Special Report
to the Board of Governors

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May 29, 1951

POSITION OF CONSUMER DURABLE GOODS

The recent levelling off in prices has reflected further increases in supplies of goods as well as reductions in buying from the peak rates reached earlier this year. This shift in supply-demand relations has been especially noteworthy in the field of consumer goods and particularly in the durables area, including passenger cars, appliances, and television. Also, there apparently has been some softening in the demand situation for new houses. These goods had been produced and purchased at new record rates in 1950 and early this year, partly in anticipation of shortages which in fact failed to develop.

Recently output of these goods has probably been curtailed as much by reduced demand as by increased use of resources for defense production. So far employment decreases in these lines have been fairly moderate as hours have been reduced and some plants have transferred employees to defense work. Manufacturers of most consumer durables have generally maintained their prices but the downward pressure on their retail prices has become more pronounced. Evidently lenders have tended to be more cautious about extending credit for carrying more of these goods but as yet no great pressure to liquidate stocks has developed since most business interests have regarded the current large supply of these goods as a temporary

Note: This report was prepared by the Business Conditions Section. The separate attached material based on secret information from the automobile companies should not be publicly referred to in any way.

situation. A more detailed account of recent changes in sales and stocks of household goods and autos is presented beginning on page 9.

General economic situation

So far there is no evidence that reduced activity in the consumer durable goods industries has resulted in any reduction in total production, total personal income, and aggregate employment. The Board's industrial production index, according to preliminary indications, was maintained at a level of 222 in April and May. Total personal income apparently has advanced slightly further this year to an annual rate close to 245 billion dollars, reflecting in part further increases in wage rates. Aggregate employment in non-agricultural establishments increased slightly further in April as a continued gain in employment in defense and related activities offset moderate declines in consumer goods lines. Unemployment in early April declined to 1.7 million, one of the lowest levels reached in the past decade except for the war years.

Demand for metals, construction goods, and producers equipment is less active than earlier this year but unfilled orders for these goods and commitments for military equipment have increased and are very large. Military purchases of such supplies as textiles and shoes have been below the volume of earlier trade expectations, but they are scheduled to increase again after July 1. Federal purchases of materials for strategic stockpile purposes have been less active.

With over-all stocks of goods further replenished by the earlier high rates of buying and output, consumers as well as

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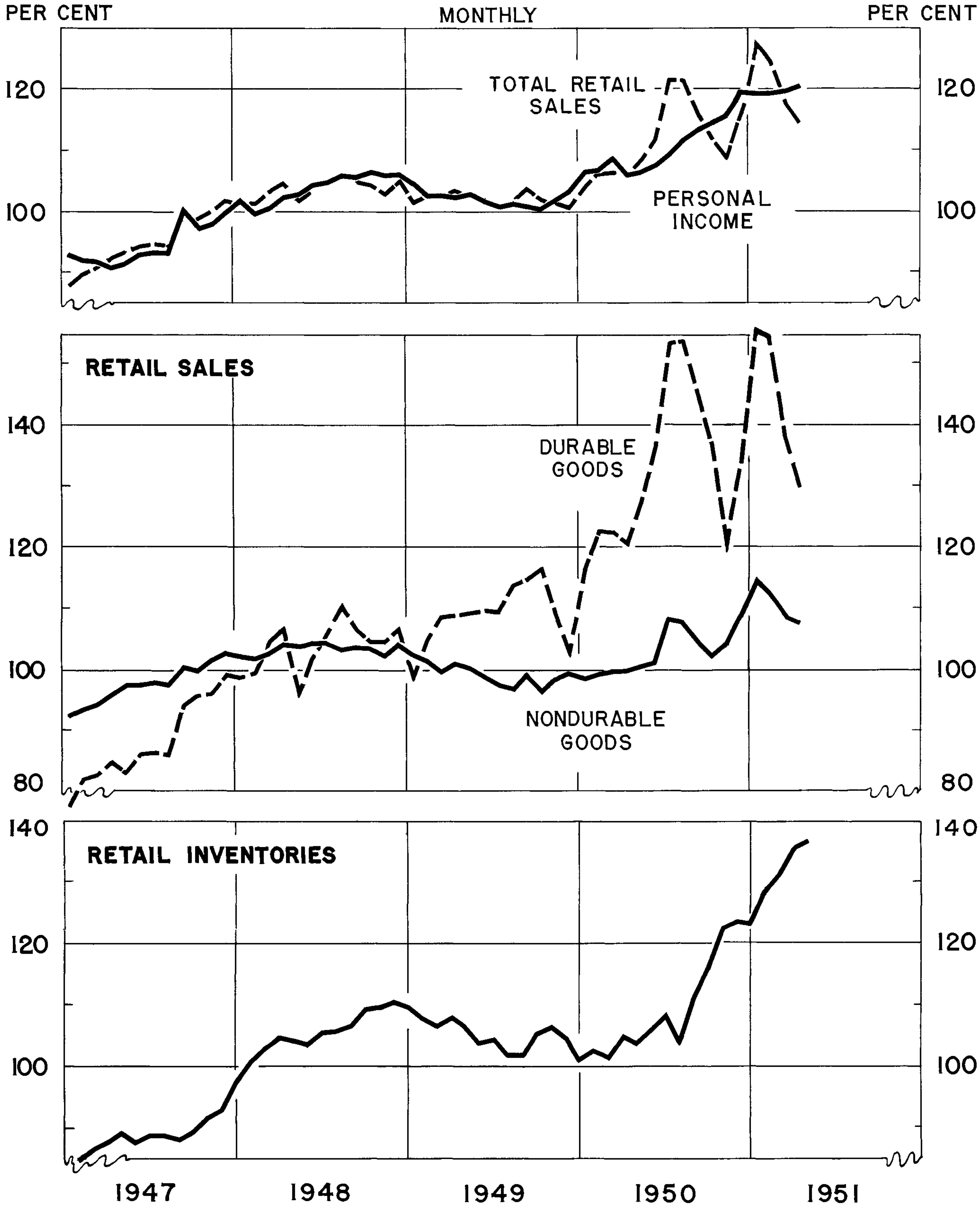
distributors are now less susceptible to scare buying influences than during either the winter or last summer. Incomes are now showing little increase in contrast to the rapid rise last year. General credit conditions are not so easy as at that time and direct price and wage controls are now generally in effect.

The initial impact on demand for materials of the greatly expanded programs for industrial plant and capacity occurred during the autumn and winter months. Further progress on these programs will continue to contribute to strength in the markets for materials and labor. At the same time, however, their progressive fulfillment will be adding to the nation's supplies of both basic materials and facilities to produce and distribute goods and services. These and various other developments discussed below indicate that the present reduction in buying is having important restraining effects on prices, incomes, and production. Also, the present reduction in buying has lasted longer than the lull last autumn and little shift in the situation appears imminent, although any serious heightening of international tensions would probably strengthen demands generally.

