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VOLUME AND COMPOSITION OF INDIVIDUALS' SAVING, JULY-SEPTEMBER 1966.

Net financial savings of individuals amounted to \$9 1/2 billion in the third quarter of this year, according to new figures just released by the Securities and Exchange Commission. These flows were up substantially from rates achieved in the first half of the year, largely reflecting seasonal influences. The third quarter total was about \$1 billion less than a year earlier. As in the previous quarters of this year individuals channeled a greater proportion of their savings into direct investments than they did in 1965. This shift reflected the sharp rise in interest rates on marketable debt instruments. The following comparison of individuals' financial assets for the nine-month periods of 1965 and 1966 highlights this shift.

	First Nine Months	
	1965	1966
	(Billions of dollars)	
Intermediary saving flows		
Currency and demand deposits	\$ 2.9	-3.6
Time and saving deposits	12.0	8.8
Saving shares	6.0	1.8
Insurance and pension reserves	12.8	12.2
Investment company shares	1.5	3.3
Total	35.2	22.6
Direct saving flows		
U.S. Government securities	2.4	8.5
State & local government securities	1.3	2.0
Corporate and other issues	-.9	-.7
Total	2.8	9.8
Total financial saving flows	38.0	32.4

The major part of individuals' saving flowing directly into the capital market involved purchases of U.S. Government obligations. In the first 9 months of 1966, the volume of U.S. Government new issues, both direct and federal agency nonguaranteed issues, was greater than in the first 9 months of 1965. During this same period, financial institutions, under heavy pressure to meet the demands of the capital market, and also faced with a reduced flow of new funds, were liquidating their holdings of governments. These movements produced the highest yields on Government issues since the twenties. Also, individuals acquired more municipal securities in the first nine months of 1966 than they did a year earlier; even though net new financing of state and local

governments was less than it was in the like 1965 period. In some cases they were completely out of the market because of statutory interest rate limitations. Acquisitions of corporate debt issues by individuals during the first nine months of 1966 totaled \$2.3 billion. As in 1965 the high rate of acquisitions was associated with a sharp rise in new offerings of convertible debentures.

Individuals sold \$3 billion more of their direct holdings of stock than they bought in the first nine months of 1966. This was equal to the decline in the same period last year. In contrast to the reduced flow of savings to other financial institutions, the net sales of investment company shares were substantially higher this year as compared to last year. However, most of this year's increase occurred during the first six months, with net savings during the summer quarter slightly higher than during the similar period of 1965.

Intermediary savings flow

Despite increased consumer incomes and expenditures for 1965 and 1966 which might suggest an increased need for cash -- individuals reduced their holdings of currency and demand deposits by more than \$3 1/2 billion since the beginning of the year. In the comparable period of 1965, individuals added almost \$3 billion to such assets.

Savings shares in savings and loan associations and credit unions declined \$600 million during the third quarter, the first decrease in the post-war period. All of the decrease occurred in July reflecting mid-year dividend withdrawals. Savings in time deposits at banks increased \$3.6 billion as compared to \$4.2 billion during the same period last year. The flow of saving into mutual savings banks was somewhat lower than during the same period last year; both new deposits and withdrawals were greater in the most recent period. Net savings in time and savings deposits at commercial banks held up relatively well over this period as these institutions became more competitive. Data covering large banks indicate that small sized non-negotiable certificates of deposit grew sharply as passbook type saving declined. Net equity in life insurance reserves grew at a slower pace this year as the sharp rise in policy loans offset the more moderate increase in reserves. Net inflow of non-insured pension funds was slightly lower than during the same period last year.

Individuals' debt

The growth in individuals' debt was at a lower rate thus far this year than it was in the same period of 1965. Reflecting the outflow of savings from saving and loan associations and the reduced overall flow of saving to the major suppliers of mortgage credit, one-to-four family mortgage debt of individuals during the third quarter rose by the smallest amount in four and one-half years. Indebtedness related to purchases of consumer goods rose \$1.6 billion during the third quarter, \$1 billion less than the preceding quarter. This was largely due to a slowdown in new car sales. Other forms of consumer installment credit advanced moderately reflecting a continued rise in expenditures for durable goods other than autos.

Other concepts of saving

Estimates of individuals' saving as compiled in this report are derived as the difference between the increase in individuals' financial assets and the increase in selected debt instruments. The estimates do not reflect changes in market values as the series excludes capital gains and losses. In the report covering annual saving, however, market value data are also shown for the accumulated financial assets and liabilities of individuals as of the end of each year. The classification "individuals" herein used includes households, trust funds, nonprofit institutions, and unincorporated businesses. An important omission in the calculations is the change in unincorporated businesses' short-term debt.

