

Business Conditions

1962 July



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THE Trend OF BUSINESS

Employment, production, income and retail sales increased further in the late spring. Between March and May total industrial production rose 2 per cent despite a decline in output of steel ingots of almost 30 per cent. Evidence of strength in most types of economic activity, however, has been insufficient to dispel the uncertainties created by the substantial decline in prices of common stocks.

From mid-March to mid-June the Dow-Jones industrial average—most widely quoted of all stock market indexes—declined 24 per cent. From a somewhat higher level in December 1961 the decline was 25 per cent.

The recent market sell-off has been attributed to a number of causes. Major emphasis usually is given to the fact that by historical standards stocks were very high at the beginning of the decline. In mid-March stocks in the Dow-Jones average were selling at 23 times annual earnings based on the annual rate of corporate profits in the first quarter of the year. By mid-June they were selling for about 17 times earnings.

In 1956, following a long uptrend in the stock market, common stocks were selling around 15 to 16 times earnings and many observers considered most stocks over-priced at that time. (For more detailed historical comparisons of stock market values see *Business Conditions*, August 1961.)

Whatever the reasonableness of the values placed upon stocks before or after the recent decline, the question remains: What effect, if any, will the sell-off have on business activity?

The record of the postwar period shows a highly erratic relationship between changes in prices of stocks and changes in business activity. For example, there have been 15 market declines of 9 per cent or more and only four general business declines since the end of World War II. The only postwar stock price decline which compares in magnitude with the recent movement was that which began in the spring of 1946. Over a five-month period in that year the Dow-Jones industrial stocks dropped 23 per cent. Business activity and corporate profits, however, continued to rise throughout the market decline and for two years afterwards.

Output continues rise

At the beginning of 1962 it was commonly assumed that production would be artificially stimulated in the second quarter by inventory building in anticipation of a possible steel strike beginning at midyear. But with the new labor contract negotiations concluded in late March, three months before the expiration date of the old contract, steel output, stimulated by inventory building in the first quarter, began to drop sharply. The annual rate of production of steel ingots declined from 125 million tons in March to just over 80 million tons in mid-June.

Between March and May the decline in steel was sufficient to cause a drop of about 1 per cent in total industrial production if other types of output had remained unchanged. However, total industrial production

rose by about 2 per cent during this period, as many firms producing consumer goods, business equipment and materials other than steel stepped up operations. Total production of industries other than steel, therefore, rose by about 3 per cent between March and May, a relatively large gain in a period of two months.

The machinery and motor vehicles industries, important users of steel, were operating at a record rate in May—13 per cent above the same month of last year and 8 per cent above the peak prior to the 1960 recession.

In June, according to industry experts, steel was being “chewed up” by fabricators at an annual rate equivalent to about 100 million tons of ingot production. Clearly, a rapid reduction of steel inventory is under way and steel output will rise in coming months unless usage declines sharply.

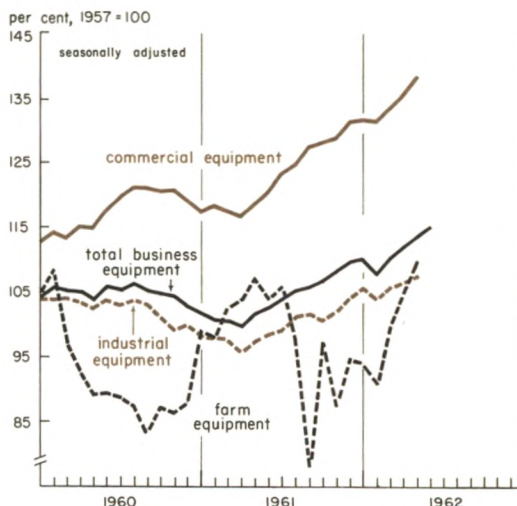
Capital spending continues to rise

The five states of the Seventh Federal Reserve District, which contain 16 per cent of the nation's population, produce about 30 per cent of the machinery and equipment used by United States business firms and farmers and provide a large part of the exports of these products. For this reason indications of future capital goods spending are of special importance in gauging trends in the region.

