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Agricultural Outlook for 1955

THIS IS THE SEASON when many farmers make plans for the ensuing year. In doing so, they evaluate and give consideration to the current economic situation and the future outlook. They must make production plans well in advance of the time their products will be ready to market, if they are to use their resources effectively.

Important elements in the current economic scene that can be considered profitably by farmers in developing their programs for the coming year were analyzed and discussed recently at the 32nd Annual Agricultural Outlook Conference. This conference is sponsored each fall by the U. S. Department of Agriculture in Washington, D. C. This article will summarize those discussions that are pertinent to the agriculture of the Tenth Federal Reserve District.

Projections

An analysis of economic growth over a period of years is helpful in studying the agricultural outlook. A study made by the staff of the Joint Committee On The Economic Report points out that the American economy has been expanding rapidly during the last quarter of a century. There is little reason to assume that expansion will not continue. Although the actual expansion in all probability will not be smooth and persistent, it is safer to forecast on the basis of such an assumption.



The size and composition of the population affect both potential output and demand for that output. Under present conditions, population growth can be expected to average about 1.5 per cent per year. From an economic standpoint, it also should be pointed out that the composition of the population is changing. The number of individuals under 18 and over 65 will increase significantly faster than the total population. Such a change in composition will tend to cause the demand for food, clothing, shelter, and other consumer goods and services to increase relative to population growth during the next decade.

Size of the labor force, hours of work, and productivity all influence output. The potential increases in the labor force during the next ten years will come from children already born. Consequently, estimates should be fairly accurate. On the basis of present knowledge of trends for the young, the aged, and women to participate in the labor force, it appears that the civilian labor force will increase by almost 2 per cent annually during the next decade.

The average number of work hours per employee is expected to continue to decline. It was suggested that by 1965 each employee's

average number of working hours could well be 200 hours lower annually than it is now. The economic and social implications of this trend are important not only because of their influence on potential output, but also because of their effect on consumption and investment.

Another important element influencing potential production is productivity as measured in terms of output per man hour. Intensive research and an anticipated high level of investment by industry and agriculture should induce a continued spectacular advance in output per man hour.

The implications of these trends in total productivity are important. It now appears that fewer workers will be needed on farms. This fact—combined with an expanding total labor force—means that proportionately more nonagricultural job opportunities must be provided. Furthermore, rapid changes in technology and an expanding economy will call for more employment adjustments—mainly more adaptability and mobility in the labor force.

It was pointed out at the conference that efforts to arrive at acceptable assumptions with respect to factors making for economic growth on the demand side are more difficult to evaluate than the factors on the supply side. However, after a careful analysis of governmental expenditures at the national, state, and local levels, it was concluded that total governmental expenditures are likely to increase at an annual rate of about 1 per cent during the next decade.

The assumption was made that business investment expenditures (including residential construction, plant and equipment, net foreign investment, and moderate inventory accumulation) would increase by an average of 3 to 4 per cent annually until 1965 because of expected population growth, research and development, and intense competitive pres-

ures. With the necessary incentives and a desirable monetary and credit policy, such a rate of anticipated growth was believed feasible.

On the demand side, emphasis was given to the effect that the pattern of consumer budgeting of income between saving and spending would have on balanced economic growth between now and 1965. It was argued that the problem of maintaining maximum employment and balanced economic growth would be complicated if the saving rate should rise to 9 or 10 per cent in the next decade. However, it was concluded that introduction of new products, changes in social habits, growth in the number of households headed by retired workers, more leisure time, and an increase in the proportion of population in the younger age groups would tend to lower the rate of saving.

On the basis of the balanced growth model sketched above, it was concluded that the aggregate demand of government, business, and consumers would be large enough to clear the market during the next decade if a balanced program of economic expansion is maintained. Obviously, the accuracy of the projections will depend largely on the validity of the assumptions used. The assumed rate of change possibly could be inaccurate. On the other hand, the general direction of the projections should be fairly reliable.

Agricultural Prices

An analysis of the demand and supply forces that are likely to influence the economy during the coming year indicates that the 1955 level of economic activity should be at least as high as it was during 1954. Thus, domestic demand for agricultural products—which accounts for 90 per cent of total demand for them—should remain firm during 1955.

