JUNE, 1947

BUSINESS CONDITIONS

A REVIEW BY THE FEDERAL RESERVE BANK OF CHICAGO

Retail Credit Trends In 1946

Survey Reflects Changing Conditions of Supply

The pattern of consumer spending, which was materially altered by shortages of certain types of goods and by credit restrictions during the war years, showed indications of resuming some of its prewar aspects during 1946. Retail trade for the year as a whole was characterized by a gradual shifting from a seller's to a buyer's market, easing of wartime shortages of goods and materials, and growing consumer resistance to advancing prices and preference for higher quality merchandise. These developments resulted in a number of noticeable changes in various phases of the retail credit picture, although the basic tendencies for sales to expand and for cash to be the dominant form of transaction persisted. Continued expansion in sales of retail establishments in the Seventh Federal Reserve District was accompanied by an upsurge in the use of credit, particularly in those lines of trade which were most seriously affected by wartime shortages of merchandise. This tendency points to the gradual restoration of a more normal relationship between the amount of consumer credit outstanding and the volume of disposable income.

Both cash and credit sales of firms whose business consists principally of consumers durable goods advanced substantially, while other establishments, which had experienced the greatest wartime growth, also increased their sales but at a less rapid rate. At the same time, significant shifts occurred in the balance sheet positions of retailers. The tendency toward extreme liquidity, which prevailed throughout the war period, was reversed as receivables rose and depleted inventories were replenished.

These conclusions are drawn from the results of the fifth annual retail credit survey conducted for the Seventh District by the Federal Reserve Bank of Chicago. The 1946 survey covered approximately 1,900 credit-granting stores in nine lines of trade with a total sales volume of 1.5 billion dollars. The dollar volume of sales, receivables, inventories, and balance sheet items was reported for 1945 as well as 1946.

THE WARTIME RECORD

In view of current prospects for continued shifts in factors affecting retail sales as the transition to peacetime is completed, it is appropriate at this time to review briefly the wartime trends in retail credit as determined by the successive annual retail credit surveys in this District since 1941. Although no precise comparison from the beginning to the end of the period can be made because of changes in the composition of the sample, a general picture of the year-to-year trend can be derived from these data.

Wartime factors exerting a downward influence on credit extended by retail establishments came into play early in 1942. These included the decline in the supply of consumer goods, particularly durable goods, rationing, and the imposition of Regulation W. They were reflected in declining sales volume for those establishments most affected by the diversion of materials into war production—automobile dealers, automobile tire and accessory stores, furniture stores, and household appliance stores. Other types of business showed increases in total sales, and all lines of trade except automobiles and household appliances reported substantial gains in cash sales for the year. Despite the restrictive influences of shortages and regulations, the pressure of rising and more widely distributed incomes was reflected in a fairly steady growth in sales—especially in cash transactions —throughout the war years for those firms which were able

(Continued on Page 5)

TABLE 1

SALES AND ACCOUNTS RECEIVABLE BY KIND OF BUSINESS
SEVENTH FEDERAL RESERVE DISTRICT, 1942-46
PERCENTAGE CHANGE FROM PREVIOUS YEAR

Kind of Business	Cash Sales					Credit Sales					Accounts Receivable[1]				
	1942	1943	1944	1945	1946	1942	1943	1944	1945	1946	1942	1943	1944	1945	1946
Automobile	—77	+13	+ 2	+14	+228	—77	—10	— 8	+10	+149	—67	—34	— 5	+12	+75
Auto tire and accessory	+17	+20	+17	+14	+ 58	—36	+13	+12	+ 5	+ 58	—56	—12	+ 7	+10	+37
Department	+29	+18	+12	+12	+ 19	— 2	+ 3	+ 5	+ 9	+ 45	—27	— 8	+10	+ 9	+58
Furniture	+57	+23	+18	+26	+ 53	—14	— 6	+ 2	+ 4	+ 43	—34	—31	— 3	+ 1	+27
Hardware	+27	+ 7	+10	+13	+ 41	— 9	—14	— 8	+ 2	+ 41	—45	—24	—22	+ 8	+62
Household appliance	+ 2	+ 1	— 3	+34	+114	—38	—44	—34	+47	+122	—50	—70	—45	+48	+94
Jewelry	+47	+47	+ 1	+13	+ 16	—15	+12	+ 1	— 5	+ 35	—40	+ 2	— 7	*	+44
Men's clothing	+32	+19	+16	+22	+ 16	—16	— 7	+ 4	*	+ 25	—42	—16	+11	—14	+42
Women's apparel	+53	+43	+13	+14	+ 8	+ 5	+ 8	+ 6	+ 9	+ 25	—18	+ 0	+ 5	+ 6	+34

*Less than ½ of one per cent.
[1]At end of year.

Housing Deadlock Ahead?

Shortage Unabated: Enters Chronic Phase

A housing deadlock may precede the postwar housing boom. It may also deepen any coming recession, since residential building has been one of the principal factors relied on to avoid or cushion a possible downturn in 1947 or 1948.

DISAPPOINTING FIRST QUARTER

Data on building permits, starts, and work in progress for the first quarter of 1947 are difficult to adjust for normal seasonal factors or for the abnormally cold and wet weather which has delayed the building season in the Midwest. These data, however, suggest the development of a deadlock rather than a boom in residential construction and point to record high construction costs as the key to the situation.

During the first three months of this year, 158,000 new dwelling units were started in the nation, a 28 per cent decline from the 192,000 in the first three months of 1946. (The first quarter of 1946 was abnormally high because of a rush to avoid the restrictions of the Veterans' Housing (Wyatt) Program which went into effect during the second quarter.) In metropolitan Chicago, which has not suffered from building strikes, starts were down to 2,606 from 3,754, a decline of 31 per cent. Starts in Detroit were down 21 per cent, and permits in strike-ridden Milwaukee County almost 45 per cent. Apartment building in Chicago reached a 20-month low in February before a rally in March. The number of real estate sales in the Chicago area in the first quarter was 15,791 as against 21,366 a year ago, and the over-all reduction of over 25 per cent was exceeded by the decline in transfers of residential buildings. The number of independent building contractors is moving downward, after a sharp rise in 1946. Even the house trailer industry, centered in the Seventh District, complains of slackened demand at prices which average $2,500 per "dwelling unit." On the other hand, the number of homes completed in the first quarter reflected 1946 starts under the Wyatt program. For the Chicago area, completions rose to 5,211 in the first quarter of 1947 as compared with 1,942 in the corresponding period of 1946; and for the nation, to 176,200 as compared with 61,000.

