

C O P Y

FEDERAL RESERVE BANK  
OF NEW YORK

February 15, 1949

Re: Consumer Instalment Credit

S i r s:

Pursuant to your letter dated January 27, 1949, we enclose two copies of an interim summary of our survey covering tendencies in the durable goods and instalment credit business in the Second Federal Reserve District. We will forward a complete report of the results of this survey with our next quarterly reply to your letter S-953.

Very truly yours,

(Signed)  
Walter C. Warner,  
Acting Manager, Credit Department

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

Encs.

C O P Y

The following is a summary of recent tendencies in the consumer durable goods and instalment credit fields in the Second Federal Reserve District.

The various questions asked in the Board's letter dated January 27, 1949, and our replies thereto based on our partial findings to date are as follows:

1. Q. 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?
  - A. There are indications of inventory accumulations in varying degrees in all types of regulated articles, except in the lower priced Ford, Chrysler and General Motors' cars. In some cases dealers report rumors of inventory accumulating rapidly at the manufacturers and also at points of distribution. In this connection a large manufacturer of electrical appliances is endeavoring to stabilize annual production to prevent periods of inactivity and inventory is being accumulated in anticipation of seasonal volume. Large furniture dealers do not appear to have experienced any undue accumulation of inventory.
  
2. Q. 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?
  - A. There is little evidence that premium payments are still prevalent for "used" new cars. Some sales of Fords and Chevrolets are reported to have been made at premium prices but such sales are few and appear limited to these particular makes of cars. The delivery period for most new automobiles has shortened considerably and, no doubt, is an important factor contributing to the elimination of premium payments. The lack of consumer interest in the used car field during the past few months has resulted in a substantial reduction in the used car prices, generally.

In the new car field, Kaiser-Frazer, Nash and Hudson, and some franchise dealers of other higher priced cars have been seriously affected by a decline in sales volume, and in some cases are offering inducements in the form of discounts and liberal trade-in allowances to activate sales volume. In the trade the decrease in sales volume is attributed to one or more of the following factors: (1) seasonal influences which will correct themselves in the next few months; (2) satisfaction of a more urgent postwar demand; and (3) the burden of the payment schedule imposed by Regulation W.

The uncertainty of employment potentialities, the absence of overtime wages and expectation of lower prices in the future are also factors which are believed to have contributed to the fall-off in the demand for some makes of automobiles.

Generally, furniture dealers report a sharp decrease in sales activity since the imposition of the regulation. Since September 20 they have experienced a noticeable decrease in volume compared with the same period a year ago, and have exercised caution in making future purchase commitments. Efforts are being made to bolster sales in the form of discounts, clearance sales and liberal trade-in allowances. Registrants in these quarters feel that Regulation W has adversely affected sales volume but many also recognize that there are other factors in the economic picture which have contributed.

Conditions in the appliance field are substantially the same as in the case of the furniture houses. Volume is off and every effort is being made to stimulate sales by offering discounts, liberal trade-in allowances and clearance sales. In this field deluxe models of various articles of durable goods are particularly slow moving. Washing machines being one of the most difficult articles to dispose of and we understand a large manufacturer of washing machines has under consideration a plan by which it proposes to lease machines at a stipulated monthly rental in order to reduce inventory. In this field higher priced radios and combination radio-phonograph sets burden the average merchant and substantial price concessions, discounts and trade-in allowances are advertised daily in local newspapers in an effort to increase volume. In this connection, we have been informed in some quarters that the market for radios softened as early as April 1948. In Newark, New Jersey, several dealers have an arrangement by which they buy various items of merchandise from one another in order to clear inventories rather than to reorder the item from the manufacturer.

In general, based on our preliminary survey, it would appear that the decline is something more than a seasonal one in appliance and furniture lines.

3. Q. Are banks and finance companies showing increasing reluctance to handle any type of retail instalment paper? What explanations are offered for such tendencies?
- A. Banks and finance companies report that they are exercising greater care in screening credit risks, but there is no indication of reluctance to handle any special type of instalment paper with the exception of one instance where a sales finance company discontinued financing radios in April 1948 as the result of the market conditions. Financial institutions generally report a decline in applications for credit and attribute this condition to the uncertainty of buyers in respect of future employment prospects; also their expectation of price reductions in many lines of consumer goods.

4. Q. Is there any tendency for financing institutions to tighten credit lines extended to dealers for floor plan financing or other wholesale transactions?
- A. In general, there has been an increase in the number of dealers seeking floor plan accommodation and one informant was of the opinion that this trend was due to larger inventories rather than to unfavorable developments in the financial condition of the dealers. One of the largest financing companies in the country reported a "tremendous" increase in their average outstanding investment in wholesale financing over the investment prior to the regulation. This condition was attributed not so much to the greater number of dealers under wholesale financing but rather to the slowness of turnover which resulted in maintaining an investment in a unit for a greater length of time. There did not appear to be evidence that the financing institutions were generally tightening credit lines, but inventory situations are being carefully appraised to prevent losses.
5. Q. Are reports becoming more frequent that dealers in durable goods lines are financially over-extended?
- A. On the basis of the preliminary survey we have not received any reports that the increasing inventory situation is resulting in financial embarrassment to dealers, generally.
6. Q. To what extent 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.?
- A. There are indications in material made available to us that there has been a moderate decrease in the over-all employment in the Second Federal Reserve District during the past few months but this situation has not been concentrated in any particular activity and does not appear to have reached serious proportions. Informants in Bridgeport, Connecticut, have reported that several factories manufacturing a variety of products not limited to regulated articles have either stopped or curtailed their production operations. Other reports indicate operations in some plants to be on short-work weeks and that overtime payments are singularly absent from workers' wages. Production in a number of furniture factories in Jamestown, New York, has been sharply reduced due to decreased sales volume and heavy inventories. Inactivity in some of the automotive and appliance plants in this District has been attributed by our informants to retooling operations.