Total expenditures by consumers, business, and government in the third quarter of 1954 were about 3 per cent less than for the comparable period of 1953. This decline was caused by reduced government spending and some decline in outlays for investment. The rate of consumer expenditures rose \$3 billion and partly offset reductions in government and private investment spending. The consumer has remained a stabilizing force in the economy during the past year. The aggregate level of consumer income (after taxes) increased slightly during the year. The effects of the reduction in income taxes last January and increased payments for unemployment compensation and social security have more than offset the decline in payrolls.

In turning to the demand situation for the year ahead, the following outlook seems most probable at the present time. Total demands from all government units (barring a distinct worsening in the international situation) are expected to continue declining during the coming year, but more slowly than during the past year. Investment outlays probably will increase enough to offset the reductions in government demand because substantial improvement in the business inventory situation, continued vigor in the housing boom, rapid technological developments, and the growing competitive situation are creating a strong demand for new machinery and equipment. Finally, our foreign trade situation has improved in the past year and could improve again next year.

Exports of agricultural products, after attaining an abnormally high level of \$4.1 billion during the fiscal year July 1, 1951, to June 30, 1952, declined to a post-World War II low of \$2.8 billion in fiscal 1952-53. In fiscal 1953-54, they increased slightly to about \$2.9 billion. Because of new legislation and an intensive effort to increase exports, it is believed that the export situation will im-

prove. It is being assumed now that the value of exports of agricultural products from the United States during the current fiscal year will be about 10 per cent above that for the preceding fiscal year.

On the basis of an intensive analysis of the demand factors mentioned above, it is believed that demand for agricultural products during the coming calendar year should be at least as strong and perhaps slightly stronger than it was last year. It should be emphasized, however, that while the economy has shifted successfully from a wartime to peacetime basis in the past year, an expanding nation requires long-run growth rather than maintenance of stability. Since the labor force grows by about 700,000 persons a year, employment opportunities must expand with the labor force if the American economy is to remain prosperous.

Supplies of agricultural products remain huge. In spite of severe drought in large areas, farm output during 1954 will be within 2 per cent of record levels. Even though production was reduced slightly during 1954, total supplies of agricultural products remained huge because of the large carryover. The record size of stocks carried into 1954 more than offset the small decline in total production. Inventories carried into 1955 again will be at record levels. Assuming that weather conditions will be moderate, a high rate of agricultural production is anticipated again in 1955. Thus, supplies of agricultural products should remain large during the coming year.

In view of the preceding supply and demand analysis, it was concluded that, barring war or severe depression, farmers can expect a relatively stable overall price situation during 1955 and for some years beyond. It was argued that agricultural prices could not go far above present levels without causing large surpluses, nor far below without initiating

efforts by farmers and Government to adjust output and marketings.

Farm Costs

Total farm operating expenses reached their peak in 1952. They declined about 5 per cent in 1953 and about 3 per cent in 1954. Another slight downward adjustment appears likely during 1955. In analyzing the farm cost situation, it is well to keep in mind that changes in cost rates and technology have encouraged increased use of factory-produced goods. This trend seems likely to continue during the next few years. Since prices of factory-produced items tend to be more rigid than other farm costs, the cost structure in agriculture can be expected to remain rigid.

Wheat

In recent years, more wheat has been produced in the United States than has been used. Consequently, wheat supplies and carryover have increased quite rapidly. Wheat supplies for the current marketing year (July 1, 1954 – June 30, 1955) are now estimated at 1,867 million bushels—consisting of a 903 million bushel carryover, production of 959 million bushels, and imports of 5 million bushels. This indicated total supply is a new all-time high, exceeding last year's previous record high by 8 per cent.

Domestic needs during this marketing year are estimated at about 660 million bushels, which would leave about 1,207 million bushels for export and carryover. If exports increase to around 250 million bushels (an optimistic appraisal in terms of present prospects), the carryover on July 1, 1955, would be 957 million bushels or about 54 million bushels above the record high prevailing at the beginning of this marketing year.

In view of this situation, the major factor in maintaining the price of wheat is the price

support program. The national average support price for the 1954 crop is \$2.24 per bushel. The national average support level for the 1955 crop will be no less than \$2.06 per bushel. The lower level of support can be attributed to the flexible price support provisions of the Agricultural Act of 1954.

Cotton

During the past three years, cotton production in the United States has been substantially greater than total requirements, resulting in an increasing carryover. In the 1954-55 marketing year (August 1, 1954 – July 31, 1955), the outlook is for total requirements to exceed production, resulting in some decline in carryover.

Total supplies for the current marketing year are expected to be about 22.7 million bales, somewhat higher than for the preceding year. The increase in the August 1, 1954, carryover more than offsets the decrease in production during 1954.