When the number of building permits and starts falls off, the value of work in progress must drop shortly thereafter, if building costs are approximately constant. The lag is seldom more than one quarter. When work in progress dips below last year in physical volume, let alone in dollar volume, employment in residential construction cannot avoid a drop below the figures of 1946, even in the midst of the housing shortage. By the end of April, according to a local newspaper, "thousands of A.F.L. building tradesmen" were "walking the streets of Chicago with nothing to do." Their numbers included 2,500 carpenters, 700 painters, and smaller numbers of laborers, bricklayers, finishers, and tile setters. Employers commented, however, that these were for the most part sub-standard workers.

HOUSING SHORTAGE UNABATED

At the same time, the housing shortage continues as grave as ever. The majority of the wartime and postwar shortages have vanished in the general price inflation. Cigarettes, beer, steaks, and nylons, all are available. The days and months of remaining shortages are for the most part numbered, even in the case of automobiles. Only the shortage of rental housing continues as serious as ever.

The armed forces continue to discharge men. Families are growing in number and size. War workers remain in large cities. The housing situation in most urban areas is becoming worse rather than better, and the Seventh District is no exception. After World War I, approximately seven years were required to build away the housing shortage. At this rate, the present postwar housing problem would remain at least until 1952.

SHORTAGE ENTERS CHRONIC PHASE

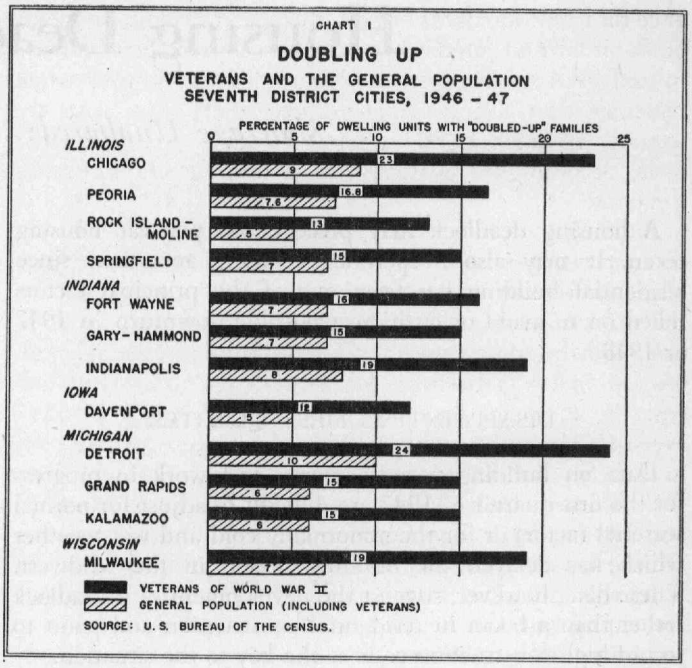
As the housing shortage continues, its character has shifted from an acute to a chronic phase. The number of families with literally no roof over their heads has decreased. The number of park bench, automobile, hallway, and barn dwellers has been reduced. These people were symbols of the scarcity in its acute stage. On the other hand, there has been an increase in the number of families doubled or tripled up, in the number inhabiting unsafe or unsanitary quarters, wedged into hotel rooms, trailers, and tourist cabins, or making down payments on houses which they cannot afford and which they will lose in the next recession. These are the symbols of chronic housing shortage. They are not front page news, but complacency is not in order.

DOUBLED-UP AND SEPARATED FAMILIES

The best statistical key to the severity of the crisis is provided by figures on doubled-up families. The U. S. Census Bureau reported in February 1946 that one of every 13 families in the country had one or more "secondary families" living in the same household. The proportion is now higher, according to the National Housing Agency. One Chicago case disclosed an instance of 38 persons being evicted simultaneously from a six-room apartment which they inhabited in three shifts!

Of the 3,125,000 family units living as secondary families in the United States early in 1946, over one-third were headed by veterans of World War II. Over 10 per cent were headed by wives of men still in service. Families of veterans and service men, taken together, are undergoing almost half the doubling-up in the United States.

In eleven urban areas in the Seventh District, the picture is the same. Census surveys taken at various times in 1946 and 1947 showed from 5 to 10 per cent of occupied dwelling units containing doubled-up families. At the same time, the percentage of *veteran*-occupied units containing doubled-up families varied from 12 to 24 per cent, as is shown on Chart 1.



Returning service men by and large seem to prefer doubling up to accepting sub-standard accommodations in adjusting to the housing crisis. The percentages of veteran-occupied quarters including standard plumbing equipment, for example, in eleven Seventh District urban areas were not significantly lower than the corresponding figures for all housing in these areas.

There are no official Census reports on the number or proportion of families separated by lack of housing. An unofficial estimate for the city of Chicago suggests that of every eight Chicago families one is divided between two or more households, some located in other cities and states. Most of these cases fall into one of three groups: newlyweds unable to find apartments, families evicted when houses are sold, and newly-arrived workers who have left their families behind. The estimate made no allowance for couples postponing marriage until living space becomes available.

VETERAN HOUSING SURVEY

As has been suggested above, the principal victims of the housing shortage have been veterans. Among the veteran group the principal victims are married men with families who are beginning their postwar careers at points removed from their previous homes.

During 1946-47, the U. S. Census Bureau has been conducting sample surveys of veterans' housing in 109 American cities, of which 14 are located in the Seventh District. The picture is almost uniformly bad in the Seventh District and elsewhere, especially in the largest centers where the proportion of in-migrants among the veteran population, land prices, and construction costs are highest. Results for Seventh District cities are summarized on Chart 2. The percentage of married veterans doubled-up or living in "temporary" accommodations varied in the Seventh District from a low of 23 in the Rock Island-Moline area to a high of 40 in Chicago (Cook County).

If housing becomes available during the twelve months following the date of the survey "at the prices and qualities veterans desire," the proportion of all ex-service men who express themselves as planning to remain where they are varies in Seventh District cities from a low of 48 in Davenport to a high of 63 in Peoria. Approximately half, in other words, would move within a year if they had the opportunity.