It is now evident that during most of the past 12 months production for consumers has been at a rate somewhat in excess of consumer buying. It is also evident that the current rate of consumer buying is below the average relationship to incomes before or after taxes prevailing in recent years. This is shown for income before taxes in the following chart by preliminary April figures -- figures for May are expected to show little change.

INCOME AND RETAIL SALES AND STOCKS

1947-49=100, SEAS. ADJ.



The annual rate of personal incomes is about 28 billion dollars higher than a year ago. Personal tax payments, however, are estimated to be at an 8 billion dollar higher rate so incomes after taxes are up 20 billion dollars or about 10 per cent. This is approximately the same percentage rise as that shown by the level of consumer prices. As a result, the real purchasing power of consumers' incomes is apparently little, if any, larger than a year ago.

The easing in the demand and supply situation has resulted in declines in prices of materials but it has not brought any reduction in the average level of consumer prices -- only the food group has declined slightly. In the case of consumer durable goods, retail price decreases have been largely in less popular models of products and in used cars. Production of numerous consumer goods has been reduced by demand influences, but, with the major exception of television, most manufacturers have maintained output at not much below the limits of material supplies and have not reduced prices to stimulate demand.

A cut-back in buying of the extent that has occurred since January is probably somewhat larger than is likely to continue over a longer period, if consumer incomes remain at present levels or if they expand further. Presumably, the direct effects of large-scale defense expenditures on consumer incomes and output of consumer goods are closer at hand than they were last autumn. So long as these and other developments are expected to bolster over-all demands close to supply limits and eventually to create shortages, producers and distributors are likely to continue to be willing holders of large inventories -- within limits set by warehouse space and financial resources. The recent shift in bank lending policies and interest rates has apparently made for less willing holders of goods.

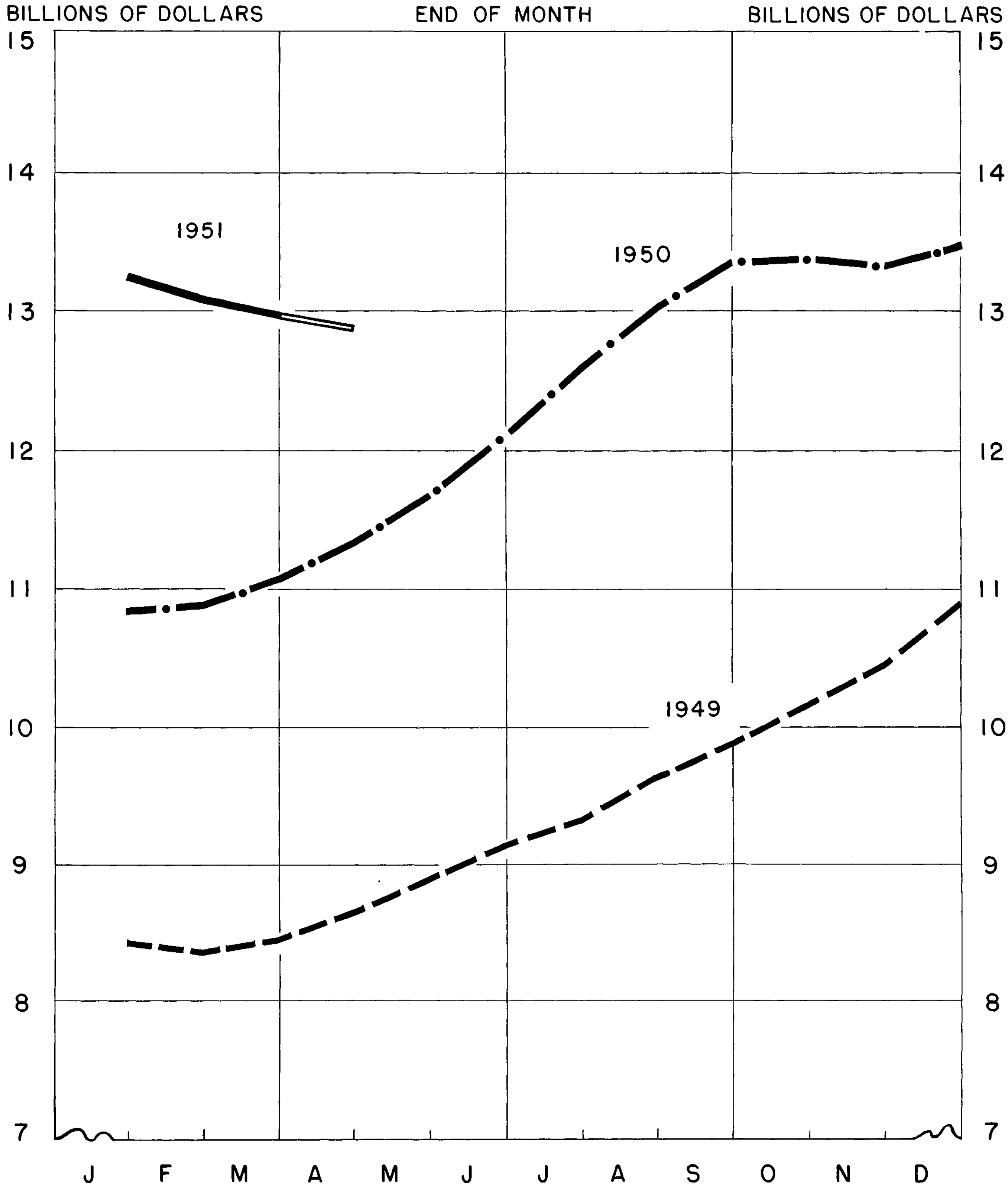
Shifts in retail sales

Dollar sales at department stores in the past six weeks have been only about 5 per cent larger than during the corresponding period a year ago and 15 per cent below the January seasonally-adjusted peak. Total retail sales have declined by a smaller amount since January than sales at department stores, reflecting mainly the more sustained level of demand for foods and various other goods not sold in volume at department stores. Probably the most important shift in the retail sales picture since last winter has been the counter-seasonal decline in new passenger car sales from the unusually high rates reached at that time.

The total value of sales at both durable and nondurable goods retail stores, as indicated in the middle section of the preceding chart, is still above last November's reduced levels. This higher level, however, does not indicate an increase in the physical units sold because prices are higher, from 4 per cent for new cars to 8 per cent for foods and 14 per cent for carpets. The value of retail inventories, shown in the bottom section of the chart, has risen further since last November to a level about one-third higher than a year ago, with prices of goods up about 12 per cent.

Declines in retail sales since January reflect in part a further reduction in instalment purchases. As shown in the following chart,

INSTALMENT CREDIT OUTSTANDING



the amount of instalment credit outstanding levelled off in the fourth quarter of 1950, and this year outstandings have declined by an average amount of 150 million dollars per month. Outstandings are still at a high level, however, and the preliminary estimate for the end of April, 12.9 billion dollars, is about 1.6 billion above a year ago.

