

Monthly Review

October 1955

Volume XXXVII

Number 10



Some Recent Developments in Consumer Spending and District Retailing

CONSUMER SPENDING has been an expanding force in the current economic cycle. Much of the recent increase in spending was for automobiles and household durable goods. The growth of consumption stemmed from rising income, a lower rate of saving and an increased use of credit.

Retail sales in the district also gained. Department store sales reflected the emphasis on durable goods purchases and a trend toward higher priced merchandise. In St. Louis, some department stores increased sales of certain goods by reducing prices to meet "discount house" competition. To increase their share of the market, branches have been established by department stores in larger metropolitan areas.

With prospects bright for the remainder of the year, consumer purchases are almost sure to mark up a new record in 1955.



Federal Reserve Bank
of St. Louis

AMERICANS seem to have an insatiable desire for the material things in life—for more and better cars, television sets, washing machines, air conditioners and so on in an ever-growing list. The average individual today consumes roughly twice the volume of goods and services his counterpart used 50 years ago. Of course, this rapid rise would not have been possible without our abundant resources, and increasingly efficient production techniques. Certainly, the wider distribution of income helped broaden markets, allowing mass production at lower unit costs. But the desire to improve our standards of living has been an impelling force in our economic progress.

Consumer spending has been an expanding force in the current economic cycle.

It is not surprising, then, that the consumption of goods and services by individuals has been one of the main generating forces in the current boom in business activity. Consumer outlays, as measured by the gross national product on an annual rate basis, rose \$15 billion from the second quarter of 1954, when economic activity was

at the low ebb of the recent recession, to the second quarter of 1955. Over the same period, total output advanced \$27 billion.

Not only is consumer spending a principal element of strength in today's economic activity, but it was also one of the mainstays helping to moderate the 1953-1954 recession. The gross national product on an annual rate basis declined \$12 billion from the peak in the second quarter of 1953 to the trough a year later. Personal consumption expenditures, however, rose \$4 billion in the same period, despite the interruption of a \$2 billion downturn in the fourth quarter of 1953. Outlays for personal services accounted for all of this increase, as expenditures on goods declined slightly.

The recession of 1953-1954 developed from the reduction of national security outlays and the almost simultaneous decline in the demand for business inventories. Requirements for business inventories were reduced by the drop in defense output and by the high level of stocks in relation to prospective sales of civilian items. As total demand fell, unemployment rose. But aggregate personal income was nearly maintained as increased unemployment insurance, dividend and interest payments partially offset lower wage and salary receipts. Disposable income actually increased as taxes were cut. With disposable income rising about as fast as the population, consumer confidence dipped only slightly. And with retail sales off only slightly, extensive reduction of business inventories was not found necessary.

Thus, the expansion of personal consumption expenditures helped take up some of the slack in resource utilization created by reduced military purchases and inventory adjustment. In a sense, the recession and subsequent recovery reflect the time required by our free enterprise economy to adjust to changing demands.

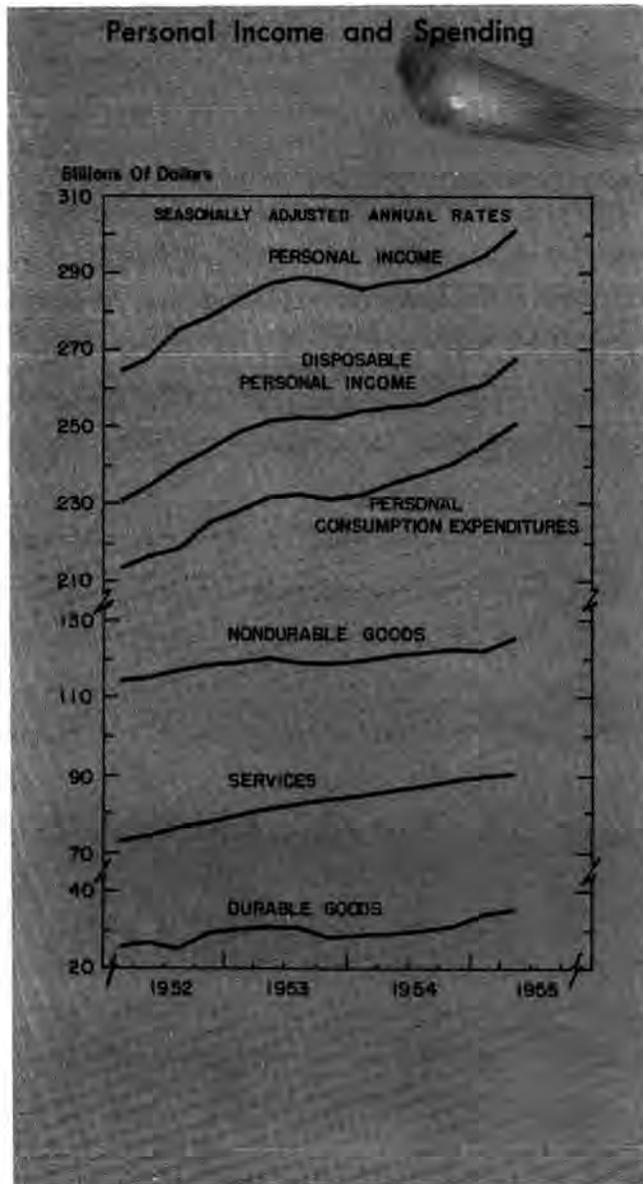
Much of the recent increase in spending was for automobiles and household durable goods.