"The prices and qualities veterans desire," however, are determined largely by prewar experience. The typical veteran reports himself as looking for a four-room apartment renting from $38 to $48 per month, or for a five-room house selling at from $5,000 to $7,400. Such housing cannot be built in urban areas at present costs without subsidies.

BUILDING COSTS SKYROCKET

Urgent demand for more and better housing is the irresistible force which has been relied on to support building activity for from two to ten years. The irresistible force, however, has met a thus far immovable obstacle in the all-time high level of construction costs.

Consumer goods prices as a whole are at the approximate level of the post-World War I peak, reached in the spring of 1920. Construction costs, however, passed their 1920 highs in the first quarter of 1946. They are currently over 20 per cent above that level, according to standard statistical measures which do not consider premium prices, changes in labor productivity and material quality, or the effects of construction delays. If 1939 instead of 1920 is used as a base, however, the rise in building costs is less percentage-wise than the rise in food, in clothing, or in industrial wage rates. Some spokesmen for the home-building industry, therefore, insist that "today's houses are good values," ignoring the capital loss the 1946-47 home buyers will take if prices fall later, which loss has no counterpart in less durable goods.

Materials have surpassed labor in the war and postwar rise in building costs, according to the published series. Materials as a whole have risen 76 per cent since 1940, with lumber leading all other major components. During 1946 alone, fir lumber rose nearly 55 per cent, while pine lumber rose over 40 per cent. Other material rises include: sand, 25 per cent; cement and reinforcing steel, 21 per cent; common brick, 16 per cent; clay tile, 15 per cent; and structural steel, 12 per cent. Turning to wage rates, the percentage rise since 1940 has been 62 per cent for common labor and 32 per cent for skilled workmen, without allowance for lower standards of performance, over-time payments on Saturday and Sunday work as men shifted their holidays to mid-week, or payments to hold workmen on jobs when materials were not available. Actual on-site wage costs are running as much as 80 to 100 per cent above 1940 labor costs, according to a survey by a leading life insurance company.

Building costs in Seventh District cities have moved with the national averages and generally somewhat above them. The Midwestern winter requires sturdier construction than the milder weather of the South and Southwest. In addition, both building trades labor and building material dealers are well organized in Midwestern cities. Construction costs in 25 major American cities in the spring of 1947 averaged 80 per cent above 1940. The percentage increases in five Seventh District cities have been: Chicago, 66.6; Des Moines, 69.1; Milwaukee, 87.3; Indianapolis, 87.7; and Detroit, 91.2. The Chicago and Des Moines increases are the lowest in the nation, as is shown on Chart 3.

In this situation, many prospective renters and buyers are sitting out the housing shortage under unsatisfactory conditions, rather than pay for new homes or buy old ones at prices which naturally reflect present costs of reproduction. However great their "need" for housing, they spend their incomes for other goods which they must purchase for daily living. There seems to be developing a move away from housing in consumer budgets. This move may continue if construction costs do not fall.

IS THE SHORTAGE "SPURIOUS"?

Less than 0.1 per cent of all habitable dwelling units are vacant and offered for rent in any Seventh District urban area, as compared with a "normal" vacancy ratio of 3.5 per cent. The question has arisen whether this situation could not be remedied by removal of rent control, following the pattern of price decontrol which alleviated the acute scarcities of last fall.

During the war, rising incomes and controlled rents meant improved housing for millions of Americans fortunate enough to share in the wartime prosperity of their home towns. Young working people lived alone instead of with room-mates or with their families. Elderly relatives were maintained in apartments of their own instead of sharing their children's quarters. At the same time, construction was expanded, chiefly in war industry areas. For the United States as a whole, the number of dwelling units increased 7.9 per cent between 1940 and 1945; for urban areas only, the increase exceeded 15 per cent. The number of homes inhabited by four and fewer persons increased. The median number of persons per dwelling unit fell from 4.85 to 4.78, and "overcrowded" units, housing more than 1.50 persons per room, fell from 9.0 per cent of the total in 1940 to 5.2 per cent in 1945.

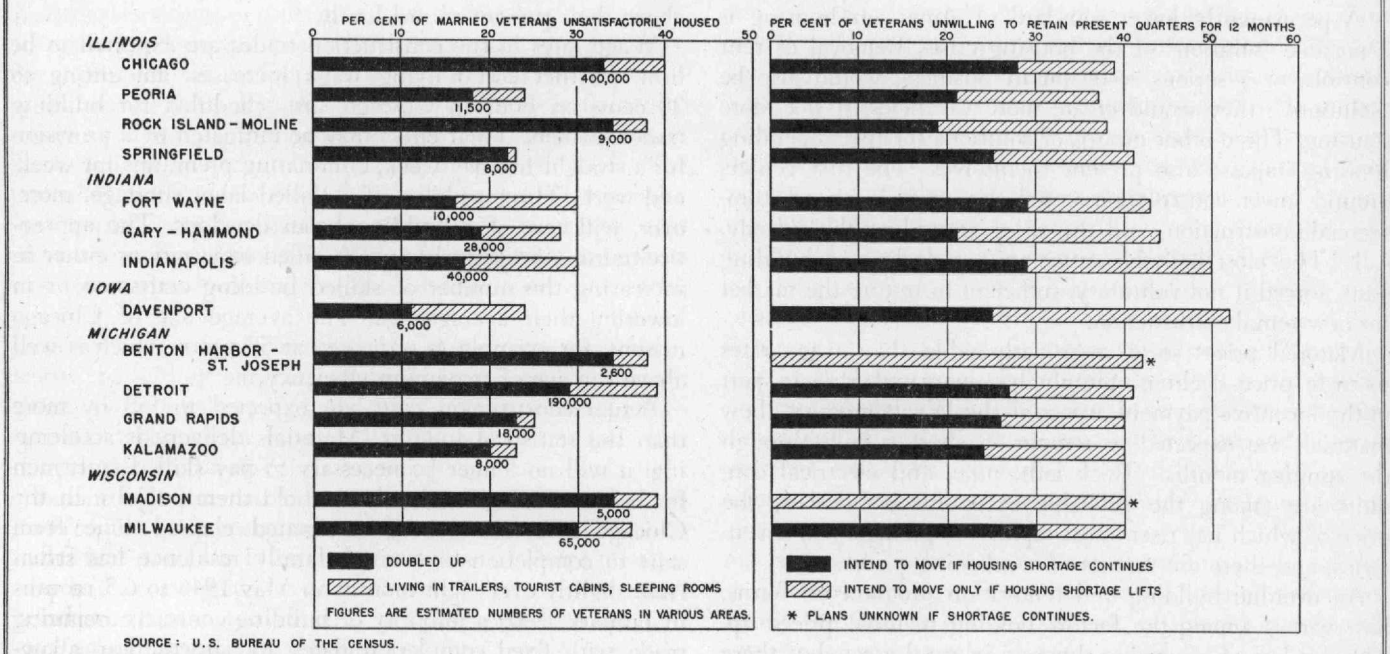
Opponents of rent control appeal to these statistics in support of their contention that housing is being "hoarded" by wartime civilians, and that little additional construction is actually needed. Removal of rent controls, they conclude, will spread existing housing between veterans and non-veterans, concentrate doubling-up among the lower income groups, and end the housing shortage in the same manner as other shortages have been ended. The average rise in rent required to restore approximately the prewar vacancy ratio in rental housing has been estimated at from 30 to 50 per cent.

