

FEDERAL RESERVE BANK OF SAN FRANCISCO

All the Comforts of Home

MAN'S home is still his castle, but the modern duke is likely to issue his commands from a leather reclining chair and to keep drip-dry shirts instead of coats of mail in his armoire. The source of this necessary equipment, and of much else besides, is the \$26-billion home furnishings industry.

In the West as elsewhere, climate and terrain determine to some extent the needs of the home and play a subtle role in developing tastes. (The unrestrained use of color in home decorating in the warmer sections of the West seems like an attempt to harness the sunset.) Basically, however, the crucial sales determinants include such factors as income, age distribution, new housing expenditures, credit availability, and the competing claims for the consumer's dollar.

Schooled by the so-called "shelter" magazines, American consumers have achieved a sophistication concerning the appointments of the home that was heretofore the province only of the elite few. Increased exposure to quality, via travel and education, has helped refine consumer tastes, and rising incomes have made trading-up the rule of the day. The industry's response to this development has been a rich offering of styles, colors, textures, and designs. The consumers' response has been purchases of almost \$26 billion in 1965 for furniture, other durable household goods, and all of the electronic products that go into the home.

Yet, despite ever-increasing sales of furniture and appliances, consumer spending for these goods is now relatively less important than it was a decade or so ago. Such spending accounted for roughly 6 percent of the consumer budget in 1965 as against 7½ percent in 1950 and 6½ percent in 1955. At the same time, some segments of the industry have been substantially more successful than others in expanding sales. Between 1950 and 1965,

furniture sales doubled, and TV-radio sales increased even more, but sales of household appliances, china, and glassware rose only about 50 percent, while sales of other durable household furnishings increased only slightly faster.

Where the makers are

On the manufacturing side, the industry is characterized by diversity in its product mix and in its industrial structure. About 5,350 U.S. firms manufacture furniture, but only about 50 of those firms boast annual sales of over \$10 million. On the other hand, only about 200 firms nationwide produce stoves, refrigerators, washers, and other appliances, and only about 200 firms produce TV receiving sets. Giant firms predominate in both appliance and TV-radio manufacturing.

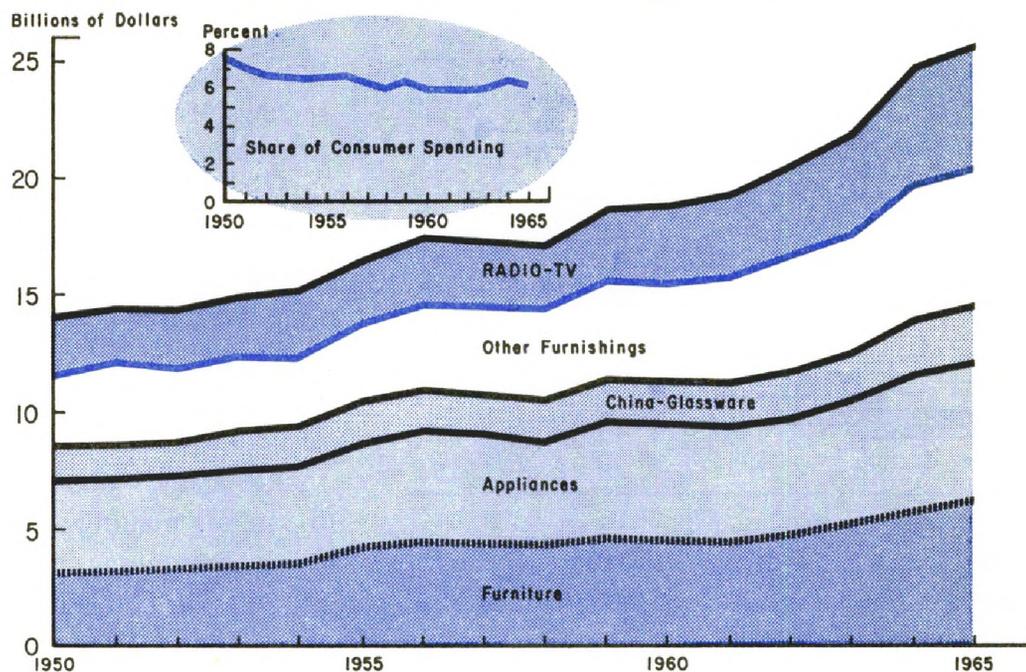
Furniture manufacturing is concentrated in the South Atlantic states, while appliance-TV production is centered in the Eastern and Central industrial states. Both segments of the industry, however, have responded to the increased Western sales potential by expanding their manufacturing facilities in this region. In the 1963 census year, the West accounted for 12½ percent of the value added by U.S. furniture manufacturers — in dollar terms, \$261 million in 1963 as against \$188 million in 1958. (Of the 1,200 establishments which accounted for this production, over half were located in Los Angeles County.) In 1963, however, the West (primarily California) accounted for only 4 percent of the value added by appliance manufacturers; the \$86-million figure for 1963 was down from the 1958 level of \$92 million. All in all, the West in 1963 employed about 34,000 workers in furniture and appliance manufacturing, or roughly 8 percent of the national total.