In the current upswing of business activity, purchases of durable goods have accounted for the largest part of the increase in personal consumption expenditures. Spending for durable goods rose \$6.1 billion or 21 per cent from the second quarter of 1954 to the corresponding quarter this year. In contrast, outlays for nondurable goods rose \$4.9 billion or only 4 per cent and service payments grew by \$4.5 billion or 5 per cent.

Automobile purchases jumped spectacularly in November and December 1954 when the new models were introduced, and remained at a high level through August. Retail deliveries for the first eight months this year were up 38 per cent from the corresponding period of 1954. Outlays for furniture and household equipment advanced 11 per cent from the second quarter of 1954 to a year later.

The growth of consumption stemmed from rising income, . . .

The strength of consumer demand since mid-1954 has been derived in large part from rising personal income. Receipts in the second quarter, on an annual rate basis, rose \$14 billion from the corresponding period a year



earlier, to reach \$300 billion. Increased wages and salaries accounted for nearly all of the gain in personal income, resulting from the advances in employment, hourly earnings and hours worked. Disposable income rose at an annual rate of \$13 billion in the year ended in the second quarter of 1955, as personal tax payments also increased, absorbing some of the improvement in total personal income.

... a lower rate of saving, ...

To some degree, the rate of personal saving reflects the confidence which people have in the future. When the employment outlook darkens, families are prone to increase their rate of savings as a hedge against the possibility of lower future income. And when the prospect for future income brightens, the need for liquid reserves to cover future contingencies appears to decline.

With the virtual arrest of the decline in business activity in the first half of 1954 and good prospects for recovery in the last half, consumers' confidence increased. Their willingness to spend outpaced the increase in disposable income. As a result, personal saving during the last half of 1954 and the first half of 1955 declined to \$16 billion from \$20 billion in the preceding four quarters.

... and an increased use of credit.

The expansion of consumer purchases, which implemented the recovery in business activity, was also facilitated by readily available credit on more liberal terms. Short- and intermediate-term consumer credit outstanding at the end of July reached a record \$32.9 billion, an increase of \$4.2 billion or 13 per cent in twelve months. In contrast the increase in the year ended July 1954 was only \$0.9 billion. As a result of the rapid upsurge in credit extensions, consumer short-term debt is at a peak also in relation to disposable income, equivalent to 12 per cent of this income. Most of the increase in the past year has been in instalment credit, which rose about \$3.6 billion, and by far the largest and fastest rising part of the expansion of instalment credit has been for the purchase of automobiles.

Easier terms encouraged the use of credit for purchase of consumer durables. The average duration of instalment loans is presently at a record length and down payments are also at or below previous lows.

Despite the rapid increase in consumer credit in the past year, delinquencies on personal, home appliance and automobile loans made by banks were lower as of July 30, 1955, than a year earlier.

