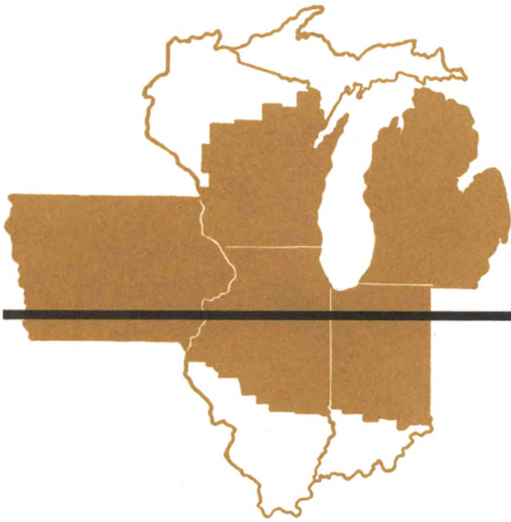
A review by the **Federal Reserve Bank of Chicago**

Business Conditions

1960 January



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THE Trend OF BUSINESS

Nineteen hundred and fifty-nine ended on a resounding note of strength. Steel was flowing again through the arteries of the industrial sector, and there was increasing evidence that the economy had remained basically strong even though the effects of the steel strike and its aftermath had become quite widespread. Total wages of manufacturing workers were below the June high because of steel shortages; nevertheless, personal income hit a new high in November, at an annual rate of 385 billion dollars, surpassing the record established before the strike. Employment and industrial production, seasonally adjusted, rose slightly in November. This was only a token instalment on the substantial increase in these measures which was certain to occur in December as steel supplies improved further.

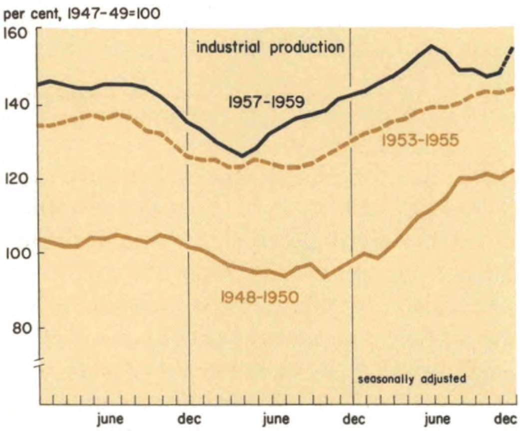
The annual rate of housing starts had dropped to 1.2 million in October after holding near the 1.4 million level through most of the year. Although a further decline had been expected in succeeding months, the November starts were estimated at about 1.2 million. On the basis of permits granted, the prospect for residential construction appeared weaker in the Midwest than in the nation as a whole. Permits were substantially lower than year ago in Midwest centers during the fall. In Chicago, for example, housing permits dropped 25 per cent from the 1958 level in October and 55 per cent in November, after running well ahead of year-ago figures for nine months. In part, the recent unfavorable comparison reflects an improving 1958 level. Nevertheless, November 1959 permits were the fewest for that month in the postwar period.

During 1959, dollar volume of retail sales was about 8 per cent greater than in 1958, which, in turn, had been equal to the record level of 1957. The fourth quarter probably saw a somewhat smaller gain from year ago than did 1959 as a whole. But this was traceable entirely to the limited availability of automobiles and trucks. Between October and November, the level of retail sales, seasonally adjusted, dropped from 18.3 billion dollars to 18.0 billion. This decline was more than accounted for by the decline in sales of automobile dealers and stores. As of December 1, inventories of domestically produced autos numbered 440,000, the lowest in five years. Stocks were expected to rise somewhat in December, but much of the gain would be "in transit" and not available for delivery to consumers.

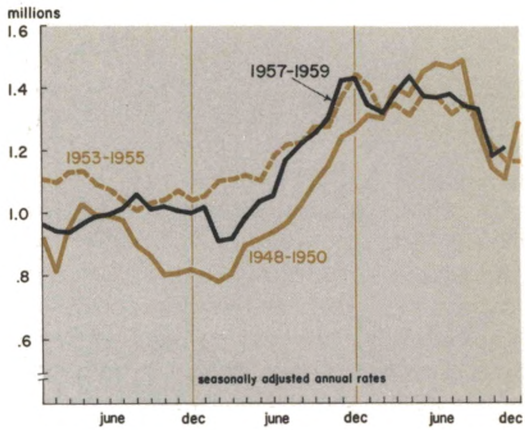
The pickup in durables

The estimated national rate of unemployment, seasonally adjusted, dropped back to 5.6 per cent of the labor force in November, following a rise to 6 per cent in October. This development owed nothing directly to the return of the steel workers since they had not been counted as unemployed while on strike. Secondary layoffs resulting from steel shortages were still occurring in December, but recalls had begun to exceed new

Industrial production returns to June record rate in December



Housing starts decline from the high level of last spring



layoffs in most areas early in the month.

During December, production in durable goods industries was picking up much more rapidly than had been thought possible. The steel industry reached a new record high production of 2.7 million tons per week in mid-December, equal to 96.5 per cent of rated capacity. Steel-using industries were picking up fast, and, as a result, total industrial production at year end was close to the preceding record in June. At that time, this measure of physical activity was 55 per cent above the 1947-49 average and about 7 per cent above the level established before the recession began in the late summer of 1957.