Although North Carolina and Virginia dominate the most important furniture line,

unupholstered wood furniture, and although the Middle Atlantic and North Central states lead the field in major appliances, California production is important in several lines. That state, for example, is first in the production of metal household furniture, mattresses, water heaters, and food disposal units, and it is second in the production of upholstered furniture and household cooking equipment.

The distance between the major producing centers and the Western retail market creates problems for retailers, especially in the furniture business. Most retailers buy their unupholstered wood furniture (case goods) in High Point, North Carolina, but they frequently must wait out lengthy delivery periods and pay relatively high costs for transportation and damage. Retailers attempt to please everyone by offering a wide price range and a wide range of styles—everything from early American to modified modern, and on to Oriental and every possible style of Provincial—but when salesmen offer such wide ranges of prices and styles they tend to lengthen delivery dates. Producers normally schedule a certain cutting, run it a planned length of time, and then change their setup to a different cutting—so, if an order arrives for an out-of-stock item, the customer must wait until the next cutting of his particular piece. To overcome this problem, many retailers have turned increasingly to franchising; this system narrows the retailer's freedom of choice but it gives him the assurance of filling his orders within a reasonable amount of time.

Despite heavy sales of furniture, radio-TV, and appliances, home furnishings' share of consumer budget declines



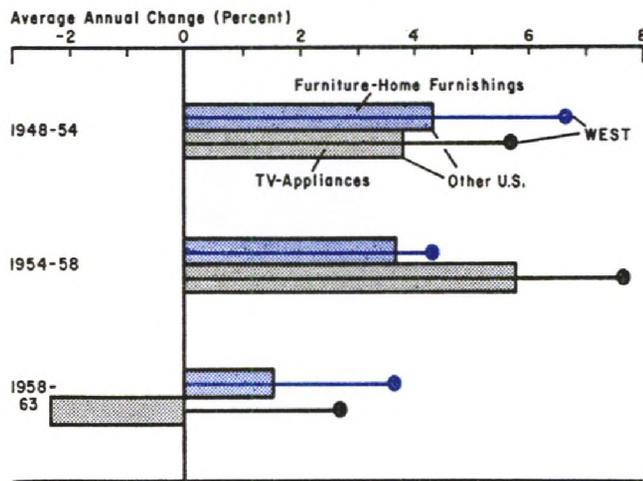
Where the buyers are

Until recently the Western retail market consistently outpaced the national market. Between 1958 and 1963, for example, District furniture stores increased their sales roughly 4 percent annually as against a 2-percent gain elsewhere, and District appliance stores upped their sales almost 3 percent annually as against an actual decline of 2 percent elsewhere.

The region's furniture and appliance store sales have been consistently higher than would be expected simply on the basis of the Western share of disposable income and adult population. Both types of stores accounted for over 18 percent of the respective national totals in 1963—a year in which the West accounted for about 15½ percent of total disposable income and 15 percent of the population in the 15-44 age bracket. This strong sales performance was bolstered by the disproportionate size of the Western housing market, which accounted for 24 percent of U. S. residential building activity in 1963.

