FEDERAL RESERVE BANK OF CHICAGO

OFFICE OF THE PRESIDENT

February 11, 1949

Board of Governors of the
Federal Reserve System
Washington 25, D. C.

Gentlemen:

Pursuant to your letter of January 27, 1949, we are forwarding herewith an interim report on recent tendencies in the durable goods and instalment credit field, preliminary to our regular quarterly reply to S-953.

1. With respect to regulated articles, is there evidence of recent undue inventory accumulation? If there is no general evidence, are there any unsatisfactory inventory situations for individual articles or makes of articles?

There is considerable evidence in this District of recent undue inventory accumulation of regulated articles, except for most automobiles, but no indication of widespread distress to date. While stock-sales ratios are still under prewar figures, some non-seasonal rise is being observed in the case of furniture at department stores; warehouse space devoted to major household appliances, and furniture in particular, has increased markedly; retailers and other distributors are being "pressured" to take delivery of articles from manufacturers; order cancellations at times are being ignored or a reply made that the shipment is "already enroute"; advertisement space devoted to listed articles has increased noticeably; and generally dealers, distributors, and manufacturers "feel" that inventories are "too high" in the face of declining sales.

The most excessive inventory positions seem to be in refrigerators; washing machines, especially non-automatic types; ranges; and expensive radio sets. In the automobile field, heavy inventories are reported on hand in used cars generally; new station wagons and convertibles; some pre-model change cars, particularly in the Chrysler line; Kaiser-Frazer; Lincoln; and Hudson.

While inventory accumulation is taking place involuntarily among many class B regulated articles, over-all dollar inventories for many stores selling a wide range of merchandise appear to be declining. Hence, inventories of some articles covered by Regulation W may be receiving added attention because of their counter-trend inventory movement, indicating previous conservative sales planning for non-regulated goods, but less conservative commitments for regulated articles.

The principal causes for involuntary inventory accumulation of regulated articles appear to be: (1) an end to the most urgent consumer demand, because expanded production has made possible a closer demand-supply balance; (2) some waiting in anticipation of price reductions and for improved quality products; (3) return to seasonal buying patterns; (4) previous credit commitments limiting new purchases; (5) slight reduction in average weekly earnings and some rise in unemployment and in the number of families on relief; and (6) generally increased doubt concerning the stability of future levels of employment and income. Except in the case of Kaiser-Frazer salesmen and a limited number of others, dealers do not attribute the present slump in sales to Regulation W. Because of the increasingly competitive situation, aggravated by the large number of new and "untested" appliance stores, most dealers believe it is important to adhere to present credit terms and practices, and express the opinion that Regulation W is a desirable factor in maintaining the competitive status quo—from a credit standpoint.

In some respects there is a "tug of war" over prices currently in progress between manufacturers and retail distributors of many listed articles. Many retailers are urging substantial price cuts in order to stimulate sales, but manufacturers commonly are resisting such demands, particularly on the grounds of high and inflexible costs. It appears, however, that at least certain manufacturers are awaiting relaxation of Regulation W as another means of further postponing price readjustments. There does not seem to be too much hope that a change in Regulation W actually will restore sales to previous high levels, but any step which will stimulate sales and defer price cuts seems desirable to such managements. Besides, "something else" might happen to "brighten things." Some retailers predict important basic price reductions in major appliances within three months if no sales improvement occurs sooner.

2. Are premiums still prevalent on "used" new cars and, if so, for what makes and about how large? To what extent is there increasing evidence of price and other merchandising concessions by sellers of automobiles, household appliances, and furniture? Does it appear that such tendencies are probably seasonal, or greater than could be explained by seasonal or other temporary influences?

Premiums are still prevalent on "used" new Chevrolets, Plymouths, and Fords, ranging from $300 to $100. Premiums are most common and generally highest for General Motors cars. Premium prices have fallen sharply, i.e., several hundred dollars, during the past three to four months, except that some temporary rise seems to have occurred in the case of new models placed on sale for the first time, e.g., 1949 Chevrolet, and the same situation is now predicted for the new Plymouth scheduled to appear next month. Advertised prices of many used cars, however, are running as much as 20 per cent below the most recent appraisal guide figures. Premiums reportedly are non-existent or negligible for the great majority of the used cars now offered for sale.