Auto assemblies rebounded to 450,000 in December, after dropping to 250,000 in November. Schedules called for production of 2,240,000 cars in the first quarter of 1960. This total would be a record high, 40 per cent above 1959 and 80 per cent above the production two years earlier. If achieved, this output might greatly reduce, if only temporarily, the substantial unemployment which has plagued most automobile centers since the high production year of 1955.

The capital expenditure rise

Plant and equipment expenditures were reduced substantially below the planned level in the third and fourth quarters of 1959 because of steel shortages. The anticipated rise in these outlays may continue to be dampened to some extent through the first half of 1960. Producers of most types of machinery and equipment should soon be obtaining the steel they need. However, structural shapes used in heavy construction will be one of the last categories of finished steel to become available on a "normal" basis. Shortages also will continue for some time in the case of steel plate to be fabricated into pipe for the oil industry, and in the plates and lighter structurals used in freight cars and ships.

It now appears that the rise in this spending between 1958 and 1959 on a full-year basis was 7 per cent rather than 9 per cent as anticipated last summer. Nevertheless, the data still show a persistent quarter-to-quarter rise through the year. Looking ahead to

1960, the McGraw-Hill survey released in November pointed to a 9 per cent increase in total plant and equipment spending—19 per cent for manufacturing—compared with 1958. It was assumed at the time that this increase would prove to be an understatement. Some activity has been deferred recently as a result of steel shortages and this may tend to boost capital outlays in 1960.

The Seventh Federal Reserve District includes 16 per cent of the nation's population, but it accounts for about one-third of total production of producers' durable goods. Orders for mining machinery, machine tools, electrical apparatus, chemical processing equipment, freight cars and trucks and trailers have risen during 1959, and backlogs were at high levels in most cases at year end.

The business picture at the start of 1960 bears a close resemblance to that of a year earlier in some respects. There is widespread agreement, as there was in early 1959, that a rise in business activity can be anticipated, at least for the months immediately ahead. Rising consumer expenditures for goods and services and expectations of increases in business investment in plant and equipment and inventory—particularly durable goods—brightens the near-term outlook. Another similarity is found in the fact that farm income is moving downward. Unlike early 1959, home-building activity has shown some decline and some areas (not in the Midwest) are being adversely affected by stretchouts and cancellations in defense procurement programs.

Index of industrial production revised

For many years the Federal Reserve Board's Index of Industrial Production has been one of the widely used barometers of business activity. This measure of physical output of the nation's mines and factories has been revised recently and broadened to include the output of electric and gas utilities. The revision is described in the December issue of the *Federal Reserve Bulletin*. A more detailed description and additional historical data will be provided in a publication, *Industrial Production: 1959 Revision*, which will be available soon.

The base period is changed to 1957. However, publication on the old, 1947-49, base will be continued for some time to facilitate comparison with other published data.

Another feature is a grouping of the 207 component series into three broad market categories—consumer goods, equipment and materials.

The new index shows growth of physical output in the postwar period at a somewhat more rapid rate than had been indicated by the old index. Over the 1947-59 period, industrial production increased at an annual rate of 4.1 per cent. At the peak, in June 1959, the new index reached 166 on the 1947-49 base as compared with 155 for the old index. About one-third of the difference between the old and new indexes is attributable to the inclusion of the rapidly growing utility industry. The rest is accounted for by upward revisions in individual series and by the greater weight given to certain industries which expanded output substantially.

New fashions in consumer lending

The sizable expansion in consumer borrowing during the past year has been accompanied by a continued rapid spread of relatively new lending techniques. Especially notable are two plans which have been adopted by a growing number of commercial banks—charge-account banking and the check-credit system. Both are applications of the revolving credit principle, in that a single application by the borrower paves the way for repeated uses of credit which the lender agrees to provide.

"Charge it to my bank"

The charge-account plan, first launched about ten years ago, is now offered by an estimated 150 or so commercial banks widely scattered over the country. Among the sponsors are the nation's two largest banks, but the plan is by no means confined to the largest banks or the largest cities.

Under the charge-account system, a bank furnishes individuals with charge cards which are honored by participating retail merchants. After a credit sale has been made, the sales slip is forwarded to the sponsoring bank. The amount of the sale, less a service fee of 5 to 7 per cent, is immediately credited to the merchant's deposit account. At monthly intervals, the customer receives an itemized bill from the bank. Remittances in full during the next two weeks or so on purchases made during the preceding month bear no charge for the short term of credit furnished. If payment is delayed beyond this period, the account is placed on an instalment basis—usually for a term of three to six months—and carrying charges on the order of 1 or 1½ per cent monthly on the outstanding balance are added. Before a credit card is issued, the bank will have approved the customer's credit-worthiness and set a ceiling on his account.

The plan costs the merchant the agreed service fees on charge sales, but he may still come out ahead in not having to maintain a credit operation of his own. On balance, there may be nominal economies through savings of postage, stationery and the clerical work connected with billings and collections. The customer, too, may stand to gain somewhat from the convenience of having only one check to write and one bill to remit at the end of the month.