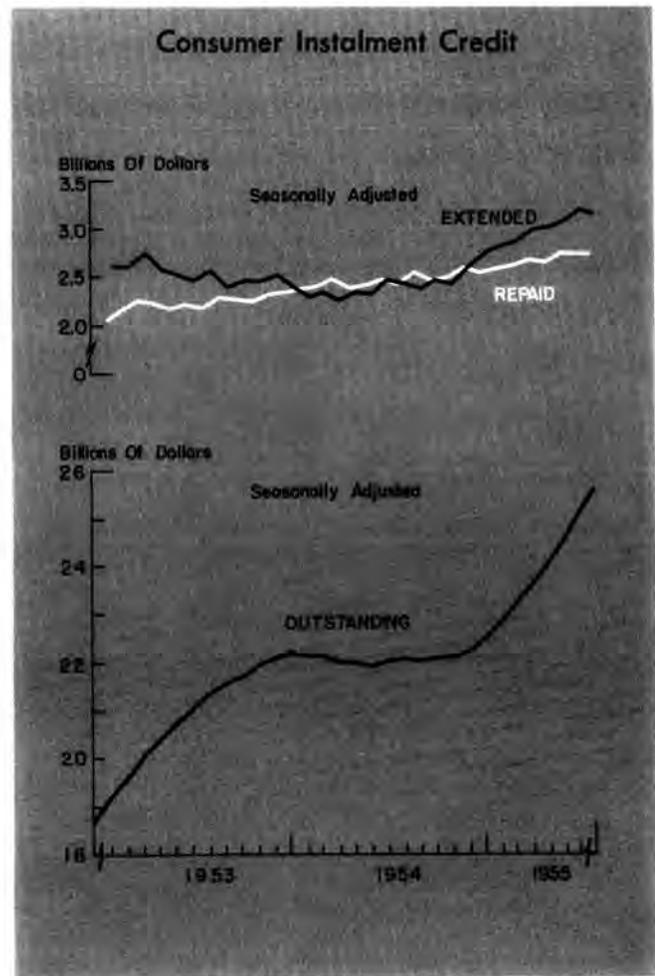
Retail sales in the district also gained.

Economic activity in the Eighth District has improved at about the same rate as in the nation since mid-1954. District employment has recovered and, in recent months, forged ahead of year earlier levels. Personal incomes advanced as a result of the larger number at work, longer hours and higher wage rates. As in the nation, district consumers have apparently reduced their rate of saving and have stepped up their use of credit. As a result, in the district's retail stores, sales have been rung up at a

faster pace this year than last. Tentative figures indicate that retail sales of organizations operating fewer than 11 stores in the Eighth District in the first seven months of 1955 rose substantially from the corresponding period last year. The rate of gain was somewhat greater than for the nation, where total retail sales averaged 8 per cent larger than a year ago.

The pattern within the district was not uniform, however. Retail sales in the St. Louis metropolitan area in the January-July period increased 10 per cent from the same months last year. In the Paducah, Kentucky, area, on the other hand, sales dropped 8 per cent, reflecting the drop in employment in that area with the completion of construction of the AEC and related electric power plants. In the Branson, Missouri, area, where Table Rock dam is now under construction, retail sales in the first seven months advanced 15 per cent from the same period last year.

Sales of automobile dealers increased more rapidly than for other major kinds of business. Registrations of passenger cars in St. Louis city and county totaled 38,000 in the first seven months of 1955, 45 per cent larger than in the corresponding period last year. In Louisville (Jefferson County) registrations in the first eight months rose to 17,800, up 36 per cent over a year earlier. And in Memphis, sales tax collections in the year ended June 30, 1955, indicated a sales increase of 29 per cent over the preceding year for motor vehicle dealers.



Sales of lumber, building and hardware stores in the district were about one-third larger in the first seven months of 1955 than a year earlier. Dollar volume of gasoline service stations increased about one-fifth. Department stores in the district rang up 6 per cent greater volume in the first eight months than in the same period of 1954 and furniture stores sold 8 per cent more. Apparel stores apparently fared about as well in the first seven months this year as last year.

Department store sales reflected the emphasis on durable goods purchases, . . .

In district department stores, sales of homefurnishings in the January-July period gained 15 per cent from the year earlier period while dollar sales of all other departments were only 4 per cent more. This trend reflected the stronger demand this year for household durable goods than for wearing apparel and the special low price policy adopted by St. Louis stores on certain household goods in order to meet "discount house" competition. But even in Louisville and Memphis, where discount houses are relatively less important, homefurnishing sales also outpaced the rest of the departments. In Little Rock, however, homefurnishing sales in the first seven months of 1955 only equaled the year earlier period while other departments sold 3 per cent more. Sales gained 15 per cent in the homefurnishing departments of district department stores, compared with 11 per cent in the nation, reflecting in part the relatively fewer cases of special price promotions in the nation than in the district.

In part, the larger sales gains in hard goods than soft goods reflect the greater decline in prices of the former. In July 1955, prices of homefurnishings in the nation's department stores were 2 per cent less than a year earlier. On the other hand, prices of all other goods eased less than 1 per cent in the year ended July 1955. Prices of radios and television sets dropped 9 per cent, the largest decline for any group. Major household appliance prices fell 6 per cent, while prices on furniture and bedding were

off 2 per cent. Prices in departments other than homefurnishings varied in a narrow range relative to July 1954, ranging from a plus 2 per cent for toilet articles and drugs to a 3 per cent decline for women's and girls' hosiery.