The basis for these optimistic views, however, is a U. S.

CHART 2

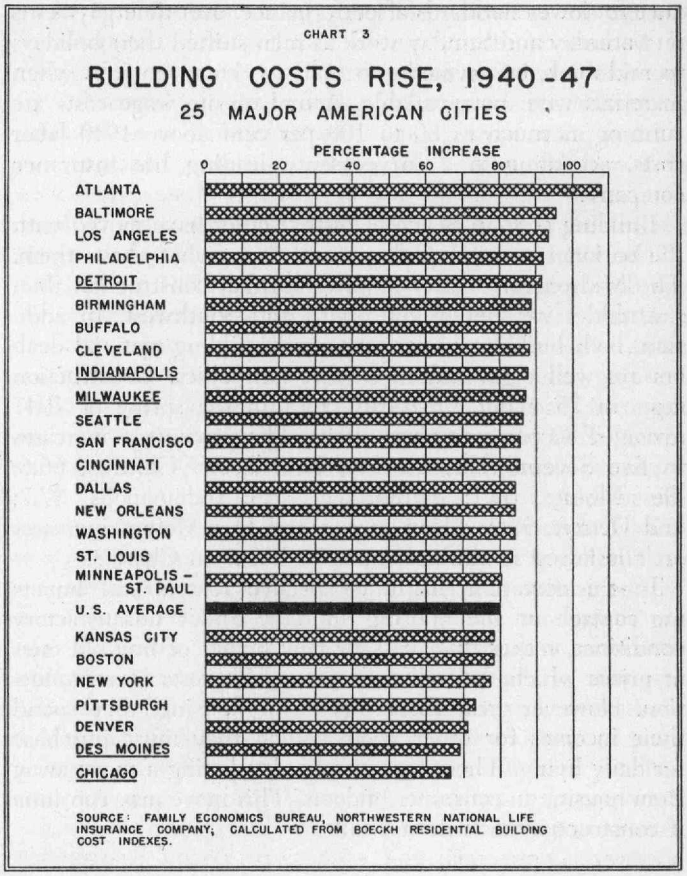
"UNSATISFACTORY" VETERAN HOUSING

SEVENTH DISTRICT CITIES, 1946 – 47



SOURCE: U. S. BUREAU OF THE CENSUS.

Census survey made in November 1945. This date immediately preceded the return of the great body of overseas veterans. The return of these men, plus their subsequent marriages and the births of their children, rendered the statistics obsolete almost before their publication. Housing statisticians are convinced that a re-survey in 1947 would indicate substantially worse conditions than in 1945, and perhaps worse conditions than in 1940. A re-survey was conducted in April by the U. S. Census Bureau in several large cities, including Chicago and Detroit.



PROSPECTS FOR 1947

The Wyatt program called for the construction of 1.5 million permanent and temporary dwelling units in the United States in 1947, without presenting a breakdown by local areas. When this program was largely abandoned in December 1946, private construction interests set with some confidence a goal of one million units, one-third lower. Estimates by public and private statisticians have fallen from 1,000,000 to 825,000, then 700,000, then 500,000. The lowest of these figures is less than one-third of the original Wyatt target. In dollar volume terms, the Department of Commerce December 1946 forecast of 6 billion dollars of 1947 residential construction was reduced in April 1947 to 4.8 billion dollars as a maximum, despite intervening price increases.

Residential construction now in progress is concentrated more than normally in private residences for sale. The rental housing which is in particular demand is lagging furthest behind. The recent increase of rent ceilings on new construction in hardship cases to a maximum of $32 per room per month in New York and Chicago is not expected to accelerate rental construction greatly.

POSSIBLE SOLUTIONS

A permanently lower standard of American housing is a possible "solution" of the housing crisis. Removal of rent controls, or a serious recession in business, would also be "solutions"; they would create more vacancies, if not more housing. Three other groups of solutions for the impending housing impasse also present themselves. The first centers around lower construction costs, the second around commercial construction, and the third around public subsidy.

1. The most probable outcome is a decline in building costs, forced if not voluntary, sufficient to restore the market for new rental construction.

Material prices seem more vulnerable than wage rates to early price declines. Supply has increased, due in part to the incentive payment aspect of the Wyatt program. Few materials are expected to remain in short supply through the summer months. (Rock lath, pipe, and electrical conduits are among the probable exceptions.) Lumber, the price of which has risen most rapidly, is piling up in inventories, and there are reports of weakening prices.

An overdue building and renovation program on farms, however, is among the factors holding material prices up. There is less of a housing shortage in rural areas, but there is a large backlog of repair and modernization, which prosperous farmers can afford easily even at present prices.

Increased activity in commercial construction will also keep material prices high. One observer in Chicago has suggested that if all commercial permits already granted were to be utilized in 1947, this would be sufficient to insure a further increase in most building material prices above their present record levels.