The plans sponsored by the banks have in some instances merely displaced charge systems previously maintained by merchants, but often they have included merchants who had not offered credit plans of their own. Because the banks extend charge credit directly to retail buyers, the merchants participating in these plans no longer need to tie up working capital in the form of customer receivables. Under traditional practice, merchants extended charge credit but often sought to realize cash immediately at the time of sale by borrowing from banks on the security of receivables or other assets, or on an unsecured basis. The discount service fee paid by participants in a charge-account banking plan, in essence, is the counterpart of either the interest paid for direct accommodation by the bank or the foregone earning power of the capital held in the form of receivables, plus, of course, the operating expense connected with the credit department that would otherwise be needed.

From the customer's standpoint, one advantage of the plan is that a single charge card or plate does the work of several. By no means does it follow that he necessarily acquires more borrowing power than under the merchant-sponsored plans, but he often will be able to use his credit in a larger number and wider range of establishments.

The individual merchant agrees to handle all his charge-account transactions through a single bank plan. It is commonly believed that it would be unduly cumbersome to do business simultaneously under more than one bank system. The retail customer, moreover, typically will prefer to carry only a single charge card and to realize the advantages of having all his charge transactions included in a single monthly bill. The upshot is that the bank initiating a charge plan in a given community has an advantage over later entrants to the field. In a small- to medium-sized town, a single bank plan generally will prevail. In the larger centers, however, several may exist side by side, each serving a more or less compact section of the area.

Charge-account banking resembles strongly the generalized charge plans that have come into vogue during the past few years under the sponsorship of such agencies as the American Express Company, Diner's Club and the Hilton Hotel organization. These are a logical extension of the earlier gasoline and travel card systems long used by the oil industry and the air and rail carriers. It is significant, however, that the bank plans alone provide for extended credit accommodation and make explicit provision for instalment repayment in such cases. They are, therefore, a kind of blend of the conventional charge-account principle and the long-familiar practice of extending consumer credit for short to intermediate terms.

"Here's my check for cash"

Check-credit is a somewhat more recent innovation in consumer lending, the first such plan having been placed in operation in 1955 by the First National Bank of Boston.

The *American Banker* estimated last fall that 100 or more banks then had check-credit programs. The number has been increasing rapidly during the past year. Under this system, the would-be borrower takes the initiative by arranging a "line of credit" with his bank. The authorized ceiling on his indebtedness at any time will be a set dollar amount, usually 12, 20 or 24 times the sum that he and his banker settle upon as an appropriate monthly payment. The borrower receives a book of specially encoded checks which he may use as he sees fit. As soon as a check is presented to the issuing bank for collection, a loan in the amount of the check plus charges (usually 1 per cent a month on the balance and 25 cents for each check drawn) comes into existence, and the borrower thereafter is obliged to make monthly payments in the initially stipulated denomination.

This plan requires no direct participation by the merchant, who treats any check-credit payment he receives from a customer as if it were drawn on an ordinary demand deposit. The expenditure may be for a "big-ticket" consumer durable such as furniture, a home appliance or TV set, a service, a variety of small inexpensive items or even groceries. Some banks will take the checks in receipt for currency. Perhaps in the absence of this plan the customer would have arranged for credit purchases by financing through the dealer. He might have obtained

Consumer debt by type and by holder, September 30, 1959

Type	Amount	Financial institutions: Banks	Sales finance companies	Other	Merchants and other sellers
	(billion dollars)	(per cent)			
Total	49.4	37	20	18	25
Instalment	38.0	39	26	22	13
Automobile	16.5	44	44	8	4
Other consumer goods	9.4	27	19	8	46
Repair and modernization	2.6	72	1	27	
Personal loans	9.5	32	9	59	
Noninstalment	11.4	30		6	64
Single-payment	4.1	85		15	
Other*	7.3				100

*Outstanding receivables of retail merchants, utility companies, professional men, etc.

a direct loan for the specific purpose from a bank or other lender. Or, he might have drawn a check on his conventional demand deposit balance. To some extent, therefore, the check-credit device merely supplants or competes with other, more conventional methods of time financing. But it also gives its users ready access to spendable balances which might not be available otherwise, or if available would not be utilized since they would be less accessible.

Perhaps the most significant feature of both the charge-account and check-credit plans, as of nonbank credit cards and merchant-sponsored charge and credit arrangements, is the added latitude that they confer on users to make on-the-spot purchases. This may well sharpen the individual's ability to seek out advantageous buys, as well as to bargain vigorously with merchants. The latter feature may be especially significant in cases where the customer would otherwise be obliged to arrange for credit with the retailer. In some instances, the charge or instalment buyer may be at some disadvantage in the price bargaining process as compared with the purchaser who is prepared to pay cash.

Facilitating "impulse" buying, of course, has its drawbacks. Unplanned purchases may prove to be unwise purchases. Moreover, the user of this kind of credit may not always be fully aware of its cost. Extending small credits is an expensive business from the lender's standpoint, and charges for this kind of credit accommodation necessarily will reflect these costs.