The average level of retail sales over the past year has been substantially higher -- about 9 per cent -- than in the first quarter of last year. Possibly three-fifths of the increase has reflected higher prices, so the increase in quantity of goods purchased by consumers has been about 4 per cent. Meanwhile, however, throughout the period production has shown a larger increase, as indicated by the fact that inventories have generally expanded. After allowing for higher prices, the physical volume of stocks held at retail stores has probably risen about one-sixth since the first quarter of last year.

Production developments

A major development this year was the sustained high level of consumer goods output through the first quarter of this year, in contrast to expectations last autumn that production of some major items would be curtailed considerably by material shortages before the end of 1950.

The marked growth in output of most consumer goods from early 1950 to the first quarter of this year is shown in the following table. Most of the increases shown in output occurred by last autumn. From that time to March, production of consumer durable goods levelled off or declined somewhat, while output of nondurables increased somewhat further. Output levels achieved beginning last autumn permitted one of the largest over-all accumulations of stocks of these goods -- by consumers and distributors -- on record.

Since March, output of consumer nondurable goods has been generally maintained while production of durable consumer goods has been generally reduced from first quarter levels, reflecting a mixture of declining demand influences and Federal restrictions on civilian use of materials. These recent declines for passenger cars -- output of which in April and May has been 4 or 5 per cent below first quarter levels, and for household durables -- which have shown larger declines -- are discussed below in the separate sections relating to market developments for these products.

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Production of Major Consumer Goods

Product	Percent increase from 1st qtr. 1950 to 1st qtr. 1951
Durable	
Passenger cars	19
Auto replacement parts	30
Passenger car tires	-12
Household goods	15
Carpets and rugs	3
Furniture	11
Major appliances	4
Radios	40
Television	37
Jewelry and silverware	15
Toys and sporting goods	25
Nondurable	
Apparel and household textiles	9
Shoes	2
Manufactured foods	3
Dairy products	- 4
Meat	1
Flour and bakery products	4
Processed fruits & vegetables	15
Confectionery	3
Alcoholic beverages	32
Tobacco products	5
Drugs and medicines	20
Soap	15
Household papers	16
Printing and publishing	4

Federal Reserve estimates.

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Household durables

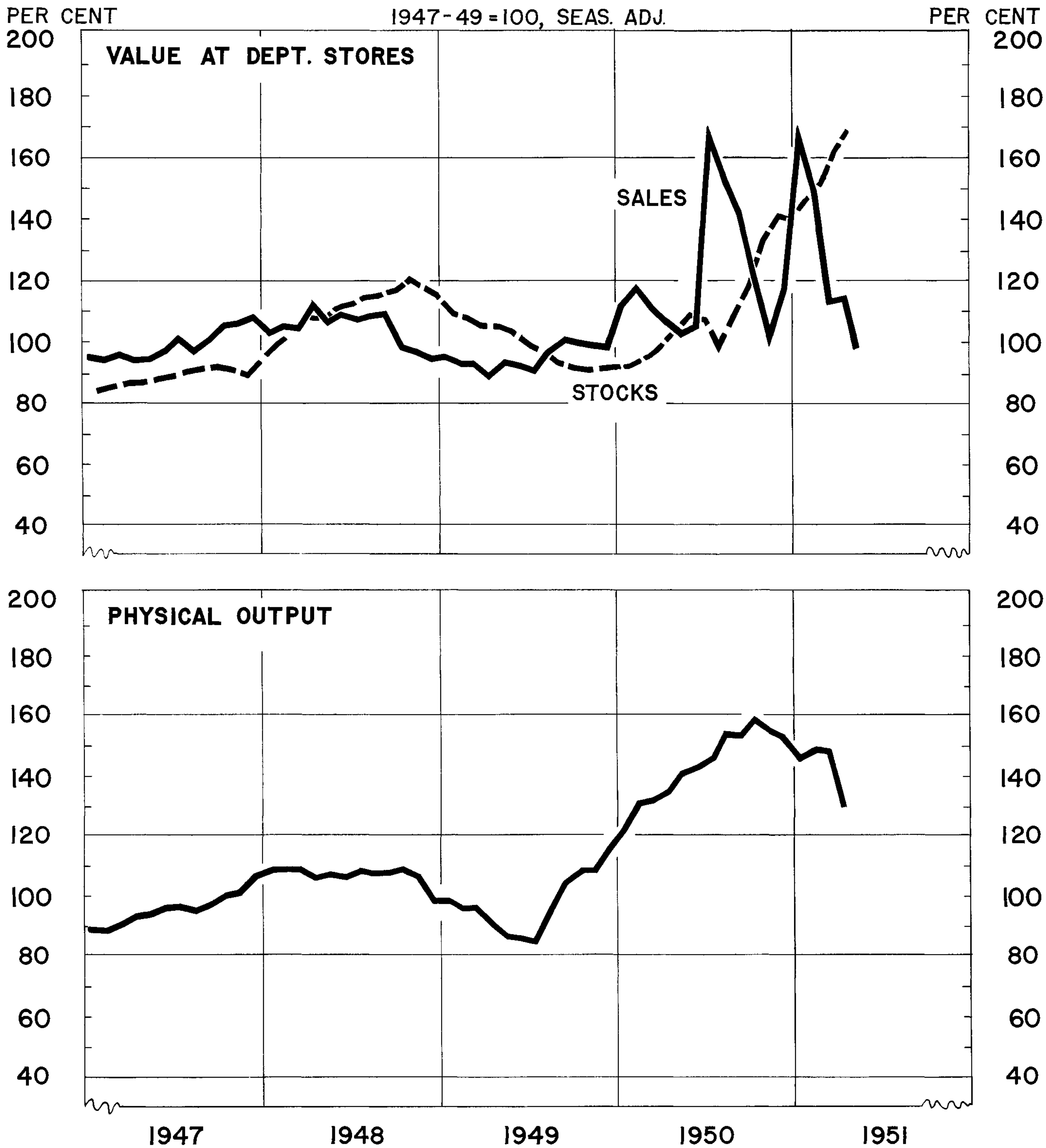
Retail sales of household durable goods, both before and after allowing for seasonal influences, have fallen off sharply from the peak rate reached in January. Seasonally adjusted dollar sales of these goods are at about last November's reduced rate, as is shown in the following chart based on department store figures. (Sales of these goods by furniture and radio and appliance stores have exhibited approximately similar changes during the period shown in the chart. Direct factory sales of major appliances to building contractors have increased more than retail sales since 1947 and 1948.

Instalment buying of household durable goods has declined substantially from January levels. Since the middle of 1950 there has been a marked decrease in instalment sales relative to cash sales of appliances and other household goods.

Although retail prices of household durable goods have shown increases from year-ago levels ranging from about 10 per cent for appliances to 45 per cent for carpets, the value of sales of these goods at department stores during the past four weeks has been running 5 per cent below year-ago levels.