. . . and a trend toward higher priced merchandise.

With incomes rising, consumers have tended this year to purchase higher priced merchandise more readily than lower priced goods. This trend was apparent both in an analysis of roughly comparable departments and in the larger sales gains recorded so far this year in the main store. For the district, main store sales in the first seven months of 1955 increased 6 per cent over the same period last year, while basement store sales gained only 1 per cent. The same tendency was apparent in the nation; main store sales rose 5 per cent compared with a basement store sales increase of 2 per cent.

PER CENT CHANGE IN SALES FOR FIRST SEVEN MONTHS OF 1955 FROM CORRESPONDING PERIOD OF 1954

EIGHTH DISTRICT DEPARTMENT STORES		
	Basement Store	Main Store
Total	+1	+6
Piece goods and household textiles	-1	+4
Women's & misses' ready-to-wear apparel and accessories	-1	+1
Men's and boys' wear	+4	+5
Homefurnishings	-0-	+15

In St. Louis, some department stores increased sales of certain goods by reducing prices to meet "discount house" competition.

Sales of certain items at some St. Louis department stores gained spectacularly in the first seven months of this year compared with a year earlier, outpacing the sales in other district cities and the nation. In large part, these greater gains in St. Louis can be attributed to the policy established in August 1954 by three large firms of reducing prices to meet "discount house" competition.



Missouri has no "fair trade" law, which would allow manufacturers to establish minimum retail prices for their products. As a result, "discount houses" can offer merchandise at prices lower than those suggested by the manufacturer or established by normal mark-ons. Lower prices have been offered by "discount houses" on trade marked products with large volume potential, such as major household appliances, certain housewares, radio and television sets, silverware, cameras, electric razors and electric trains (in the Christmas season).

The effect of the lower price policy on sales since August 1954 of certain departments in St. Louis department stores can be seen by comparing them with sales in the United States where retail price maintenance under "fair trade" laws is still widespread. In St. Louis departments following a normal price policy, such as women's and misses' ready-to-wear apparel and accessories and men's and boys' wear, sales have paralleled the United States pattern. Housewares prices have been reduced in St. Louis department stores to meet competition, and sales in the first seven months of 1955 advanced 21 per cent over the year earlier period compared with a 12 per cent gain in the United States. Major household appliances, such as refrigerators, air conditioners, washing machines and dryers, have been a focal point in the price competition. The growth in sales of these items in St. Louis exceeded twice the 28 per cent gain for the nation during the first seven months of 1955 over a year earlier. So far this year, sales in St. Louis of radio, phonograph, television and records rose 47 per cent over the corresponding 1953 period in contrast with a 3 per cent gain in the nation.¹ Silverware and clocks sold 40 per cent faster in St. Louis during the first seven months of 1955 than a year earlier, but only 14 per cent better in the nation. Camera sales at big stores in the St. Louis area jumped 72 per cent over a year earlier, probably much greater than nationally.

¹One of the big stores in St. Louis purchased the radio and television stock of a firm going out of business in early 1954. Comparison of 1955 with 1953 data in this category avoids the influence of the special promotion resulting from this purchase.

These data would indicate that St. Louis department stores have increased their share of the total retail sales of products now competitively priced. The policy of meeting competitive prices has been in effect constantly since August 1954, and there is no sign of any change in present policies by the three department stores. While those departments with the special price policy are reported to add nothing directly to the store's profits, other factors impel the firms to continue the policy. Some contribution to overhead costs is said to be made by these departments. Also, as a result of larger sales of durables, the firms have realized increased interest payments on the instalment paper, which they carry themselves. In addition, customers attracted to their stores by the lower price policy have purchased goods in other departments.

To increase their share of the market, branches have been established by department stores in larger metropolitan areas.

With the rapid growth of homes in the suburbs, shopping centers were established in those areas. Existing department stores, with downtown locations, were faced with the loss of business to the specialty, furniture and appliance stores established in the outlying areas. To counteract this tendency, department stores have opened branches with parking facilities in suburban or outlying locations, added parking facilities and enlarged their downtown facilities.

More branches have been established in the St. Louis area than in any other metropolitan area in this district. Five branch department stores have been built there since 1945 and others are either under construction or being planned. Downtown locations were expanded and parking garages provided. In Memphis one branch store has been built, and the downtown store of another firm enlarged and a large garage provided. In addition, a national chain has another store under construction in an outlying location. In Louisville a recently built branch store is being enlarged and two new branches are being built.

(continued on page 119)

for the United States and the St. Louis Area

First Seven Months 1953=100