Experience with the new plans thus far has been limited. The stage of rapid growth and of regional and local market pioneering is still under way. Reliable dollar volume

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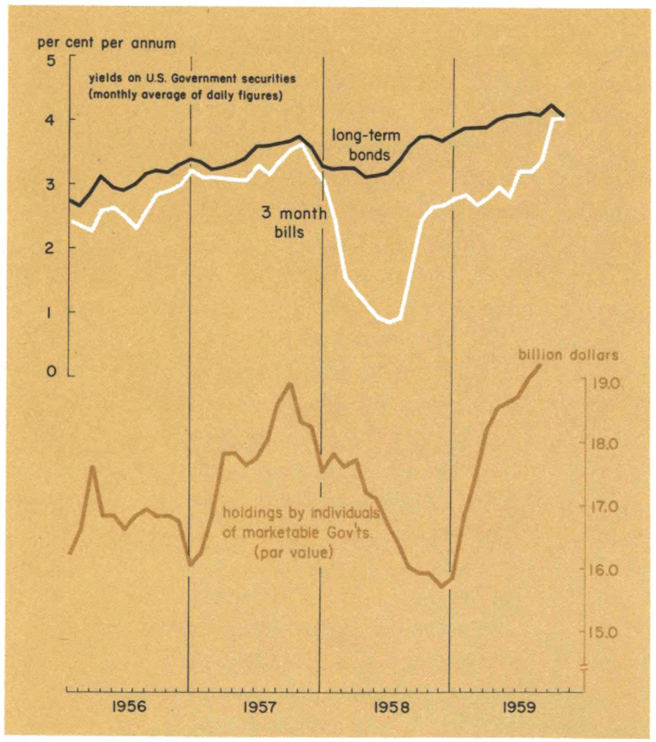
Government issues attract personal savings—but in limited amounts in most Midwest areas

In a series of financings during recent months, the Treasury has succeeded in doing what to many seemed the impossible—attracting substantial amounts of savings of individuals into direct investments in marketable Government securities. The securities have been Treasury notes maturing in four and five years and bearing interest rates of 4¾, 4⅞ and 5 per cent. The outstanding success was the "magic 5's," the four-year-and-ten month notes issued in October. Nearly 800 million dollars of these notes were purchased by around 100,000 individuals, in amounts of 25,000 dollars or less.

For most of these individuals, the purchase of marketable Government securities involved the transfer of funds out of a bank, savings and loan institution or other savings media. The changes that have taken place recently in savings flows during the period of increased participation of individuals in Treasury financings are shown in the following charts.

Individuals' holdings of marketable Government securities show effects of changes in yields on Governments

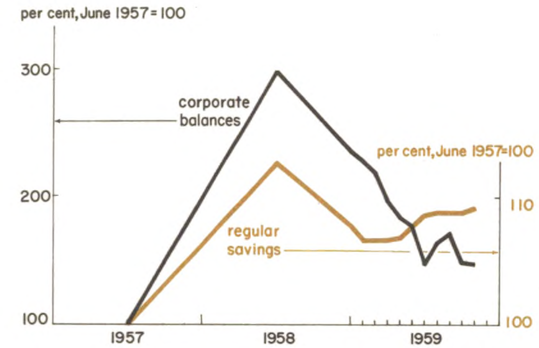


By July 1959, individuals' holdings of marketable Governments had regained the ground lost during the recession and, at 19 billion dollars, topped the previous peak set in September 1957. As in other recent years, changes in individuals' holdings of marketables have responded to changes in yields.

Marketables, however, represent only a small proportion of the total U.S. Government securities held by individuals. Of the 65.8 billion dollars of Treasury securities owned by individuals (including partnerships and personal trust accounts) on July 31, 1959, almost three-fourths, or 46.9 billion, consisted of the nonmarketable savings bonds.

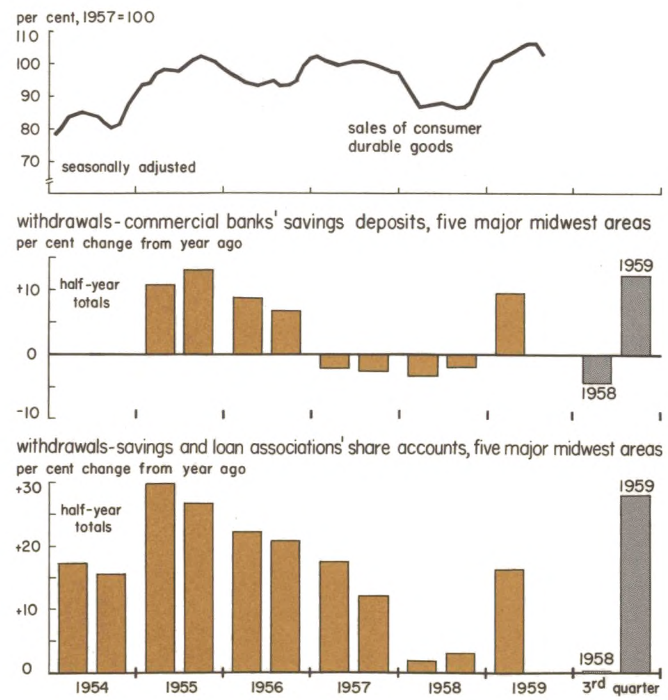
Time deposits at commercial banks in five major Midwest areas*

The new interest in marketables stems from the attractive interest rates, compared with returns on other forms of savings. Data on deposit flows at commercial banks in metropolitan areas of the Seventh Federal Reserve District indicate that time deposits of corporations rose during early 1958, when yields on Government securities were low. In 1959, as business cash needs increased and yields on Government securities rose above rates on time deposits at banks, corporate time deposits declined. Unlike the corporate segment, and despite the higher



yields available on Governments, *regular* savings deposits have risen since the beginning of 1959.

