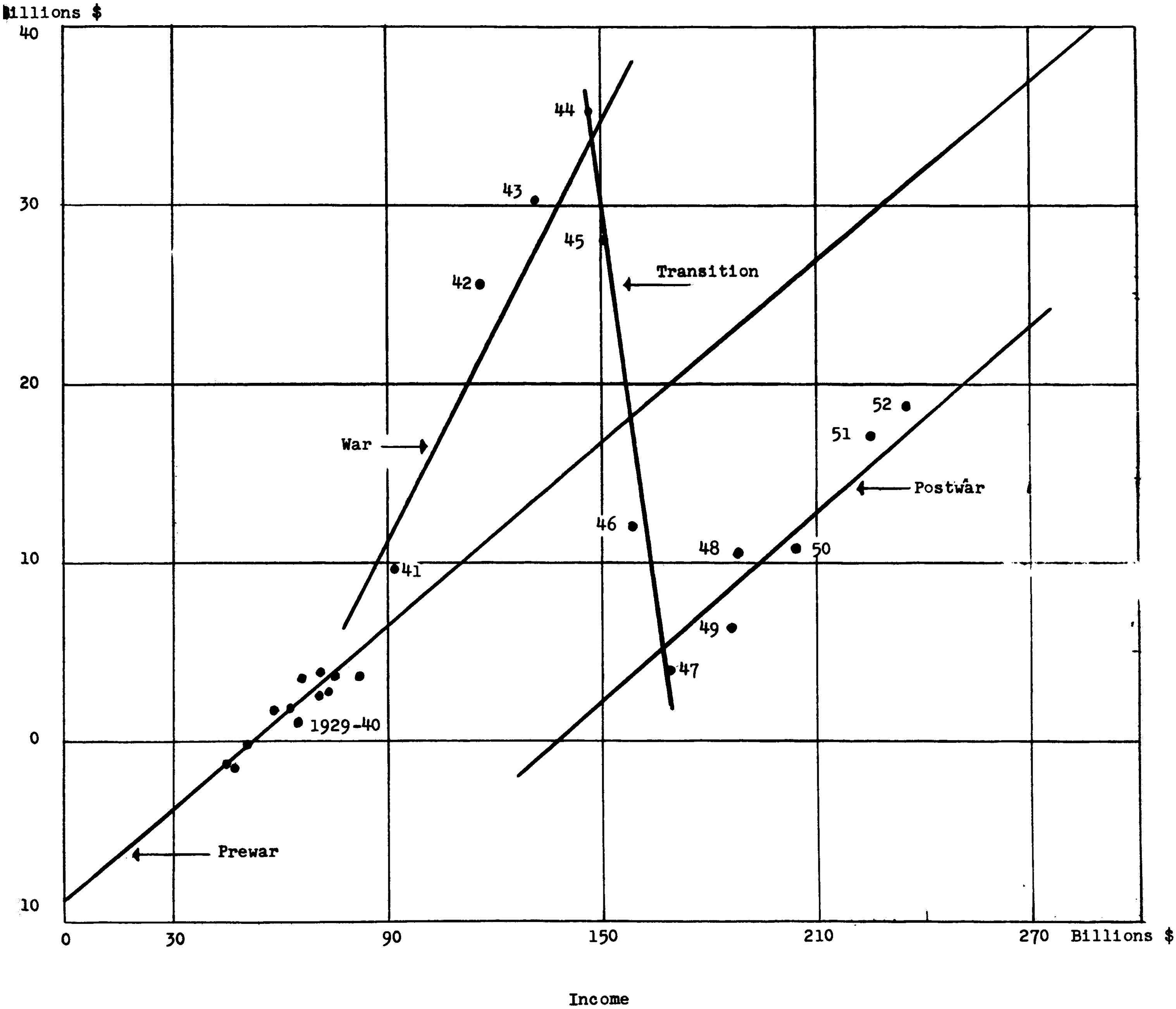
There is some evidence that we have been developing a new pattern of saving since 1947. The chief difference between our new and our prewar pattern is that we need a lot more income before we do any net saving at all. Instead of $50-$55 billion, we now need $140-$150 billion of disposable personal income before we save anything net. This change is primarily a result of the war-generated inflation. To me it was equally interesting to find as I prepared this discussion that once we reach this level of income - and last year we were 50 per cent beyond it - we are again saving something like 20¢ out of each additional dollar.

At any rate that's what we did in 1950 and in 1951, despite the buying waves. And, according to preliminary estimates, it was what we did again last year, despite the absence of any sudden buying wave.

In trying to form some estimate of personal saving for this year, therefore, I think we would do well to begin with some judgment as to how much income we may expect to receive - after taxes. We are now running at a level perhaps 5 per cent above the average for last year. Most economists that I have heard discuss the problem seem to guess that we are most likely to continue our "seething readjustment" at high levels for most of the year. If this judgment should prove fairly accurate, it seems to me quite possible that personal savings in 1953 might exceed those of last year by perhaps a billion dollars. My guess would be more rather than less.

Now that I have given you a figure, I should warn you not to take it too seriously. Remember, it is based on an assumption as to the general level of economic activity. Remember, too, that we have had four patterns of saving in the last quarter-century, and may develop yet another. Remember, finally, that in a country with a high standard of living, there is a large margin between income and unavoidable expenditures. A large fraction of expenditures can be deferred or - by using past savings or borrowing - can be accelerated.

Saving-Income Patterns



Composition of Personal Saving

($ billion)

	1946	1947	1948	1949	1950	1951	1952 (e)
Liquid Saving	11.9	6.7	4.1	3.1	6.5	11.6	13.5
Contractual	3.4	3.7	3.8	3.7	3.9	4.2	4.5
Homes	-1.1	-0.2	1.5	1.8	2.9	2.8	3.0
Liquidation of Cons. Debt	-3.3	-3.4	-2.5	-2.3	-3.2	-0.4	-2.5
Unincorporated Business and farms	0.8	-1.7	4.0	-0.6	-1.2	2.1	2.0
Total	11.7	5.1	10.9	5.7	8.9	20.3	20.5
Discrepancy	0.3	-1.2	-0.4	1.0	2.3	-3.3	-1.5
Net Saving	12.0	3.9	10.5	6.7	11.2	17.0	19.0

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Composition of Liquid Saving

($ billion)

		1946	1947	1948	1949	1950	1951	1952 (e)
1.	Currency	0.1	-0.4	-0.5	-0.8	*	0.8	1.0
2.	Demand Deposits	5.2	0.2	-2.2	-1.3	3.8	3.1	2.8
3.	Time and Savings Deposits							
	Commercial Banks	3.5	1.2	0.3	0.2	0.1	1.6	2.7
	Mutual Savings Banks	1.5	0.9	0.6	0.9	0.7	0.9	1.7
	Savings and Loans	1.2	1.2	1.2	1.5	1.5	2.1	2.1
	Postal Savings	0.4	0.1	-0.1	-0.1	-0.3	-0.2	-0.2
4.	Securities	0.1	3.5	4.1	2.7	0.7	3.5	4.3
	Total	12.0	6.7	3.4	3.1	6.5	11.8	14.4
	Discrepancy	-0.1	---	0.7	---	---	-0.2	-0.9
	Liquid Saving	11.9	6.7	4.1	3.1	6.5	11.6	13.5

Contractual

	1946	1947	1948	1949	1950	1951	1952 (e)
Insurance	3.4	3.7	3.8	3.7	3.9	4.2	4.5

*Less than $50 million.

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