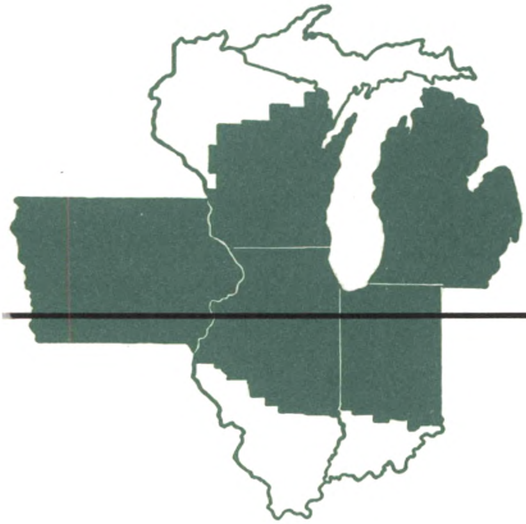
A review by the **Federal Reserve Bank of Chicago**

Business Conditions



1956 June

Contents

THE Trend OF BUSINESS

Business activity since the fall of 1955 has been characterized by divergent trends in the demand for durable goods on the part of consumers and producers. Outlays on autos and housing, on the one hand, which played a major role in touching off the 1955 boom, began to decline in the fourth quarter of last year and have continued to drop since then. On the other hand, business spending on plant and equipment has maintained a relatively steady rate of increase and has moved into the spotlight as an important bulwark supporting the present high level of economic activity.

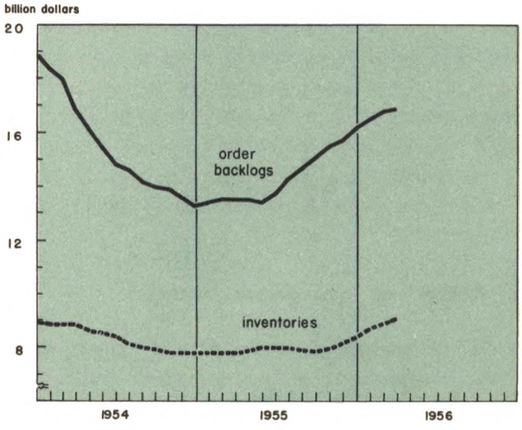
Producers' durables take lead

Sales of *producers' durables* have remained strong in 1956. These expenditures did not begin to rise until the second quarter of 1955 but in each of the next three-month periods contributed 1.7 billion dollars to the boost in the nation's over-all rate of output. During the initial quarter of this year, producers' durable goods purchases rose an additional 1.3 billion, annual rate, equivalent to the total increase registered in gross national product in that period. Outlays for machinery and equipment totaled almost 27 billion dollars, for a gain of 25 per cent above the year-earlier level. Business spending on long-lived goods apparently is headed for another sizable increase this quarter.

Most industrial products have shared in this higher level of output of durable equipment. The two exceptions—trucks and farm machinery—have been hit by the decline in farm income. Production of the lighter-weight trucks has been sharply pared in the past few months, no doubt in part the result of reduced farmer purchases. The demand for the heavy duty models, nevertheless, far exceeds that of last year. For the first five months of 1956, the number of trucks in the 4-ton or larger class, which have accounted for about one-fifth of industry output, was running almost one-third above the average 1955 production rate. Most producers report a large backlog of unfilled orders and look for a continued high level of sales.

Farm machinery sales have dropped considerably in recent months. Although output of agricultural equipment was about 12 per cent above the year-earlier levels for January and February, a decline in sales resulted in increased inventory in dealers' and manufacturers' hands. As a result, instead of production continuing to rise to the usual spring peak, schedules were sharply reduced. Output in March dropped for the second consecutive month and just matched the

Order backlogs of machinery producers still rising, despite increasing inventories in some lines



March 1955 performance. Whereas production inched upward from March to April of last year, further cutbacks this year pushed output in April below the 1955 level.

Business activity is moving along at a quickened pace in those Seventh District centers in which capital goods predominate. Milwaukee, with a heavy concentration of industrial machinery and equipment, stands out as the most improved city over last year, despite the lower level of activity in farm equipment. Employment by Milwaukee machinery producers has risen consistently since early 1955 and in May was 16 per cent above the year-earlier level. In addition, debits at Milwaukee banks in April registered one of the largest year-to-year gains among leading Midwest centers.

Chicago, with its highly diversified industrial complex, has also fared well. Unemployment in March was down to one-half of the year-earlier total. The number of persons working in manufacturing industries had increased by 5 per cent since March 1955, compared with a 3.7 per cent rise in the U. S.

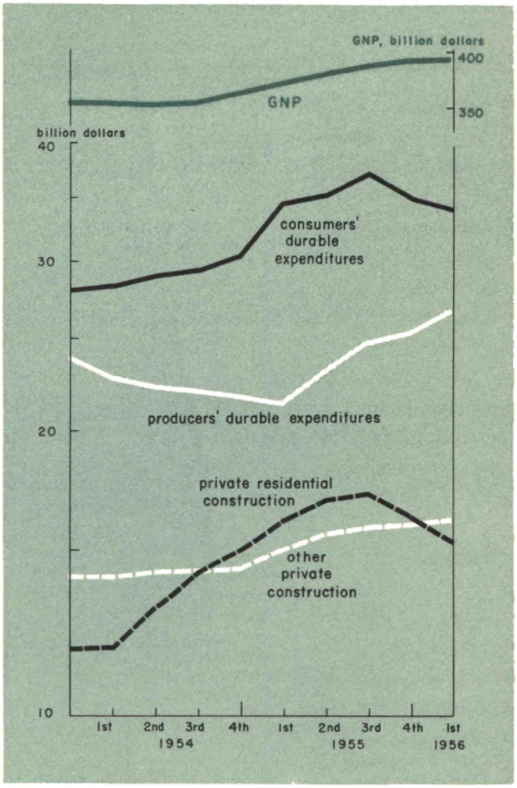
Commercial and industrial construction expenditures have also continued to move up. During the first four months of the year such outlays were about 25 per cent above the comparable 1955 period. Public utility construction, however, just about matched last year's performance, so that total business construction spending registered a 13 per cent gain during the January-April period.

