Mr. Eccles

February 17, 1949

TO: Board of Governors

FROM: Woodlief Thomas

Attached for your information is a summary of the spot survey reports just received from the 12 Federal Reserve Banks (in response to the Board's inquiry of January 27th) relative to District tendencies in consumer durable goods and instalment credit. Also attached are copies of the reports submitted. These are remarkably good reports and well illustrate the kind of regional information which the banks supply to the Board from time to time.

W.T.

Attachments

SUMMARY OF SPOT SURVEY REPORTS ON CURRENT TENDENCIES
IN CONSUMER DURABLE GOODS AND INSTALMENT CREDIT

(In response to the Board's inquiry of January 27, 1949)

The following digest summarizes comments of general interest in the attached spot survey reports just received from the 12 Federal Reserve Banks relative to District tendencies in consumer durable goods and instalment credit.

The bank reports indicate general agreement that Regulation W could not be assigned any substantial part of the responsibility for current market conditions. Dealers and financial institutions contacted by the banks emphasized such factors as the recent high levels of production, the disappearance of the backlogs of demand for durable goods, increased resistance by consumers to high prices, and the general uncertainty as to future business trends.

Although there were many exceptions on the part of individual dealers and financial institutions interviewed, a fair reading of these reports leads to the conclusion that there is widespread approval for the continuation of Regulation W. The regulation would be supported by many if only to prevent competition in credit terms.

There was a sharp diversity of opinion on the question of relaxing the present requirements of Regulation W. On the one hand, the financial institutions in general seemed to support existing terms although they probably would not object to extending maturities to 24 months on new and late model used cars. Some lenders even wanted to have controls tightened on certain appliance items. On the other hand, manufacturers, distributors, and retailers indicated a desire to have easier terms. As far as automobiles were concerned, they favored retention of the one-third down payment but extending maturities to 24 months. On appliances and furniture the terms suggested by vendors were 10 per cent down and up to 24 months on the more expensive individual items.

Recent inventory accumulations.--Substantial evidence was found of recent inventory accumulations of practically all regulated items, but there was reluctance to characterize these accumulations as "excessive." It seemed generally agreed that inventories were unbalanced, particularly in off-brands and higher-priced models. Used cars, low-grade furniture, and washing machines were singled out by practically all districts as specific examples of unfavorable inventory conditions. There is increasing effort on the part of manufacturers and distributors to force additional stocks into the hands of retail outlets. "Quotas" are more frequently being used as a "minimum" shipment, rather than for the purpose of allocating available supply.

Price developments.--Premiums on "used" new cars have apparently disappeared in all parts of the country with the exception of new model Chevrolets, and in some areas they are still present in the sale of 1949 Fords. Various forms of price concessions are being made to a large extent in the sale of regulated items. Price cuts are generally coming out of the retailers' margin, however, as there was little evidence of price reductions by manufacturers or distributors. It appears that declines in sales volume in nearly all areas are greater than could be explained by seasonal influences, and several bank reports pointed to the next three or four months as the "test."

Financing of retail instalment paper.--Banks and finance companies are exercising a greater degree of care in screening applications for credit and are showing increasing reluctance to handle some types of retail instalment paper, particularly older model used cars. General uncertainty over the immediate business outlook, and in some cases limited resources on the part of smaller finance companies, were offered as explanations, as well as increasing difficulty with delinquencies.

Dealer wholesale financing.--Without exception, it was evident that financing institutions were tightening credit lines, especially to the smaller and less firmly established dealers. Adequate credit is still available for financing current sales, but not for further building up inventories.

Financial condition of dealers.--Reports of financial distress in the consumer durable goods field are still apparently quite limited. Most banks report that difficulties have mainly been with the inexperienced dealers, or with dealers which had made extensive capital outlays.

Employment tendencies.--Lay-offs in plants producing regulated articles have been fairly wide-spread with the exception of the automobile factories. For the most part these are considered "temporary" and due to "cut backs in orders," "inventory clearance," and in some cases to seasonal influences which had not been felt for some years. Washing machines, cooking stoves, and refrigerators were most frequently mentioned as lines affected by lay-offs.