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Furniture and appliance stores show smaller gains in most recent period



But Western furniture-appliance store sales increased only at about half the national pace in the 1963-65 period, as the Federal tax-cut stimulus to business activity was offset by the concurrent decline in Federal aerospace spending in this region. The housing slump that went along with the cutbacks in defense spending also contributed heavily to the slow sales pace, which was especially marked in Southern California. (Western residential construction represented only 18 percent of the national total in 1965 as against 24 percent in 1963.) Nonetheless, the recent speed-up in defense and other activity has already generated some improvement in furniture-appliance sales.

Over time, differences in regional buying patterns have arisen because of differences in climate, affluence, and personal tastes. According to the Bureau of Labor Statistics 1960-61 budget survey, Westerners spent somewhat more than their counterparts elsewhere for electric blankets, draperies, bedroom furniture, wall-to-wall carpeting, and garden furniture, but they spent somewhat less for air-conditioners, slip covers, kitchen furniture, and room-size rugs and hard-surface floor coverings.

Why Westerners buy

A basic support of the Western market is high income. The West contains a disproportionately large number of people in higher-income brackets; according to 1963 income-tax data, 5½ percent of families in the West's metropolitan areas earn \$15,000 or more, while only about 4½ percent of families elsewhere earn that much. The BLS survey shows that the proportion of the consumer dollar spent for home furnishings declines when family income exceeds the \$7,500 level, but in actual dollar terms the \$15,000-and-over family spends about four times as much as the family making less than \$7,500 and about twice as much as the family making between \$7,500 and \$10,000.

Before the customer can distinguish between a Queen Anne bombé commode and a yew-wood escritoire he must have some interest—and before buying he must have some cash to put down for his selection. People in the 25-to-44 age bracket have both the interest and the cash, so they make up the most important share of the market. The West, which accounted for 12 percent of this age category in 1950 and 14 percent in 1960, will contain about 17 percent of the nation's 25-to-44 year-olds in 1970—and at that date the bulk of the West's postwar youth crop will just be reaching the quarter-century mark and thus just entering the market.

The industry tends to give lip service to the youth market, but it produces items designed particularly for the more affluent and more sedate replacement market (the empty-nest couples). Thus, the industry may not benefit especially from the spurt in first marriages now occurring because of the maturing of the postwar baby crop. Many young marrieds today attach little stigma to purchasing or borrowing second-hand articles, and they are frequently quite fond of their orange crates.

The industry also must contend with the

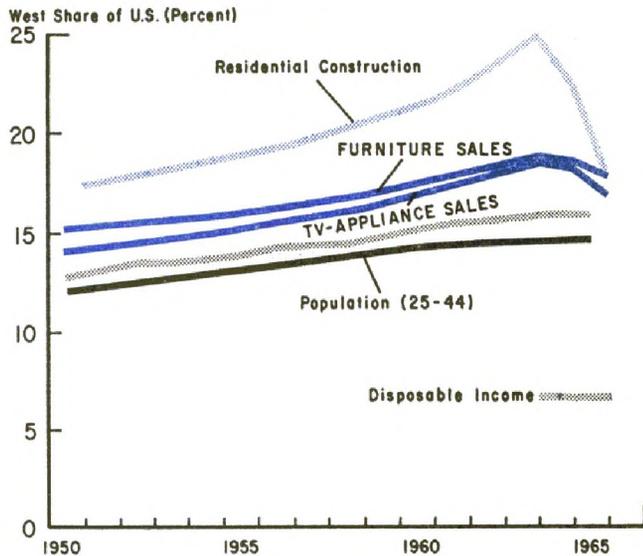
competing demands for the consumer's dollar, since the dollar spent, say, for Detroit's products will never reach High Point, North Carolina, or Hollywood, California. In this competition, the auto industry in recent years has been somewhat more successful than the furniture-appliance industry. Nationwide, both industries sold about \$19 billion of products in 1959, but since then auto sales have increased roughly one-half while furniture-appliance sales have increased only about one-third.

