

FEDERAL RESERVE BANK  
OF RICHMOND

February 11, 1949

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

Dear Sirs:

In accordance with your letter of January 27, we have made a spot survey in an effort to determine recent tendencies in the durable goods and instalment credit fields and a summary of our findings is attached hereto.

In this survey our representatives visited 13 key cities in the Fifth District. Those interviewed were 36 dealers in automobiles, 23 in appliances and 34 in furniture, 1 furniture manufacturer, 18 sales finance companies, 22 banks and 4 department stores.

We were impressed with the similarity of views expressed by those interviewed throughout the District but believe that the trends indicated in the summary are reasonably accurate as considerable care was exercised in the choice of reliable sources in each city covered.

Very truly yours,



HUGH LEACH,  
President.

Enclosure

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 of recent undue inventory accumulation in used cars and trucks, household appliances, furniture, new trucks and, to a much lesser degree, some makes of high-priced new cars. The most frequently mentioned appliances are refrigerators, stoves, washing machines, radio and television sets. There seems to be considerable concern over high inventories of these durable goods in most areas of the district covered. In some sections of the Charlotte Branch territory, the trade acknowledges a high rate of recent inventory accumulation but most of those interviewed are inclined to view the current inventory level as more nearly normal than in the past.

Some of the automobile dealers felt that a revision of Regulation W to extend the number of monthly payments to 24 would improve sales. With respect to appliances and furniture, a number of dealers favored reducing the down payment to 10% as an aid to moving inventories.

In Charleston, West Virginia, and Cumberland, Maryland, a slow-down in sales is partially attributed to a reduction in employment in the coal mines - Cumberland also reports reduced employment in a number of industries not engaged in the manufacture of regulated durable goods.

The general feeling of a substantial majority of those interviewed is that reduced sales and increased inventories are attributable to buyers' resistance and to the fact that in many lines the supply of various items has caught up with demand. There is also some evidence that pressure from manufacturers has been responsible for some inventory increases.

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 or 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 on "used" new cars are reported to be rapidly disappearing and to have disappeared entirely in three cities in the district. From other points covered, it was found that premiums ranging from \$100 to \$500 are still being charged on the low-priced popular cars. Chevrolet was the most frequently mentioned, others being Plymouth, Ford and the lower-priced Buicks and Pontiacs.

In five cities covered, prices of certain high-priced new cars are reported to have been cut in efforts to reduce inventories. Price cuts in used cars in general are in evidence throughout the district and heavy reductions are being offered on used trucks. With respect to appliances and furniture, there is considerable evidence of clearance sales, the offering of side gifts and price reductions. These tendencies are in almost all instances reported to be more than seasonal.

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

Banks or finance companies almost unanimously report that they are being more selective in handling retail instalment paper, with more emphasis being placed on the credit standing of borrowers and their paying ability. Some banks and finance companies have discontinued financing appliances and old model used cars. The principal explanations offered are increasing delinquencies, fear of further price declines and a general feeling that the paying ability of many has been substantially reduced.

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

Floor plan financing has been tightened over the district generally, particularly by banks. This is especially true with respect to financially weak dealers and those with relatively little experience in the business. Some financing institutions have discontinued offering floor plan financing of used cars and appliances.

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

There are increasing reports of smaller and inexperienced dealers becoming over-extended financially, the most frequently mentioned being dealers in used cars and appliances. From most of the areas covered came reports that well established dealers are not believed to be financially over-extended.

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.?

Manufacturing of regulated durable goods is not engaged in to any appreciable extent in the district. Furniture manufacturers report some lay-offs and most of them have curtailed working hours, due primarily to accumulated inventories. This is a situation which has been building up over the past year. A Chevrolet plant in Baltimore also reports some lay-offs but these were due to model change.

In the distribution field, automobile and appliance dealers have made slight reductions in personnel of service departments because of declining business. However, this is offset somewhat by employment of additional salesmen by automobile dealers. A number of appliance and used car dealers have gone out of business, causing their employees to seek other work.

The Directors of the Federal Reserve Bank expressed no views as to significant developments in the Regulation W field contrary to those included above.