Domestic consumption of cotton for the current marketing year is estimated at 9.2 million bales, which compares with 8.6 million bales in the preceding marketing year. Exports are expected to increase from about 3.8 million bales last year to about 4.5 million bales in the current marketing year.

These anticipated requirements, along with relatively low production in 1954, should cause a reduction in carryover during this marketing year. The set-aside provided for under present agricultural legislation, combined with the announced marketing quotas and acreage allotments for the 1955 cotton crop, should cause free supplies of cotton to become less abundant during the next two years unless the acreage allotment is increased. The carryover by August 1, 1956, may be substantially lower than at the beginning of this marketing year.

Fats, Oils, and Oilseeds

Total supplies of edible fats and oils available for the 1954-55 marketing year (October 1, 1954 - September 30, 1955) are estimated at a new record high of 11.2 billion pounds. Carryover stocks at the beginning of the marketing year were about the same as those a year earlier, while production was slightly higher. Lard supplies are expected to increase because of greater production. Butter supplies will be large during the year because stocks at the beginning of this marketing year were substantially above their level a year earlier. Supplies of vegetable oils will be slightly lower than last year. Increased production of soybean oil is not expected to offset the smaller output of cottonseed and peanut oils.

Supplies of inedible fats and oils also will be abundant. Production remains high and supplies of inedible animal and vegetable fats and oils will remain large. Flaxseed supplies are sufficient to permit linseed oil output in excess of requirements.

The export market has increased in importance. Production of fats and oils in the United States in recent years has increased much more rapidly than consumption. Fortunately, the outlook is favorable for exports of fats and oils from the United States. With an anticipated firm domestic demand and a favorable export outlook, prices are expected to remain rather steady, even though supplies are quite large. Although soybean prices for the coming year probably will average lower than the high levels of the past year, they probably will continue to remain above support levels.

In general, prices of fats and oils during the 1954-55 marketing year will depend upon exports. With large supplies available, prices can be expected to weaken unless the export market is strong.

Feeds

This is the seventh consecutive year in which total supplies of feed grains and concentrates have been maintained at high levels. Total supplies for the 1954-55 marketing year (October 1, 1954-September 30, 1955) are slightly smaller than the record supplies in 1950-51, and 4 per cent larger than last year's supplies. However, since the number of grain-consuming animal units probably will be 3 to 4 per cent larger than last year, supplies per animal will be about the same as a year ago. On the other hand, geographical distribution of these supplies is different than usual. Supplies in the northern Corn Belt are at record levels, while they are short in much of the southern half of the country from the Rocky Mountains to the Atlantic coast.

The composition of feed grain supplies this year will vary from a year ago. The corn supply of 3,857 million bushels is a little smaller than in 1953-54. Supplies of oats, barley, and sorghum grains are much larger.

Carryover stocks of corn at the beginning of the marketing year were large. Production during 1954, however, is expected to be less than utilization. Free supplies of corn are expected to be scarce and corn prices may average higher than they did the preceding year because the Commodity Credit Corporation holds the bulk of the carryover. Prices of the other feed grains can be expected to be low in relation to corn during the current marketing year because supplies are abundant and they are supported at a lower level.

The total supply of high-protein feed in the 1954-55 marketing year will be about the same as for last year. Increased production of soybean cake and meal will approximately offset smaller supplies of cottonseed meal and dried milk products available for feeding.

With larger livestock numbers anticipated, supplies of high-protein feeds per animal probably will be a little smaller.

The extremely poor condition of pastures and ranges throughout much of the country and the abnormal geographical distribution of supplies have accentuated the hay problem. The total supply of hay is slightly more than that of last year, but supplies generally are very short in the mountain and southern states.

Meat Animals

Meat production during 1954 was at a record level, and 1955 production is expected to be about the same. With demand for meat expected to remain firm, the average price of all meat animals taken together should vary little next year from that of the preceding year. The major change will be in hog prices, which are expected to remain below the high levels of last spring. Hog production probably will not be as profitable as in 1954, nor is income from beef cattle expected to equal that of three years ago. Nevertheless, aggregate income from meat animals is expected to be maintained at near last year's level.

While total supplies of meat apparently will change little, it appears that more pork and less beef will be available. In view of farrowings this fall and anticipated spring farrowings, hog slaughter in 1955 should be about 7 per cent above that of 1954. Increasing population and slaughter at lighter weights, however, would result in about a 3 per cent increase in per capita consumption of pork.