Total output of household durables, shown in the bottom section of the following chart, was down only moderately in the first quarter from the record level reached during the second half of last year. Preliminary information for April indicates marked decreases in output of some items. It is fairly certain that these cuts reflect more the recent easing in demand rather than shortages of materials as stocks of goods accumulated at factory warehouses and distributors.

HOUSEHOLD DURABLE GOODS



For most products retailers have cut back their buying even more than buying by consumers as retailers' stocks have increased considerably. The earlier rise in their stocks of household durables was slowed down by the marked increase in consumer buying at the beginning of this year. But since January stocks have risen again, and at department stores the value of these stocks at the end of April was 62 per cent higher than a year ago and equivalent to about 6 months' sales at the rate of sales prevailing in April, as shown in the table below.

Household Durable Goods
at Department Stores

Product	Per cent increase from Apr. 1950 to Apr. 1951		Equivalent number of months' supply as of April 1951
	Sales	Stocks	
Total 4 departments	6	62	5.8
Carpets & rugs	26	55	6.3
Furniture	19	36	5.0
Major appliances	-16	89	6.8
Radios & television	-22	185	7.7

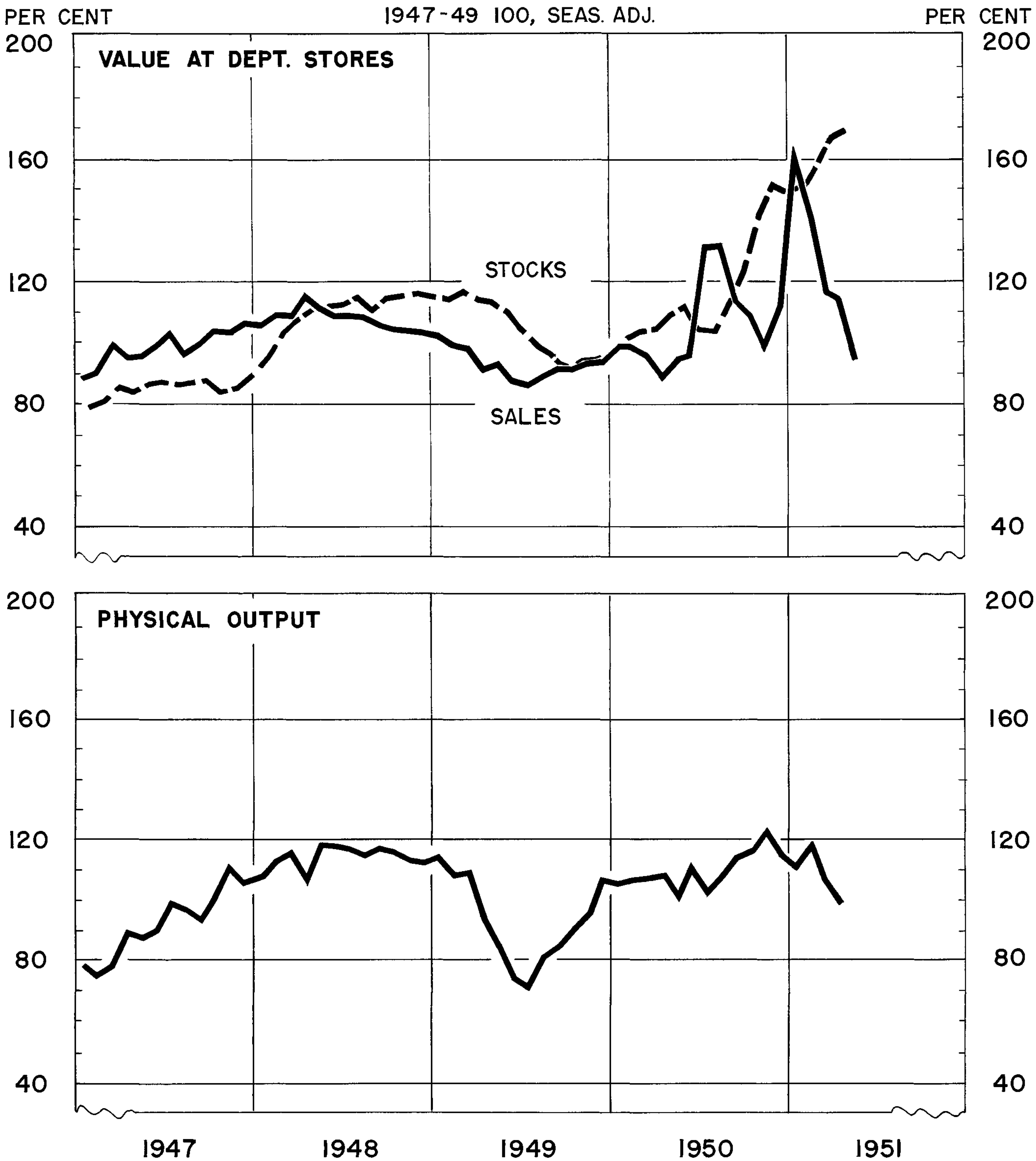
Note: Months' supply based on April sales figures.

The relatively higher levels shown for dollar sales of carpets and furniture reflect partly the greater advance in prices of those goods and partly less anticipatory purchasing of those goods. Allowing for the smaller advances in prices of appliances and television, it is evident that the growth in physical stocks of these goods has been much greater than the increase in stocks of carpets and furniture. Changes in the value of department store sales and stocks and total output of these various products are shown in the following four charts; the latest sales figures shown are estimates for May, while stocks and output data are preliminary figures for April.