The industry must contend, moreover, with the increasing attractiveness of foreign products, especially wood furniture and consumer electronic products. In 1965, wood-furniture imports of \$55 million far exceeded exports of \$20 million. In the same year, electronic imports of \$235 million (about 70 percent from Japan) far outstripped exports of \$90 million.

Just sign here—

For furniture and appliances, as for most other big-ticket items, the availability of credit has been a major market factor. Nationwide, about \$17½ billion in non-auto consumer paper and \$28 billion in auto paper

Recent drop in West market share traceable to housing decline

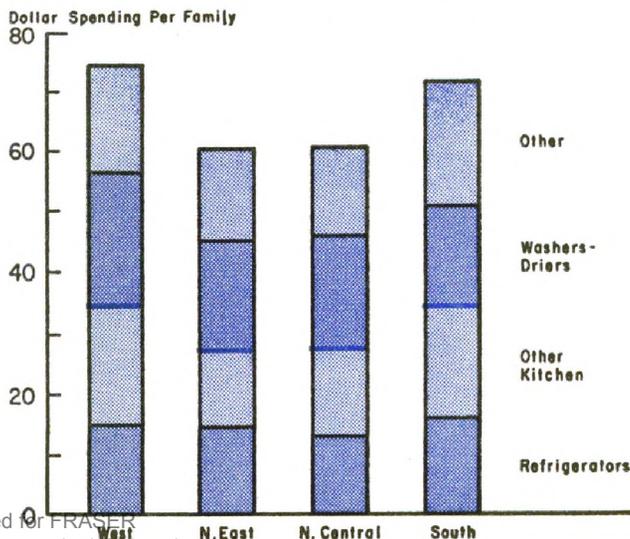


were outstanding at the end of 1965, as against \$11½ billion and \$17½ billion, respectively, at the end of 1960. Commercial banks accounted for about 23 percent of the non-auto consumer paper outstanding at the end of 1965—down slightly from a 24-percent share in 1960 and a 26-percent share back in 1947. Both sales-finance companies and department stores have expanded their market shares substantially in recent years, while furniture stores and other retailers have become less important.

Twelfth District banks expanded aggressively in furniture-appliance financing between 1960 and 1965. At the end of 1965, they held 19 percent (\$756 million) of the U.S. commercial-bank total—up sharply from 14 percent of the national total in 1960.

Although furniture stores now handle less credit directly than heretofore, most of their sales still rely heavily on the availability of credit, with accommodation being made usually through some financial intermediary. In 1965, as in 1960, about five-sixths of furniture-store sales in the District were made either on a charge-account or an instalment contract.

Western consumers spend more for most household furnishings



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With income, population, and other factors generally favorable, furniture and appliance dealers throughout the country are counting on an increasingly buoyant market. This year designers are encouraging the "eclectic" look with mixed woods and textures throughout the home. The emphasis will be on architecturally interesting features such as massiveness, lattice-work, and grill-work. Also, there

will be continued interest in antiques, which in 1965 accounted for \$650 million in sales. Although not all the furniture made today is of a quality to last the century-and-a-half required to merit antique status, the harvest table you just bought might some day leave the auction block as an exquisite example of Hollywood Provincial.

Joan Walsh

Knowledge, Science, and Aerospace

This collection of *Monthly Review* articles describes the key role of "knowledge investment"—education plus research and development—in the growth of the national and regional economies, and it emphasizes the advantage held by the West in the economic-growth competition because of the region's heavy concentration of scientific talent. As a case in point, the report describes the important part that the Western knowledge sector played in the past in attracting a major share of Federal aerospace contracts—and the equally important part it played in cushioning the decline when the aerospace boom subsided.

Copies of "Knowledge, Science, and Aerospace" and other *Monthly Review* publications are available free upon request from the Administrative Service Department, Federal Reserve Bank of San Francisco, 400 Sansome Street, San Francisco, California 94120

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