Construction contract awards, compiled by F. W. Dodge, indicate that commercial and industrial construction outlays in the next few months should continue to substantially exceed the 1955 pace. Awards for private industrial construction thus far this year were 50 per cent above the same months last year, while commercial building awards were about one-fourth ahead of the comparable 1955 period.

Autos set consumer pattern

While purchases of producers' capital items have continued to increase, sales of consumers' durables have slumped in recent months. The

Consumer durables and housing outlays slump; business equipment and construction spending continues to rise.



annual rate of outlay on autos, household equipment and other long-lived products reached a peak of 37 billion dollars in the third quarter of last year, for a gain of over 20 per cent from the end-of-1954 level. Although individuals' spending on hard goods represented only 8 per cent of gross national product in 1955, the rise in such spending accounted for over one-fourth of the 25 billion dollar increase in total output of goods and services recorded in the first nine months of the year.

Since then, however, consumer purchases of durables have declined. After adjustment for seasonal influences, sales in the first quarter of 1956 had declined 8 per cent below the figure recorded in the third quarter last year. This was equivalent to a 3 billion dollar per year drop in spending.

Auto sales, which make up almost one-half of consumers' durable outlays, accounted for all of the decline in these expenditures. Purchases of cars and replacement parts fell by more than the total decrease in hard goods spending over the last two quarters. The over 3 billion dollar decline in annual rate of expenditure since third quarter 1955 represents a drop of one-sixth in consumer outlays on automotive products.

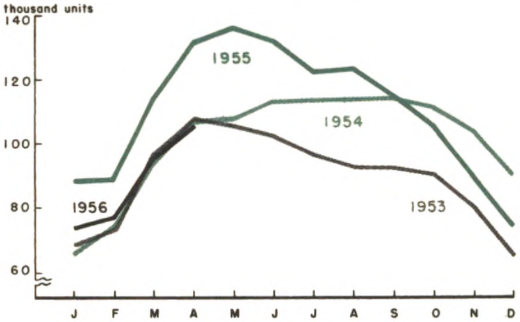
As a result, auto production so far this year is well under the exceptionally high 1955 performance. Production began to decline in late 1955 and has dropped steadily ever since. The industry produced less than 500,000 autos in May, over 50,000 units below the number turned out in April and more than 30 per cent below the May 1955 pace.

The customary spring pickup in sales has thus far failed to materialize. Despite the fact that 23 per cent fewer cars were turned out the first five months of 1956 than in the comparable 1955 period, inventories remain above the beginning-of-year level. As a result, there is virtually no hope for improvement in production rates for the remainder of this model year.

The major auto centers—both finished car manufacturers and parts suppliers—have been hard hit by the drop in production. At mid-April, unemployment in Detroit had increased to 122,000, 8 per cent of the labor force. This compares with only 48,000 workers out of a job in April 1955. Layoffs have increased further during May. In addition, Flint, South Bend, Kenosha, Grand Rapids and Indianapolis are reporting increased unemployment mainly as a result of the cutback in output of autos and auto parts.

Private housing starts below 1955, although residential contract awards exceed last year's pace

private housing starts



F. W. Dodge residential contract awards

Home construction outlook uncertain

Residential building expenditures have also dropped in each of the past two quarters. The value of home construction, at a seasonally adjusted annual rate, was 15.3 billion dollars in the January-March period, 2 billion dollars below the record third quarter of last year and almost a billion dollars under the year-earlier level. In April, outlays for home building turned up somewhat.

The outlook for residential construction is mixed. The Dodge contract awards in April were 7 per cent above the year-ago figures. This is the fourth successive month in which awards were above the comparable 1955 period. Private housing starts, however, declined on a seasonally adjusted basis during the first three months of the year. Although starts leveled off in April, they were 20 per cent below the same month last year.

The divergent trends between these two indicators of future activity is in part due to the fact that one measures value and the other, number of units. The shift to larger and more expensive houses as well as the increase in building costs, therefore, is reflected only in the Dodge data. In addition, the Dodge figures do not include the western region of the country where the pace of residential construction has slowed from its exceptionally high level of recent years.

Expenditures on durables—both consumer and producer items—together with construction outlays account for less than one-quarter of gross national product. Yet, they are among the most dynamic and volatile segments of the economy and, as such, bear close watching.

Furniture — stronghold of small business

During the third week in June, the semiannual Chicago homefurnishings market will attract upward of 22,000 buyers to the city. Virtually every retail center in the nation will be represented, bearing testimony once again to Chicago's pre-eminence as the nation's furniture headquarters. Manufacturers' displays provide the key attraction for these visits, but the spotlight will be on the dealers. Their willingness to place orders will determine the pace for furniture manufacturing in the months ahead.

Shipments by furniture manufacturers exceeded the same period of 1955 by 21 per cent during the first quarter of 1956, and retail sales also improved in early 1956 relative to the previous year. Thus, furniture has represented one of the strong segments in a spotty market for consumer durable goods. News reports emanating from the market will be watched closely for evidence on future trends.

Big markets for small firms

Most of the buyers at the homefurnishings show will register at both the American Furniture Mart and the Merchandise Mart. These great buildings located on Chicago's Near North Side house permanent showrooms of the firms which produce the bulk of the nation's furniture, bedding, floor coverings, appliances, radio-TV and other items for the home. Some dealers will be interested in all classes of products on display, but furniture is the star of the show.

Merchandising shows at which manufacturers unveil their new lines for the benefit of dealers are used in many fields. But it is doubtful that any other industry is as heavily dependent upon periodic "markets" as is furniture.

Furniture dealers, of course, can and do visit manufacturers' factories to make purchases. But trips to many different cities, necessary in this scattered industry, are both costly and time-consuming.

Wholesalers can perform this centralized market function only partially, since their ability to carry stocks necessarily is closely limited by floor space and financial capacity. Manufacturers are in a similar position. They do not ordinarily care to take the risk of carrying stocks of finished goods. It is customary, therefore, to sell dealers on the basis of pilot models so that production can proceed on the strength of orders received.