Wage rates in the construction trades are expected to be firm. Further cost-of-living wage increases, amounting to 20 cents an hour in Chicago, are scheduled for building trades workers. Their effect may be mitigated by a provision for a straight five-day week, eliminating premiums for weekend work. The possibility of a skilled labor shortage, moreover, will arise if a building boom develops. The apprentice-training program has not fulfilled expectations either in increasing the number of skilled building craftsmen or in lowering their average age. The average age of Chicago masons, for example, is estimated at 58 years, which is well above the age of maximum efficiency.

Actual construction costs are expected to fall by more than the statistical indexes. Materials delivery is accelerating; it will no longer be necessary to pay skilled craftsmen for hours of idleness in order to hold them on jobs. In the Chicago area, the average estimated elapsed time from start to completion of a single-family residence has fallen from slightly over eight months in May 1946 to 6.5 months in January 1947; a minority of building contracts are being made with fixed completion dates and prices. Large contractors are increasing efficiency by the use of large crews of workers on several houses simultaneously. Methods of year-round building under temporary roofs, while still experimental, are also expected to lower costs in the near future.

Land prices have already risen materially, in anticipation of a building boom. The present building hesitancy has not caused reversal of this movement. These prices may rise further as soon as actual construction becomes cheaper.

The fall in total building costs, if it occurs, will repeat the development after World War I. In 1919, as in 1946, a sharp flurry of building activity subsided within six months as building costs mounted. The major postwar building boom got under way only late in 1920, after building costs had fallen. It then lasted for eight years. The revival of building activity was not early enough to alleviate a general depression, but it played an important part in the recovery that followed.

2. If there is serious unemployment in the building trades or if building material inventories become unwieldy, there will be a move to obtain relief by relaxation of the remaining controls on luxury and non-residential construction in preference to reducing costs on residential housing. (In the first year of the Veterans' Housing Program, the Civilian Production Administration denied nearly 60,000 applications for such construction, at a total cost of 2,172 million dollars.) Few, if any, of the remaining controls on building are expected to outlast the calendar year 1947, in any case.

Sufficient relief may not be forthcoming from this source, however. Commercial and even some luxury construction may also be shelved if building costs are too high or if they are expected to fall in the future. Reports of reduced, postponed, or cancelled plans for commercial construction have been increasing in number during the past six months. The national total of 1947 non-residential building permits was above 1946 for the first quarter, but it does not display the same seasonal rise. The second quarter may show it falling below a year ago, following the lead of residential construction. Small firms in particular are shying away from new building commitments. Firms in general are postponing most construction which will not result in lower labor cost or which is not necessary to preserve the firm's share of the expanded postwar market for the product of its industry. The U. S. Department of Commerce estimates of 1947 non-residential construction have fallen by over a billion dollars from an original 8.9 billion figure.

3. If enough consumers do not enter the housing market in volume at present prices, direct or indirect Government assistance may reduce costs to the home owner or renter while maintaining present returns to contractors, material dealers, and building trades labor. The Taft-Ellender-Wagner Bill is the most ambitious attempt to stimulate and maintain a large volume of low cost residential building at existing construction costs, both by direct subsidy and by easing the terms of financing construction. Such a plan, if enacted over the protest of most private housing interests, may distribute the burden of inflated construction costs over the nation through taxes. Or, if financed by deficit spending while employment remains high, it will add to the inflationary pressure on general prices.

RETAIL CREDIT TRENDS IN 1946

(Continued from Inside Front Cover)

to obtain inventories.

Shortages of goods commonly sold on instalment credit, such as high cost durables, forced spending into other channels and contributed to the decline in credit sales, and tended to expand the sales of establishments doing a greater proportion of cash and charge account business. Credit sales either declined or were held at low levels in relation to total sales until 1945, with the major impact, of course, on instalment transactions which showed the most drastic and persistent decline. The relative changes in cash and credit sales in each of the nine lines of trade for each year from 1941 through 1946 are indicated in Table 1.

Department, jewelry, men's clothing, and women's apparel groups reported gains in total sales without exception for each year covered by the surveys, and automobile tire and accessory firms also showed expansion after 1942. Most of these increases in sales volume in face of wartime shortages may be explained by liquidation of inventories and changes in the composition of goods sold as retailers introduced new or substitute products and shifted their stocks into higher-priced merchandise. After 1942, automobile dealers managed to stem the decline in their sales volume by taking on other business, such as additional servicing and the handling of used cars. Household appliance stores suffered continuous and heavy reductions in sales through 1944 and reported increasing sales only as materials were released during the latter part of 1945.

The lower volume of credit sales and the higher down payments and shorter collection periods required under Regulation W naturally resulted in sharp declines in accounts receivable in all types of business, particularly in 1942 when the initial adjustment in outstanding credit had to be accomplished under the regulation. This adjustment was largely completed by the close of 1943, and thereafter receivables tended to keep pace with the volume of credit currently extended.

The counterpart of increasing sales and the scarcity of merchandise was a steady depletion in inventories accompanied by a rise in stock turnover ratios. This tendency

TABLE 2
INVENTORIES BY KIND OF BUSINESS, 1945-46[1]
SEVENTH FEDERAL RESERVE DISTRICT

Kind of Business	Percentage Change 1945-46	Inventory Turnover[2]	
		1945	1946
Automobile	+90.9	6.1	9.4
Auto tire and accessory	+56.7	5.5	5.5
Department	+69.3	6.6	4.9
Furniture	+57.4	3.1	2.8
Hardware	+45.7	3.6	3.5
Household appliance	+91.3	3.9	4.4
Jewelry	+24.6	1.9	1.8
Men's clothing	+56.4	7.4	5.6
Women's apparel	+53.2	7.1	5.3

[1]At retail, end of year.
[2]Ratio of sales during the year to inventories priced at retail, at end of year.

was apparent from the reports of department and men's and women's apparel stores, as well as automobile and appliance dealers. End-of-year inventory shortages, which were particularly acute in all nine lines of trade during 1943 and 1944, were eased for jewelry, furniture, hardware, household appliance, and automobile tire and accessory stores in the latter part of 1945.

In the absence of available supplies and with reduced receivables in relation to sales, retailers in most lines of trade built up substantial liquid reserves of cash and Government securities. By the close of 1945, cash and Governments alone were sufficient to cover all current liabilities for all types of establishments with the exception of department and furniture stores. Most firms were thus extremely well equipped to replenish their inventories and to expand their fixed assets when restrictive forces began to abate late in 1945.