Consumption of beef per person — which jumped to a record 79 pounds this year — may be reduced a little next year but will remain large. If the present cycle continues to follow the pattern of previous cycles, cattle numbers on farms at the end of the year will be down slightly. Because of the large slaughter of

calves, fewer heifers and steers will be on farms by the end of this year. Inventories of cows are expected to remain about the same. Consequently, cattle slaughter during 1955 should be slightly less than in 1954. In spite of these factors, however, capacity for production remains large and reductions in numbers during 1955 probably will be moderate, if weather conditions are normal. While favorable weather would reduce slaughter below anticipated levels, extreme drought over large areas would cause greater liquidation and increased slaughter during 1955.

It now appears that sheep and lamb slaughter for 1954 was large enough to reduce inventories slightly during the year. If such a reduction has occurred, sheep and lamb numbers by the end of this year will be only a little above the low reached in 1950. At these low levels of production, lamb is a relatively scarce meat — providing only about 3 per cent of the total red meat supply.

In summary, total per capita supplies of meat for consumption are expected to remain near the 154 to 156 pound level of the last two years. Beef consumption per person probably will be down slightly from last year's record levels but will remain large. Pork consumption will be up from the low levels of last year but will not be especially high. Lamb supplies probably will be down slightly but by an insignificant amount on a per capita basis.

Demand for meat has been particularly strong during the current year. If business conditions remain favorable, as it now appears they will, demand for meat should be strong again in 1955. Thus, any price changes anticipated for meat animals will be caused largely by changes in supplies.

Prices of the higher grades of slaughter cattle should hold up well again during 1955. Prices of grass cattle and other lower grades of cattle again probably will be discounted

considerably. After considering these factors, it appears that normal seasonal influences will account for most price fluctuation in beef cattle, if weather and business conditions develop as anticipated. Hog prices probably will remain substantially below the high levels of last spring, but otherwise should not differ significantly from this year's levels. The hog-corn ratio apparently will average about normal for 1955. More stability than this year is in prospect for lamb prices, but no appreciable rise is anticipated.

Dairy Products

It appears that 1955 will be similar to 1954 as far as the dairy industry is concerned. With demand for dairy products expected to remain about the same, it is anticipated that the level of production will be the key determinant of the dairy outlook. According to present indicators, the most likely level of milk production is about 124 billion pounds, the same as in 1954. Thus, production, consumption, prices, and cash receipts by farmers from the sale of dairy products probably will be about the same during 1955 as in 1954.

Although low prices of dairy products in relation to feed and competing livestock enterprises will tend to lower milk production, a number of offsetting factors will tend to maintain production. First, many farmers are looking to the dairy enterprise as one method of using their resources more fully in order to maintain cash receipts and their level of living. Second, lower prices for milk cows and reduced costs for housing and handling dairy cows, because of improved methods, encourage expanded production. Finally, many of the methods developed for reducing cost in the dairy industry usually are accomplished by increasing the scale of operations, particularly by keeping more cows. In view of these factors, milk production is expected to remain

about the same in 1955 as it was in 1954, if weather conditions are normal.

Poultry and Eggs

Supplies of all poultry products were large during 1954, and returns to the producers of eggs, chickens, and turkeys were low. Demand for eggs and poultry has remained firm, but the response of producers to favorable prices in 1953 caused record production of each of the main poultry products during 1954. As compared with 1953, it now appears that egg production in 1954 will be up 6 per cent along with 8 per cent more broilers and 9 per cent more turkeys. This increase in production caused prices to decline substantially and incomes to be low.

The price situation in 1955 again will be influenced significantly by production. Egg production through mid-1955 already is determined to a large extent by the number of hens and pullets presently on farms. With egg prices expected to remain relatively low for the next six months, producers' normal reactions would be to raise fewer replacement chicks in 1955. This suggests that egg prices should show improvement sometime during the second half of 1955.

In October, broiler placements in the specialized producing areas were slightly lower than comparable placements a year earlier. This is noteworthy, since prices have been low throughout the year, and yet production has remained at record levels. This indicates that the methods used in broiler production tend to cause output to be maintained at essentially the same levels. Since efficiency of production relies heavily on the maintenance of a large volume of production and has been increasing rapidly, there is little basis for anticipating a sharp contraction in broiler output in 1955. In fact, production may actually increase slightly more. Thus, broiler prices in

1955 can be expected to remain relatively low unless production contracts substantially.

