Bank Loans to Retailers Climb

Higher Inventories and More Credit Sales Lead to Expanded Borrowing

Retailers in the Sixth District relied more upon bank borrowing in the first half of this year than in the like period last year. Between January 1 and the end of June, retail trade loans outstanding at 22 weekly reporting member banks in leading cities rose 12 million dollars. This increase is noteworthy in that it is in direct contrast with a half-million-dollar decline in the same period of 1952.

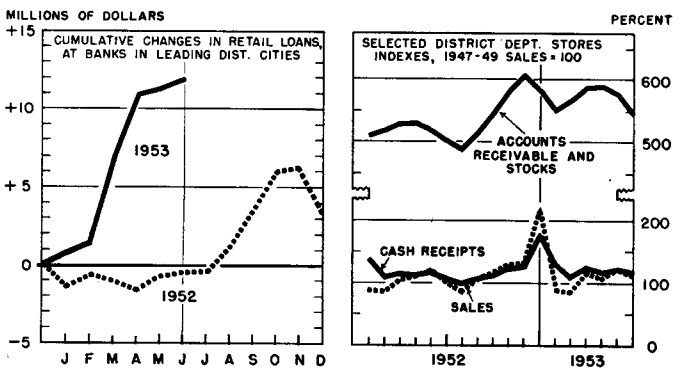
A high level of retail sales has accompanied this borrowing. Since a substantial proportion of these sales is made on credit, merchants have had to carry a large dollar volume of receivables and inventories.

Consumer spending in the District during 1953 has continued at a record level. Indicative of the trend in retail trade through July 18 this year is the 5-percent gain in department store sales over the year-ago dollar volume. After declining moderately from the December level, seasonally adjusted sales rose sharply in May to a point only slightly below the dollar volume of the June 1952 all-time high. In June this year seasonally adjusted sales were off a little from May, a trend apparently continuing into July.

Because department stores sell a wide variety of merchandise and because they are among the largest retail outlets in the District, what happens to them gives some indication of developments in retail trade at large. Consequently, department store data can be used to shed some light on the forces prompting expanded borrowings by retailers.

Consumers Owe More The seasonal pattern of sales at department stores causes variations in working capital requirements. During the spring, when cash receipts are down from the winter peak, these stores need more funds to carry their receivables. As is usual, charge and instalment accounts receivable increased somewhat during the first half of the year. And, although the proportion of department store sales made on credit has been practically constant since the start of 1952, receivables are up considerably from last year simply because of the larger dollar volume of sales. Charge and instalment receivables in the first half of this year averaged 6 and 21 percent higher, respectively, than in the same period a year ago. The latter gain particularly reflected higher sales of major household appliances and furniture.

COMMERCIAL BANK LOANS to retailers have risen more rapidly this year than last, largely because inventories and receivables have increased at a faster pace than cash receipts.



Coincident with the expansion in receivables has been an increase in collections on these accounts. In most months since the beginning of 1952, however, debts have grown more rapidly than repayments. As a result, some merchants have had to turn to banks to obtain working capital for financing credit purchases of their customers.

Working capital requirements have risen because the cash inflow at District department stores has not kept pace with the growth in receivables and inventories. According to data from a representative group of these stores, the average expansion in receivables and inventories combined in the first half of 1953, as compared to the same period of 1952, was twice as great as the growth in cash receipts.

Inventories Increase Seasonally Retailers' inventory policies have been still another drain on their cash resources. Department store inventories rose seasonally from January through June. After taking this seasonal movement into consideration, inventories have remained virtually unchanged since December at a level of around 140 percent of the 1947-49 average.

Although inventories in most lines of goods handled by department stores were higher in the first half of this year than a year ago, the largest gains occurred in soft goods. Inventories of women's clothing and men's wear averaged 11 percent and 9 percent higher, respectively, whereas, inventories of home furnishings—the chief durable line sold at department stores—advanced only 6 percent.

The inventory influence on the loan trend this year may be visualized also in terms of the relationship of inventories to sales. Department stores were carrying an average of 3.2 months supply of merchandise on hand in the first half of 1953. This average was only slightly below the postwar high recorded in the comparable period of 1951, but was a little above the corresponding 1952 rate.

Bigger Tax Payments Still another element affecting the department store demand for bank credit is a corporate tax law change designed to speed up income tax payments. This year corporations electing to pay their taxes on the instalment plan are required to pay 40 percent in the first quarter following the close of their business year, as opposed to 35 percent last year. For most department stores, January closes the fiscal year, so payments were made in April. The tax law also requires payment of 40 percent of the annual tax in the second quarter and 10 percent in each of the last two quarters.

Commercial bank loans to retailers probably will rise in the last half of 1953 if only because of the usual seasonal advance in sales. In anticipation of this increase, merchants can be expected to build up inventories and to carry a larger dollar volume of receivables.

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