THE 1946 SURVEY

Early indications of changes in war-established trends in retail credit were evident during the latter part of 1945 when limited supplies of materials became available for the production of consumer goods. With the exception of cash, Government securities, and notes payable to banks, every item reported by each of the nine lines of trade covered by the survey expanded in 1946 over 1945 volumes. The greatest relative advances in sales were reported by automobile dealers but, because of the low dollar volume of sales in 1945, consideration of the percentage change alone distorts the actual increase in business of those firms.

Trends revealed in the 1946 survey represented a variation from the record of the past four years in several respects. Total dollar sales continued to expand, and at a substantially higher rate than for the previous years, but the advances were especially noticeable in both charge account and instalment transactions, as is apparent from the accompanying chart.

Although all nine lines of trade shared in the expansion of both cash and credit sales, firms in the durable goods lines enjoyed a much faster rate of increase. Expansion in total sales over 1945 levels varied from 14 per cent for women's apparel stores to 192 per cent for automobile dealers. Sales of household appliance, automobile tire and accessory, and furniture stores also rose sharply. The gains in soft goods and jewelry lines were relatively smaller and, in view of the generally widespread price advances during 1946, probably represent only minor increases in the physical volume of goods sold.

Total credit sales were at least one quarter higher than in 1945 for every line of trade. The greatest percentage increases were reported by automobile and household appliance establishments, where credit sales rose 149 per cent and 122 per cent respectively. Even more impressive is the comparison of changes in charge account and instalment sales. Throughout the war period instalment sales diminished consistently while charge account transactions, which are largely a convenience to customers, made moderate advances except in those businesses seriously affected by the shortage of merchandise. In contrast, the 1946 survey showed advances in instalment sales greater than those for charge transactions in six of the nine lines of trade, attributable, of course, to the reappearance on the market of durable goods items normally sold on the instalment plan.

Despite the sizable percentage increase in charge account and instalment buying, it is important to note that there was little change in the distribution of total sales by type of transaction compared with 1945. Cash continued to be the predominant form of payment. For the most part, cash transactions kept pace with the growth in credit sales, thus retaining their previous share of the total. For all except three lines of trade—automobile tire and accessory, furniture, and household appliance—between 60 and 70 per cent of all sales were for cash. There were, however, slight reductions in the proportion of cash to total sales for all trade lines except automobile, furniture, and hardware.

The impact of the upsurge in credit buying was reflected in accounts receivable outstanding at the close of the year.

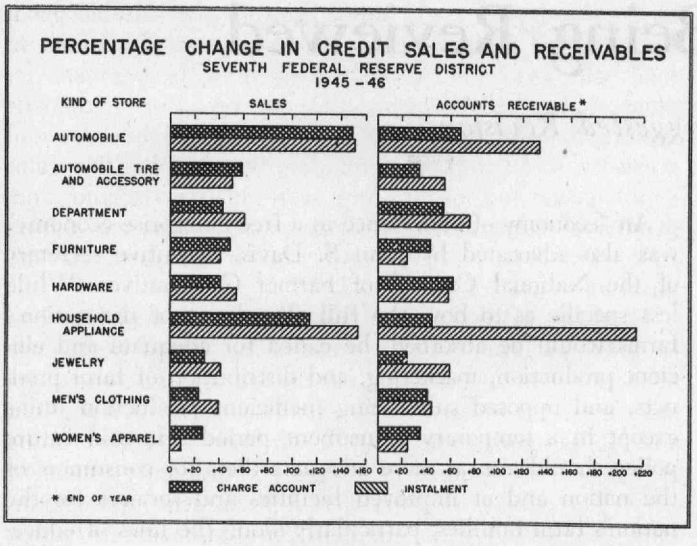
TABLE 3

PERCENTAGE CHANGE IN SELECTED BALANCE SHEET ITEMS AND CURRENT RATIOS, 1945-46 SEVENTH FEDERAL RESERVE DISTRICT

Kind of Business	Current Assets: Total	Current Assets: Cash & Bank Deposits	Current Assets: U. S. Gov't Securities	Current Assets: Accounts Receivable	Current Assets: Inventories at Cost	Total Current Liabilities	Current Ratios[1]: 1945	Current Ratios[1]: 1946
Automobile	+73	+96	— 4	+74	+101	+61	2.5	2.7
Automobile tire and accessory	+43	+40	+ 4	+33	+ 62	+71	3.6	3.0
Department	+15	—26	—42	+56	+ 62	+19	2.8	2.7
Furniture	+18	—22	—18	+23	+ 69	+30	4.8	4.3
Hardware	+28	— 5	—17	+63	+ 46	+75	7.0	5.1
Household appliance	+48	+27	—12	+48	+ 74	+88	3.9	3.1
Jewelry	+ 9	—27	—25	+37	+ 35	+12	4.4	4.5
Men's clothing	+16	—19	*	+47	+ 78	+25	4.5	4.2
Women's apparel	+ 8	—27	—25	+44	+ 48	+ 8	3.5	3.5

*Less than ½ of one per cent. [1]Ratio of current assets to current liabilities.

Note: Data in this table are based on the reports of a smaller number of firms than those in Table 1.



In contrast with the tendency for receivables to diminish throughout the war period, the 1946 survey showed increases in total accounts receivable, which varied from 27 per cent for furniture stores to 94 per cent for household appliance dealers. Every trade group reported advances in both charge account and instalment receivables. As would be expected, gains in instalment receivables were generally more spectacular than in charge account receivables. This tendency also is apparent from the chart. For all except two of the trade groups the percentage increase in instalment receivables exceeded that for instalment sales. This development may be attributed principally to two factors: first, the fact that receivables are reported as of the end of the year, reflecting above-average sales during the holiday season, while credit sales represent the increase over the entire year, and second, the relaxation of Regulation W on December 1, 1946, affecting both open credit and instalment accounts. Although the change in Regulation W occurred too late in the year to affect credit selling materially, it undoubtedly influenced the status of year-end outstanding accounts.