No assortment of catalogs, brochures and swatches serves as a substitute for the real thing. Needless to say, a furniture salesman cannot carry his wares in a sample case. Like the housewife, the retailer wants to look at the merchandise, feel the fabrics, test the sturdiness and, in the case of chairs and sofas, to judge the "sitting qualities" personally. Equally important, he wants to talk terms—prices, delivery schedules and credit arrangements. Before the market ends, the typical buyer will walk miles of corridors, visit the showrooms of 30-40 manufacturers, compare notes with other dealers and place his orders.

The trading centers

Furniture markets of a sort had been held in Grand Rapids and Cincinnati starting in the nineteenth century. But the provision of more adequate facilities awaited the construction of of the American Furniture Mart in 1924.

This building, styled "the largest in the world devoted to a single industry," was an immediate success. Within two years after its opening, the Gothic tower, a Chicago landmark, was added to bring the floor area to two million square feet. In addition to furniture, this building houses the showrooms of manufacturers of bedding, appliances and radio-TV. It also contains the offices of the suppliers of the furniture industry and its principal trade associations.

The Merchandise Mart was erected in 1930 by Marshall Field & Company in an attempt to revitalize Chicago's lagging general wholesale business. Since that year coincided with the advent of the great depression, the building remained unprofitable until World War II. This enormous structure, second only to the Pentagon in size, covers two city blocks at the base and is 25 stories high. Spread out in one story, its four million square feet would extend over the entire Chicago Loop district. Divided into floors similar to those of the Empire State Building, it would tower 169 stories, 67 more than the world's tallest building.

In the postwar years the Merchandise Mart came into its own. About one-third of the building's rentable area is devoted to general office use. About 600,000 square feet are rented by furniture manufacturers. In addition, miles of corridors provide displays of appliances, radio-TV, floor coverings, bedding and almost everything else needed around the home.

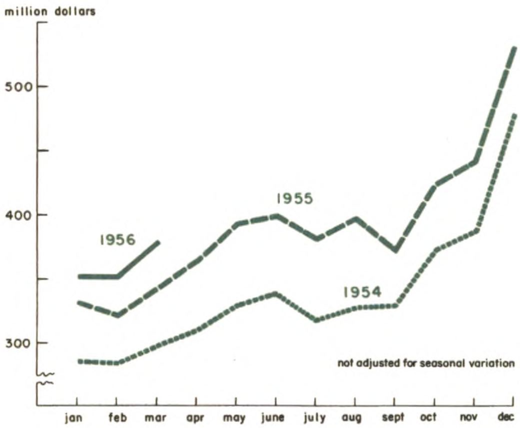
Furniture markets of varying importance also are held semiannually or oftener in High Point (North Carolina), New York, Grand Rapids, Jamestown (New York), San Francisco, Los Angeles and Dallas. Although some of these are growing in relative volume, they remain essentially regional or specialized markets, in contrast to the national and international character of the markets held in Chicago.

In the 1920's the industry adopted the practice of holding four markets a year. Since the War, however, there have been only two major markets, one in January and the other in June. But both in Chicago and elsewhere there has been a partial reversion to the four market schedule by added showings in April and October during the past five years. These markets are held for the particular benefit of department stores and chains which buy for special sales at the spring and fall markets.

Of course, business is carried on at both marts all through the year. Friday of each week is market day, and some showrooms, particularly at the Merchandise Mart, are open all week long. Except in special cases, the showrooms are not open to the public.

Trade estimates indicate that the proportion

Furniture store sales running ahead of record 1955



of total orders placed with producers during the market weeks had tended to decline. Nevertheless, the importance of the shows in stimulating interest in available wares and providing the basis for repeat orders is probably greater than ever.

Producers anonymous

Furniture is a big business with retail sales running in the neighborhood of 3.5 billion dollars per year. This is roughly the same as annual consumer outlays on all major appliances and substantially more than the sums spent on radio and TV. The industry employs directly about 230,000 persons, about the same as the nation's electric utilities, and far more than such an important field as farm machinery. But furniture lacks many of the usual characteristics of large industries. For example, there is the matter of brand names.

Most consumers could tick off the names of half a dozen makes of appliances, TV or automobiles. But few individuals could name more than one or two furniture producers, much less have a basis for comparing one with another. This anonymity of the producer is one of the aspects of the industry which help explain its unique character.

Only a handful of furniture manufacturing firms have an annual sales volume in excess of 10 million dollars or employment running into the thousands. In wood household furniture, according to the most recent census, 80 per cent of the business was done by concerns with fewer than 500 employees, while those with 100 or under accounted for nearly 30 per cent. In upholstered lines the under-100 employee group accounted for over half the total. Of the 4,000 producers in the industry as a whole, there are hundreds who operate only the smallest of shops manned by a handful of workers.

The nearest approach to a giant concern in the furniture business is the Kroehler Manufacturing Company, which last year had sales of 76 million dollars. This one firm accounts for about 10 per cent of upholstered furniture production. Bassett Industries, the largest producer of case goods (principally dining and bedroom furniture), leads the field with an even smaller proportion of that market.

The tendency to broaden product lines so apparent in many U. S. industries has not been characteristic of furniture. Although there appear to be some economies in management and distribution derived by combining complementary lines, most furniture manufacturers remain specialists. Producers of upholstered pieces seldom also produce dining and bedroom furniture; metal furniture is turned out by another group. Some concerns make only chairs or juvenile or institutional furniture. Moreover, there is a tendency to concentrate on a fairly narrow price band within each of the various product groups.

There is some indication of increasing concentration of production in the hands of fewer firms, but the process has a long way to go to compare with the situation in other industries. In England the biggest companies do a much larger share of the business. The industry's desire to cater to all varieties of personal taste results in a profusion of models and styles so numerous as to restrict application of mass production techniques which lower costs and promote concentration.