*Based on data for large banks in Chicago, Detroit, Indianapolis, Milwaukee and Des Moines.



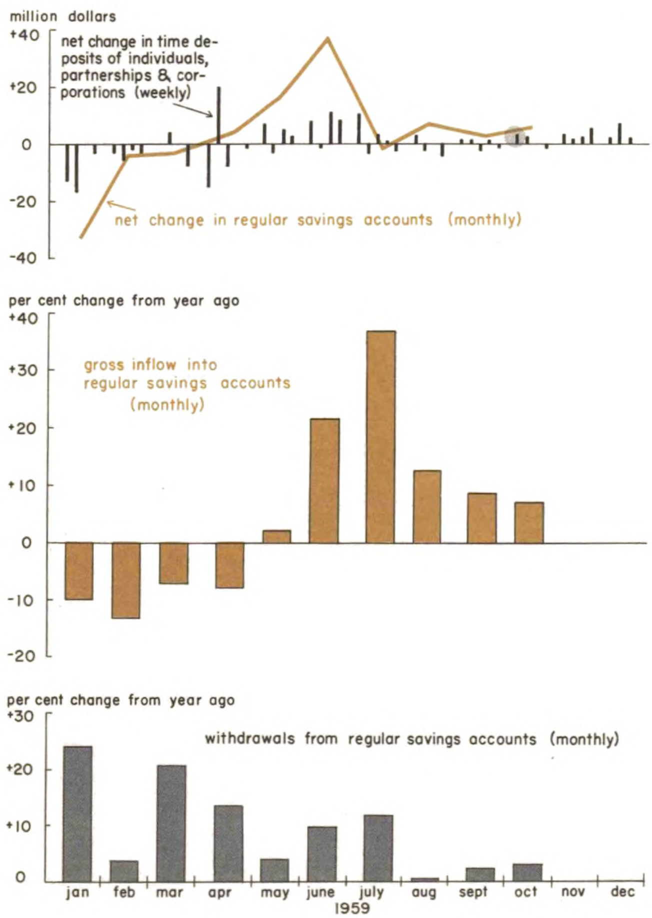
Savings withdrawals show effects of changes in consumer spending for durables

Furthermore, withdrawals from individuals' regular savings accounts at commercial banks have followed trends in consumer spending for durable goods more closely than market rates on Government securities.

Savings and loan shares, too, are held mostly by individuals, and redemptions appear to have been affected by consumer expenditures on durables. But fluctuations in share capital do appear to be more sensitive to market rates than are time deposits. Savers may be more rate conscious as a result of both the higher level and the increased advertising of rates. Also, increasing amounts of savings and loan shares are being purchased by corporations, trust funds and local governments. These investors shift funds among alternative savings media in response to interest rates somewhat more readily than do individuals.