Prices on major household appliances and furniture frequently are being reduced slightly, i.e., 10 per cent or less, except in the case of "floor samples" (which are becoming more prevalent) and other odd-lot items where price cuts may reach one-third or more. A recent check shows that roughly half of all listed articles advertised in representative Seventh District newspapers featured specific price cut announcements, but, as indicated, price concessions continue to be quite limited in amount. Indirect price concessions seem limited only by the extent of ingenuity, running the gamut from flat amount trade-in allowances (sometimes without the necessity of actually turning in the old item), to a food fill-up with the purchase of a refrigerator, or year's supply of soap to accompany the sale of a washing machine. Consumer purchase organizations (influencing the buying of hundreds of thousands of people in this District) offer important cash discounts (often regardless of fair-trade rules) to members, and are becoming increasingly active as they were in prewar years. Special "deals" on the sales of slow moving items seem to be the rule rather than the exception.

There can be no question but that sales of listed articles are returning to something like prewar seasonal patterns and that this period of the year, therefore, is being marked by a seasonal downturn in sales. Nevertheless, it does appear that current sales declines as well as direct and indirect price concessions are of more than seasonal severity, and seem to reflect a definite catching up with the most urgent demand and the other economic forces mentioned in connection with question 1.

3. Are banks and finance companies showing increasing reluctance to handle any type of retail instalment paper? What explanations are offered for such tendencies?

There are definite indications that banks and finance companies are screening retail instalment paper with increasing care. In the case of automobile paper, for example, it is stated that some finance companies prefer not to handle Kaiser-Frazer paper unless the purchaser has made a 50 per cent down payment. There is also clear-cut hesitation to handle old model used car paper. With respect to non-automobile paper, the tendency toward increasing selectivity appears equally, if not even more, apparent. The explanations for these tendencies generally are given as: (1) general business and employment conditions prompt greater selectivity "just as a matter of good judgment," (2) automobile demand and supply are more nearly in balance and the danger of price declines cannot be ruled out, (3) some recent increase in payment delinquencies, (4) high pressure selling is beginning to show up in marginal risks, (5) household appliance paper in particular is costly to handle at best, (6) portfolio readjustment, and (7) some limitations on the part of certain smaller finance companies to obtain funds to carry on continued heavily expanding business. Despite the trend toward greater caution among banks and finance companies, there does not seem to be any expectation of a contraction in retail instalment paper outstandings, and considerable belief that a rise will continue to be evident for at least a while longer.

4. Is there any tendency for financing institutions to tighten credit lines extended to dealers for floor plan financing or other wholesale transactions?

In the automobile field, there has been comparatively little floor plan financing because of the limited supplies of cars. More recently the demand for such financing has increased, and financing institutions seem to be meeting such demands fairly readily, except for the most inexperienced dealers handling the cars in lowest demand. In household appliances and furniture, floor plan and general inventory financing has been evident for many months, but there seems to be considerable reluctance on the part of financing institutions to extend much credit in these cases. Long-standing customers, however, are being taken care of as usual. Dealers operating outlets started since the end of the war, in particular, report increasing difficulty to obtain more than minor amounts of funds for such purposes.

5. Are reports becoming more frequent that dealers in durable goods lines are financially over-extended?

Reports of financial distress in the consumer durable goods field are still quite limited. Many believe, however, that the "test" period will be from now until early summer. Some dealers in durable goods report that manufacturers are forcing inventory on them under arrangements for floor plan financing.

6. To what extent have there been lay-offs in manufacture and distribution of regulated durable goods? Have such lay-offs resulted from recent sales declines or from other factors, such as model changes, inventory-taking, supply shortages, etc.?

Lay-offs in plants producing listed articles, except automobiles, have been fairly extensive in the District in recent weeks. In automobiles, only one important cut-back (Kaiser-Frazer) has occurred, but in such listed articles as refrigerators, cooking stoves, and washing machines the employment decline appears to have been at least 25 per cent since November. A few smaller companies producing this latter group of products have cut back from 30-60 per cent in employment. In some few instances the work week has been reduced to four days rather than cutting the work force. Recent trends in radio and television employment, however, have been steady to upward, and automobile employment, except for Kaiser-Frazer Company and Tucker Company, is still generally strong. The total manufacturing employment in industries of all listed articles appears to have declined by only about one or two per cent.

These employment declines are not importantly related to inventory-taking or to model changes, although in some few cases these are given as factors. The bulk of the lay-offs are described as caused by "lack of orders," "inventory clearance," or just "decline in business." Screening of marginal employees also is evident. Many managements seem confident that the decline is temporary, but most lay-offs have been of the indefinite rather than fixed-time length. Efforts of capital goods manufacturers to obtain any surplus steel from reportedly hard-pressed appliance companies to date have been unsuccessful, indicating continued anticipation of improved future sales conditions and a persistently tight steel supply situation.

The foregoing material will be supplemented with additional findings as deemed appropriate when submitting our regular quarterly report early next month.

Very truly yours,

President