"Pre-selling," a small role

Because of the small size of producers and difficulties of maintaining identity of products, spending on consumer advertising by manufacturers has never been large. Attempts to promote brand names and particular models in this manner have been growing, but the pre-selling through national media which has been a vital factor in increasing output and cutting manufacturing and distribution costs in other consumer durables lines has yet to make much headway.

Another consequence of the atomization of production in the furniture industry is that relatively small sums are spent on market and technological research. As in other fields, new production equipment and techniques are continually being introduced. Automatic kilns for

—continued on page 10

Farm loans—

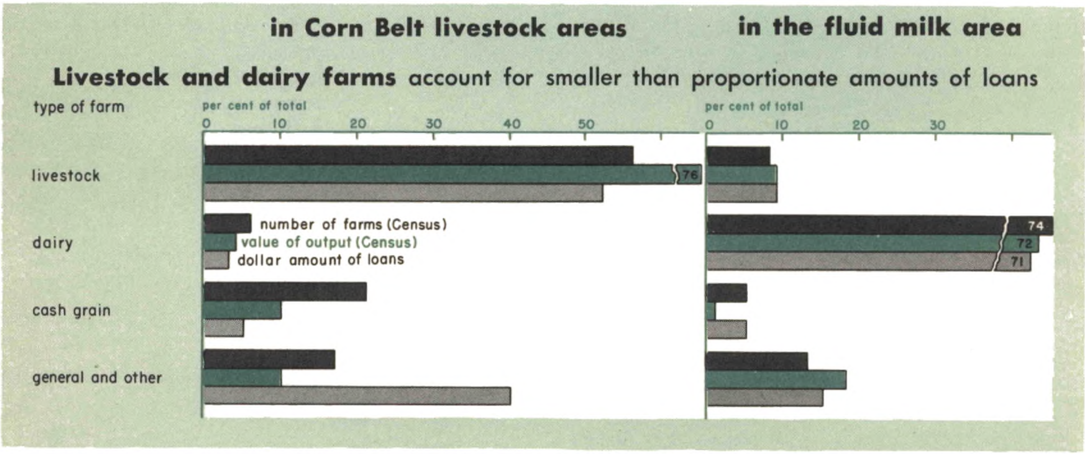
Who's borrowing at country banks

Country banks make a great variety of farm loans—big and small, long-term and short-term, secured and unsecured, and for every conceivable purpose related to the financing of farm businesses. It is the bankers' intimate knowledge of the distinctive character and needs of each farm in their area which makes possible this tailoring of credit to individual needs. But until recently little was known about the characteristics of those who do the borrowing. Reports provided currently by a group of country banks in the Seventh Federal Reserve District help to round out a picture of Midwest farmer borrowers.

As a result of the geographic specialization of agricultural production, many rural banks rely very heavily on the income from a particular source for payment of loans. Furthermore, a substantial part of the income for borrowers operating "general farms" is derived from cattle and hogs in Illinois and Iowa and from dairying in Wisconsin. It is evident, therefore, that a slump in milk prices or an upsurge in cattle or hog prices would have very different effects on bank loan trends in the two areas.

Many small and part-time farmers in late winter did not obtain bank credit in proportion to their importance on the rural landscape. Agricultural activity on many of these farms is very limited, and little credit is apparently used other than that obtained from merchants and dealers.

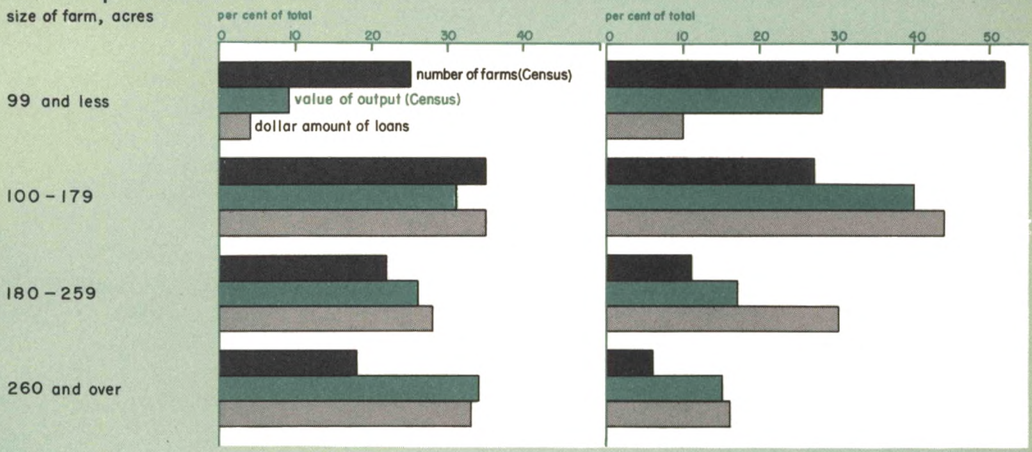
On the other hand, tenants and young operators were obtaining loans at banks according to their relative importance as farm operators. Problems of many Midwest tenants and young operators that are often ascribed to lack of available credit may in fact be due to limitations imposed by having farms of insufficient size.



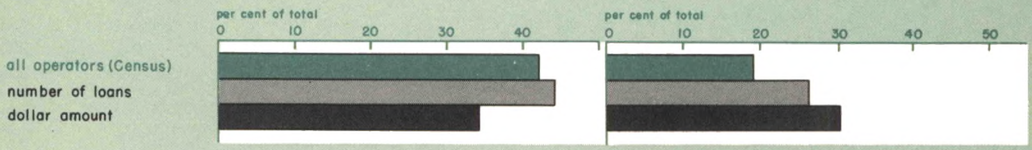
ERRATUM: The "part-time operators" and "tenants" charts (not captions) are transposed.

in Corn Belt livestock areas **in the fluid milk area**

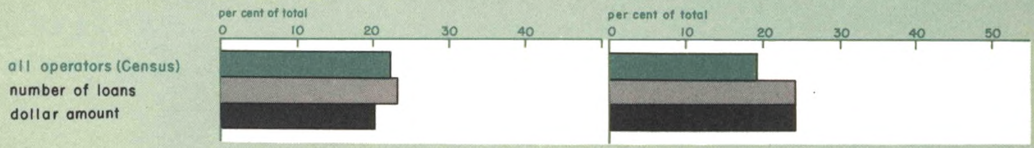
Loans are made to all sizes of farms; the amount is distributed about in proportion to value of products . . .