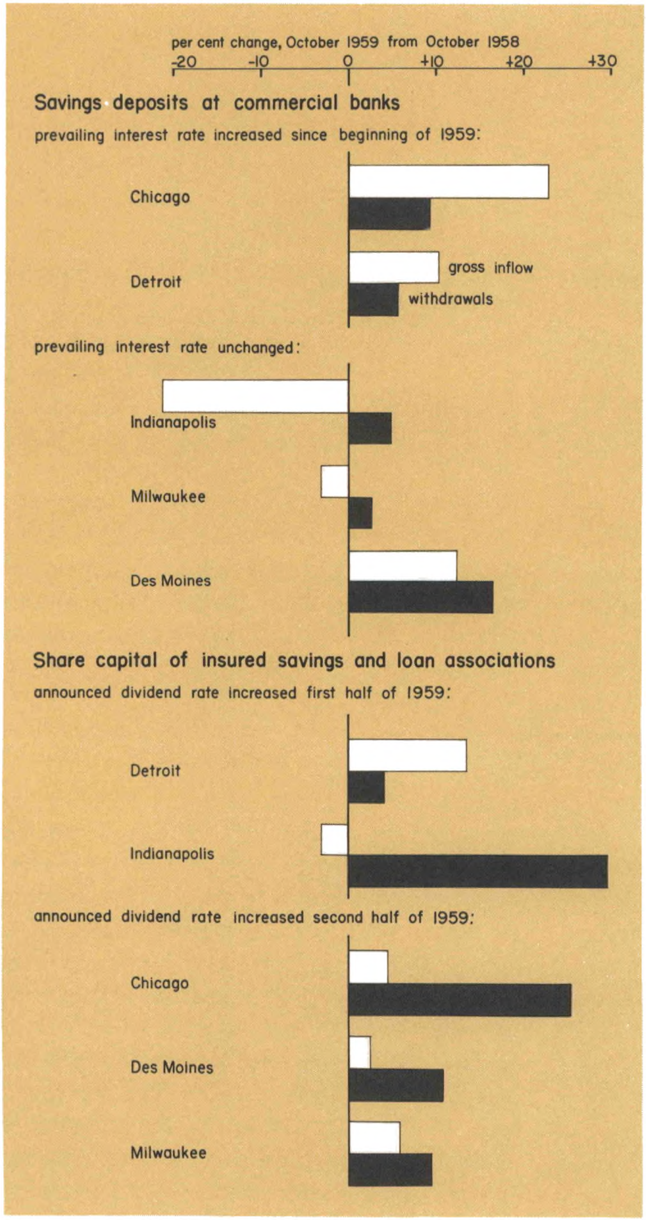
Deposit flows at large Chicago banks

Deposit flows at large Chicago banks are sensitive to large volume transactions in Treasury securities. During the week ended October 7, demand deposits declined somewhat, reflecting in part purchases of the new Treasury offering of 5 per cent notes, but the decline was quite similar to those during other Treasury offerings.



Withdrawals of savings deposits for the purchase of Government securities may have been higher than usual during October. However, these appear to have been offset to some extent by a decline in withdrawals for other purposes. Total savings deposit withdrawals rose only 3 per cent over the year-ago level. Since the midyear announcement of an increase in the interest rate on savings deposits, withdrawals have been relatively low. The higher rates have also affected gross inflow. Although during the early months of this year new savings additions were below the 1958 level, in October they were 7 per cent above.

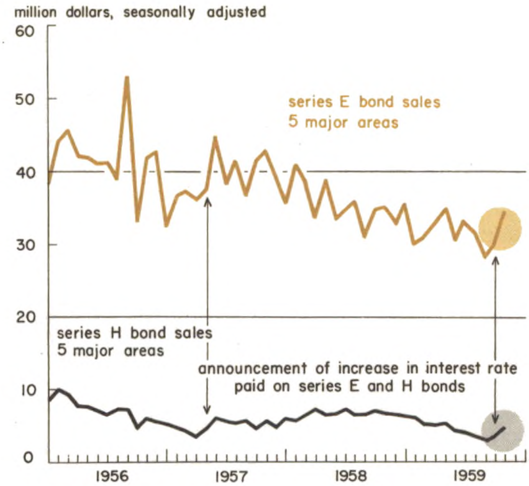
Areas having rate increases show relative gains in deposits and share capital



Savings balances grew more in October 1959 than in October 1958 at banks in Chicago and Detroit. With higher interest rates, gross inflows have been increasing at a faster pace than outflows. Only in Indianapolis, of the five large District centers, did net additions to savings deposits during October 1959 fall sharply behind those of last year. Savings deposit outflows at banks in Indianapolis have in recent months been boosted by increasing shifts of funds to time certificates of deposit. Effective August 1, Indiana banks were authorized to pay 3 per cent on time certificates of deposit while the maximum rate on regular savings remained at 2 per cent. Not until December was it announced that beginning January 1, 1960, the ceiling on regular savings deposits also will be 3 per cent.

Redemptions of shares of insured savings and loan associations during October exceeded the year-ago level, but by no greater margin than in some other months. However, gross withdrawals increased relative to gross inflow, except in Detroit where higher dividend rates were offered on share holdings.

Savings bond sales rise in response to rate increases



Despite the success of the Treasury's 5 per cent note issue, savings bond sales in the five major Seventh District areas rose strongly during October. Undoubtedly October sales were helped by the announcement late in September of an increase in interest return on bonds purchased on or after June 1.

For six months or more immediately preceding the rate increase savings bond sales had been sluggish. The decline in sales of H bonds between January and August 1959 was especially sharp.

Over-all, the evidence seems to show that the impact of the public's new-found interest in marketable Governments, especially the "magic 5's," on competing savings media in the larger District cities was a mild one—milder than the early reports indicated and less than appears to have been the case in some eastern financial centers.

Lending *continued from page 7*

estimates are not available. Although in many respects these credit plans are simply conventional devices carried through one or two further evolutionary phases, they, nevertheless, are sufficiently unlike consumer instalment and single-payment lending of the customary varieties to merit careful and critical attention by all concerned with credit and credit institutions.

Consumer debt climbs in 1959

The last several months have seen a sharp rise in consumer indebtedness. Before 1959 came to a close, the total of instalment and single-payment obligations outstanding passed the 50-billion dollar mark, having advanced by roughly 15 per cent since the first quarter of the year. Last year's gain, while considerable, was short of the upsurge in 1955 in relative terms. In that earlier year, outstandings advanced by nearly 6½ billion dollars, or 20 per cent on a base considerably smaller than today's (see chart).