Turkey prices received by farmers in recent months have been averaging about 5 cents per pound below the comparable months of a year ago. Heavy-breed toms are as much as 10 cents per pound lower. Although consumption of turkey so far this year has been good, much of the increased consumption can be attributed to the low cost to consumers. It is doubtful whether prices will show any substantial increase this month. Prices in the fall of 1955 will be influenced largely by production. If production is reduced substantially, prices in 1955 should be favorable. However, there are a number of reasons why production in 1955 again may be large. In view of the importance of supplies, it will be advantageous for producers to check monthly on the data contained in the turkey breeders' reports and in the hatchery reports.

Fruits and Vegetables

Total production of deciduous fruit in 1954 was slightly larger than the small production of 1953, but remained about 7 per cent below average. With average weather, production in 1955 likely will be somewhat larger. Citrus fruit production this year also was larger than last year and is expected to continue to increase during 1955.

It is anticipated that demand for fruit will be at least as good in 1955 as in 1954. With costs remaining near current levels, net income from fruit production should not vary greatly from the levels of the past year.

Assuming normal weather conditions, a fairly good year is in prospect for vegetable producers. With a larger population and per capita consumption similar to last year's levels, prices should approximate those received in 1954.

Potato prices during the next six months probably will average considerably above the low levels reached during the comparable period of last fall and winter. If production should expand much next spring and summer, prices during the latter part of next year could be quite low again.

Supplies of dry beans for the current year are expected to be about the same as for the past year. This is less than was anticipated about a month ago. On the basis of demand prospects, prices for the 1954 crop should be about the same as for the 1953 crop.

Summary

Although agricultural production during 1954 was about 2 per cent lower than in 1953, supplies of agricultural products remain huge because of the large carryover. With normal weather, acreage restriction for some crops would tend to cause farm output to be slightly lower in 1955 than it was in 1954. Assuming that international tensions will not change greatly during 1955, the index of prices received by farmers is likely to remain near current levels. Thus, gross income for farmers during 1955 may be near or a little below the levels that prevailed during 1954. Farm production expenses also may drop a little. On the basis of these forecasts, net farm income in 1955 should approach that of 1954.



PERSONAL SAVING

Significance and Measurement

CONSIDERABLE INTEREST has been focused on personal saving recently, as uncertainty over the trend of income and employment in the national economy has raised questions concerning the relationship of personal saving to changes in the level of aggregate expenditures. According to official estimates, personal saving proceeded at an annual rate of \$18.5 billion in the third quarter of 1954. Although this is \$1.5 billion below the rate for the full year 1953, it still exceeds saving for any other post-war year. Personal saving currently absorbs 7 per cent of disposable personal income (personal income less taxes). Considering the magnitude of personal saving, it is clear that decisions by individuals to delay consumption of part of their income affect a substantial volume of outlays. Consequently, important repercussions may be expected from general changes in savings-consumption decisions.

In order to gain some understanding of the influence of personal saving on the pace of economic activity and on the capital markets, this article describes the measurement of personal saving, reviews recent changes in the ratio of personal saving to income in the perspective of historical relationships, and analyzes the relationship of saving to investment.

Measurement of Personal Saving

Estimates of saving by individuals, as a national aggregate, may be obtained in at least three distinctly different ways, and the various methods include different elements. The

method employed by the United States Department of Commerce consists of deducting consumption and tax outlays by individuals from total income received. Personal saving is the remainder. A second method utilizes a balance sheet rather than an income approach and measures change in total holdings of specified types of assets and liabilities by individuals between two dates. This method is used in the Securities and Exchange Commission estimates of liquid savings of individuals. Both methods use aggregate or universe data for their measurements. A third procedure, employed in the Federal Reserve surveys of consumer finance, uses information gained from a selected sample of income units. Universe information is then calculated from the sample statistics.

This discussion depends principally upon the Department of Commerce method in which saving estimates are derived from income data. Because the saving figures necessarily represent rough estimates and because they include dissimilar forms of saving, conclusions must be drawn with care. A description of the data will clarify the reasons for this caution. First, the saving figures are a residual of personal income after deduction of outlays for consumption and taxes, and they are subject to whatever errors of estimation may be included in the income estimates and the deducted elements. Second, the total amount of personal saving is small relative to the figures from which it is derived—disposable income and consumption expenditures. Thus, a small percentage error in in-

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come or consumption estimates produces a relatively large error in saving estimates. Third, the estimates include saving of non-corporate businesses, such as farms, trust funds, pension funds, and certain charitable and fraternal organizations. Finally, the saving total is a complex of various forms of saving and includes not only liquid funds such as currency and deposits but also investment in houses, farms, and noncorporate businesses, and investment in corporate business, government, or real estate through purchase of securities and mortgages. Thus, small changes in saving totals may not accurately reflect changes in saving behavior, and aggregate personal saving is not identical with accumulation of liquid assets.

