Prices, Sales, and Credit in 1948

RETAIL price changes in 1948 supported both sides of an argument that started when the removal of price controls was first discussed. Those who had argued that removing controls would start an inflationary price spiral resulting in ever-increasing prices could say, "I told you so." Those who had argued that goods, freed from Government restrictions, would come forth in such a swollen stream that inflationary pressures would be eliminated could point to what seemed to be a leveling off in the consumers price index.

On the basis of a numerical count of month-to-month changes through November in the Sixth District consumers price index, those who had predicted continuing price increases had somewhat the better of the argument. During six of the 11 months, the index of consumer prices advanced. In August, at its peak of 180 percent of the 1935-39 average, the index was 4 percent greater than during the last month of 1947. Moreover, the declines that occurred in the index were caused entirely, until November, by lower food prices, which, it might be argued, resulted from bountiful harvests and not from any program of increased production.

To the District housewife, whose food purchases in November were at prices 111 percent greater than they were in the 1935-39 period, even food prices seemed high. Despite bargain sales, November clothing prices were up 6.2 percent from those of the last month of 1947; fuel, electricity, and refrigeration prices were up 5.3 percent; and home furnishings prices were up 4.2 percent; besides an increase of 2.7 percent in the cost of miscellaneous consumer items.

But, beginning with September, the three successive drops in the index that brought it down in November to a point only 1.2 percent greater than it was at the end of 1947, others might say, pointed to an end of inflationary pressures. Declines in food prices, they would admit, accounted for practically all of the decline in the total index. But there was also a noticeable slackening in the rising price trends for other types of consumer goods.

Sales Records Differed

Sales records of District retail merchants were influenced not only by these price changes but also by the satisfying of what once had seemed unlimited demands for certain types of goods. How well a retailer did in 1948, compared with 1947, depended upon the types of goods he sold more than upon anything else. Available data indicate that among the retail merchants, household appliance and motor vehicle dealers had the greatest rates of increase in dollar sales.

Department store sales were bolstered not only by greater sales of appliances but also by expanded sales of women's ready-to-wear. Lumber and building materials dealers were also among those enjoying the highest rates of sales increase. Furniture stores, however, sold 3 percent less during 1948 than in 1947. With the exception of food dealers, whose sales were up about 6 percent in 1948, the merchants with substantial sales gains specialized in or sold a considerable amount of durable goods.

Retailers specializing in nondurable goods had poorer records. Combined sales of all types of apparel stores edged up slightly above 1947 sales, but only because gains at women's ready-to-wear stores offset declines at men's clothing stores. Drug stores, liquor stores, and eating places all reported slight declines in sales, whereas jewelers ended the year with annual sales down 5 percent.

Despite the favorable comparisons for the entire year for most lines of trade, a changed sales trend began for many retailers in the latter part of the year. At department stores, for example, the seasonally adjusted indexes after April, although substantially above those for the corresponding months of the previous year, showed relatively little advance. In November, instead of increasing at the much greater-than-seasonal rate as it did in 1947, the seasonally adjusted index fell to a point lower than it had been since February and below the level of November 1947. Sales recovered somewhat in December to bring the index slightly above that for December 1947 but it was below that for June, August, September, and October of the same year.

The fourth quarter of 1948 brought sales declines at other types of retail stores. In October, November, and December, furniture store sales were below those for the corresponding months of 1947. Moreover, household appliance dealers reported similar experiences, despite their hitherto unbroken record of sales increases since the end of the war. Except for motor vehicles there was no line of business that showed uniform sales advances in November in any District community surveyed. Even the lumber and building material dealers in the Atlanta and Birmingham areas reported that November 1948 sales were less than in November 1947.

Persons who had been watching wholesale trends had already noticed weakening in some lines of durable goods, even before the weaknesses showed up on the retail level. Household appliance wholesalers, for example, found their October sales below those of October 1947; and plumbing and heating supply dealers have had lower sales each month beginning with August 1948 than in the corresponding months of 1947.

Cold weather, warm weather, new consumer credit controls, changed Christmas shopping habits, and a final consumer resistance to high prices were among the explanations put forward for the change in sales trends. As logical as these explanations appear, many observers can offer equally logical reasons why such explanations are not entirely satisfactory. Too much emphasis, some of them add, may be given to the significance of short-run changes. They recently have noticed, however, a change in the factors governing the long-run outlook.

Factors in Postwar Buying

Consumer buying is not an automatic process which consists in pouring dollars into one end of a machine and ringing up an equivalent amount of sales as the dollars come out of the other end. Between the receipt of income and its use, there are a multitude of human decisions that govern the volume of consumer purchasing. Although a large volume of purchasing power is favorable to a high level of consumer spending, it does not necessarily result in the spending of an equal amount unless the right decisions are made.

Since the close of the war, consumers throughout the nation have been making unusually high investment expendi-

tures, if we define investment broadly. In order to get commodities which they had been deprived of during the war years, they were willing to use their savings and in some cases to go into debt. Their expenditures for durable goods increased from 8.3 billion dollars in 1945 to an annual rate of 23.6 billion in the third quarter of 1948. Also, expenditures have been heavy for construction of new homes.