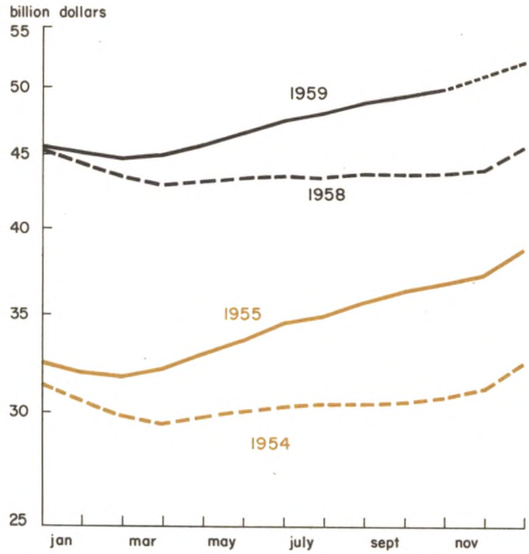
The climb last year largely mirrors the buoyancy of 1959's auto market compared with 1958's. The state of the automobile market goes far toward explaining the behavior of consumer debt, so important is automobile credit in the total. At the end of October, for example, automobile debt comprised one-third of all the short- and medium-term indebtedness of consumers and nearly 45 per cent of their instalment obligations alone.

The recent spirited rise in consumer borrowings is attracting critical scrutiny. Many wonder anew whether consumers may be taking on more than they can handle and whether lenders may be moving into an unduly exposed position. Unfortunately, there are no easy answers to these questions. The record of past experience has been reassuring. Lenders appear to have fared well, so well indeed that the field of consumer lending has attracted many new participants among both commercial banks and other types of lenders.

The experience of consumer borrowers, of course, is simply the other face of the coin. Here, too, over-all experience has been favorable. Consumers have purchased a large volume of goods on credit and retired the great bulk of the debt as scheduled.

The recent spread of charge-account and check-credit plans is in a sense reminiscent of the change in lenders' standards that took place in the course of the big consumer credit build-up during 1955. The stretch-out in instalment contract maturities and paring of required down payments in that year, however, reflected an explicit effort to broaden the basis of eligibility to use consumer credit. There is no intimation that the charge and check plans entail any such relaxation of lending standards. If anything, retail buyers using them are likely to undergo at least as rigorous a credit checkup as conventional instalment borrowers. The new plans, therefore, may for the greater part simply displace others of the established forms of credit accommodation at the disposal of consumers. That these devices will in and of themselves "cause" an expansion of consumer indebtedness is not at all clear. Extending contract maturities and cutting down payments, in contrast, does tend to cause an increase in consumer debt and will do so except as lenders curtail the numerical volume of the new loans they make or borrowers shift to lower-priced purchases.

Consumer debt in big advance during 1959 from prior plateau—the 1954-55 pattern repeated, on a smaller scale



While the new techniques of consumer lending have attracted most of the attention recently, the traditional types of consumer lending, have, of course, accounted for the great bulk of further increases in volume outstanding. But even in the realm of conventional instalment lending, innovations have been taking place. Lenders have accepted more kinds of property as collateral for instalment loans—personal aircraft, mobile homes and outboard motors and boats are examples—and the list may be extended as new items assume growing significance among consumers' expenditures. Credit is being extended, too, for a gradually lengthening list of services, including education and vacation trips. Where the trend toward "living on credit" may lead is one of the most engaging questions confronting the financial forecaster as the nation enters upon the threshold of the 1960's.

Strikes and recessions— effects on consumer buying

In the important steel-producing area of Gary, Indiana, and its neighboring northeastern Illinois communities, the recent 116-day steel strike caused reductions in consumer spending as great as the 1957-58 recession, if not greater. While the recession lasted much longer than the strike, it did not cause a complete shutdown of major firms. On the other hand, employees on strike did not receive unemployment compensation as do most of those laid off during recessions, and payments to strikers from union funds and welfare agencies provided only very limited income.

Consumer spending in Gary was prevented from falling off more than it did during the strike because workers drew heavily upon their savings and made extensive use of credit. This is in contrast with consumer reactions during a recession, when savings tend to be husbanded carefully and consumer credit often is reduced rather than increased. Nevertheless, the net effect on consumer spending in the Gary area was somewhat comparable with that of the communities hardest hit by the recession: for example, the eastern Michigan automobile centers.

The Gary-Hammond-East Chicago area is highly dependent upon the steel industry as a source of employment and income. In Lake County as a whole, steel mills employ more than half of all the workers engaged in manufacturing and more than one-third of *all* nonfarm workers. Just prior to the start of the strike on July 15, 62,000 workers were employed in the mills, with an additional 15,000 in other primary metals manufacturing, mainly foundries, or in fabricated metals industries. By mid-September, the Indiana Employment Security Division estimates that 54,000 workers were directly involved in the strike, while an additional 4,000 to 4,500 in closely related activities were laid off as a result of the strike. Construction workers employed in Gary's steel mills and railroad and truck transportation employees were among the first to be laid off when the steel strike was called. The total number of unemployed, excluding workers on strike, in Lake County at mid-September was about 13,500, some 6.7 per cent of the labor force.

By the end of the strike in early November, layoffs in the Gary area were increasing rapidly. Among the industries hardest hit by shortages of steel were railroad car manufacturers and foundries. But layoffs were spreading beyond the manufacturing sector, with cutbacks reported in the trade and services industries also. These newly laid-off workers swelled the ranks of the unemployed to more than 22,000.

