goods, moreover, has vastly increased in importance during the post-war period.

Who Borrows from Consumer Finance Companies?

Consumer finance companies draw their customers from a wide variety of occupational groups. Skilled, semi-skilled, and unskilled workers, however, account for the bulk of the borrowers—about two-thirds, according to past surveys. Because borrowers in these particular groups account for such a large share of the clientele of consumer finance companies, it is not surprising that the income of most borrowers is less than $5,000.

In the South there is a larger proportion of families with incomes of under $5,000 than in the nation. This may partly explain why consumer finance companies in District states account for a larger share of the cash lending market than in the United States. The competition in the cash lending business, however, is keen in all parts of the country.

In recent years, credit unions in District states have increased the amount of instalment debt they hold at a rate faster than that of consumer finance companies. Many banks in District states have stepped up competition for cash loans by promoting check credit plans and the like. This increased competition, while it creates problems for lenders, may result in one significant benefit to consumers: reduced borrowing costs.

ALFRED P. JOHNSON

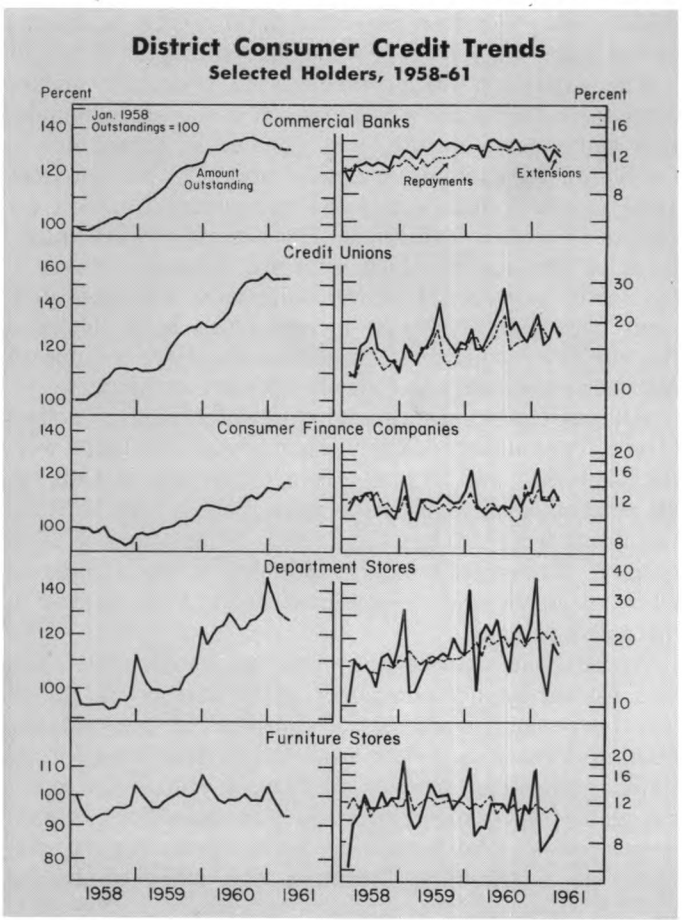
District Consumer Credit Down Slightly

Glancing down the left-hand panel of the chart on this page, you see that trends in the amounts of credit outstanding in the District have varied somewhat among the types of holders. However, after making allowance for seasonal changes characteristic of different holders, such as the December increases at department and furniture stores, we can be sure of one thing: Consumer borrowing has not been adding any fuel to the economic recovery engine since the first of the year. Quite to the contrary, the amounts owed to most types of lenders have either declined slightly or held steady. The major exception seems to be the amounts owed to consumer finance companies, for outstanding credit at these companies has continued slightly upward. The general District picture closely parallels developments in the nation as a whole, where total outstanding consumer instalment credit has declined slightly since the first of the year.

The chart summarizes in index form the information available on District consumer instalment credit outstanding, extended, and repaid, by major type of holder of the credit. The figures for commercial banks represent estimates for all District banks, whereas the other data represent totals only for the financial institutions and stores that report data to this Bank. For the nation as a whole, the types of credit holders represented account for about 65 percent of total consumer instalment credit outstanding. Assuming the District pattern of lending is not too different, we should have, therefore, a reasonably good picture of current consumer borrowing here.

Monthly changes in outstanding credit reflect, of course, the relationship between credit newly extended each month and repayments of old debt. As is obvious from the right panel of the chart, however, extensions fluctuate much more than repayments, reflecting, as they do, monthly variations in consumer borrowing to pay for such things as automobiles, television sets, appliances, furniture, vacations, and medical expenses. As many individuals who have just about paid for the new car they bought two or three years ago can tell you, repayments reflect extensions made over a number of months previously. Come what may, that monthly payment has to be made, thus the repayment lines show less fluctuation.

The recent downward tendency in District outstanding credit, therefore, reflects mainly a failure on the part of consumers to maintain their borrowing at previously high volumes. In other words, they just haven't been buying as much on credit, as you see from the extensions data after making allowance for the sometimes sharp seasonal swings. Sales indicators show that total consumer spending in the District dropped off as employment and income declined during the recession starting about mid-1960. Moreover, if the usual pattern has been followed, sales of



the type of goods usually purchased on credit have declined even more.

