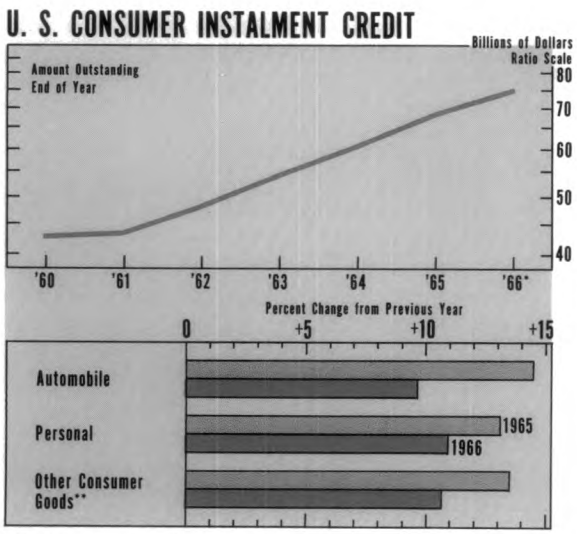
Consumer Borrowing Slackens

Consumers seem to be having second thoughts about taking on additional debt. Although total instalment credit continues to increase, probably reaching a national level of around $75 billion at the end of 1966, the rate of advance has tapered off sharply. Last year's gain, about 9.5 percent, was modest in comparison with increases averaging close to 12.0 percent during each of the previous years of the current economic upswing.

The slower pace of borrowing prevailed throughout 1966, but became even more apparent toward the end of the year. In the final quarter, consumers were adding an average of $382 million per month to their instalment debt. They started the year acquiring new debt at the rate of $595 million per month, which was lower than the 1965 average.

When the value of new loans exceeds repayments on old loans, total consumer debt increases. In 1966, extensions leveled off and repayments continued to rise, resulting in a slowdown in the rate of consumer credit growth.

Consumers in the Sixth District, judging from their borrowing from commercial banks, behaved like their national counterparts. Their rate of borrowing slowed during most of 1966, and by year-end, outstanding credit was advancing only fractionally.



*Estimated. **Furniture, appliances, etc.

Although outstanding instalment debt increased last year, the rate of gain was less than during 1965. Each of the major categories of consumer loans experienced the slowing trend.

Automobile loans were the chief contributors to the slowdown in both the nation and the District. National auto credit increases averaged less than $200 million per month last year, compared with well over $300 million per month in 1965.

Some persons might argue that last year's lagging auto market was responsible for the slower growth in automobile loans, but others may blame a declining availability of loans. Both could be correct. The demand for auto credit was definitely down last year, aside from any lessening of available financing.

In addition to the softening of demand factors, lenders may have been more cautious in granting loans last year. This is confirmed to some extent by a survey last fall of consumer credit lenders in the Sixth District. Although these lenders' credit standards had not changed significantly, they enforced them more strictly than in the past.

Banks' auto credit terms changed very little last year in the District and the nation. The largest proportion of new car contracts continued to be written for 36 months and generally were financed at 90-95 percent of the dealer's cost, or about 70-80 percent of the list price. The national average new car note, however, has risen over $100 since the introduction of the 1967 models.

The subdued rate of gain last year affected all the nation's major types of lenders, but banks, the largest in terms of amounts of loans made, increased their share of the consumer credit market from 42.6 percent to around 43.5 percent. This gain came at the expense of sales finance companies whose share dropped from 23.5 percent to 22.8 percent, and retail outlets whose share declined slightly to about 11.5 percent.

The recent behavior of consumer credit is only one of many economic barometers indicating that the economy is losing momentum. The sale of consumer durable goods will determine consumer credit behavior in coming months. If sales continue to advance only moderately, the growth in consumer credit no doubt will be slow.

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