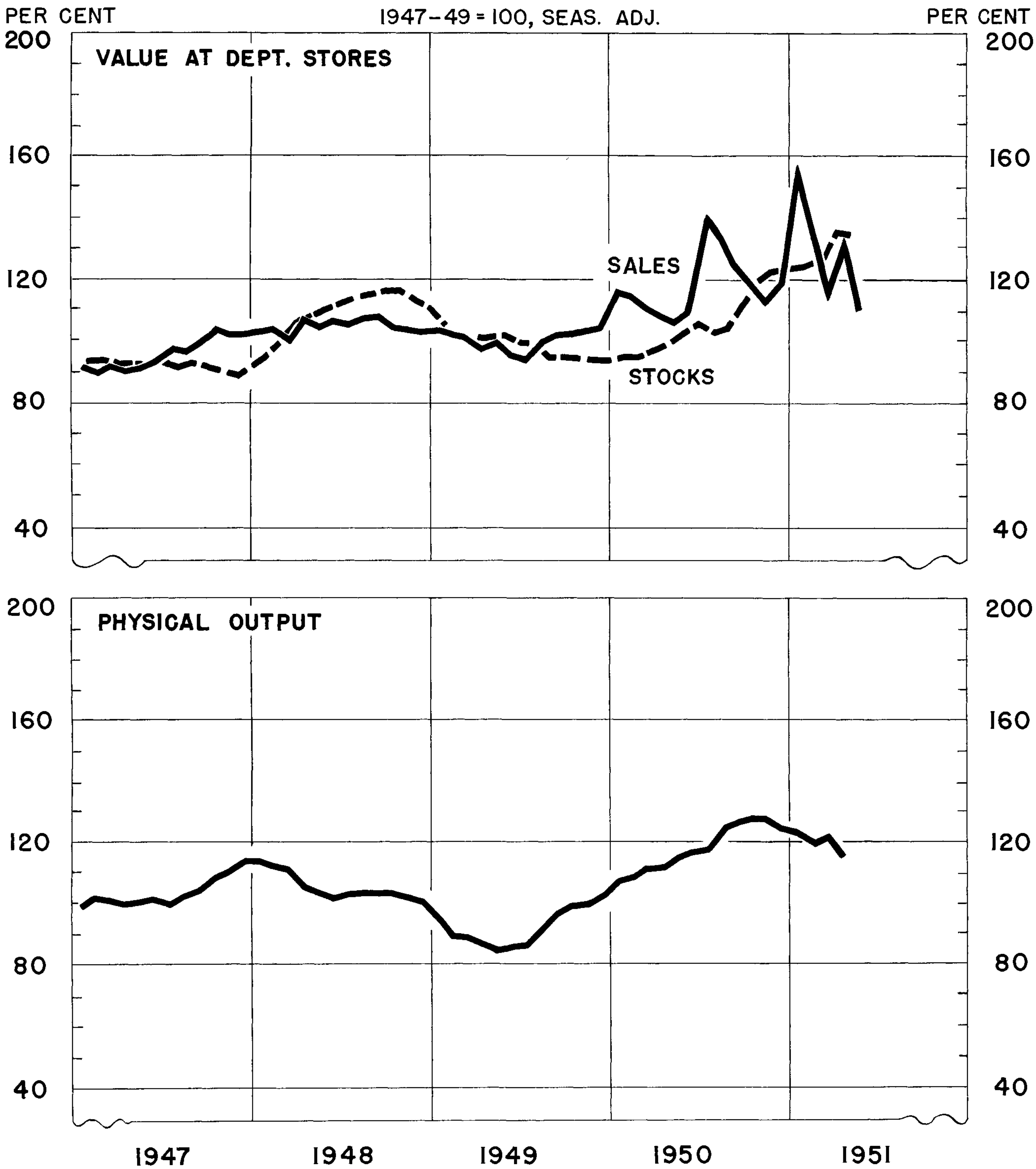
Television has probably been the most important product in excessive supply. Despite a series of public announcements beginning last autumn of prospects of imminent large cuts in output because of the defense production program, television output was maintained at a level of 180,000 sets per week (equivalent to an annual rate of 9 million) until mid-March. Owing to the large accumulation of stocks held by retailers, wholesalers, and manufacturers, production was cut to an annual rate of 4 million in May and employment layoffs were fairly marked in this industry. This was a reduction in output of 60 per cent and partly of a seasonal nature. Even so, output in May was 30 per cent lower than a year ago. Since the early part of May some upturn in output has been reported. Radio production, shown in combination with television on the fourth chart, has been reduced only moderately this year and in May was 10 per cent larger than a year ago.

Some television manufacturers have reduced prices and are returning to the production of smaller sets, while others are stepping up sales promotion drives. Decreases in television prices have been mainly at the retail level. Downward pressure has also been evident in the markets for refrigerators, carpets, and most other household goods.

