

FEDERAL RESERVE BANK OF ST. LOUIS

ST. LOUIS 2, MISSOURI

OFFICE OF
THE PRESIDENT

February 11, 1949

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

Dear Mr. Carpenter:

This letter constitutes the interim report on developments in the instalment credit field requested in your letter of January 27, 1949. Comment numbers conform to the numbers of the questions listed in the Board's letter.

1. Electrical appliances, generally, and radios, washing machines, and refrigerators, specifically, have accumulated at the dealers' level in recent months in most parts of the district. Stocks of used cars also appear to be excessive. Part of this latter increase is seasonal but in most cases it reflects a more than seasonal decline in demand. There is only scattered evidence of an abnormal increase in furniture stocks and, even where they exist, the relatively large inventories are not regarded as seriously out of line. Part of the increase in appliance stocks can be traced to changes in models and design - and the failure of dealers to dispose of the old stock before receiving shipments of new models. In some lines, such as refrigerators, a seasonal factor is involved. Part of the imbalance between stocks and sales reflects the difficulty of moving off-brand items. Yet, after allowing for all these, it appears that the major factor accounting for larger inventories is the sharp drop in demand. It should be noted that, in cases where retailers' inventories are in fairly good shape relative to sales, this results from the fact that dealers have been refusing shipments, preferring, as they put it, to let the distributor and/or the manufacturer carry the inventories.

2. With the exception of the 1949 Chevrolet, few if any other makes of "used" new cars command a premium in the used car markets. This situation is reported in all parts of the district. Concessions are being made by some automobile dealers (on high priced or off-brand makes, or makes where new models are expected shortly), the concession usually taking the form of a slightly more liberal trade-in allowance than was being granted a few months ago. However, even in those cases the allowance is held somewhat below the NADA

(Bluebook) value. Scattered reports of merchandising concessions by furniture and appliance dealers were obtained but this practice by no means is general. In part the increase in trade-in allowances on new cars may be seasonal. To a larger extent it is a reflection of the decrease in demand, which in turn is attributed by many respondents to a widespread inability on the part of the potential customer to meet the monthly payments required under Regulation W. These respondents say that the down payment can be managed, particularly where a trade-in is possible, but the size of the required monthly payments is so large that many customers are eliminated from the market.

3. The banks and finance companies indicate that, while they are not particularly reluctant to handle retail instalment paper, they are screening applications with considerably more care now than they did a few months ago. Most banks apparently are not actively soliciting new accounts, although there are a few exceptions, but are continuing to service their old customers. Specific items mentioned by banks as being subjected to more careful scrutiny are radios and used cars. One finance company reported that credit granted on used cars is held to a level that is 10 to 15 per cent below the NADA level. It is interesting to note that, while banks and finance companies said they are growing more cautious, this tendency apparently has not impressed itself on automobile and appliance dealers who rather generally indicate that they are experiencing no increased difficulties in handling the paper through their lending agencies. Reasons given by the banks for the more careful examination of applications are (a) doubt with respect to the future price level, and (b) in some cases, to the employment outlook. One bank says 40 per cent of the applicants have been denied credit because they already have two or more other instalment loans.

4. Lending agencies generally are tightening credit lines extended to dealers for floor plan financing. This is particularly true in the case of automobile and truck financing but also is true of appliance dealers. In some cases it has been reflected in higher interest rates while in other instances the tightening has resulted in a reduction in the amount of credit extended. Generally, banks report they are continuing to serve their old accounts but are adding no new customers.

5. In almost all parts of the district, bankers report known instances of dealers being over-extended financially. Retailers, themselves, in some cases indicate knowledge of other dealers being over-extended. This condition apparently has been confined pretty much to smaller retailers, particularly those handling off-brand items in the appliance field. Where the credit picture is reported generally satisfactory, the reason given by the bankers is that over-

extensions are not present because they are watching the situation very closely and are reducing credit or cutting it off completely when the outstandings begin to get out of line. In a number of areas there are bankers who state they are and have been exercising increasing caution in making loans of this type, and at the same time report instances of dealers being over-extended. This appears somewhat inconsistent but it may reflect the fact that the market changed so rapidly, particularly in the case of refrigerators, stoves, and used cars, that an over-extended condition developed despite the bankers' screening of loan applications.

6. Since November, 1948, cutbacks in employment have occurred in Eighth District plants manufacturing refrigerators, stoves, automobiles and automobile parts, electrical equipment used in electrical appliances, and in some woodworking lines. Lay-offs that occurred since November in plants producing refrigerators and stoves largely reflect a decline in sales. Some of this decline is attributed to the fact that for the first time since the end of the war sales may have begun to return to their prewar seasonal pattern. Most of the decrease is believed to reflect (a) the exhaustion of the urgent demand and (b) increasing consumers' resistance or reluctance to buy. The reimposition of Regulation W is given as a third factor - one manufacturer noted that it was just the straw that broke the camel's back.

Inventories of refrigerators, at the manufacturers' and at the wholesale and retail levels, increased considerably in 1948. As a result, it is believed by the industry that 1949 production will have to move into consumption channels and not into inventories. How to increase consumption is a major problem. One leading stove company believes the answer lies in producing a stove that can be sold for less money. This solution is not regarded favorably by one refrigerator manufacturer who believes the answer lies in greater sales effort.

The lay-offs at automobile plants largely reflect model changeovers, although one plant reduced employment here as a part of a national curtailment program. However, production is expected to equal that in 1948. At the plants where model changes were the reason for reductions, employees are being recalled and full operations are expected by the middle of March. Employment cuts have occurred in plants manufacturing fractional horsepower motors widely used in electrical appliances. Inventories are large and it is hoped that these can be reduced sufficiently to permit a return to somewhat higher employment levels. Scattered cutbacks are reported in the furniture industry but as yet they are neither widespread nor extensive.

Although not specifically asked for by your letter, I am including a synthesis of opinion with respect to Regulation W.

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The principal opposition to Regulation W in this district comes from used car dealers. Opinion among appliance dealers is mixed and, while the majority are in favor of the regulation, specific modifications have been suggested. Bankers generally favor the regulation, although, again, some opposition is voiced. The limited number of finance companies contacted restricts the value of the opinion obtained, which in general favored the regulation with some modification. Furniture dealers' opinion largely favored the credit controls.

Specific proposals for changes in the provisions differ among the various groups involved. In the new automobile field it is felt that the down payment requirements are satisfactory but the pay-off period should be lengthened to 24 months. Appliance dealers favor the regulation but want the controls changed to permit them to deduct from the required down payment any trade-in allowance that is granted. These people report considerable difficulty on the part of customers in raising the down payment, but the monthly payments can be met.

We will develop information on the same questions and send it to you in early March in our regular quarterly report on significant banking developments.

Yours very truly,



Chester C. Davis,
President.