Some pickup has occurred in sales since the first of the year as economic recovery has gotten underway. So far, however, the District consumer has not yet shown an inclination to increase his borrowing enough to turn outstanding credit in the upward direction so characteristic of the period from early 1958 through mid-1960. Nationally, there has been some tendency in the past year or so for debt repayments to stabilize in relation to income. To the extent that this proves to be true in the District, therefore, incomes would have to continue improving for a sustained rise in consumer borrowing to occur.

Over the past three years, repayment periods for credit granted by most District lenders have lengthened about one month. The average repayment period at commercial banks, however, has not changed, remaining at about nineteen months. For the other lenders, where automobile lending is less important or is not a factor at all, average repayment periods are shorter, ranging from about twelve months for department stores to seventeen months for furniture stores and consumer finance companies. Still longer repayment periods might encourage more borrowing by reducing monthly payments, but the trend in the past three years has not been such as to suggest any appreciable stimulus to borrowing from this source.

PHILIP M. WEBSTER

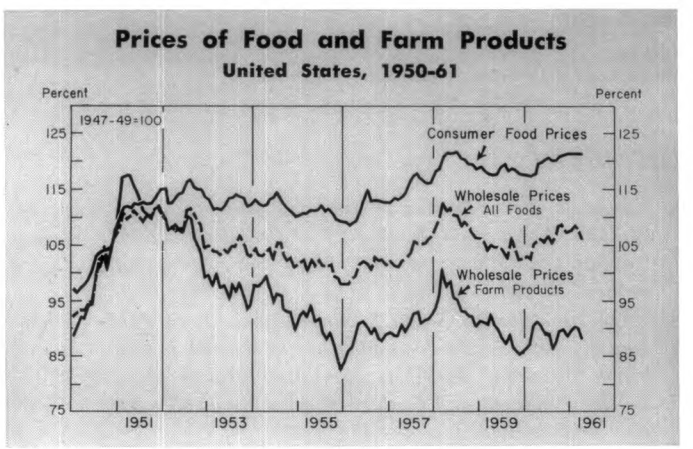
Behavior of Consumer Food Prices

We had 28 million more people to feed in the United States in 1960 than we had in 1950. Taken alone, this population explosion could have had an appreciable impact on consumer food prices. But an added factor, a rise in income, had its effect on prices too. Family earnings in the nation increased two-thirds from 1950 to 1960, thus there was more money to spend for new forms of food and special food services.

One would have expected such an increase in population and income to lift consumer demand and prices for food during the 1950's. Retail food prices, as measured by the consumer price index, did increase 18 percent from 1950 to 1960. This increase, however, was relatively mild compared to rises in prices for other consumer items. In the same period, prices for medical and personal care and for transportation rose 47, 32, and 31 percent, respectively, and the overall consumer price index increased 23 percent.

Although prices for most consumer goods rose quite steadily during the 1950's, retail food prices declined appreciably at times, despite their overall modest increase. These frequent downward movements indicate that demand for food was not the sole influence on food prices. Changes in the supplies of some foods certainly affected prices during the 1950's too.

As shown in the chart, both wholesale and consumer prices for foods fluctuated widely in almost every year, largely because food supplies varied from spring to winter months. Prices also changed from year to year because weather influenced crop and livestock yields, and production cycles affected meat and egg marketings. Cyclical upswings in cattle and hog production depressed prices significantly in 1953 and 1955, and in 1959 prices declined because of a cyclical increase in hog and poultry output. Food prices began to rise, however, in early 1960, partly because farmers had reduced their swine herds and poultry flocks and were marketing fewer hogs and eggs.



It is true that at times in recent years, farmers' bountiful harvests and marketings pushed retail food prices down. During the 1950's, however, farmers' greatly increased productivity merely offset somewhat the upward pressure on retail prices from the long-run increase in demand by enlarging our food supplies. Farmers boosted total farm productivity an average 6.2 percent a year from 1950 to 1960, a remarkable feat that enabled them to increase national farm output about one-fourth. Meanwhile, wholesale prices for all farm produce—mostly foods and food materials—declined 9 percent, and wholesale prices for livestock and poultry products dropped 17 percent. Lower wholesale prices for livestock and poultry products apparently had a major role in restraining the rise in consumer food prices, because the retail price index for meats, poultry, and fish increased only 4 percent from 1950 to 1960. In contrast, retail price indexes for cereal and bakery products and for fruits and vegetables increased 31 percent.

The decline in wholesale prices, however, was not as sharply reflected in consumer food prices as we might have expected. According to the United States Department of Agriculture, the farm-retail price spread, or the difference between the prices farmers receive and prices housewives pay, increased each year in the 1950's and was a third larger by 1960. This food marketing margin widened mainly because expenditures for labor and transportation—the chief costs in assembling, preparing, packaging, and marketing foods—rose sharply. The labor component of the nation's food marketing bill rose 55 percent from 1950 to 1960, partly because more foods were marketed and partly because the labor cost more. Then too, rising freight rates boosted expenditures for rail and truck transport.