One of the most striking developments revealed by the 1946 survey is the extent to which reporting firms built up their inventories as increased production of consumer goods eased supply conditions. Stocks reported by all nine lines of trade averaged more than 50 per cent over 1945 volumes. Part of the increase in the dollar value of inventories, of course, is due to price advances. Again, the greatest relative change occurred in the automobile and household appliance groups, each reporting stocks almost double the level of a year earlier. Table 2 shows the expansion of inventories for each kind of business and also the inventory turnover ratios for the past two years.

Both men's clothing and women's apparel stores showed appreciable reductions in inventory turnover during 1946. Because of the heavy demand for men's clothing and shortage of materials, stocks of these stores were at a very low level at the end of 1945, and the stock turn for that year was abnormally high. Jewelry stores reported turnover ratios which were lower than those of any other group. Jewelry was the only line of trade which has shown continuous increases in inventories in each of the successive surveys, and these stores were apparently least affected by shortages of goods. Except for three lines of trade, the growth in stocks was reflected in some decline in turnover ratios as compared with the unusually high rates recorded for 1945. For automobile dealers and household appliance stores, however, the rate of stock turn reached a new high in 1946, the effect of a higher level of inventories being more than offset by the heavy expansion of sales for these firms. Automobile tire and accessory stores showed no change in inventory turnover from the previous year.

Balance sheet positions were also materially changed during the year, according to reports received from 1,300 establishments in the Seventh District. The condition of extreme liquidity which existed at the close of 1945 as a result of the gradual shift of current assets from inventories and receivables into cash and Governments was considerably altered in 1946. Only the automobile tire and accessory group reported a small increase in Government securities while most trade groups showed reductions in both cash and Government securities as their inventories and receivables expanded. This shift is indicated in Table 3.

The contraction in cash and Governments was not sufficiently large to offset the growth of inventories and receivables, and consequently, current assets were increased for all nine lines of trade. In order to carry the higher volume of inventories and accounts receivable, current liabilities were also expanded and, as a net result, there was no appreciable change in current ratios. Trade payables were up in all nine lines of trade. Increases in notes payable to banks, although these still represented a relatively small proportion of all current liabilities, were reported by six out of nine trade groups. The three exceptions were automobile dealers, automobile tire and accessory stores, and jewelry stores. Many retailers obtained funds either by liquidation of their reserves or by the use of bank credit to expand their capacities or otherwise add to their fixed assets in addition to financing a larger volume of inventories and receivables.

Although current ratios remained substantially unchanged, actually there was a sharp reduction in liquidity because of the shift in the composition of current assets represented by the decline in cash and Governments and the expansion in receivables and inventories.

These developments were expected, and to a large extent the accumulation of liquid reserves through the war period was in anticipation of their use for the acquisition of physical assets as soon as supply conditions permitted. The current change in balance sheet positions represents largely a change in the composition of working capital and the restoration of operations to a basis more nearly characteristic of normal peacetime practice.

This study was undertaken as a part of the 1946 retail credit survey conducted by the Federal Reserve System. National results of the survey will appear in the pamphlet *Retail Credit Survey—1946* published by the Board of Governors of the Federal Reserve System. This pamphlet, together with additional Seventh District data including breakdowns for the District's principal cities and trading areas, will be furnished on request to the Research Department, Federal Reserve Bank of Chicago, Chicago 90, Illinois.

Farm Policies Being Reviewed

Hearings Draw Suggested Revisions

No major changes in national agricultural legislation are expected this year, and probably not in 1948. With farm prices generally promised support at 90 per cent of parity until the end of 1948 and with current relatively high levels of farm prices and farm incomes, agricultural legislation is not considered urgent. Moreover, Congress is preoccupied with questions of labor, foreign policy, and taxation, and it is, therefore, unlikely that any major farm legislation will come before this Congress, either in the remaining time of the current session or in the second session.

In order to be better prepared for thorough discussion and well informed handling of agricultural questions when new legislation is up for consideration, Congressman Hope, Chairman, and the members of the House Committee on Agriculture in April began holding hearings on problems and policies for agriculture for the years that lie ahead. Government representatives, farm organizations, consumer groups, and other interested parties have been invited to present views to the Committee. Recently steps were taken in both the Senate and House to set up a joint special committee for very similar hearings.

In turning to some of the recommendations that have already been made to the Committee, it may be well to point out that the nature of the proceedings probably affects materially what has been said before the Committee. Since no specific legislation is at issue, the recommendations have in some respects been general, if not vague. To some extent the views and discussions reflect philosophical positions rather than specific recommendations for programs. Thus far no sharply drawn issues have arisen from diverse viewpoints of various groups represented, although basic differences in point of view as to policy have already evidenced themselves. Some of the testimony could perhaps be characterized as the raising of "trial balloons" to test public reaction. All this is a quite healthful development. It is well to have these background discussions conducted at a time and in an atmosphere free of the heat and pressure of "urgent" legislation, which often precludes cool headed and objective consideration of the intent and direction of policy.

AGREEMENT ON GENERAL OBJECTIVES

General agreement on objectives of farm policy was shown by farm spokesmen who have appeared before the House Committee. Secretary of Agriculture Anderson keynoted his testimony by calling for "organized, sustained and realistic abundance," and a balance between consumption and "sound capacity" output of the nation's farms. He said he thought that given the right income levels the nation can consume all that farmers can produce. He advocated establishment of "floors" under consumption by comprehensive food distribution schemes.

An "economy of abundance in a free enterprise economy" was also advocated by John S. Davis, executive secretary of the National Council of Farmer Cooperatives. While less specific as to how the full abundance of the nation's farms would be absorbed, he called for adequate and efficient production, marketing, and distribution of farm products, and opposed subsidizing inefficient production units, except in a temporary adjustment period. He said future policy should aim at more adequate diets for consumers of the nation and at improved facilities and services for the nation's farm families, particularly along the lines of education, health, and electrification.

Abundance as a general economic goal was approved as a general principle by Edward A. O'Neal, president of the American Farm Bureau Federation. Characterizing Secretary Anderson's approach as fine in theory and expressing the hope that it could be made to work, much of Mr. O'Neal's emphasis was on retaining and strengthening the machinery developed in recent years by the cooperation of Government and farmers for adjusting agricultural supplies to market demands. This at least implicitly is support for the AAA, acreage control, and marketing quotas. He stated that "it would be folly to assume that we will not have burdensome surpluses again that may wreck farm prices."