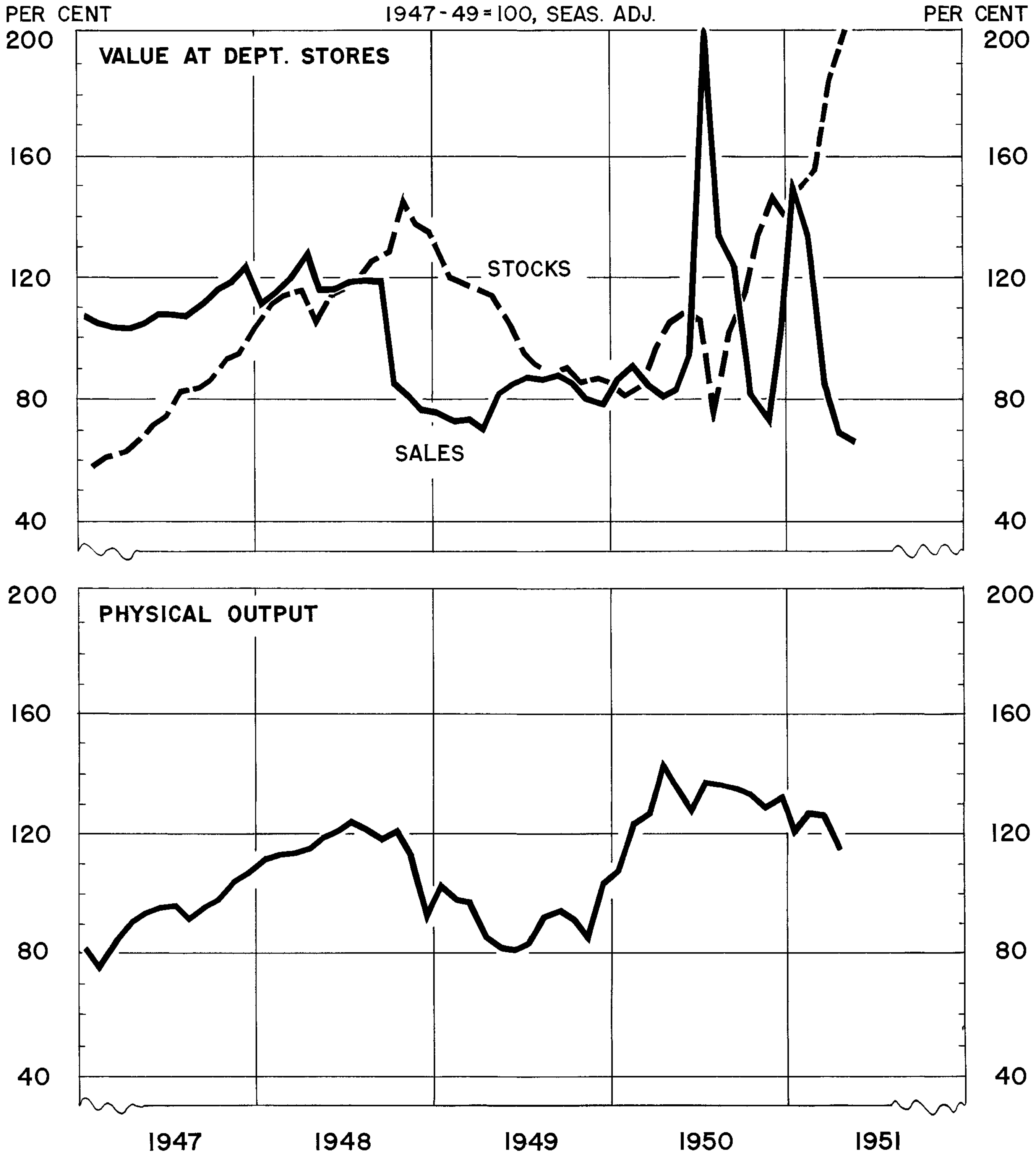
CARPETS AND RUGS



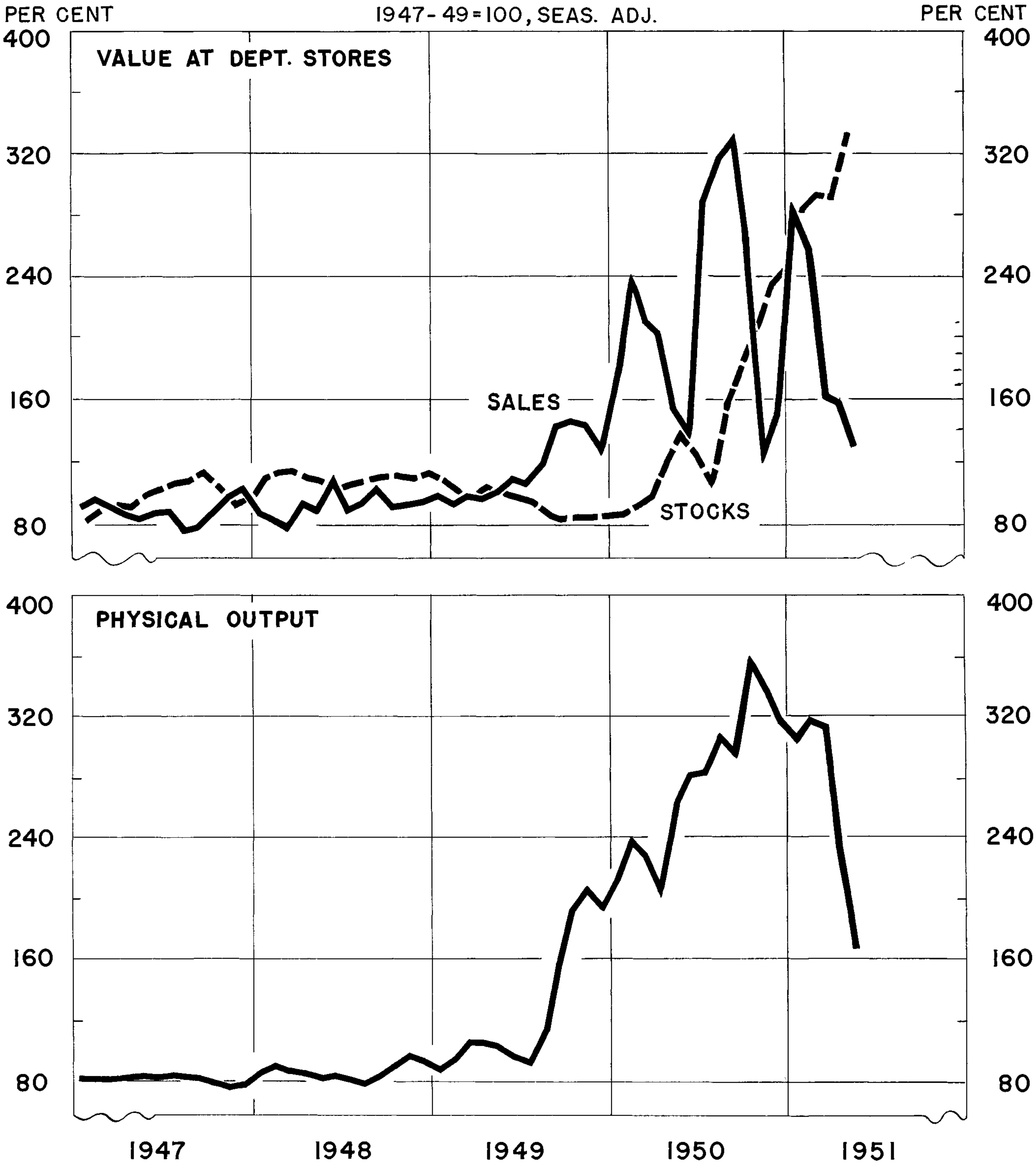
FURNITURE


PER CENT
1947-49 = 100, SEAS. ADJ.
PER CENT
200
VALUE AT DEPT. STORES
160
SALES
120
STOCKS
80
40
200
PHYSICAL OUTPUT
160
120
80
40
1947
1948
1949
1950
1951