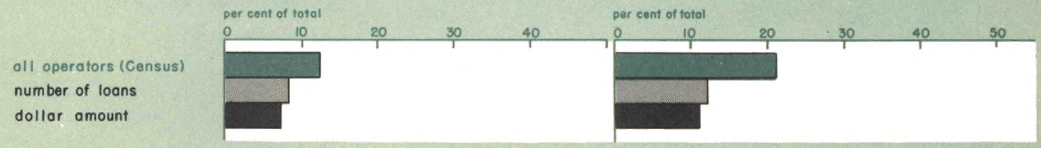
but **part-time operators** obtain fewer loans from banks than would be indicated by their proportion of total farms . . .



while loans to **young farmers**—under 35—are about in proportion to their number . . .



as are loans to **tenants**



Furniture—*continued from page 7*

drying timber, electronic gluing of veneers and the introduction of conveyor handling equipment are usually mentioned as examples of progress. Experiments using molded plywood and plastics are always under way, and courses in wood technology are now offered at the Universities of Michigan and North Carolina. But, essentially, furniture manufacture and distribution are conducted much as they were 30 years ago. Considerable hand work is involved and probably always will be unless particular models and styles find a wider market.

"Open door" to new entrants

Although most furniture firms are long-established, family-owned enterprises, it is fairly easy to get into the business. This is particularly true with upholstered and metal furniture manufacturing, which are often little but assembly operations utilizing components readily available from suppliers. But some sizable firms, usually started by split-offs from management of existing ones, have begun on small resources in the past decade. Ease of entry and the fact that the industry has substantial unused capacity even in good years make the field highly competitive in every sense of the word—pricing, deliveries, styling and quality.

In bad years hard competition has meant price slashing and numerous failures, and in good times profits have remained moderate for all but the most successful producers. According to tabulations of Seidman and Seidman, accountants, 27 per cent of all furniture manufacturers lost money in 1954. Profits tend to be higher as size increases. Only those producers with 5 millions or more made 5 per cent on sales. Small firms generally did much worse.

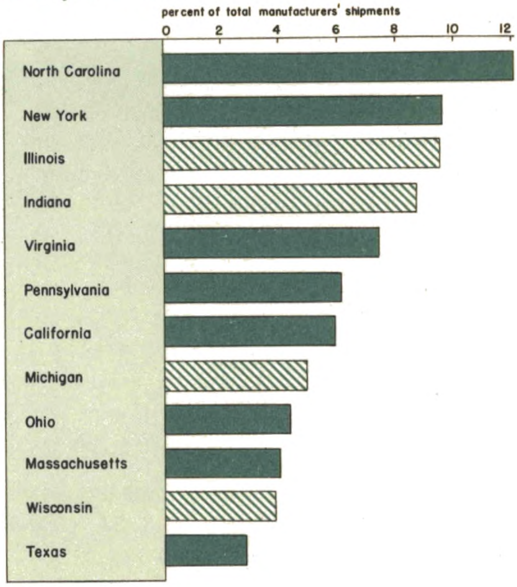
The move to South and West

Along with textiles, furniture has witnessed relative growth in the South and West at the expense of the older centers in the East and Midwest. The attraction of ample timber resources and cheap labor started the South on its way early in the century, but the trend has continued in recent years. Up from fifth place 25 years ago, North Carolina in 1953 was well ahead as the nation's number one furniture-producing state. Southern plants are particularly important in case goods production; North Carolina and Virginia together account for 30 per cent of the U. S. total. Illinois, Indiana, Michigan and Wisconsin are all found in the top eleven in recent years. The furniture centers of Chicago (especially prominent in upholstered and metal furniture), Grand Rapids, Rockford, Sheboygan and Kenosha, together with a group of Indiana centers, continue to play an important role in the industry.

Availability of raw materials, labor supplies and proximity to consumer markets all influence new plant locations. So far as resources go, the South continues to have the edge. Northern hardwoods, such as those which encouraged the development of furniture in Grand Rapids, have been largely depleted. Extensive stands remain in the South. But the greater attraction of the South lies in lower wage rates.

Although the gap between southern and north-

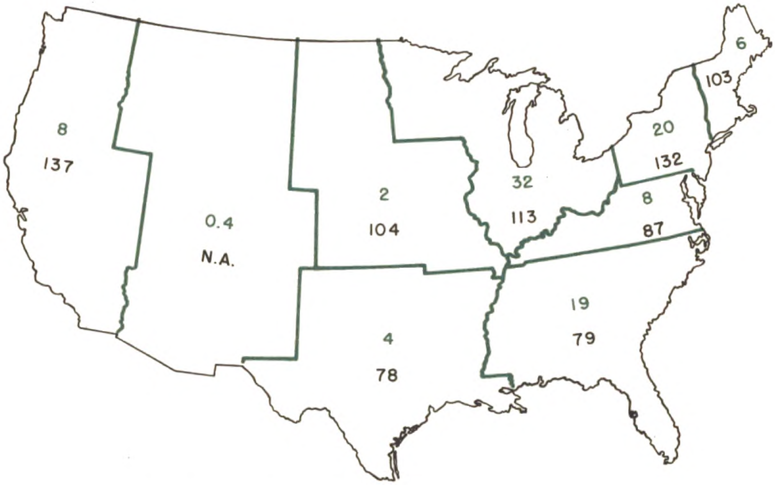
Four Midwest states are big furniture producers



ern pay scales has tended to narrow over the years, partially as a result of minimum wage legislation, it remains very large. Hourly earnings in the industry in the Midwest are more than 40 per cent higher than in the South. In the East and West there is an even greater differential. Since wages amount to 20 to 25 per cent of the manufacturer's sales price, it is obvious that the lower wage bill encourages southern operations.