Even more cautious about counting on an "economy of abundance" was Albert S. Goss, Master of the National Grange, who expressed the view that even if farmers are to be expected to produce an abundance, there inevitably will be surpluses in spite of measures to avoid them. Mr. Goss differed materially with Mr. O'Neal, opposing revival of AAA controls on the ground that in the past they failed to effectively adjust production, and that they involve "distasteful regimentation features." He advocated a "multiple pricing" system for disposing of surpluses below domestic market prices.

In spite of some differences in the views of the leaders already reported above, they stand, on the whole, as representatives of a more or less conservative viewpoint economically and socially. The views expressed by James S. Patton, president of the National Farmers' Union, are quite in a class apart from those already reported. Where an economy of abundance was only a goal with Mr. Anderson and Mr. Davis, given qualified approval by Mr. O'Neal, and scarcely acknowledged as a possibility by Mr. Goss, Mr. Patton advocated a program of land reform based upon the assumption that the nation will use the necessary means to assure consumers a purchasing power high enough to buy all the food they need. The program he presented, as a desirable objective, was perhaps more social than economic. He advocated that the "family-type" farm be "revived" through Government purchase of large farms and subdivided into family-size units, and through purchase of "unprofitable" or sub-marginal small farms and consolidation of them into family farms. For this program he would have the Government extend long-term, low cost credit, both for land purchase and for operating funds. Thus, Mr. Patton is quite at the opposite end of the policy front from Mr. Davis. Where the latter opposed subsidizing inefficient producing units, Mr. Patton would in effect subsidize small units, which tend to be the "inefficient" producers. This program is frankly advocated as a social policy on the ground that the family farm is "the final stronghold against oppression." Mr. Patton in his testimony said that it would do little good to boost farm prices higher when 50 per cent of the nation's farmers get only 10 per cent of the national farm income.

FARM PRICE POLICIES LARGELY DEFERRED

Prices are the crux of the farm policy question. In these hearings, with the exception of Mr. Goss speaking for the Grange, the witnesses have touched only lightly on farm price policies. When the time comes for new legislation it is likely that it will be around the price question that vigorous controversy will develop.

The Secretary and the representatives of the Farm Bureau, the Grange, and the Cooperative Council all came out in some degree for a revision of parity formulation. Mr. Anderson called for an overhauling, but declined for the present to indicate along what lines the changes should be made. Mr. O'Neal also asked a revision of parity. Mr. Goss suggested the need for a "new and equitable parity formula" that would work to give price protection and adjust agriculture to peacetime needs. Mr. Davis proposed that the parity formula be modernized so that prices of all agricultural commodities would reflect relationships among themselves based upon current situations rather than their relationship in 1909-14, the present parity base.

Going beyond parity calculation, Mr. Anderson advocated long-range price supports to assure "fair" prices to farmers, and emphasized that such prices should be flexible and avoid rigid or frozen relationships between prices. Presumably with price implications, he proposed ever-normal supplies, loans, and marketing agreements on and for commodities as a means of assuring more orderly marketing of farm products. Mr. O'Neal's views on price policies, other than the general recommendation on parity formulation, may be implied from his advocacy of further study of surplus controls, of permanent extension of the Commodity Credit Corporation, and of the expansion of exports by international commodity agreements and reciprocal trade agreements. About the only point on prices, other than the parity recommendation, contained in the report of Mr. Davis' testimony was the urging that in reciprocal trade agreements there be excluded from the bargaining lists agricultural commodities whose production is equal to "a substantial proportion of domestic consumption."

The proposals of Mr. Goss with regard to price policies were much the more specific of any made to the Committee thus far. Mr. Goss proposes a system of flexible price supports. These floors would be at levels that would constitute "stop-loss" floors, aimed at preventing disaster, but yet not high enough to be incentives to production. Mr. Goss did not say how he would expect this to work out in those commodities where production continues almost regardless of prices and, hence, surpluses tend to arise, even in the absence of any floor whatsoever. The price floor would range from parity downward, varying with the surplus or deficit situation in the given commodity.

The proposal acknowledges that surpluses in some commodities are inevitable, but instead of these surpluses piling up to depress prices, the Grange idea is to dispose of them in what it calls "inferior" uses, either as exports or domestic industrial uses. It is assumed, of course, that the inferior uses would mean sale at less than domestic market prices. What is really unique about the Grange proposal is that it is suggested that the farmer bear the burden of these "inferior" prices himself, rather than the Government directly and the rest of society indirectly. The plan would thus require that means be found for distributing equitably among producers the income from sale of the commodity, each producer receiving a proportional share of the domestic price and of the "inferior" price. This price scheme is referred to by the Grange as a "multiple price" system.

Recommendations on international trade were made by some of the leaders. Mr. Anderson gave support to international commodity agreements, under which surpluses could be sold to foreign nations at prices below domestic levels. Mr. O'Neal, speaking for the Farm Bureau, also recommended the use of reciprocal trade agreements and international commodity agreements to expand foreign trade. He pointed out that protective tariff policies "have long worked undue hardships on agriculture," and urged that agricultural products be given "equitable treatment" in adjusting trade barriers. He also gave support to the development of a "constructive" import program.

Mr. Davis commended generally efforts to expand markets and find new markets for farm products at home *and abroad*. He suggested that a means to expanding foreign demand for American farm products would be U.S. help in the industrialization of foreign countries so that they would have higher economic productivity, higher real wages, and, therefore, a higher buying power per worker. Offsetting these general recommendations on trade was his urging that reciprocal trade agreements should carry safeguards for American agriculture. In this connection he would exclude from commodity bargaining lists any farm commodity the actual or potential domestic production of which was found by the Secretary of Agriculture to be equal to domestic consumption or even to a substantial proportion of consumption. On this point Mr. O'Neal recommended the strengthening of Presidential powers to impose import quotas.

Other proposals were made by farm leaders relating to soil conservation, farm credit, rural health and education, and various social objectives for farm people. But when the time comes for new legislation to handle agricultural problems most of these will fade into the background in the face of the divergencies in views that will be advocated on parity determination and farm price policy.

SEVENTH FEDERAL

RESERVE DISTRICT