

FEDERAL RESERVE BANK
OF
PHILADELPHIA

(ZONE 1)

February 11, 1949

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

Gentlemen:

The following summary of conditions in markets for articles listed under Regulation W reflects the results of a survey which we have conducted over the past two weeks, in accordance with your letter of January 27. The questions outlined in that letter have been reviewed, largely in personal interviews and partly by telephone, with 100 finance companies, banks, manufacturers, distributors, and dealers in automobiles, appliances, and furniture. A number of these investigations were conducted among dealers and financing institutions in rural areas and in the city of Philadelphia by the investigators in the process of their regular investigative work. In addition, special calls were made upon key people in all the fields, including RCA, Philco, Westinghouse, the leading city banks and finance companies, the two leading distributors in the city, and department stores and other dealers.

For your convenience we are below restating the questions posed in your letter and indicating the conditions in this area as reported to us with respect to each such question.

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?

In general there has been a substantial easing of supply in the case of all listed articles, reflected in a "backing up" of goods which only in some cases is so great as to approach undue inventory accumulation. The most general accumulation of inventory appeared to be in low-priced furniture and in the higher priced lines of appliances and automobiles, particularly in those brands which have relatively less public acceptance.

In the case of appliances, washers, radios, and vacuum cleaners were in particularly large supply. Stocks of refrigerators are being built up, but this is reported to be seasonal and whether or not they will be excessive will depend upon sales within the next few months. The inventory situation on television sets is somewhat confused but may be

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called unsatisfactory at least in some respects. It appears that the principal difficulties in the case of television and other appliances, too, have been among the smaller undercapitalized or marginal dealers whose limited working capital will not permit them to carry representative lines for any length of time. It appears that the over-all supply of television still lags behind demand. It has also been reported that some large merchandisers of appliances are reducing the number of brand lines which they are handling and concentrating on better known brands, which are now becoming more readily available.

The automobiles in most plentiful supply include Kaiser-Frazer, Lincoln, Hudson, Packard, Nash, Mercury, Studebaker (particularly the large models), Cadillac in some areas, and in some cases Buick Roadmasters and higher priced Oldsmobiles.

In general, the accumulation of inventory is said to reflect declines in sales growing out of substantial absorption of the backlog of demand accumulated during the war. Some pressure for shipments by manufacturers of durable consumers' goods seems to be in evidence, but this is not regarded as a significant factor in the inventory situation in distributive channels as yet.

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?

Generally speaking, premiums are no longer being paid for "used" new cars. Exceptions to this were reported in some cases, principally 1949 Chevrolets which were said to command premiums of \$250 to \$500. This, however, was regarded as a doubtful fact and in any case certain to disappear promptly with the regular flow of new models.

There is general evidence of weakness in prices of automobiles, household appliances, and furniture. In the case of automobiles, only the three leading low-priced cars appeared to be firm, with the weakness increasing in higher priced lines and lesser known names. Kaiser-Frazers are reported to be selling practically at cost and to have nominal acceptability as trade-ins. Lincolns seem to be particularly hard hit, selling at discounts of up to \$500 off the list price.

In household appliances the principal price weakness appears to be in washing machines, although there were general indications of price cutting in most lines including refrigerators. A large distributor said

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that the price cutting in television sets is the worst in the history of the distributive industry. As in the case of other appliances, the cuts are taken out of dealers discounts and are believed in part to reflect the pressure of limited working capital forcing dealers to turn over stocks of the high unit cost goods as rapidly as possible. It also appears that there are numerous dealers who carry no inventory but deliver at nominal profit by ordering individual television sets from distributors.

Only in the case of low-priced furniture were price cuts at the factory level reported, and it was generally conceded that the substantial seasonal reductions in furniture prices were not expanding sales as much as might be expected. This did not appear to be true of other articles which seemed to move well when discounts were given.