Recent Saving Developments

Price controls, rationing, and patriotic inducements combined with high incomes to produce an unprecedented volume of personal saving during the war years 1942-1945. A peak of \$37 billion was reached in 1944, and the average for the four years was around \$30 billion. The latter represented 22 per cent of personal income. Although statistical measures are less complete for years prior to 1929 than since that time, it is evident that saving from 1942 through 1945 reached a record high. Following the war, personal saving dropped sharply—dollar volume declining from \$37 billion in 1944 to \$12.6 billion in 1946. The 1946 total was less than 3 per cent of disposable income, compared with more than 25 per cent in the earlier year. However, personal saving, after reaching a post-war low of \$4 billion in 1947, climbed fairly steadily through the succeeding years. By 1953, personal saving had reached the post-war maximum of \$20 billion, or 8 per cent of disposable income. As indicated earlier, personal saving in 1954 appears headed for a

slightly lower total—perhaps \$18 billion to \$19 billion. In appraising this level of saving for the future, it is necessary to look back to peacetime years to compare current saving rates with rates for other years of high employment. The 1930's, for example, represented a period of abnormally low income, and saving performance in those years cannot properly be compared with periods of relatively full employment. As a matter of record, personal saving from 1930 through 1940 averaged approximately 2 per cent of disposable income. However, comparison of recent saving records with statistics covering the period 1897-1929 shows that typical pre-1930 saving-personal income ratios were about equal to the average for 1946 to 1949. This, in turn, suggests that the succeeding ratios for 1950 to 1954 are roughly 1½ times as great as this long-run norm.

Saving, Investment, and Income Determination

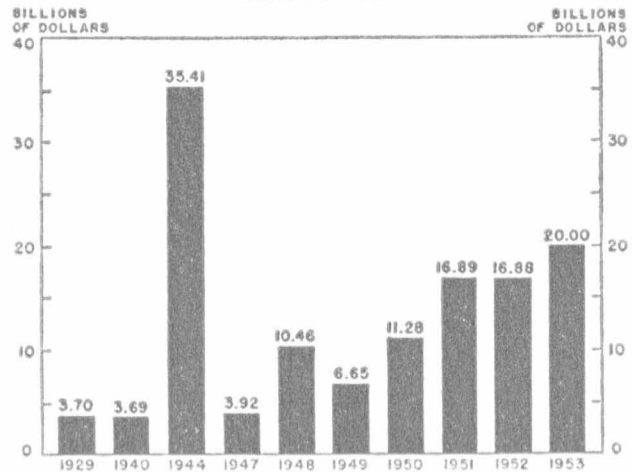
Saving, as indicated above, may be conceived as the share of income not spent for consumption. It is the portion of income available for capital purposes. The act of saving permits a part of available economic resources to be devoted to production of capital goods, and the volume of saving represents a limit on the rate of capital formation. The interest of society in encouraging saving stems from this release of resources from production of consumption goods and their allocation to the expansion of the economic plant. From this point of view, saving-investment decisions, by determining the quantity of productive facilities, influence the maximum level which production can attain. Significant changes in economic capacity occur rather slowly, however, inasmuch as the stock of existing facilities is extremely large relative to annual additions and generally is of a durable

character. Hence, the role of saving in this connection is important for long-run rather than short-run considerations.

Business cycle analyses and policies encounter a quite different problem in connection with saving and investment. Here, attention is not centered on economic capacity as such, but on the degree to which capacity is utilized, and analysis is in terms of influences which determine the total rate of spending in the economy. The rate of spending, in turn, establishes the rate at which production and income will be generated. In order that production and income may be maintained at a given level, spending must be great enough to absorb the volume of product forthcoming. Consumption outlays, of course, absorb a large part of total output, but to the extent that all income is not spent for consumption, investment purchases must make up the difference. If aggregate saving tends to exceed current investment needs of the community, goods tend to pile up in the hands of producers, leading to curtailment of production. Similarly, if shortages tend to develop as a result of insufficient saving to meet investment programs, production and income are stimulated. Inflation may be defined as a condition in which total consumption and investment requirements tend to outrun the capacity of the economy to furnish output and, consequently, competition for available products pushes up prices. Deflation is the converse of this condition. Efforts to invest at rates in excess of the flow of funds arising through saving may be implemented by use of previously accumulated money balances or by borrowing from the commercial banking system. In either case, a net increase occurs in the volume of dollars seeking goods.