MAJOR HOUSEHOLD APPLIANCES



RADIOS AND TELEVISION



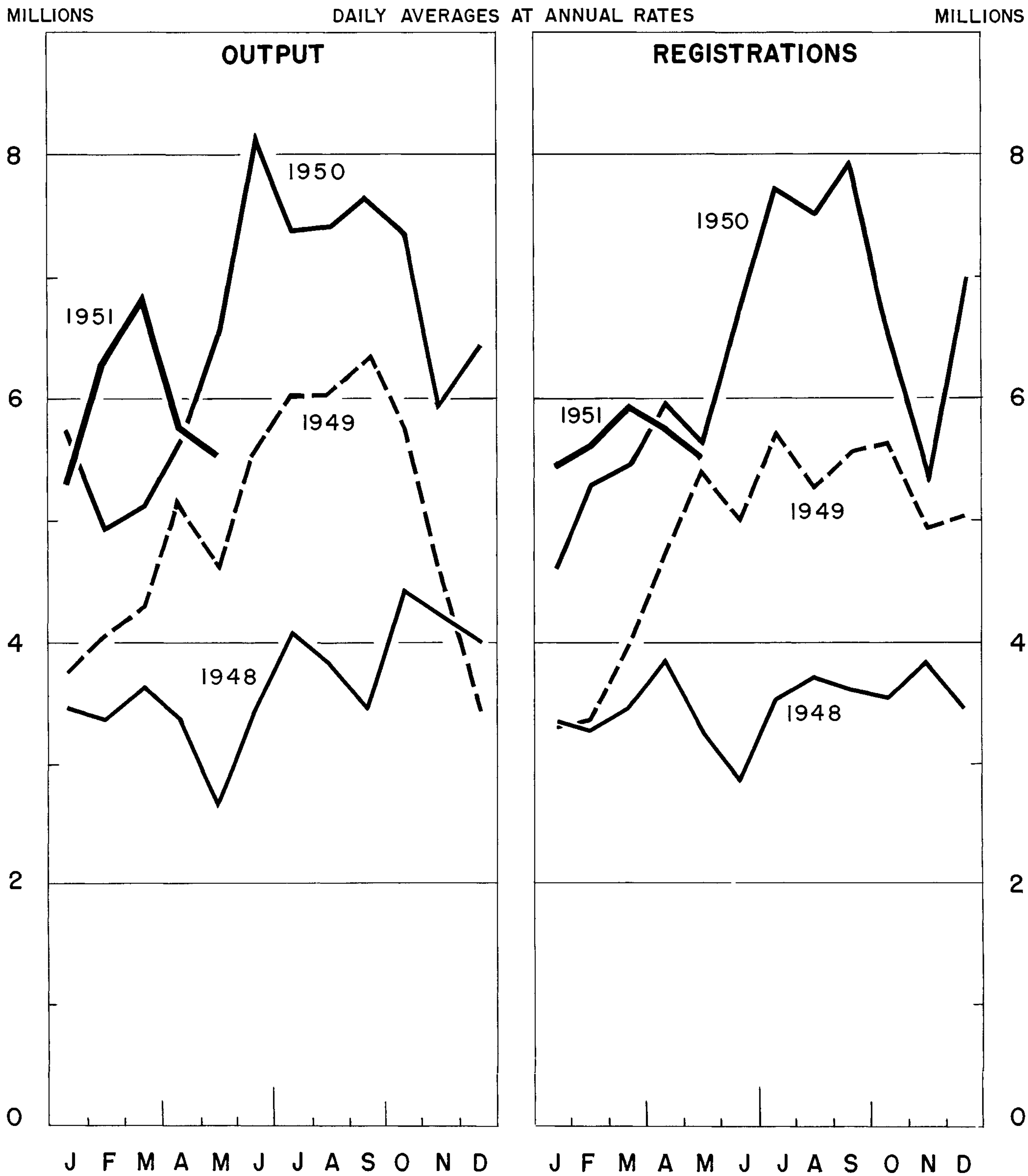
Passenger cars

Demand for new passenger cars has until recently been sustained at relatively higher levels than has demand for household durables. During the latter part of February and early March there was an expansion in new car buying reflecting mainly prospective advances in Federal ceiling prices and proposed large increases in excise taxes. Since that time the further general moderation in consumer demands has been evident also in the markets for both new and used passenger cars. Prices of used cars have shown marked decreases from earlier high levels and sales of most makes of new cars have levelled off or declined since the early part of March, although usually there is an expansion in demand at this season of the year.

Sales of new cars for the industry as a whole remained above the advanced levels prevailing a year ago during the first quarter, as indicated by new car registration figures plotted in the right panel of the following chart, but have since fallen off about 10 per cent. Most makes of cars are available for delivery immediately or after only short delay and trade-in allowances are larger than earlier this year, although probably still below more normal relationships. Inasmuch as most producers, dealers, and consumers had anticipated that by this time sharp reductions in output of new cars would be creating shortage conditions, part of the current weakness can be attributed to the failure of these earlier anticipations to be realized.

During the first quarter cash sales were apparently more important than instalment sales in sustaining new automobile demand. The number of new cars financed in the first quarter of this year was about 15 per cent below the corresponding period in 1950. Instalment sales as a proportion

NEW PASSENGER CARS



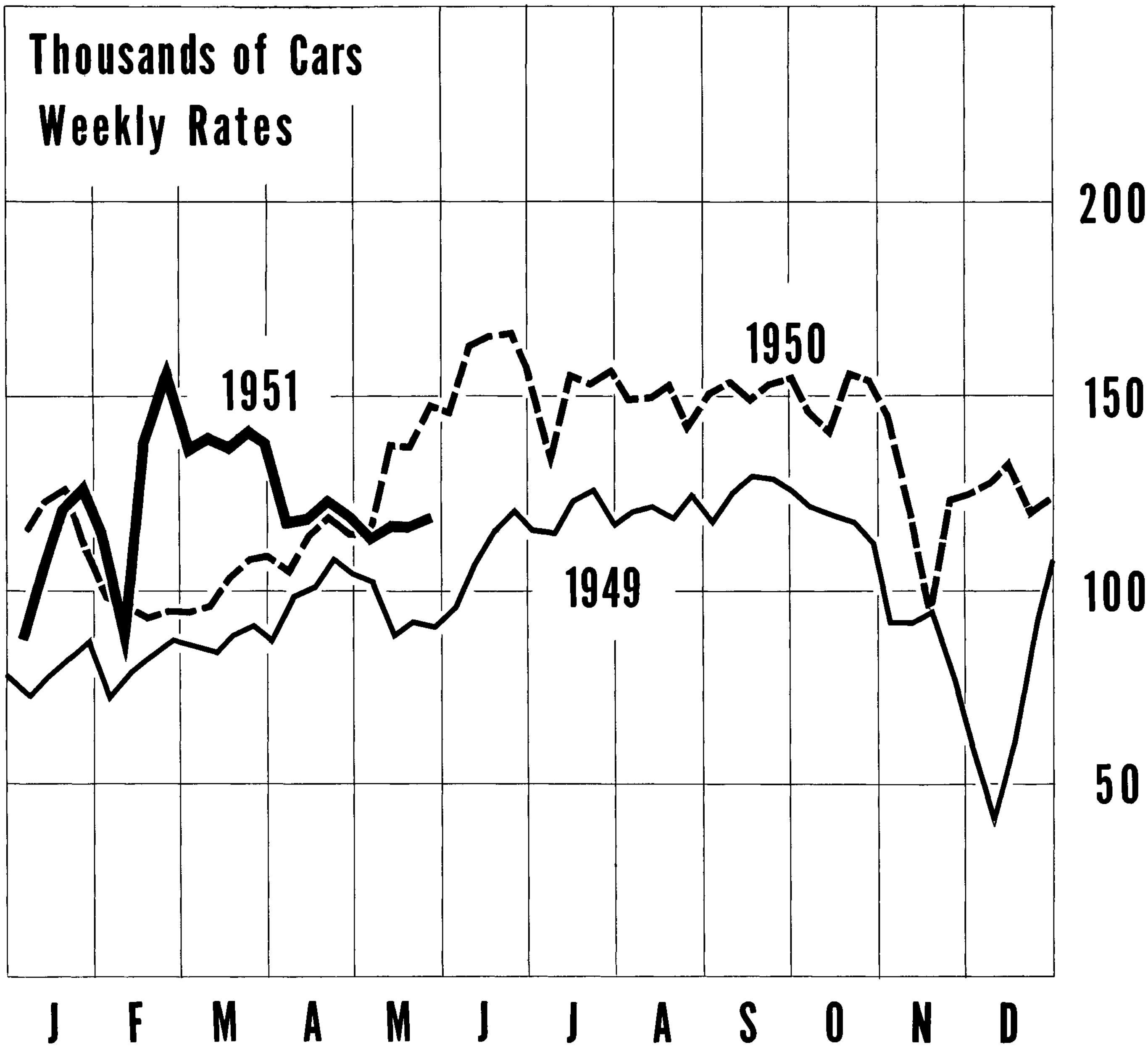
of the total number of new automobiles sold fell from about 50 per cent in mid-1950 to approximately 40 per cent at the present time.

