

FEDERAL RESERVE BANK OF SAN FRANCISCO

SAN FRANCISCO 20, CALIFORNIA

February 11, 1949

AIR MAIL

Board of Governors of the
Federal Reserve System,
Washington 25, D. C.

Dear Sirs:

Pursuant to the Board's request of January 27, 1949, for a supplemental reply to S-953 with regard to significant developments in the Regulation W field, we are enclosing a report furnishing answers to the questions enumerated in the Board's letter, together with a resume of views expressed by Directors of this bank including branches.

Yours very truly,



C. E. Earhart,
President.

Enclosure.

DEVELOPMENTS IN THE INSTALMENT CREDIT FIELD

1. Is there evidence of recent undue inventory accumulation?

There is definite evidence of undue inventory accumulation of regulated articles in this district although it varies materially in different areas. Inventories of used cars are heavy, particularly in Southern California. It has been reported that sales of used cars in the Los Angeles area are off an estimated 80 per cent from a year ago. Lack of demand, high asked prices, and to some extent consumer credit restrictions, are said to be the principal causes. The manufacturers of household appliances are exerting sales pressure, through their distributors, in an attempt to induce dealers to increase their inventory positions. A prewar practice of paying interest on the dealer's floor plan financing for the first 90 days has again appeared. In spite of this inducement, banks and finance companies which extend floor plan credit to dealers have been carefully watching the situation for some time for the purpose of preventing an undue accumulation of inventories by dealers in household appliances.

Furniture dealers attending the Western Furniture Conference at San Francisco, representing officers and directors of the retail furniture associations in eight western states, have indicated some concern about the accumulation of below standard furniture items acquired in the immediate post-war period. Efforts are being made through heavy advertising and price reduction sales to reduce these inventories. It appeared to be the consensus of this group that furniture now being produced and promised for the Fall season would be of considerably better quality over inventories now held but that it was anticipated prices could be maintained. A number expressed opinions that they are overloaded with radios of both the lesser and the better known makes which they were forced to accept in the past year in order to obtain mechanical refrigerators, electric ranges, etc.

This more or less compulsory over-buying by retailers has resulted in price reductions through outright price cuts or by the use of premiums in efforts to reduce what many consider a dangerous inventory position. A number have expressed the opinion that disposition of radios lacking the F-M feature will prove increasingly difficult.

There were numerous statements made by dealers attending the conference that they were adopting a position of "hand-to-mouth" buying until the situation becomes better clarified.

Increased sales effort by manufacturers and distributors of television sets has been reported in the Southern California area and some evidence of inventory accumulation is appearing. The same situation exists in the radio field. In the Salt Lake City branch zone household appliance and furniture dealers have reported that present inventories are approximately 50 per cent higher than usual.

While new car dealers generally do not appear to have excessive inventories practically all makes are available for immediate delivery and

definite slowness has been reported in moving Kaiser-Frazer, Hudson, and Mercury makes. In fact, Henry J. Kaiser Motors, distributors in the San Francisco Bay Area, claim that sales are less than half of the break-even point in cost of operation.

2. Are premiums still prevalent on "used" new cars and is there increasing evidence of price or merchandising concessions by sellers of controlled articles?

With the exception of Chevrolet, there are virtually no premiums on "used" new cars in this district at the present time. Recently when a new model has been introduced it has commanded a small premium for a short period. The new 1949 Chevrolet, which has been very favorably received by the public, is currently selling from \$200 to \$300 over list price. Dealers in new automobiles are presently giving a more realistic value to trade-ins and do not require the acceptance of unneeded accessory equipment. In most areas new cars of all makes are available for immediate delivery except Chevrolets.

In the household appliance field and to some extent in the furniture field there has been a marked increase of price concessions in the past two months. This is particularly true of off brand merchandise. Floor models of appliances, particularly washing machines and refrigerators, and demonstrators are being offered at substantial reductions. Trade-in allowances on used automobiles, household appliances, and furniture have increased materially. These increased trade-in allowances are being offered as inducements to sell new and accumulated merchandise.

This is believed to be not a seasonal or temporary situation in the opinions of most informants but rather a reflection of supply in the stated lines having reached a point approaching demand at the current price level. In the automobile field, however, a majority of registrants investigated or interviewed attribute a large share of the responsibility to the effects of Regulation W, claiming 18 months to be an unrealistic schedule for either new or late year used models.

3. Are banks and financing companies showing increased reluctance to handle any type of retail instalment paper?

Banks and finance companies are showing increasing reluctance to purchase or discount obligations arising from the instalment sale of household appliances, particularly television sets. In the case of television sets, the financing institutions regard the industry as not yet being seasoned. In addition to this, new and improved models are being offered at frequent intervals. This reluctance has also been noticed in a lesser degree in connection with the sales of used automobiles. In the Los Angeles branch zone some banks and finance companies have been reluctant to finance sales of used automobiles of the models of 1940 and older without a 40 to 50 per cent down payment and a 12-month credit period. In other cases it has been noticed that there is an increased trend toward pick-up payments to increase the buyer's equity in used automobiles. Some finance companies will not finance a prewar automobile without full recourse on the dealer.