Costs of shipping such bulky finished goods as furniture average 8-12% of factory price. Much of the product is shipped over the highways, and the usual maximum economical trucking radius is about 500 miles. These factors are helping to build up the West Coast industry despite the highest labor costs in the nation. Markets there still are supplied extensively by shipments originating east of the Mississippi.

Great Lakes states produce one-third of nation's furniture; pay scale exceeds national average



Color figure: value of shipments, per cent of U. S. total
Black figure: hourly earnings of workers in furniture factories, per cent of U. S. average
N. A. Not available

Some of the largest producers maintain their own truck fleets. Smaller firms have sometimes gained by cooperating in forwarding groups to assemble full freight car loads to avoid the less-than-carload-lot rates.

Transportation of timber to furniture factories is often a significant item, but more and more this cost has been reduced by shipping roughly finished "dimension" stock with 40 per cent of the weight (and the shipping bill) shaved away.

The Grand Rapids story

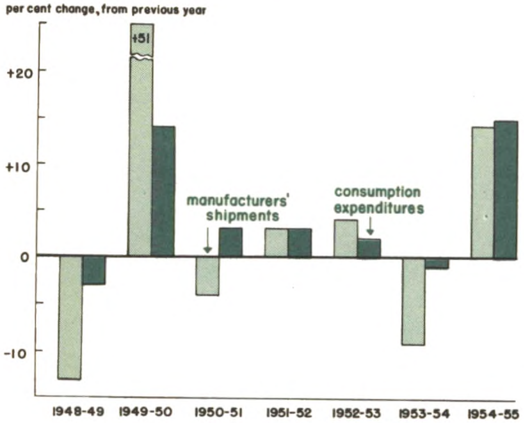
Michigan, once near the top, had slipped to eighth place in the industry by 1953. Grand Rapids and the nearby communities of Zeeland and Holland are still the homes of respected furniture names, but southern competition eroded the Michigan area's position as a volume producer in the Twenties. Some local firms moved south; others gave up the ghost in the depression. Since then Grand Rapids has become mainly a metal-processing center for the automotive and other industries.

But it was in the Twenties also that Grand Rapids began to assert a leadership in highly styled pieces which continues. Unable to compete on price, the careful skills of the Dutch craftsmen have been combined with top designing talents to produce pieces which justify the city's claims to being the "Paris of furniture." This styling influence, of course, is transmitted to cheaper lines so that the area's importance is greater than dollar volume would indicate.

Financing furniture

Because the typical furniture plant is a relatively small, low-profit enterprise, with a limited equity cushion, adequate financing always has presented a major problem. Few firms are able to tap the capital markets. Kroehler is the

Manufacturers' shipments show much greater changes than consumer purchases of furniture



only firm which is primarily a furniture producer which is listed on the New York Stock Exchange, and Storkline is the industry's sole representative on the Midwest Stock Exchange. Additions to equity investment have been provided almost entirely by retained earnings.

Typically the industry produces to order and does not carry stocks of finished goods, but substantial sums are continuously tied up in raw materials, goods in process and dealers' receivables. There is considerable dispersion among firms in their use of short-term borrowed funds. Dependence upon credit granted by suppliers has always been extensive. Banks are important granters of credit, but many of the smaller concerns are not considered suitable credit risks for ordinary bank lines.

A number of expedients are employed to convert receivables into cash. Some firms borrow on the assignment of receivables to banks or finance companies, usually on a recourse basis. There is also a considerable reliance upon factoring, a device, long-used in the textile industry, which penetrated other fields during the Thirties and is now employed more extensively than ever.

In a true factoring operation the accounts are sold outright to the factor who assumes the full risk of loss. The producer using this device can dispense with his credit and collection departments because all orders must be approved prior to shipment. The charge for this service varies from ½ to 2 per cent of total sales plus 6 per cent interest on funds taken before the average maturity date of receivables. When excess funds are allowed to remain with the factor, 6 per cent interest is paid to the client. Money obtained through factoring or other techniques of receivable conversion is costly relative to the rate paid by a firm with an ordinary bank line. However, some administrative expense is eliminated, and factoring may permit the acceptance of cash discounts offered by suppliers, usually 2 per cent on each billing.

Furnishing the American home

Retail sales of furniture have been relatively stable during the postwar years with the exception of sharp increases in 1950 and 1955. However, in the more substantial recessions of past decades abrupt declines have occurred as in the case of other durables. Nevertheless, swings in furniture have been less violent over the years than in such lines as household appliances, automobiles and home building.

In recent years roughly 1.5 per cent of all consumption spending has been for furniture—about the same ratio as in the years just prior to to the War and in 1929. During the worst of the depression, however, furniture spending dropped a good deal more than total consumer spending, with distressing effects upon the industry.

A high and steadily advancing level of personal income, of course, will sustain furniture sales at a good clip. But beyond its awareness of this fact the industry is forced to grope in the dark. New home building and family formation play a part in determining demand, but the relationship of these factors to furniture sales has not been stable. Moreover, there are no useful indexes of market saturation, average age of consumer stocks or other usual paraphernalia of the sales analyst. Sales forecasting, of course, is difficult in any line, but particularly so in furniture.

Industry leaders are aware that the opportunities to increase furniture sales lie heavily in the replacement field. Annual new home building amounts to only 2 or 3 per cent of the existing stock of houses. Moreover, the experience of many new home buyers is that down payments and various unlooked-for extras tax their resources so that buying of new furniture is postponed.

The enormous potential replacement market is tempting enough, but how to tap it in greater volume? Style and product improvement have been used successfully by the automotive and women's dress industries in getting consumers to spend freely on those products. Although styling and appearance are the big selling points in furniture, the industry has not been successful in making the public obsolescence-conscious.

Moreover, even when the consumer's attention has been attracted to the desirability of more and better furniture, the competition of other big-ticket items—TV sets, freezers, dryers, air conditioners and other scientific applications for the home—is tough to overcome.

Exit Louis XVI?