In appraising the role of personal saving as a source of funds to finance investment by the business and government sectors of the economy, it is well to note the influence

PERSONAL SAVING, UNITED STATES Selected Years



SOURCE: *Survey of Current Business*, U. S. Department of Commerce.

which the form of personal saving has on transferability. To the extent that saving is accomplished through contribution to pension funds, liquidation of debt, increase in life insurance equities, purchase of securities, or increase in bank deposits, the funds are made available to meet investment demands, either directly by the saver or through a financial intermediary. In the case of pension contributions or savings and loan shares, the funds pass through an institution which transfers them to the investment market. However, personal saving may take the form of increase in equities in homes, farms, or noncorporate business assets. In this instance, the savings have resulted in an immediate claim of the saver on available resources and cannot be diverted for use of other sectors of the economy.

The view that saving is a depressing or deflationary force in the economy may deserve qualification to recognize the distinction between saving automatically offset by investment and saving not so offset. Saving which is directly offset by investment outlays—such as household saving employed to purchase homes or retained business earnings

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promptly used to finance capital expansion—does not require investment action by other sectors of the economy to avoid generating deflationary pockets. The saved income is employed simultaneously by the saver to purchase investment goods. On the other hand, such saving does not serve the same purpose as an increased desire to hold liquid assets in restraining incipient inflation during a period, for example, of sharp expansion in Government outlays for defense. In such a situation, personal saving which is not transferable to the Government sector, but competes with Government demand for available supplies of goods, does not dampen excessive pressure on productive facilities or limit price increases. During the postwar years, a large part of personal saving has been in the form of increased home ownership, increased inventories of noncorporate business, and a rise in farm assets.

Summary

The foregoing discussion indicates that personal saving is presently at a very high level in comparison with any period other than

World War II, both with respect to the dollar amount of saving and the ratio of saving to income. Personal saving, moreover, has been increasing through the postwar period as the temporary factors associated with the early postwar years have gradually disappeared.

Saving, recognized as a measure of the rate of change of accumulated wealth, is significant as an indicator of economic progress and well-being. Saving represents the ability of the economy to provide sources of new capital which form the basis of long-run, secular growth. In addition, saving is a significant element in the business cycle problem of maintaining a balanced rate of activity at high levels.

It is well to remember also that the tendency of personal saving to decrease total spending is partly offset through personal and private noncorporate investment. Currently, personal saving is moderately above private noncorporate investment, and it is this excess which is made available for investment by the corporate and public sectors of the economy.



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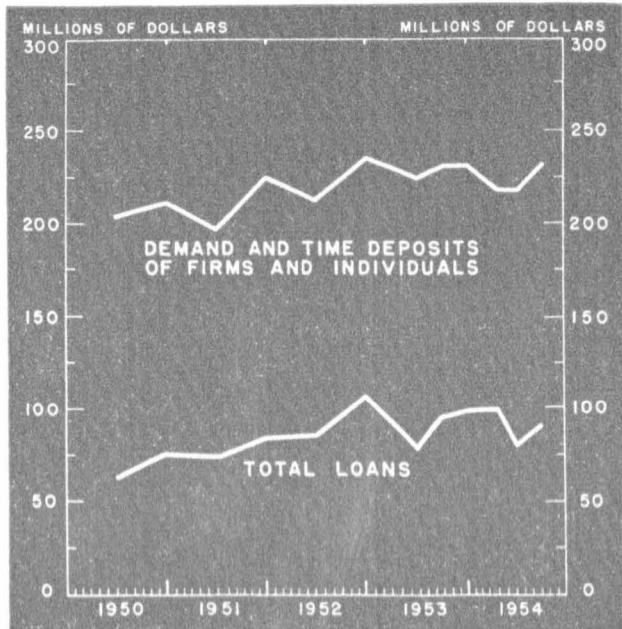
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Security Offerings of State and Local Governments (2 pages).....	September
Treasury Operations and Bank Reserves (6 pages).....	March
What Happened to Saving in 1953? (3 pages).....	May

