FEDERAL RESERVE BANK

OF MINNEAPOLIS

OFFICE OF
THE PRESIDENT

February 10, 1949

Mr. S. R. Carpenter, Secretary
Board of Governors of the
Federal Reserve System
Washington 25, D. C.

Dear Mr. Carpenter:

Oscar Litterer has prepared a summary of the report which you requested in your letter of January 27. It is the result of the spot survey carried on by our Regulation W men covering a small number of automobile, household appliance, and furniture dealers located in the principal trading centers of our district, together with a few banks and finance companies.

I also attach a memorandum of the observations made by our directors on these same subjects at their regular meeting today.

Regards,

J. N. Peyton

PRESIDENT

JNP:B
ENCL.

ANSWERS BY MEMBERS OF MINNEAPOLIS FEDERAL RESERVE BANK BOARD OF DIRECTORS TO QUESTIONS IN LETTER DATED JANUARY 27, 1949 FROM THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

1. WITH RESPECT TO REGULATED ARTICLES, IS THERE EVIDENCE OF RECENT UNDUE INVENTORY ACCUMULATION?

   Answer. Pressures of declining sales and increasing efforts of manufacturers to unload inventories would create a serious retail inventory situation except for the vigilance of retailers. Inventories at country retail stores are higher relative to sales than inventories in the larger cities.

2. ARE PREMIUMS STILL PREVALENT ON "USED CARS"?

   Answer. No. Price concessions of one sort or another are starting to appear.

3. ARE BANKS AND FINANCE COMPANIES SHOWING INCREASING RELUCTANCE TO HANDLE ANY TYPE OF RETAIL INSTALLMENT PAPER?

   Answer. While the total amount of installment paper in the banks is declining, the larger banks are attempting to obtain a greater volume of this paper. The smaller banks are not greatly concerned with the volume as long as the paper is sound.

4. IS THERE ANY TENDENCY TO TIGHTEN CREDIT LINES EXTENDED TO DEALERS FOR FLOOR-PLAN FINANCING OR OTHER WHOLESALE TRANSACTIONS?

   Answer. There is some evidence that these credit lines will tighten up.

5. ARE DEALERS IN DURABLE GOODS' LINES BECOMING FINANCIALLY OVEREXTENDED?

   Answer. There is no evidence to this effect.

6. TO WHAT EXTENT HAS THERE BEEN LAYOFFS IN MANUFACTURED AND REGULAR DURABLE GOODS?

   Answer. While there have been sizeable layoffs in a number of lines such as pressure cookers and tires, most of the decline of employment has not been in the manufacture of regular durable goods.

In addition to the answers to the foregoing questions, one of the directors reported that a truck finance company recommends a smaller down payment and a larger term for the installment payments.

REPORT ON CONSUMER CREDIT

By Oscar F. Litterer

This is a spot survey of the recent trend of durable goods and instalment credit business in the Ninth District. During the past week, the Regulation W field men were asked to check on conditions among automobile, appliance, and furniture dealers located in some principal trading centers outside the Twin Cities. The executives of department stores in the Twin Cities were also contacted. The material has been organized to answer the questions formulated by the Board of Governors to illustrate the particular points of interest in the instalment credit field at this time.

1. With respect to regulated articles, is there evidence of recent undue inventory accumulation? If there is no general evidence, are there any unsatisfactory inventory situations for individual articles or makes of articles?

The Regulation W field men discovered no undue inventory accumulation except in a few cities. The accumulation was concentrated primarily in used cars, especially among 1946 and later models. In this area, a substantial part of the accumulation of used cars is seasonal. The severe winter weather invariably reduces car sales.

Only a few dealers attributed the low sales volume, in part, to Regulation W. Even some Kaiser-Fraser dealers are satisfied with the present down payment and loan period. A few Kaiser-Fraser and Hudson dealers in the Twin Cities area favored an extension of the loan period to 24 months.

In a few cities, including the Twin Cities, there is some evidence of an undue accumulation of the other regulated articles. In the trading centers, outside of the Twin Cities, the dealers like the present Regulation W terms. In fact, many of them are requiring one-third down instead of

20 percent. On the other hand, in the Twin Cities, executives of some large department stores favor a reduction in the down payment to 10 percent. In their opinion, this would stimulate substantially the present lagging appliance sales.

2. Are premiums still prevalent on "Used" new cars and, if so, for what makes and about how large? To what extent is there increasing evidence of price or other merchandising concessions by sellers of automobiles, household appliances, and furniture? Does it appear that such tendencies are probably seasonal, or greater than could be explained by seasonal or other temporary influences?

The premiums on "Used" new cars are disappearing. However, small premiums are still paid for 1949 Fords and Chevrolets. It was difficult to form an opinion as to the amount of the premium. In one city, it apparently approximated $100. In general, used car dealers are sitting tight awaiting spring weather.

Few instances were discovered of significant price reductions or other merchandising concessions. Most authorized automobile dealers now sell new cars without a trade-in. Such is the case with 1948 Plymouths. The demand for this model has declined recently because the 1949 model is now appearing in the show rooms. A furniture dealer in one city has made a small concession of giving the consumer some small item, such as a chair, with a $200 or over purchase. Some dealers have cut prices significantly to push out undesirable inventory.

3. Are banks and finance companies showing increasing reluctance to handle any type of retail instalment paper? What explanations are offered for such tendencies?

Banks and finance companies are showing more reluctance in handling certain types of instalment paper. They have tightened up especially on used car loans. Many of them refuse to grant a loan on models older than a 1941. The present tendency is definitely toward more character loans. Some contracts are rewritten to reduce the monthly payment. An anticipated falling off in the demand for used cars which will result in lower prices is the general explanation offered by finance men.

4. Is there any tendency for financing institutions to tighten credit lines extended to dealers for floor plan financing or other wholesale transactions?

In some cities, floor planning is practically out of the picture. A large number of new dealers sprung up following the war. It is doubtful that many of these dealers can weather a business recession.

5. Are reports becoming more frequent that dealers in durable goods lines are financially over-extended?

No specific information was secured on the dealers' financial position. Most dealers are watching their inventories very closely. Those with excess inventories have reduced it through a reduction in price or wholesalers have relieved them of it. Especially, in the smaller cities, retailers are ordering very cautiously. In fact, some keep only the floor sample in stock.

Over-extension of retailers may occur in the fixed capital investment. For instance, some automobile and farm machinery manufacturers have forced retailers to remodel their building. If the retailer refused, the manufacturer threatened to withdraw the franchise. As a result, many car and farm implement dealers have erected expensive show rooms. Those that borrowed heavily for this modernization may find that they have over-extended themselves when the volume of business declines.

6. To what extend have there been lay-offs in manufacture and distribution of regulated durable goods? Have such lay-offs resulted from recent sales declines or from other factors, such as model changes, inventory-taking, supply shortages, etc.?

In this district there have been no lay-offs in manufacturing and distribution of regulated durable goods. During the latter part of this month or next, there may be a small lay-off in the manufacture of refrigerators. If it occurs, it probably will be traced to a decline in sales.

In the principal trading centers outside of the Twin Cities, Regulation W field men report that from 90 to 99 percent of the dealers like the present provisions in Regulation W. Some would like to have the loan period extended on large items. On the contrary, executives of large department stores in the Twin Cities would like to reduce the down payment. A number of them would like to reduce it to 10 percent. They are inclined to hold the loan period to 18 months so the consumer will build up a substantial equity in the appliance shortly after he has gained possession of it.