To a considerable extent the purchases of many nondurable goods have also been in the nature of investment expenditures. The new suits veterans bought after they were released from the services; the household items newly married veterans' wives bought when they set up housekeeping; the white shirts men bought to replace the frayed and torn ones which they had to wear during the war shortages; and many other items, although certainly not as durable as household appliances and radios, were bought in greater quantities than were necessary for replacement only.

The old economic axiom that man's wants are insatiable probably cannot be refuted when it is applied to mankind in general. But the axiom does not mean that a consumer's wants for any particular good or class of goods are without limits. Specific limits apply especially to his wants for goods of the consumer investment nature. After they have concentrated their purchases for goods of these types during one period, consumers may not make similar purchases until the goods are worn-out or become obsolescent. Total demands for specific types of goods may, therefore, be limited even though purchasing power remains high.

Such a process, of course, may involve merely a shift in demand for one type of goods to others. It may mean that consumers decide to save more. Or, if their investment expenditures had been financed by going into debt, they may use their incomes to pay off those debts. Either of the latter possibilities can result in lower consumer purchases despite continued high incomes.

To a considerable extent, consumer purchases since the end of the war have been financed by consumer credit. American consumers owed about 10 billion dollars more by the end of 1948 than they had at the end of 1945. This additional credit helped consumers buy more than they would otherwise have been able to do during the postwar years. But one of the sad things about borrowing is that repayment has to be made. So long as the consumer is going into debt, his purchasing power increases; when he pays off his debts, unless he is willing to go into debt still farther, he finds himself with reduced purchasing power. Continued expansion of consumer credit since the end of the war has brought that condition closer for many consumers regardless of presence or lack of consumer credit controls.

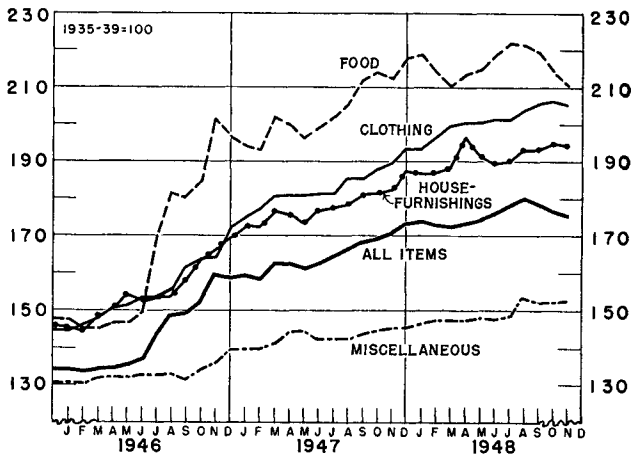
New Competition

On the basis of this analysis, it is fairly safe to predict that there will be important shifts in consumer spending during 1949, even though consumer incomes continue at their present high level. Retailers will not only have to compete with one another for the consumer's dollar, but they will also have to compete with the consumer's creditors and with the consumer's disposition to save. Retailers in the Sixth District, consequently, face a much different outlook this year than they have at the beginning of any other postwar years.

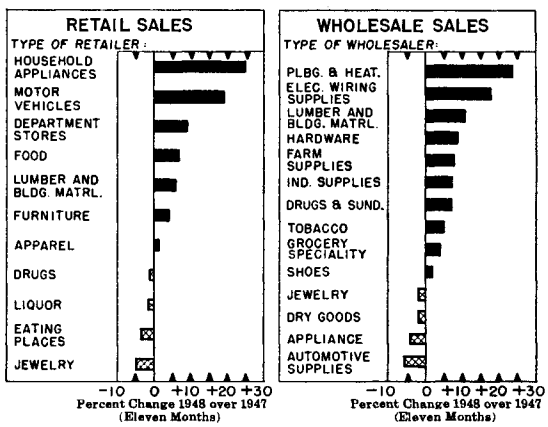
CHARLES T. TAYLOR

SIXTH DISTRICT TRADE IN 1948

1. After advancing during most of 1948, consumer prices edged downward during the latter part of the year, primarily because of declining food prices.

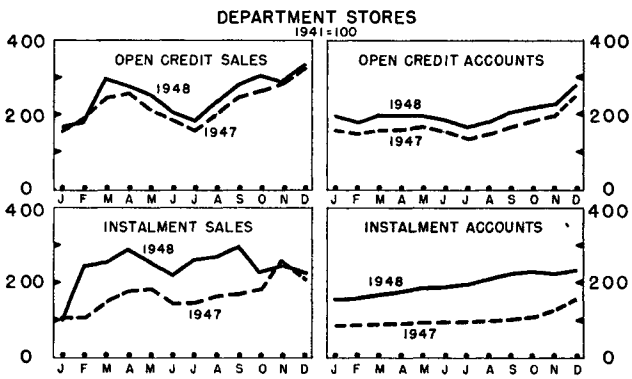


2. Merchants selling durable goods made the greatest gains.



3. Most merchants sold more on credit.

4. This resulted in increased accounts receivable.



Source—Estimates based on Federal Reserve Bank of Atlanta and United States Department of Commerce data.