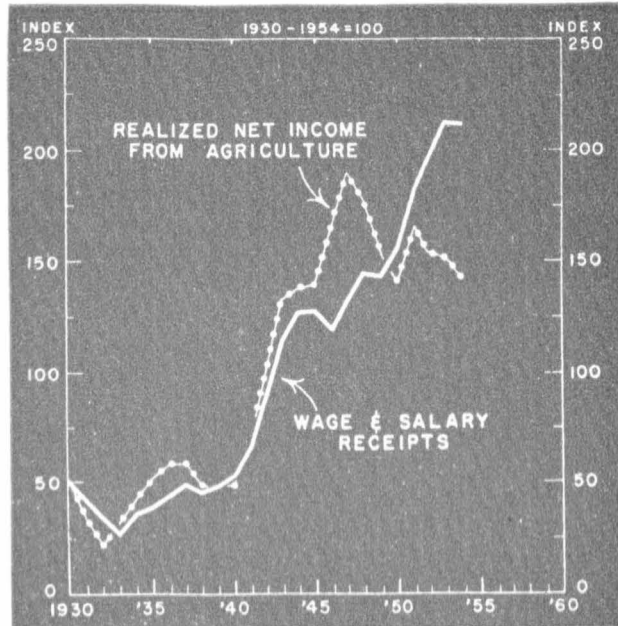
Industry and Trade

Business Capital Requirements (6 pages)	September
Changes in Consumer Spending Patterns (7 pages).....	May
Employment and Labor Market Conditions (3 pages).....	January
Grain Storage Outlook (4 pages).....	July
Manufacturers' Use of Bank Credit (3 pages)	November
Manufacturing in 1954 (3 pages).....	October
Midyear Review of Economic Conditions (7 pages).....	June
Oil Production Loans (6 pages).....	February
Outlook for Homebuilding (2 pages).....	March
Petroleum Product Stocks High (2 pages).....	August
Retail Trade in 1953 (4 pages).....	February
Sugar Industry in the Tenth District (6 pages).....	November
Unemployment Rise General (2 pages).....	April
Uranium—The Magic Metal (5 pages).....	September

LOANS AND DEPOSITS, SMALL RURAL BANKS TENTH DISTRICT



NET FARM INCOME AND INCOME FROM WAGES AND SALARIES



BANKING IN THE TENTH DISTRICT

District and States	Loans				Deposits			
	Reserve City Member Banks		Country Member Banks		Reserve City Member Banks		Country Member Banks	
	Sept. 1954	Oct. 1953	Sept. 1954	Oct. 1953	Sept. 1954	Oct. 1953	Sept. 1954	Oct. 1953
	October 1954 Percentage Change From							
Tenth F. R. Dist.	+1	+9	0	+4	+3	+6	+1	+5
Colorado	+2	+13	+2	-3	+2	+10	-3	+3
Kansas	+2	+10	0	+9	+1	+6	0	+3
Missouri*	0	+9	0	+6	+2	+4	+1	+3
Nebraska	+1	+11	+2	+4	+4	+4	+1	+1
New Mexico*	**	**	0	+7	**	**	+15	+22
Oklahoma*	+3	+4	0	+5	+3	+6	+2	+6
Wyoming	**	**	-2	+2	**	**	+4	+9

*Tenth District portion only. **No reserve cities in this state.

PRICE INDEXES, UNITED STATES

Index	Oct. 1954	Sept. 1954	Oct. 1953
Consumer Price Index (1947-49=100)	114.5	114.7	115.4
Wholesale Price Index (1947-49=100)	109.7	110.0	110.2
Prices Rec'd by Farmers (1910-14=100)	242	246	249
Prices Paid by Farmers (1910-14=100)	279	280	276

TENTH DISTRICT BUSINESS INDICATORS

District and Principal Metropolitan Areas	Value of Check Payments		Value of Department Store Sales		*Value of Residential Bldg. Permits	
	Oct.	Year to date	Oct.	Year to date	Oct.	Year to date
	Percentage change—1954 from 1953					
Tenth F. R. Dist.	+1	+3	+5	0	+69	+43
Denver	+6	+4	+6	+1	+131	+58
Wichita	+7	+6	+17	0	+43	+49
Kansas City	-4	0	+5†	-1†	-11‡	+8‡
Omaha	-1	+7	0	+3	+103	+64
Okla. City	+4	+8	+14	+6	+119	+97
Tulsa	0	+4	-2	-1	+182	+50

*City only. †Kansas City, Mo., only. ‡Kansas City, Mo., and Kans.