

# The Consumer: Becoming Confident

by **Brian D. Dittenhafer**

Rapid growth in the economy has restored consumer confidence. The resulting boom in spending accelerated throughout 1972 and has helped fuel a strong expansion of employment and production.

The most buoyant and expansive sector of consumer spending was automobile sales. Though Sixth District auto sales had already begun to rebound from the 1970 recession during early 1971, the prospect of an excise tax refund caused sales to jump in the latter part of the year. This was an expected consequence of the tax policy, so the rapid climb in sales was not surprising. What did surprise many people was the outstanding performance of auto sales throughout 1972. New car registrations in the Southeast were 12 percent higher in 1972 than in 1971. Adding to the strength of the auto buying boom was the purchase of light trucks as second vehicles by some consumers. If registrations of light trucks and autos are combined, a 15-percent increase in registrations is indicated (in the first ten months of 1972).

## **The Boom Spreads**

Beginning in the first quarter of 1972, sales of nonautomotive consumer goods also began to reach boom proportions. Department store sales in major Southeastern metropolitan areas reflect increased purchases of a wide variety of items. During the 1970 recession year, department store sales were virtually unchanged when inflation is taken into account; but in 1971, sales spurted 12 percent while the rate of inflation was slowing. During 1972, sales continued to grow at a quickening pace. Based on rate of change for the first three quarters, 1972 sales will exceed 1971's high level by at least 15 percent. If the consumer in the Southeast was following the national spending pattern, more of his dollars went for "big ticket" durable items such as household appliances and furniture, a trend consistent with the high level of 1972 housing starts.

The broadening range of purchases is also reflected in the growth of consumer instalment credit at District commercial banks. Lending patterns indicate a shift toward home repair and modernization and toward personal loans and loans for nonautomotive consumer goods. By far the largest dollar increase in consumer borrowing in 1972 was in the automotive category; however, the proportion of new credit used to finance auto purchases dropped to 51 percent from 62 percent in 1971. Meanwhile, both loans for home repairs and personal loans were enlarging their share of the total at the expense of auto loans.

**MOTOR VEHICLE REGISTRATIONS**  
Percent Increase 1972 from 1971\*

	Trucks	Autos	Total
Alabama	27.8	14.8	16.9
Florida	35.5	7.9	11.4
Georgia	31.9	8.9	12.6
Louisiana	28.3	14.2	16.7
Mississippi	39.0	19.0	23.2
Tennessee	35.9	16.0	19.3
District States	33.1	11.7	15.0

Source: Based on data supplied by R. L. Polk & Company.  
\*Based on figures for first ten months of each year.

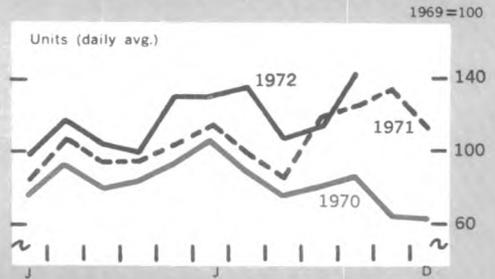
Consumers have indicated confidence in the continuation of economic expansion by their willingness to take on new debt. Historically, consumers have been reluctant to take on additional debt when they doubted their immediate prospects. In the past year, however, a declining unemployment rate, large employment increases, and rapidly rising incomes have relieved many consumers of economic anxiety. They have responded by spending more from current incomes and borrowing more against anticipated incomes.

These consumer attitudes are reflected in growth of instalment credit at the District's commercial banks. During 1970, consumers increased their borrowings by only 6.2 percent, but during 1971, when the business expansion was getting under way, consumer instalment credit outstanding grew by 10 percent, jumping an additional 16 percent over the twelve months ending in November 1972. Despite this rapid growth in debt, the consumer remains in a relatively strong financial position. Gains in personal income have been large, sustaining high levels of savings inflows to all types of thrift institutions during the past year. Expansion in savings deposits has ranged from 16 percent at savings and loan institutions to 18 percent at commercial banks. In short, the consumer seems in a good position to service the debt he has undertaken either by drawing down his savings deposits or spending more of his growing income. However, as is usually the case in an economic expansion, some increase in delinquency rates apparently has occurred.

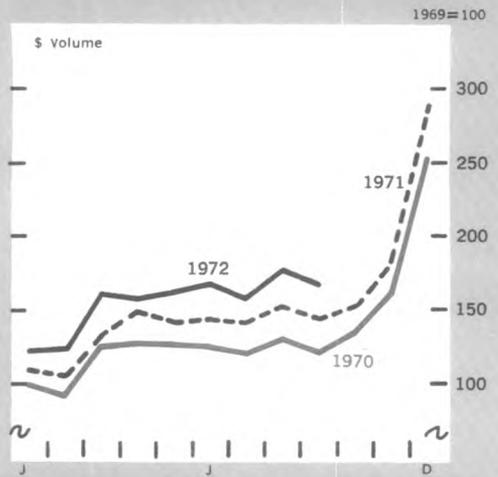
**The Outlook**

Consumer spending is expected to be a strong element in the economy during 1973. Income has been growing rapidly as the national economy has gathered steam, and consumer confidence has been bolstered by large employment gains and declines in unemployment. Although the increase in consumer borrowing has been both rapid and

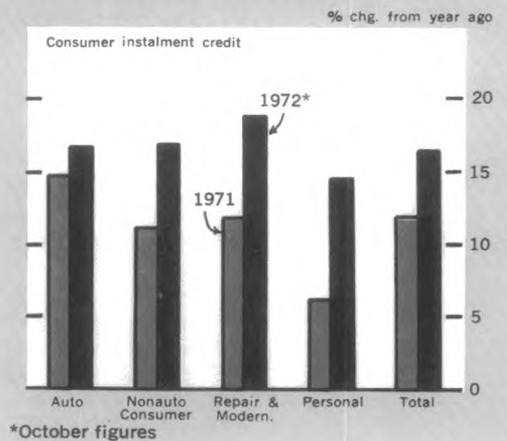
**District auto sales remain strong . . .**



**department store sales join the expansion . . .**



**and use of bank credit grows and broadens.**



large, income and savings deposit growth indicates that the consumer is in a good position to service this debt. Large tax refunds in early 1973 should add to consumer spending already stimulated by a rapidly growing economy. ■