There are other series on individuals' saving which differ conceptually and in coverage. The aggregate personal saving estimate of the Department of Commerce is derived from a completely different procedure representing the difference between personal income (after taxes) and expenditures. The Federal Reserve Board's flow-of-funds system of accounts includes estimates of gross saving and net financial investment of households. A comparison of the Securities and Exchange Commission estimates and the Department of Commerce series for the years 1962-65 appeared in the July Survey of Current Business and the Commission's Statistical Bulletin.

SAVING BY INDIVIDUALS IN THE UNITED STATES ^{1/}

1962—1966

(Billions of Dollars)

Type of Saving	1962	1963	1964	1965	1965		1966		
					July- Sept.	Oct.- Dec.	Jan.- Mar.	Apr.- June	July- Sept.
1. Currency and demand deposits.....	2.8	6.8	7.0	10.0	3.8	7.1	-4.6	.3	.6
2. Time and savings deposits.....	14.9	11.6	12.3	15.3	4.2	3.4	3.2	2.1	3.6
3. Savings shares <u>2/</u>	9.9	11.7	11.3	9.3	1.4	3.3	1.4	1.0	-.6
4. Securities.....	-.4	1.6	7.0	4.9	1.0	.6	4.9	3.7	4.5
a. U.S. savings bonds									
(1) Series E & H.....	.9	1.6	1.2	.9	.1	.3	.2	.3	.2
(2) Other.....	-.5	-.4	-.3	-.2	-.1	*	-.1	-.1	-.1
b. Other U.S. Government <u>3/</u>3	.7	3.3	1.8	.7	-.2	4.0	.8	3.4
c. State and local government.....	.3	1.8	2.4	2.4	.5	1.1	.2	1.4	.4
d. Corporate and other.....	-1.5	-2.1	.4	.1	-.2	-.5	.6	1.4	.6
(1) Bonds and notes.....	-.1	.5	.9	2.3	.7	.2	.8	.7	.8
(2) Investment company shares <u>4/</u>	2.0	1.6	2.0	2.1	.7	.6	1.6	.9	.8
(3) Other preferred and common stock.....	-3.4	-4.3	-2.5	-4.4	-1.6	-1.3	-1.8	-.3	-.9
5. Private insurance and pension reserves.....	9.9	10.7	11.7	13.0	3.2	3.9	3.0	2.7	2.8
a. Insurance reserves.....	4.3	4.5	4.8	5.3	1.4	1.7	1.3	.9	.9
b. Insured pension reserves.....	1.4	1.7	2.0	2.1	.5	.5	.6	.6	.6
c. Noninsured pension reserves.....	4.2	4.5	4.9	5.6	1.3	1.7	1.2	1.3	1.3
6. Government insurance and pension reserves <u>5/</u>	3.7	4.0	4.6	5.0	1.3	1.3	1.1	1.2	1.3
7. Increase in debt (8+9+10).....	18.6	22.1	22.2	24.4	4.4	9.2	3.7	5.9	2.7
8. Mortgage debt <u>6/</u>	12.5	14.9	15.6	15.4	4.0	4.4	4.5	3.0	2.1
9. Consumer debt <u>7/</u>	5.0	6.3	6.5	9.0	2.4	3.4	-.4	2.6	1.6
10. Securities loans <u>8/</u>	1.1	.9	.1	*	-2.0	1.5	-.4	.3	-1.0
11. Net financial saving (1+2+3+4+5+6-7).....	22.1	24.3	31.7	33.1	10.6	10.3	5.5	5.1	9.5

* Indicates less than \$50 million.

1/ Includes unincorporated business saving of the types specified. Figures are rounded and will not necessarily add to totals. The foregoing data have been compiled by the Commission from many different sources. Because of the nature of the figures, current data are necessarily estimates, and, therefore are subject to revision.

2/ Includes shares in savings and loan associations and shares and deposits in credit unions.

3/ Includes nonguaranteed Federal agency securities.

4/ Includes closed-end investment companies as well as mutual funds.

5/ Includes civil service, railroad retirement and state and local retirement funds.

6/ Mortgage debt to institutions on one-to-four-family nonfarm dwellings.

7/ Consumer debt owed to corporations. Policy loans on life insurance have been deducted from that item of saving.

8/ Change in bank loans to brokers and dealers and others made for the purpose of purchasing or carrying securities.