

CONSUMER CREDIT TRENDS

CHARTS 1 AND 2 Consumer credit, which finances nearly 20% of the value of all consumer purchases, is comprised of short- or intermediate-term loans for automobiles, household appliances, and other personal debts. Although consumer spending is determined primarily by current and expected levels of income, changes in the volume of consumer credit, along with changes in saving, have often contributed to some short-run movements in consumption. Normally, as income rises, so does spending, saving, and the accumulation of debt. Sudden changes in income, however, often result in adjustments in saving and debt accumulation in order to maintain spending. On the other hand, during periods of uncertain economic conditions, consumers may postpone current spending and increase saving while curtailing debt accumulation. All these phenomena have occurred in recent years.

From 1965 through the first half of 1968, rapid economic expansion was accompanied by similar increases in consumer spending, saving, and credit. Following the surtax of July 1968, the expected slowdown in consumer spending did not materialize. Instead, consumers relied more heavily on consumer

credit and decreased their rate of saving in order to maintain spending levels. This pattern continued into the tight money period of 1969. The saving rate increased sharply in the third quarter of 1969 and continued to rise in 1970. Faced with uncertainty over inflation, unemployment, and political problems, consumers reduced their borrowing in relation to disposable income. During the first quarter of 1971, however, consumer spending regained some of its lost strength, despite a drop in consumer credit outstanding. Again consumers appeared to rely on a reduced saving rate to finance current spending.

CHART 3 Consumer credit is composed of installment and noninstallment credit. Noninstallment credit, the smaller of the two components, consists of single-payment loans, charge accounts, and service credit. Single-payment loans and charge accounts, although decreasing slightly during the economic

slowdown of 1969-70, have shown substantial net increases over the past three years. Service credit was singularly unaffected by the slowdown and has continued to increase steadily since 1968.

CHART 4 More than 80% of all consumer credit outstanding is extended on an installment basis, with repayment scheduled in more or less equal monthly installments running over a specified period. Automobile paper, other consumer goods paper, repair and modernization loans, and personal loans are the major components of installment credit. Automobile loans, the largest and most volatile component, make up approximately 38% of all installment credit. Automobile credit expanded rapidly throughout 1968, tapered off in 1969 and 1970, then declined during the General Motors strike in the fourth quarter of 1970. Other components of installment credit continued to expand throughout this

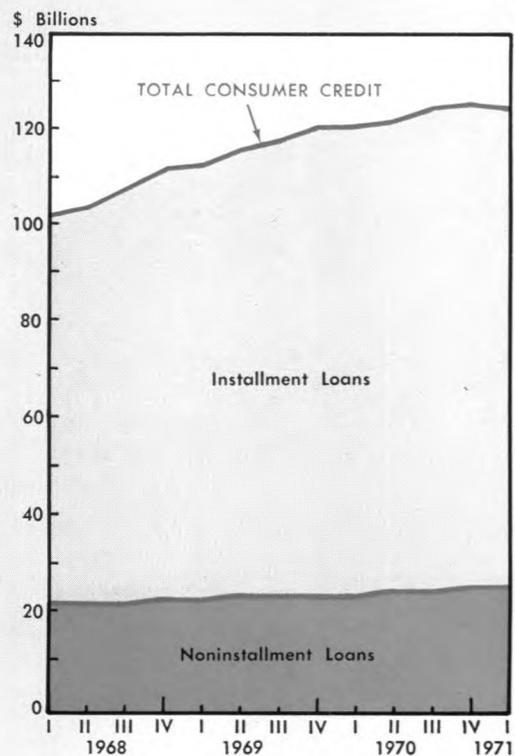
period; however, their small increase was not sufficient to offset the drop in automobile paper in the fourth quarter of 1970. In the first quarter of 1971 the surge in automobile sales following the strike was not accompanied by an increase in automobile paper outstanding, suggesting that many new car sales were financed from past savings rather than credit.

CHART 5 Installment credit extended reached a peak of 16.8% of disposable income in the second quarter of 1969 and then decreased slowly until the first quarter of 1970. The decline in this percentage was caused primarily by the decrease in automobile sales and the consumer's desire for cheaper, smaller cars.

After hitting a low point of 14.6% of disposable income in the second quarter of 1970, repayments of installment debt rose steadily through the first quarter of this year and exceeded extensions in the fourth quarter of 1970, primarily because of the work stoppage in the industry in that quarter.

