FEDERAL RESERVE BANK OF DALLAS

HAROLD R. DEMOSS
VICE PRESIDENT

February 12, 1949

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

Attention: Mr. S. R. Carpenter
Secretary

Gentlemen:

There is transmitted herewith a memorandum summarizing a spot survey of the effects of Regulation W upon inventories, employment, and credit, prepared in response to the Board's letter of January 27, 1949.

Yours very truly,

Vice President

INTERIM REPORT

PREPARED IN RESPONSE TO BOARD'S LETTERS OF JANUARY 27, 1949, AND S-953

In response to the Board's letter of January 27, 1949, a spot survey was made of businesses located in the principal trading centers of this district. The breakdown of the sample by types was as follows:

Automobile	20
Household Appliances	6
Department Stores	4
Furniture	13
Banks	8
Sales Finance	20

The following summary represents a concensus of the responses obtained. Those replies which represented extremes on either side of the common pattern were disregarded in the summary.

1. Seventy-five per cent of 29 vendors of listed articles reports recent undue inventory accumulation in one or more articles. Inventory position for individual articles ranged from moderately to acutely heavy. Articles which were reported to be in undue supply listed in the order of the degree of their over supply are: Washing machines, cooking stoves, refrigerators, radios, and furniture. This top-heavy inventory position was reported to have been the result of a sharp decline in sales which began with the month of October 1948, whereas replacements had been ordered upon basis of earlier sales volume.

2. Prevailing premiums on new "used" cars are as follows:

Chevrolet	$200 to $500 (1949 models only)
Ford	$100 to $200 (1949 models only)

The supply situation is reported tight for Cadillacs, Pontiacs, and Plymouths. However, deliveries are generally being made by franchised dealers for the above makes at list price without being tied to a "trade-in" or conditional upon the purchase of accessories.

There is evidence of widespread and substantial concessions in the price structure on appliances. Concessions in connection with furniture, used cars, and such new cars as Kaiser, Nash, Hudson, Chrysler, Packard, and Mercury are broad and sizable. Such concessions generally take the form of direct price reductions, over-valuing of "trade-ins", "gift merchandise", etc, featured by promotional advertising. Such tendencies are interpreted to be larger and more widespread than can be accounted for by normal seasonal or other temporary influences.

3. Banks and finance companies generally have materially raised credit requirements on retail instalment paper. While offerings are more carefully investigated and screened, no noteworthy reluctance was reported to purchase all paper qualifying to the more stringent credit terms being imposed.

4. Financing institutions have materially tightened terms on advances to dealers for floor plan and other wholesale financing. Advances to some dealers handling higher priced cars and "used" car dealers generally are unattractive to an increasing number of lenders.

5. Reports are more frequent that dealers in durable goods lines are becoming financially more extended. "Used" car and appliance dealers are beginning to suffer acutely from decline in sales; many are undercapitalized and lacking in business experience; finally it is felt that there are too many dealers in used car and appliance field for normal peace times. About one-fourth of the financing institutions contacted reported that the failure of certain isolated debtors engaged in these lines was imminent.

6. The number of plants located in this district manufacturing regulated durable goods is quite limited. One such manufacturer reports a 10% layoff of employees and five-hour cut back in the work week. No reports were received of noteworthy layoffs in the field of distribution. On the other hand some relatively small gain in the numbers employed was reported as certain dealers recruited sales staffs to levels required by a "buyers" market.

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Regulation W came up for an extended discussion at a joint meeting of the boards of directors of the head office and branches of this bank on February 10, 1949. It was the concensus of the group that request should be made for the temporary extension of the regulation over, say, a 2-year period. In the meantime it was the predominant view that the down payment and maturity provisions should remain unchanged. It was felt that the government should terminate as many regulations as possible and that Regulation W should be dropped just as soon as safe to do so in the light of inflationary considerations.

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Some 80% of the firms contacted on this survey expressed a hope that regulation would be continued beyond June 30, 1949. However, a predominant number of such firms conditioned this view upon the assumption

that terms would be liberalized. A concensus of automobile dealers and financial institutions expressed a hope for lengthening of terms to 24 months with no change in down payments. On the other hand a concensus of appliance and furniture dealers desired a reduction in down payment on Class B articles to 10%.