Surveys indicate that the average family redoes its furniture once every 20 years. Probably for most this is the period it takes for pieces to break down. Any increase in this "rate of turnover" would, of course, provide a strong boost to sales.

Furniture manufacturers turn out new models at least twice a year. But only an expert could separate the new pieces from products of earlier years. After all, industry people say, what can you do to furniture? The ancient Egyptian had worked out the basic principles. In fact, some types continuously on the market attempt to duplicate as closely as possible the work of the past. These traditional styles, such as the eighteenth century types—Louis XV, Louis XVI, Heppelwhite, Chippendale and the rest—continue to occupy a substantial if declining share of the market. No planned obsolescence here!

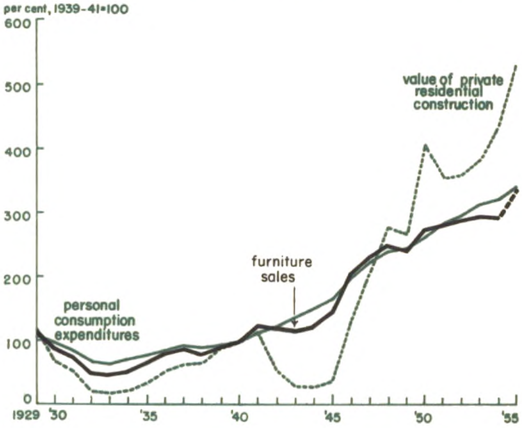
Modern styling made its debut in the mid-Twenties, but it was given its first real push in this country by displays at the Century of Progress exhibition in 1933. These new designs dispensed largely with carvings and other ornament and substituted straight lines for classic curves. In the past 20 years modern furniture has increased its share of the market fairly steadily. Its importance is greater relatively as one moves westward across the country—New Englanders being least inclined to relinquish tradition. In recent years, there has been a blurring of the lines between old. and new. Modernized French Provincial provides an example of this trend.

It is generally agreed that there has been a significant betterment of popular taste in furniture during recent years. That is, the average person is now more apt to favor styling approved by the trained eye.

The day of "borax" or "waterfall," cheap but extravagantly styled pieces, is said to have faded. Homefurnishings magazines which have gained much wider consumer interest in recent years are given much of the credit for this change. In the higher-priced brackets the use of decorators has become much more common than prewar. One whole floor of the Merchandise Mart is devoted to "decorator lines," which do business with higher-priced stores or decorators who bring customers into the showroom to select pieces.

But the proportion of first-grade furniture is very small relative to total industry sales. Producers who wish to tap the large volume market for less expensive pieces proceed cautiously in

Over the years furniture buying has moved with total consumer spending

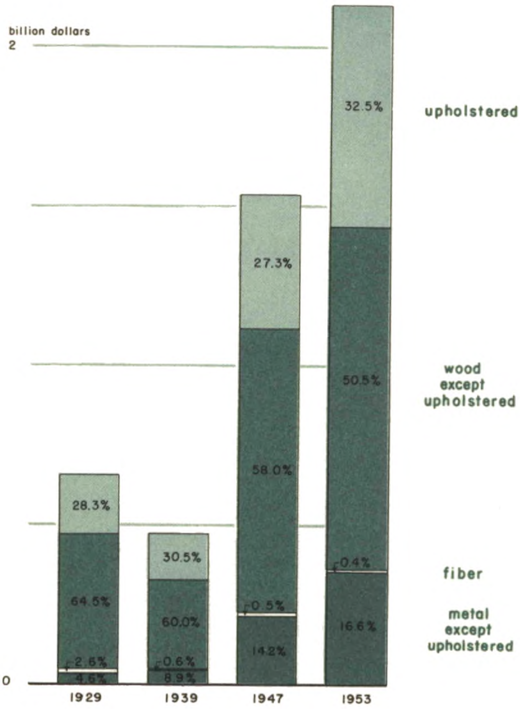


changing styles. Lack of acceptance of new lines by dealers at furniture shows can be a serious blow to a small manufacturer with relatively few models since it may be six months before mistakes can be rectified.

"What's new?"

Since the manufacturer rarely owns retail outlets, it is the retailer's evaluation of his customers' tastes that dictates the makeup of the manufacturer's production. His standard greeting to the maker's representative, "what's new?" guarantees that at least minor changes in appearance of standard pieces will be made two or more times a year. It appears that continuous styling changes, so expensive to the manufacturer, are directed in part toward the dealer who must view his own showroom day after day, rather than the consumer who visits furniture stores only infrequently.

Metal furniture gains on wood



Some of the more apparent styling changes of recent years have been those which relate to the use of new materials. Metal furniture has grown fairly steadily over the past two decades and has largely replaced wood in the kitchen and fiber and rattan on the porch. Recently, there has been a tendency to move metal into the living and dining rooms. Distinctive effects also have been achieved through the use of glass, plastics and synthetic fibers. Another trend meeting wide acceptance is the use of harmonized "groups" of furniture rather than matched suites.

Some furniture producers employ famous designers, often on a royalty basis. The fad on Italian designers noted in other lines has been apparent in this industry as well. Designs can be copyrighted, but it is easy to make slight modifications which avoid charges of legal infringement. As a result, a new item which gives promise of going over well is copied or "pirated" almost immediately, as in the dress business.

Retailers in the driver's seat

Furniture retailing, like production, is highly individualized. There are about 29,000 full-line furniture stores, and there are additional thousands of department stores, mail order houses, appliance and homefurnishings stores which handle a selection of pieces. Full-line furniture stores do 70 per cent of the business. Department stores are next in importance with about 17 per cent.

Approximately 18 per cent of all furniture goes through wholesalers, which are either full service establishments or drop shippers which do not take title to goods. Wholesaling is most important in the area between the Mississippi and the Rockies where retailers tend to be small and are located far away from manufacturers. In the larger cities wholesalers serve the smaller stores, which benefit from credit extensions and the opportunity to get quick delivery. There are also numerous wholesale-retail stores which are sometimes merely retailers using the wholesale label as a merchandising device.