Passenger car output declined in the early part of April from the high March level, as shown in the following chart with latest figures plotted for the week ending May 26. The March level was 30 per cent above a year ago when output was being limited by the 100-day strike at Chrysler plants. Part of the decline in output in early April reflected the new Federal restrictions on steel consumption for civilian uses. Curtailed production of some makes have also been influenced by the easier demand situation and accumulating dealer stocks.

Dealers' inventories of new cars increased in March, although according to our analysis of information on output and total domestic and foreign sales, the rise was probably about two-fifths as large as the revised estimate of 105,000 units published by a trade paper source. The same source estimated a reduction of 73,000 units in April, while our analysis indicates some further rise in dealers' stocks since the end of March. Even so current dealer holdings are still close to a month's sales which is not excessive considering average pre-World War II relationships.

Car production in May for the domestic market is expected to be about 480,000 units, or at an annual rate of 5.6 million cars, as shown in the left panel of the preceding chart. Production in June is likely to continue at the May rate, according to trade reports, but new Federal restrictions on steel consumption anticipated for July would

PASSENGER CAR OUTPUT



have the affect of reducing output about 10 per cent from second quarter levels. This reduced rate of output may be accompanied by some decline in dealers' stocks in July, if the recent rate of sales is maintained.

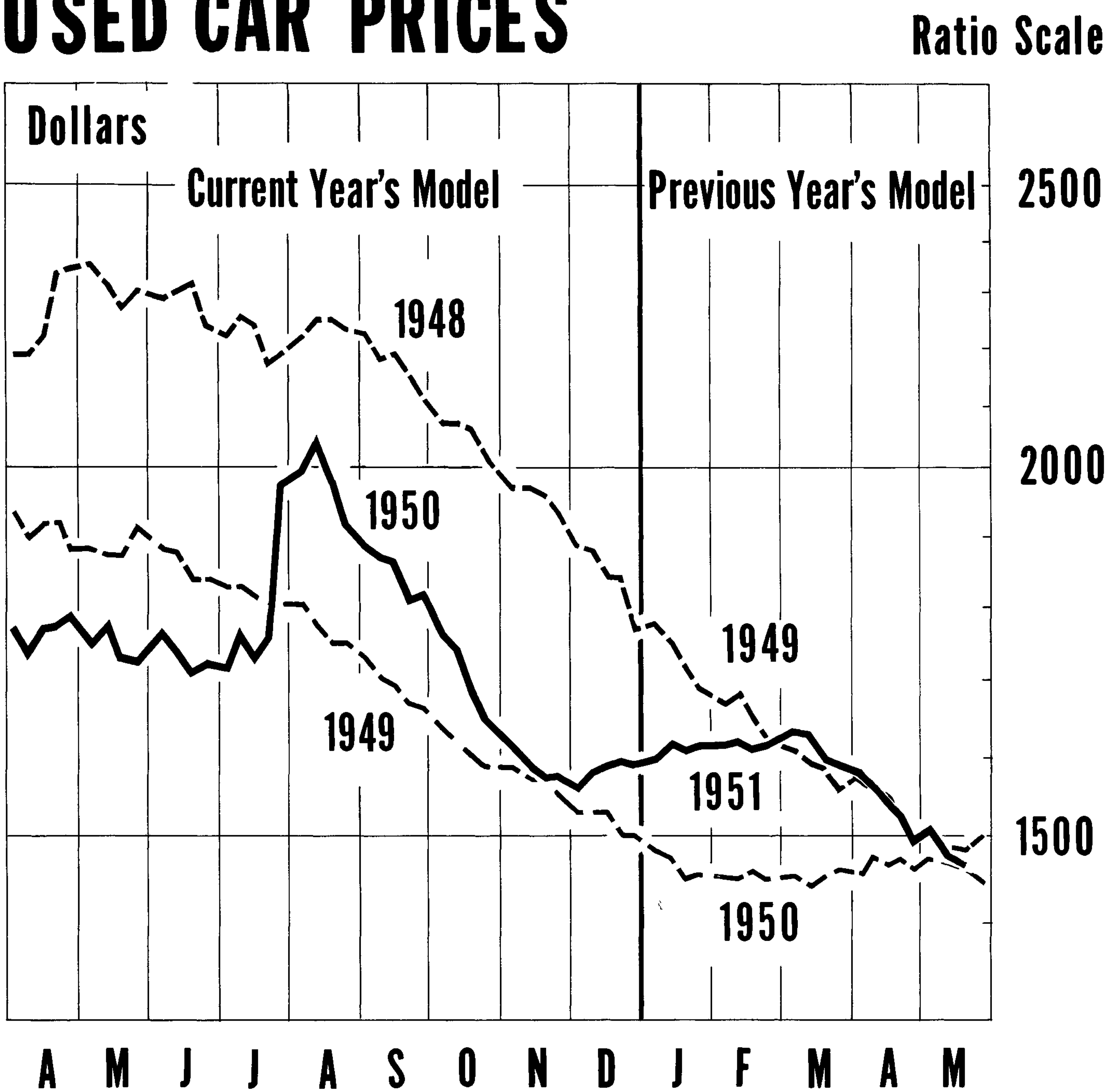
Foreign demand for United States passenger cars has expanded this year. The number of cars produced for export in April was more than double the December number, although it is still amounting to only about 5 per cent of total production.

Although stocks of used cars are larger than a year ago, sales have been relatively active and apparently the number of used cars sold has been running close to the high year-ago levels. Registrations of used cars in the Cleveland market have been about 1/4 larger during the past 2 months than in the corresponding period last year. The current over-all relationship between stocks and sales of used cars appears to be about the same as that prevailing at this season in 1939 and 1940.

Advertised used car prices for 1950 models have declined by 160 dollars per car since the early part of March as shown in the following chart, but are still high in relation to new car prices. At wholesale auctions, prices of these and other models have also declined.

According to the Mobilization Director's first quarterly report, defense output plans are expected to limit total output of new passenger cars to about 5 million this year, as compared with 6.7 million in 1950. During the first quarter output was at an annual rate of 6.4 million units and the second quarter promises to be close to a rate of 6 million. For the year's output not to exceed 5 million, restrictions would need to hold production to a rate of less than 4 million during the second half. Such a curtailment from the first half rate does not seem likely on the grounds of probable availability of materials alone.

USED CAR PRICES



The possibility of a substantial further reduction in new car demand later this year cannot be ruled out. The findings relative to consumer buying intentions developed by the Board's national Survey of Consumer Finances, taken in the first quarter of this year, point in this direction, as does the further rapid growth in the number of new cars put in use over the past 2 years. At the same time, it should be noted that one-half of the 41 million cars in the hands of consumers are at least 9 years old. Many of the owners of these cars will be in the market for postwar cars and this indirectly will tend to maintain the market for new cars. It is not clear just how demand may be affected, on the one hand, by consumer concern about reductions in quality or, on the other hand, by possibly renewed expectations of shortages as production is limited further.

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