Banks and finance companies claim that they are not generally refusing automobile paper which was acceptable one year ago but admittedly they are using far greater caution in the selection of risks and paying considerably greater attention to the financial position of the discounting dealer. Explanations offered include comments that the current economic situation appears to call for caution and that the employment level is declining, thus affecting collections.

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

There is a definite tendency for financing institutions to tighten credit lines used for floor plan financing and other wholesale transactions. Sales volume and inventories of dealers are being carefully watched by banks and finance companies and the tendency is toward restrictive credit for floor plan purposes. In the Northwest area banks, in particular, are endeavoring to require dealers to hold down their inventories to a turnover period of 90 days.

There appears to be a tendency to tighten credit lines extended under floor plan financing in California also. Several banks have indicated that they are unwilling to grant floor plan credits to dealers in Kaiser-Frazer automobiles unless the dealer is quite substantial. One large bank commented that while its policy was that stated above it had no dealer customers handling those makes of automobiles which were sufficiently substantial to meet the criterion.

There are reports from banks and finance companies in the Pacific Northwest that they are requiring their borrowing dealers to request the factories to divert automobile shipments to other localities since the banks are unwilling to expand their floor plan financing in view of what they consider to be sufficiently substantial inventories. In Utah it is reported that finance companies are refusing to increase earlier floor plan financing commitments and it is understood that a number of banks and finance companies have reduced their floor plan financing from 90 to 80 per cent of wholesale book value. There is evident throughout the District a definite tendency toward restriction of floor financing of used cars.

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

There appears to be an increase in the number of dealers in durable goods who are financially over-extended. This situation is perhaps most pronounced in the appliance field where the number of dealers, many of whom are under-capitalized, has greatly increased since the end of the war. This appears to be mainly attributable to the falling off of sales in certain areas during the past few months. Part of this decline in sales may be attributable to various strikes in this area, such as the water front and oil refinery strikes in the San Francisco area and the Northwest and the Kennecott copper strike in the Salt Lake branch zone. In Southern California the mortality rate appears to be increasing. One large dealer in household appliances, who operated eight stores in the Los Angeles area, has recently

made an assignment for benefit of creditors. Other smaller dealerships throughout the District are discontinuing business because they are unprofitable.

Many used car lots have suspended business or consolidated with others due to recently unprofitable operations coupled with a disinclination to acquire inventory at current prices in view of a more or less general view expressed by those dealers considered to be not unduly biased that the risk of further declines in the price of used cars is too great.

6. To what extent have there been lay-offs in manufacture and distribution of regulated durable goods and have such lay-offs resulted from recent sales declines or from other factors?

There has been no appreciable lay-offs by manufacturers of durable goods in this district although in California furniture manufacturers have curtailed operations. The significant decline in this field came before reimposition of Regulation W. In the Los Angeles area manufacturers of gas ranges and heaters have experienced more than the usual seasonal lay-offs. Distributors, on the other hand, are said to be increasing their employment figures in that area, particularly in the sales end of their business. Reports indicate that distributors recognize that there now exists a buyers' market for most durable goods items and that an increased effort will be necessary to move merchandise in the future.

The San Francisco Labor Market Summary for January 1949 commented that: "Most frequently reported lay-offs were in food processing, furniture, fabricated metals, machinery, and ship repair."

The Los Angeles Labor Market Summary for January 1949 stated that: "Household appliance firms, furniture, and radio companies are overstocked as the result of pre-Christmas market which did not meet expectations. Prices are the major factor in the slight contraction in automobile assembly plants."

On February 10 the California Department of Employment stated that the average weekly unemployment in the San Francisco Bay Area for January was about 86,500 and the estimate for February is about 93,000. Last year unemployment in that area stood at 61,000 in January and 63,200 in February. The Department's computation stated that one in ten employable workers in area is unemployed. The Department stated, however, that from recent interviews with employers it is indicated that few layoffs are planned in the next two to four months and it was stated that employment may not become any better in the near future but that it will not get any worse.

A spokesman for the Department stated to the press that the building industry slump has been reflected in the state's lumber areas and that carpenters, plumbers, electricians, and other building workers have been released in increasing numbers. At the same time it was announced that for the week ending February 3, a total of 383,348 persons asked for unemployment insurance benefits in the State of California, which was 127,899 more than for the same period last year. In the San Francisco Bay Area the total number of applicants was 65,630 as against 43,721 for the same period in 1948.

It should be mentioned, however, that the latest figures available (December 1948) indicate a slightly higher manufacturing employment in the State of California than in the comparable month of the previous year, due to a further population influx and other factors. There was, however, a slight decline in the San Francisco area in manufacturing employment.

COMMENTS OF DIRECTORS REGARDING REGULATION W

Comments of our Head Office and branch directors at a joint meeting held in San Francisco on February 2 and 3 showed a consensus expressing a dislike for Federal controls of the Regulation W type but stating a general belief that the Regulation has proved of value and can continue to prove of value by maintaining strict terms which may tend to lower prices, which is preferable to the possibility of maintaining prices by more liberal credit granting. The opinion was expressed by the directors that the current declines in sales in various lines were not directly attributable to the effects of Regulation W. The thought was expressed by some directors that it was evident that the supply of consumers' goods had reached demand levels in all except a few automobile lines.