FEDERAL RESERVE BANK OF KANSAS CITY

KANSAS CITY 18, MISSOURI

February 12, 1949

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

Dear Sirs:

In accordance with the Board's letter of January 27 there is enclosed an interim report showing results of a spot survey conducted in principal trading centers of the Tenth District for the purpose of obtaining information concerning recent tendencies in the durable goods and instalment credit field. Members of our staff at the head office and branches have interviewed representatives of automobile, household appliance, and furniture dealers in Kansas City, Missouri, Kansas City, Kansas, St. Joseph, Joplin, Topeka, Wichita, Omaha, Lincoln, Denver, Grand Junction, Oklahoma City, and Tulsa. We have also covered a few banks and finance companies in each zone of the district.

We find no considerable body of opinion among registrants in the district favoring either discontinuance of Regulation W or relaxation of the down payment requirements. On the contrary, the great majority of registrants interviewed express the hope that the regulation will be continued with only some relaxation of maturity requirements. We recognize, of course, that registrants who express these views may be motivated by considerations affecting their own business operations and credit extensions rather than by concern for the underlying objectives of the regulation. Nevertheless, we are inclined to believe that it is important to be aware of the general reaction to the regulation and to adopt such measures to retain public good will as may not be unduly damaging to the objectives of the regulation.

In response to the Board's request, our next quarterly reply to S-953 will give further special attention to recent tendencies in the durable goods and instalment credit field.

Very truly yours,

H. G. Leedy
President

February 12, 1949

MEMORANDUM IN RESPONSE TO THE BOARD'S LETTER OF JANUARY 27, 1949, CONCERNING RECENT TENDENCIES IN THE DURABLE GOODS AND INSTALMENT CREDIT FIELD

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?

Inventory accumulation above requirements is fairly general, but a critical inventory situation is not general.

Used car inventories are excessive. Among new cars, the situation varies as to make and model. New cars in excess inventory are nonstandard models, such as convertibles and station wagons, rather generally; off-brand cars, notably Kaiser-Frazer; and large cars except Cadillac.

Among appliance dealers, the inventory situation is mixed. Many of the smaller and newer dealers are overstocked, as are some others, and all have fully ample stocks. The reason why the inventory situation is not seriously excessive among well-established dealers, despite the more ready flow of goods from suppliers and slower sales, is that many of those dealers have adjusted their buying policies to a conservative basis.

While some retailers of furniture have more stock than they need relative to current sales volume, we do not find evidence of serious inventory situations. With sales volume off, most retailers have tried to adjust their inventory policy accordingly. Presumably the effects of this policy are reflected in the manufacturing and wholesaling stages of both the furniture and appliance industries.

We understand that some manufacturers and wholesalers are offering large blocks of new merchandise on a consignment basis with a small down payment, 10 to 15 per cent, on merchandise received.

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 are no longer generally prevalent on "used" new cars. They exist only on makes of cars recently introduced. New Chevrolet models carry premiums ranging up to $500, and the Cadillac $200 to $300. In some localities, standard models of the new Pontiac, Buick, and Oldsmobile lines still carry some premiums. The trade believes that these premiums will be very short-lived, since they consider the premiums as being payments for new models. We are inclined to the same belief. While this view may be debatable concerning the Chevrolet, the lack of premiums on new Fords is strong supporting evidence. The fact that the forthcoming new Plymouth and other standard models of the Chrysler line may carry premiums upon introduction is not evidence to the contrary.

The principal changes in the pricing of automobiles are: (1) lower prices in the used car field all along the line, (2) more liberal trade-in allowances, (3) accessories only at buyer's choice, and (4) price concessions in certain lines. Our reports on price concessions include Lincoln and Kaiser-Frazer cars, with concessions ranging up to $500, and smaller price concessions on the Mercury.

With respect to appliances and furniture, more liberal trade-in allowances and price concessions are fairly general.

Seasonal influences are a factor, as are the severe weather conditions of recent weeks. However, the adjustment appears to be greater than such factors can explain. Other factors are: (1) goods are no longer in short supply, (2) the public is generally aware of the improved supply situation, and (3) many people cannot meet required credit terms.

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 has been no change in policy of the major finance companies, such as Commercial Credit, G.M.A.C., and Universal C.I.T., with respect to their willingness to handle retail instalment paper under the customary repurchase agreements. Commercial banks and independent finance companies have changed their policy principally by being less willing to accept paper "without recourse." In the case of radios, there is increased reluctance to accept such paper even when the retailer participates in the risk.

The explanation for the change in policy is the increased danger of default, as well as the loan volume already outstanding. The attitude on radios stems from both their rapid depreciation in market value and the tendency of consumers, in case of financial difficulty, to concentrate their funds on instalment payments for necessity items and to default first on less needed items, such as radios.

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

Financing institutions are tightening credit lines extended to dealers for floor plan financing, particularly in the case of used car dealers and newer and weaker appliance dealers. There is a tendency to shorten the line of credit and to require a larger margin. We find that a large proportion of new car dealers do not need to borrow for such purposes.

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

Evidence of financial overextension is appearing among the newer appliance dealers, used car dealers, and some Kaiser-Frazer dealers. Business failures among the newer appliance dealers are increasing; others in this group are offering large lots of merchandise to the better established dealers at sacrifice prices. Some used car dealers are entering voluntary liquidation, and others are openly discussing such action, since they face unprofitable operations. Some Kaiser-Frazer dealers apparently are approaching the same choice.

Most new car dealers, furniture dealers, and appliance dealers except as already stated are in good financial condition. However, some appliance and furniture dealers are overexpanded on basis of present sales volume and, accordingly, may find their profits affected adversely. Some of the new car dealers who built expensive physical facilities are showing some concern over meeting their overhead costs if sales contract; that problem does not impinge at the moment, however.

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.?

Manufacture of regulated durable goods is not an important source of employment in this District except in the assembling of automobiles, and in the latter field there have been no lay-offs. While there has been some increase in unemployment compared with a year ago, we have little evidence of lay-offs in the distribution of regulated durable goods other than some unconfirmed reports. The Bendix distributor for Kansas has reduced his force by 4 per cent and expects to reduce his force another 6 per cent in the near future. None of the lay-offs in this instance are in the sales force, and it appears that the adjustment in number of workers is an effort to reduce costs of operation. No doubt the slackening of sales is the motivating force, however.