

PART II

SPECIFIC TENDENCIES IN THE INSTALMENT CREDIT AND
THE DURABLE GOODS SECTOR*

Regulation W has been only one of many influencing factors at work during recent months, and there is certainly no attempt here to ascribe to it more than its rightful importance. Nonetheless, at least one of the objectives for reinstatement of the regulation has been accomplished: There has been a noticeable slackening in the rate of growth in instalment credit. During the first nine months of 1948, the net increase in total instalment credit was running approximately 200 million dollars ahead of the 1947 gain for the same period. Fourth quarter operations wiped out this margin completely, and for the year as a whole the 1948 rise in instalment debt outstanding was approximately 300 million less than the increase during 1947.

By the end of the year, total instalment credit outstanding is estimated to have reached a total of more than 8 billion dollars, about 33 per cent above the level at the end of 1947 and 25 per cent above the prewar peak. During 1948, it rose approximately 2 billion as compared to 2.3 billion in 1947. The financing of automobile sales accounted for roughly 1 billion, or half, of the 1948 increase in this type of credit.

The increasing debt load of consumers

The rapidity with which the total volume of instalment debt has been built up has meant that an increasing share of current income is required to pay off purchases already made. This is demonstrated by the fact that in 1948 instalment debt increased 32 per cent and repayments on such credit rose 30 per cent, while at the same time personal disposable income moved upward only 9 per cent. Further complicating the situation is the fact that maturities are shorter since the reimposition of Regulation W than during the early part of 1948 and materially shorter than in 1940 or 1941. Moreover, personal income has remained almost stable since late summer rather than increasing sharply as it had earlier in the year and in the latter part of 1947.

Confidential information recently furnished to the Board reveals some highly significant developments in the instalment financing of new passenger cars and highlights the problem of increasing debt load. A customer buying a new car today has a monthly bill averaging about \$89, whereas in August, before the regulation was put back into effect, the average monthly obligation was only \$73. In 1940, however, his average payment was only \$34!

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The chief reason for the increase in the size of the monthly payment during the eight-year period stems from a rise in the cash selling price of cars of approximately 130 per cent. Another factor is the shortening of average maturities from 19 months in 1940 to 17 months in November 1948. Furthermore, a considerable rise in finance and insurance charges has also contributed measurably to the increase in the monthly payments. Currently, a customer pays an average of about \$16 a month for these charges. In 1940 such payments averaged about \$5 a month. Comparisons with changes in per capita disposable income furnish a helpful perspective on the monthly payment load. While per capita income rose from \$574 in 1940 to about \$1,285 in 1948, or 124 per cent, average monthly payments during the same period have increased 162 per cent.

The following table summarizes those confidential data for 1940 and shows the changes before and after regulation:

New Passenger Car Financing

Average of each item	1940	1948	
		August	November
Cash selling price	\$984	\$2,268	\$2,370
Amount of down payment	\$442	\$1,065	\$1,161
Down payment as percentage of selling price	44.9	47.0	49.0
Finance and insurance charges	\$97	\$288	\$260
Size of note	\$639	\$1,491	\$1,469
Months maturity	18.8	20.4	16.5
Monthly payment	\$34	\$73	\$89
Per capita income	\$574	\$1,285	

The most noteworthy development from August to November 1948, and directly traceable to Regulation W, was the shortening of maturities from approximately 20.4 months to 16.5 months. Down payment percentages in November were higher than in August, suggesting that (1) Regulation W eliminated a fringe of transactions with down payments of less than one-third, and, what may be more important, (2) that customers now make as large a down payment as possible so that the monthly payments will be lower.

The increasing role of instalment sales

An increasingly large proportion of current sales are being made on the basis of time payments. This is, of course, a trend which has been in progress ever since 1945 and represents a return of automobiles and durable goods to the market as well as a resumption of prewar buying habits.

Data from the survey made in July by the University of Michigan on the basis of a sample similar to the Board's annual Survey of Consumer Finances indicated that nearly 40 per cent of the car sales during the first half of 1948 involved the use of instalment credit, as compared to 34 per cent during 1947, and only 21 per cent in 1946. In 1940, about 60 per cent of all cars were sold on an instalment basis.

Higher instalment account balances accounted for a larger share of the net growth in total consumer credit during the past year than in any similar period since the end of the war. Slightly more than four-fifths of the 1948 increase in total credit could be traced to transactions involving instalment credit, as contrasted to roughly two-thirds of the rise during 1947, and less than half of the 1946 growth.

Automobile credit.--Total credit arising from the purchase of automobiles (sale credit plus direct loans by commercial banks to consumers for the purchase of automobiles) is estimated to have reached 2.7 billion dollars by the end of 1948. This is slightly in excess of the prewar high reached in August 1941, but at that time the average price of new cars was about one-third of current prices.

There was a noticeable slackening during the final quarter in the rate of increase in this type of credit. The volume of loans made which had been moving steadily upward to a high of almost 400 million dollars a month in August, dropped to the 300-335 million range. By way of contrast, volume in the fourth quarter of 1947 was rising consistently and December marked the high point for the entire year.

Other instalment credit.--The picture for other types of retail instalment credit exhibits similar characteristics and, if anything, the slowing down during the fourth quarter was somewhat more pronounced. The net increase in outstandings during October and November of this year for other retail instalment credit amounted to less than 40 million dollars in contrast to a gain of 200 million in the corresponding months of 1947. Personal instalment cash loan balances actually showed a slight decline during October and November, whereas they increased about 30 million dollars for the same period a year earlier.

Noninstalment balances.--Changes during the latter part of 1948 were not limited to instalment credit. Although year-end balances in the noninstalment segments were at the highest level recorded, the increases registered during 1948 were substantially smaller than in 1947. The net increase in charge account balances during November of this year was only 100 million dollars compared to a gain of nearly 300 million in the same month of 1947.