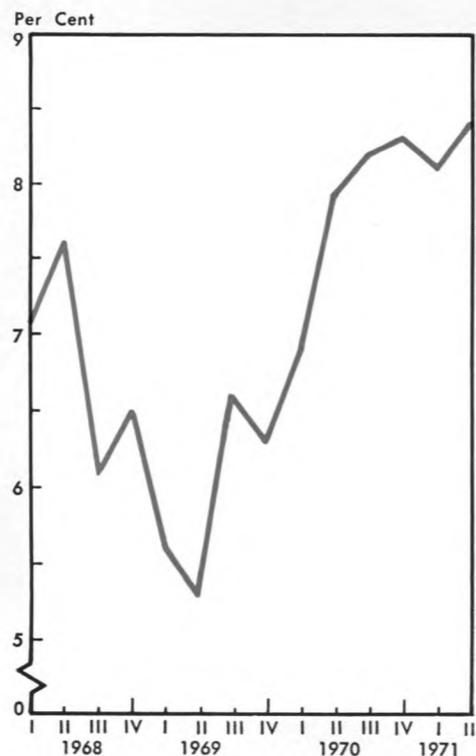
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Chart 1
COMPONENTS OF CONSUMER CREDIT OUTSTANDING



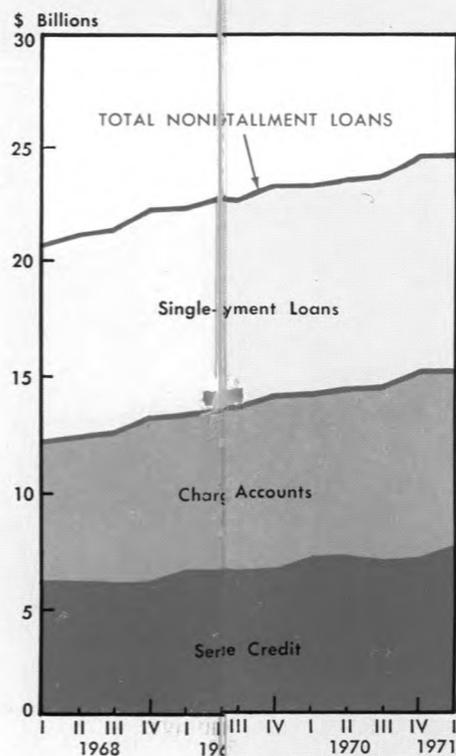
Source: Federal Reserve Bulletin.

Chart 2
PERSONAL SAVING AS A PERCENTAGE OF DISPOSABLE PERSONAL INCOME



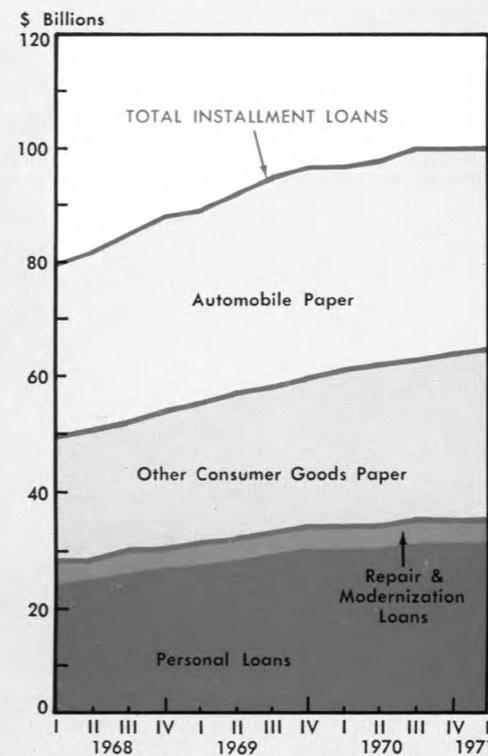
Source: Survey of Current Business.

Chart 3
COMPONENTS OF NONINSTALLMENT LOANS OUTSTANDING



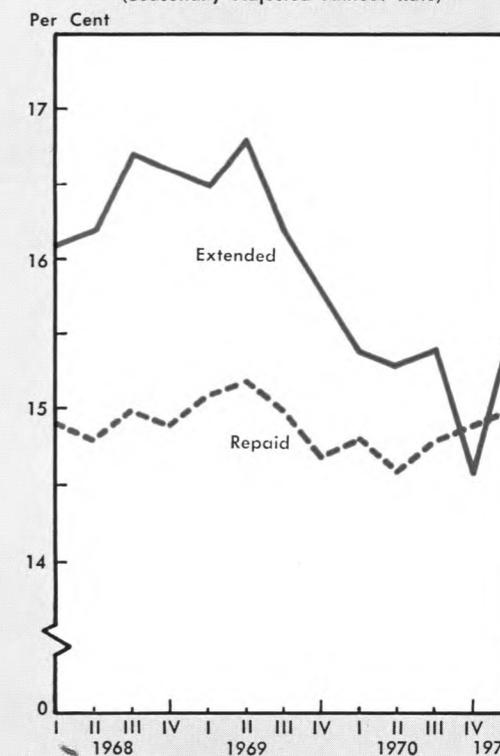
Source: Federal Reserve Bulletin.

Chart 4
COMPONENTS OF INSTALLMENT LOANS OUTSTANDING



Source: Federal Reserve Bulletin.

Chart 5
INSTALLMENT CREDIT AS A PERCENTAGE OF DISPOSABLE INCOME
(Seasonally Adjusted Annual Rate)



Source: Federal Reserve Bulletin.