The reasons cited for price cutting among listed articles generally were the return for the first time since the war of seasonal patterns of selling, the oversupply in relation to sales in some lines, cut-throat competition reflecting the very large expansion in the number of distributive outlets, the need to turn over working capital rapidly, and a general belief among lenders, sellers, and buyers that most lines of consumers' durable goods are still over-priced.

The hope was expressed repeatedly that some firming in prices would be in evidence by the spring, but it was agreed that the outlook is uncertain and that some reduction from recent high price levels appears inevitable.

As is the case in inventories, the problem of price weakness in appliances appears principally in the small retail outlets and in specialty appliance stores. Manufacturers, distributors, and department store prices seem to be firm, although efforts to economize are generally in evidence in order to permit price reductions. There was unanimous agreement that buyers are highly price conscious and actively shop for quality and for discounts. The latter condition in particular is disturbing some leading distributors.

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 and finance companies are reported to be increasingly selective in extensions of retail instalment credit, but the selections are based principally on the credit aspects of the cases rather than types of paper. There are indications, however, that these institutions are especially selective with respect to furniture paper, where collateral is

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of limited significance, owing to increasing collection difficulties and a general feeling of cost-of-living pressure on low-income groups. To some extent similar selectivity is found in radio and television paper, owing to price cuts and possible technical changes in the latter. There is also in Philadelphia a general tendency to shift from nonrecourse to limited recourse or repurchase agreement paper. Old model used cars are financed with extreme reluctance, if at all.

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

Floor planning is tightening up generally. Some banks and finance companies report that they are discontinuing wholesale financing or maintaining it at only nominal levels as a necessary service for high-credit dealers. Broadly, credit limits are being reviewed and revised and servicing procedures tightened.

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

It is generally believed that many dealers in durable goods lines are becoming financially over-extended, principally because many came into the field after the war with limited capital for the purpose of taking quick profits. Repeated instances have been reported of dealers who are inadequately capitalized and inadequately organized to sell in the competitive markets which are approaching. It is the general belief that rising prices and increasing supplies have caused inventories to strain working capital positions, that voluntary and involuntary discontinuances have increased, and that the current year will see a substantial further increase as marginal operators leave the field.

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 have been reported because of shortages of supplies in the television operations of Philco Corporation and in the General Motors plant at Wilmington. Other lay-offs reflecting reduced sales are reported in the radio operations of RCA and Philco, and in the washing machine field, including Thor, Bendix, and Maytag. Our investigators

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also found scattered instances of lay-offs or short-time operations in durable goods factories in the city as well as in outlying areas.

For what bearing it may have on the general question, we also inquired as to the trend of collections and found practical unanimity in the view that collection difficulties have continued to increase substantially in recent months.

In summary, the consensus among the persons interviewed in this district is that supplies have eased substantially with some inventory difficulties appearing in certain lines owing to a reduction in volume of sales below earlier expectations. This is apparently believed to reflect principally the absorption of the demand accumulated during the war and over-pricing, especially in the field of automobiles. In the case of automobiles, it was generally agreed that Regulation W could not be assigned any substantial part of the responsibility for current market conditions. Almost unanimously people in this field report that they wish to retain the one-third down payment requirement but would like the limitation on maturities extended to 24 months for new and late model used cars.

In the case of appliances, the consensus seems to be that Regulation W has eliminated certain marginal low-income buyers from the market but there is a belief that this may have been good for the buyers and the market and in any case is not measurable or substantial in its extent. There was a general desire expressed by sellers that the down payment requirements should be reduced - usually to 10 per cent - and that maturity limitations should be extended to 24 months - at least on articles selling from \$250 to \$300 or more.

These views with respect to liberalizing the terms of Regulation W were not held by financing institutions except with respect to new automobiles. Some expressed the opinion that the terms should not be changed in general at this time and others even thought that certain fields, like television, should properly have terms tightened.

We shall continue to have our investigators attempt to keep posted on conditions in the field and shall supplement their efforts by special discussions with key people from time to time. Any developments which come to light in our continued investigations will be brought to the attention of the Board as you requested.

Very truly yours,

R. R. Williams

Assistant Vice President

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