Retail sales in 1948

Total retail sales continued to show increases over the unprecedented levels reached during the preceding year. The rate of gain diminished gradually, however, during the first eight months of the year and more rapidly during the later months. Nearly all of the 1948 gain in total retail sales occurred from January through August.

Sales at furniture and household appliance stores, which had been running above year-ago levels during the first three quarters of the year, failed to reach the 1947 level in October. Instalment sales of furniture stores during the month also declined below the October 1947 volume, but in November were showing a better record than the total sales volume. Jewelry store sales were running below 1947 for every month since January. However, nearly two-thirds of their annual decline occurred in the last quarter--their peak sales period.

At mail-order companies some declines in sales were reported in November but instalment sales of most were well-maintained. Department store sales, after a small November decrease from a year ago, were approximately equal to 1947 levels in December. Purchases of some of the major durable goods at department stores showed a sharp drop during the last quarter of 1948, falling as much as 30 per cent below sales in late 1947.

It should not be overlooked, however, that despite the recent changes in sales volume, on an annual basis the current level of activity in many consumer durable goods lines is from two to four times the 1940 rate. Total sales of automobile dealers are roughly twice their prewar level, those of furniture stores are three times, and for household appliance dealers the 1948 total will be four times that of 1940.

Retail inventories in October were somewhat higher relative to sales than in the corresponding period of 1947. In view of the sales decline in November and the less than seasonal rise in December, year-end inventories probably will be somewhat higher than a year ago.

Where do we stand on automobiles?

Over-all demand for cars still exceeds supply, as evidenced by the fact that gray market conditions continue to characterize the sales of the major makes. After two years of high level production, however, demand and supply are in closer accord. For some makes, however, there is a real problem in maintaining sales volume.

Production trends in 1948 were generally upward, and for many makes record level output was achieved. For the year as a whole, 3.7 million passenger cars were turned out for domestic use compared with 3.3 in 1947 and 4.1 million in 1929.

The only make to show a marked drop in production in 1948 compared with 1947 was Frazer, but the combined output of Kaisers and Frazers in 1948 was well above the total of the preceding year. The prospect in the industry is for further increases in production in 1949 if more steel is available.

In the last quarter of 1948 there were signs of a closer balance between demand and supply. Used car prices were down from peak levels of the spring and summer, with declines ranging from about \$500 on postwar models to about \$250 on prewar models. Premium margins above manufacturers' recommended prices commanded by new Chevrolets, Plymouths, and Fords were off from a peak of about \$1,000 in the spring and summer to approximately \$250 today.

In October, sales of cars lagged somewhat behind the record level of output. Total sales as measured by registrations were down 2 per cent, and instalment sales dropped 10 per cent from the September level. These declines, however, were substantially reversed in November. Time sales of cars appear to have risen about 20 per cent over the October level. There are some indications that the story for December may not be as favorable as in November.

The production story for other regulated goods

A comparison of current levels of production for the listed items with those of a year ago reveals mixed trends. Refrigerators, washing machines, electric ranges, gas ranges, and, of course, television sets were turned out in higher volume in 1948 than in 1947. On the other hand, output of vacuum cleaners, radios, and ironers was under the high level of 1947.

Data for the last quarter are incomplete, and for the most part newspaper reports seem to indicate that output has dropped somewhat in response to sharply reduced retail sales. Television sets and possibly refrigerators were exceptions to this trend.

A major factor in the production picture is the reduction in backlog demand for certain appliances. It was generally believed that the effect of an easing of demand would show up relatively early in the market for vacuum cleaners and AM radios; and somewhat later for washing machines and refrigerators. Production trends seem to bear this out.

Employment trends in the durable goods industries

Employment and average hours of work in industries which produce consumer durable goods exhibited no marked change during October and November. Reports have been received of isolated instances of layoffs during December, but there is no conclusive evidence that any sharp reduction in levels of activity had taken place. Both in the automotive and household appliance industries, some recent reductions have been occasioned by model changes.

While there has been some diversity in movement among the industries for which data are available, the general trend appears to be a leveling off in employment since the early months of 1948, following the sharp expansion in activity in the fall and winter months of 1947. In certain industries--those which have made the most progress in catching up with accumulated backlogs of demand--the level of employment has tended to decline from earlier peaks. The decreases, however, have not been generally important and in part represent productivity gains as well as adjustment to lower levels of demand.

Financial position of instalment lenders

The record production and sale of durable goods and the concurrent sharp rise in instalment credits outstanding during the postwar period has worked serious strain on the capacity of instalment financing agencies. Shortening of maturities, following the reimposition of Regulation W, has tended to slow down the rate of expansion in outstandings, and to ease somewhat their working capital positions. At the same time, this resulted in smaller income return per contract. Lenders have, however, increased their rates to some extent, have tended to shift business in the direction of more profitable items, and have increased their investment in automobile instalment paper.

Many financing agencies have tightened their credits in response to mounting receivables, uncertain prices for cars and appliances, and changes in the demand. There is some evidence that the situation in the financing of dealers at the wholesale level has become increasingly critical. As a result, heretofore open lines of credit for dealers are being restricted. This will have the effect of preventing a further rise of inventories at the retail level, but may lead to an increase in manufacturers' inventories of finished goods to the extent that retail sales are below current production.

Even prior to the reimposition of Regulation W, banks and large finance companies were unwilling to discount paper with low down payments and long maturities. Tightening of credit in the used car market is evidenced by the fact that many finance companies and banks refuse to finance the sales of older model cars and of recent models dropping sharply in price.