Employment during the recession

To compare the strike-induced decline with that of the 1957-58 recession involves an estimate as to what employment trends would have been over a period of eight to nine months if there had been no general business downturn. It is significant to note that, although employment in the steel mills was at a record high during the months immediately preceding the strike, *total* employment in Lake County had not regained the pre-recession level. Therefore, what appears to have been a recession-induced decline may be in part a longer-run trend. Second, there are sizable seasonal variations in output and, hence, in manpower needs in many of Gary's industries. These are more or less unrelated to general business conditions, but are not readily isolated from the underlying trend for any fairly short period.

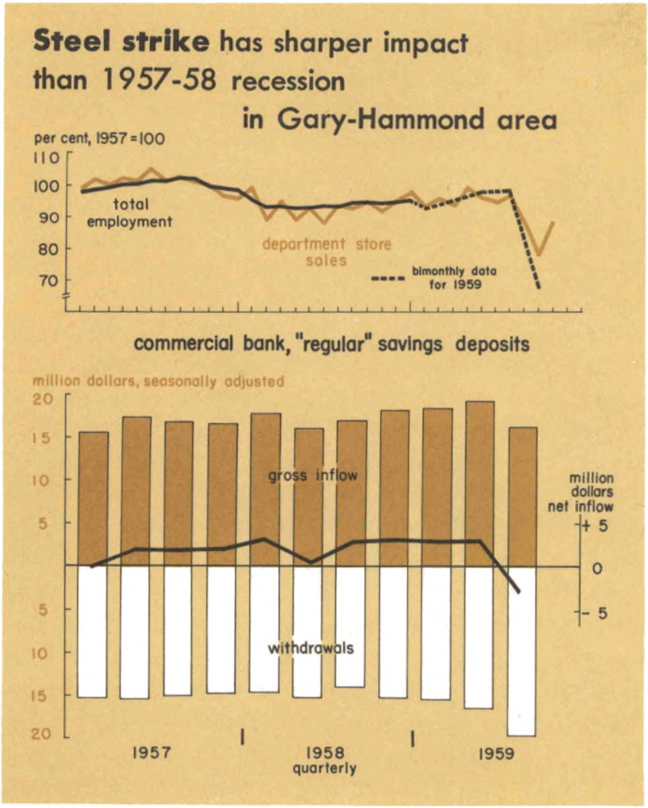
The area's unemployment ratio never exceeded 10 per cent during the entire 1957-58 recession. In the first three months of the recession, unemployment was less than 5,000 above the pre-recession record low and between 10,000 and 15,000 above in the next six months. During the steel strike, on the other hand, between 55,000 and 65,000 workers were either on strike or laid off as a result of the strike for a period of 3½ months.

Slump in consumer buying

The influence of reduced income on consumer spending in the Gary-Hammond area during the strike was immediate and sharp. As is indicated in the accompanying chart, seasonally adjusted department store sales fell 8 per cent in August, the first full month of the strike. During August, September and October, sales averaged 11½ per cent lower than in the first seven months of 1959. This decline was roughly 1½ times as great as the sales decline in this area in the 1957-58 recession and is comparable with the percentage decline shown by department store sales for Detroit and other eastern Michigan areas during that period.

No data are available for *total* retail sales in the Gary-Hammond area during these periods. However, such evidence as there is indicates a close similarity to the experience of the eastern Michigan communities in 1957-58 for which data are available. Specifically, sales of clothing, homefurnishings and general merchandise—the major kinds of goods sold at department stores—dropped considerably less than sales of automobiles and building materials but more than food sales. There was, to be sure, a flurry of buying of paint and other similar items at the beginning of the strike as workers turned their attention to home repairs and related activities. But as the strike continued, sales of these items also dwindled.

Food is typically the least sensitive of all consumer purchases to changes in income. Even so, food sales in the Gary-Hammond area appear to have declined somewhat, as consumers switched to less expensive products. A relatively high proportion of food stores in the area is independently owned and, as in previous strikes, provided credit to their regular customers. Credit, including extensions by chain food stores which normally operate only on a cash basis, was an important factor in maintaining food sales in Gary during the strike. Credit for most kinds of purchases, in fact, was available to a much wider extent than had been the case during the recession when employment



Steel strike has sharper impact than 1957-58 recession in Gary-Hammond area

prospects were thought to be more uncertain.

Drain on savings

In addition to buying "on the cuff," savings were drawn upon rather heavily. Commercial banks reported a marked upsurge in the cashing-in of Series E savings bonds. As the strike progressed, shares in savings and loan associations and credit unions and savings deposits in commercial banks declined substantially. The inflow into bank savings accounts dropped off 14 per cent in the third quarter from the seasonally adjusted rate for the first half of 1959 and was 16 per cent under that of the second quarter, which had marked a rise as workers "put away" additional dollars in anticipation of the strike. Withdrawals from bank savings deposits, on the other hand, were at a rate 20 per cent higher in July through September than during the first six months.

Layoffs and temporary curtailment of income stemming from strikes do not generate the type of consumer uncertainty that results from layoffs stemming from waning over-all demand, as in a recession. Hence, consumers do not feel the same pressure to postpone planned purchases.

In areas such as Gary, however, which have been hardest hit by the strike, there is likely to be an extended "catching up" period. The immediate outlook for retail sales, except for the essential items such as food, therefore, would appear to be one of slow recovery. Upon announcement of settlement of the strike, consumers were reported to be assessing their debt situations and planning repayment schedules.

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