Most retailers buy from at least a dozen manufacturers and are able, through the market system, to vary their takings from particular

Durable goods less stable than other consumer goods

	1929-32	1937-38	1948-49	1950-51	1953-54
	(per cent change in retail sales)				
Furniture	−57.6	−10.4	−3.4	+2.7	−1.0
Appliances	−55.2	−15.9	−12.5	−5.1	+3.5
Automobiles	−75.5	−38.2	+37.6	−13.8	−5.2
Radio and TV	−73.5	−12.0	+14.1	−9.4	+2.0
Total consumption spending	−37.5	−3.9	+1.7	+7.4	+2.6

sources. Thus, the furniture retailer can take it or leave it. He is in a much stronger position relative to the manufacturer than is, for example, the automobile dealer, dependent on a single manufacturer.

Since brand names play little part in furniture demand, the retailer often substitutes his own label for that of the manufacturer. In part, this is a means of promoting the store's name, but in the current merchandising environment it also helps to meet the competition of discount houses.

Suggested retail list prices are little used in the furniture industry, and attempts at price maintenance have been half-hearted. Moreover, it is usually difficult to locate identical pieces in two different establishments. As a result, a buyer is not often aware of the amount of the discount, if any, available. Moreover, the consumer is aware of his inability to judge construction quality, particularly in upholstered pieces. Thus, he is wary of "cheap" merchandise and must depend upon his faith in the dealer's representations.

Furniture chains do not account for a large share of the business. The largest has sales totaling about 30 million dollars per year. Some independent stores also participate in buying groups to achieve a stronger bargaining position. Sears, Roebuck and Montgomery Ward do an important furniture business, but their distributive setup is not particularly well adapted to exploit furniture departments. Many of the retail stores of these houses are too small in area to handle furniture which uses more floor space per dollar of sales than any other line of consumer goods.

The size of average billings to a retail outlet is indicated by the experience of one large producer which offers a 10 per cent discount on yearly sales of over $10,000 to a single buyer. Seventy per cent of this firm's volume goes to customers receiving the 10 per cent discount, but this includes only 20 per cent of the number of buyers.

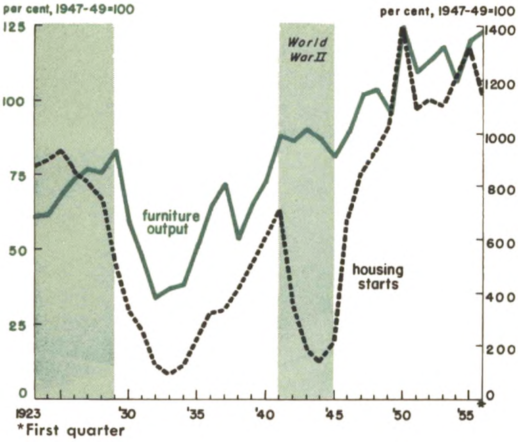
Retailer dominance in the furniture industry is apparent in the way the inventory problem, in part, has been shifted back to the producer. The manufacturer seldom carries finished goods, but he must be prepared to offer prompt deliveries. Many orders for upholstered furniture are shipped three weeks after receipt of the order; case goods deliveries are slower, taking up to 8 to 12 weeks. Moreover, the manufacturer will accept cancellations at any point up to the time when cuttings are made. Another example of retailer power is the fact that it is sometimes necessary to continue to produce small numbers of models which the maker would like to drop from his line.

Although data is scanty, the number of full-line furniture stores appears to have been fairly stable in recent years. These outlets handle about 70 per cent of industry volume and, therefore, comprise the backbone of furniture retailing. There is some concern that new entrants with ability and capital have not been sufficiently numerous to produce the volume of sales which could be obtained in these years of record prosperity.

Needless to say, the furniture retailer also is faced with stiff competition. He needs a large floor area to display his wares, and despite some reduction in stock-sales ratios over the years he must assume a sizable inventory risk. Markdowns on slow-moving merchandise rival those on women's apparel.

In common with other types of retailers, furniture dealers tend to buy too heavily when business picks up and thus become overstocked if sales level off or sag. As a result, retail sales

In late Twenties furniture output and home building diverged sharply



have fluctuated substantially less in postwar years than has production.

Traditional practices are strongly entrenched in retailing, as in manufacturing. Typically, the furniture store transfer of ownership is a father-to-son transaction. In smaller towns the practice continues of combining the sale of furniture with the local undertaking parlor.

Established methods of doing business also apply to retail markups. The traditional markup on furniture is 100 per cent or, as it is called, a number markup, "number" being the manufacturer's price. However, 80 per cent of "landed cost," that is, manufacturer's sales price plus transportation costs, is increasingly common. Some manufacturers believe that a further reduction in dealer markups is warranted now that the retailer does not carry as large an inventory as formerly. Retailers reply that a larger margin is needed here than in some other lines because of heavy shipping costs and the lesser importance of the wholesaler whose functions are performed, in part, by the retailer.

Selling credit

The furniture retailer has long been a merchandiser of credit as well as goods. Instalment and open account sales account for about 90 per cent of total volume. This proportion is about the same as in the Thirties.

Instalment sales have long been made on a 10 per cent down basis with varying periods to pay. Considerable emphasis is placed upon "add on" sales whereby the new purchases are simply added to a consumer's existing credit balance.

Furniture retailers rely extensively on banks and finance companies to carry their credit paper. A typical arrangement uses a revolving credit equal to 80 per cent of assigned accounts receivable. Usually this is done on a recourse basis so that over-age accounts are exchanged for new ones.

The furniture future

The furniture industry is striking out for a larger share of the extra income created by steadily rising wages and salaries. This process could be abetted by declines in demand for other major durables or for housing if general business remained strong. In fact, if, as many suspect, 1956 will prove to be a record year for furniture, a new high will have been achieved in a year of reduced auto buying and housing starts.

But longer-run efforts to make inroads on the huge potential replacement market are unlikely to be achieved without a show of aggressiveness by the furniture industry. Improved merchandising techniques, more efficient production and more appealing products doubtless are necessary. Despite general statements to the contrary, these problems are under attack by progressive dealers and manufacturers.

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