In March a Government survey of business plans to purchase new plant and equipment indicated that these outlays would rise 8 per cent in 1962 reaching a record level of 37.2 billion dollars. Past experience suggested that subsequent surveys would reveal upward revisions of these projections. A new survey released in June shows total prospective capital expenditures for 1962 at the same level as in March. There were, however, offsetting revisions up and down for various industries.

Capital spending plans of steel and auto

Production of all major types of business equipment in strong upswing



firms for 1962 were revised downward between the time of the first survey, based upon reports submitted in February, and the second, based upon May reports. Higher spending goals are now indicated by food and textile producers, railroads and mining firms. No appreciable change occurred in the projections for such important industries as machinery, electric and gas utilities and communications and commercial building.

During the past year production of machinery and equipment has contributed heavily to the rise in total business activity. From the low in March 1961 through last May output of business equipment increased by 15 per cent. The rise was remarkably steady. Only in January, in a series of 15 consecutive months, was there a temporary decline. This record was achieved despite the fact that pro-

duction of farm machinery slumped sharply last summer before starting to rise again.

Large Midwest firms producing capital goods report that orders for the first five months of 1962 have exceeded last year by about 10 per cent. In the case of construction machinery new business was very strong in the second quarter after a slow start early in the year attributable largely to severe weather.

Employment and income

Since the low reached early in 1961 employment has risen except for temporary minor setbacks last summer and winter. In May total employment in the nation (including the self-employed) passed the 71 million mark. Civilian employment was 1.4 million higher than in the same month of 1961 and about 340,000 additional persons were in the armed forces. Manufacturing accounted for about one-third of the increase in employment during the past year.

In April, the latest month for which regional data are available, total nonfarm wage and salary employment in the states comprising the Seventh District was about 3 per cent higher than a year earlier and manufacturing employment was up about 5 per cent. These increases closely approximate the national experience. However, the performance of the Midwest is somewhat less vigorous than that of the rest of the nation when comparisons are made with April 1960, before the onset of the recession.

The number of areas classified as having a "substantial labor surplus," with unemployment equaling 6 per cent or more of the local labor force, declined by eight in May. An additional eight areas were upgraded because local information indicated that employment conditions had improved. While these 16 centers were widely scattered throughout the nation, none are in the Midwest.

Within the District, South Bend, Terre Haute, Battle Creek, Detroit and Muskegon continue to be classified as areas of substantial labor surplus. Although employment conditions have improved in each of these areas during the past year, the change has not been sufficient to reduce unemployment below the 6 per cent level.

Surveys of consumer attitudes during the spring indicated more confidence and a somewhat greater willingness to purchase "big ticket" goods, including automobiles, home appliances and furniture. In recent months higher personal incomes have been used to implement these plans and instalment credit has been used more liberally.

In April and May retail sales were at a record annual rate of 234 billion dollars, more than 8 per cent above the level of a year earlier. Personal income continued to rise in each of these months and averaged 7 per cent above the year-earlier level despite production

Unemployment has been reduced in many areas but remains larger than in 1960

Unemployment rate (per cent)	Number of major labor market areas					
	May 1960		May 1961		May 1962	
	U. S.	Seventh District	U. S.	Seventh District	U. S.	Seventh District
Under 1.5	0	0	0	0	0	0
1.5 to 3.0	21	7	0	0	7	1
3.0 to 6.0	93	13	54	6	89	17
6.0 to 9.0 ^a	28	3	66	11	43	5
9.0 to 12.0 ^a	3	0	21	4	6	0
Over 12.0 ^a	4	0	9	2	5	0

^aAreas considered to have "substantial labor surplus" if unemployment rate is 6 per cent or more.

cutbacks in the nation's steel industry.

A striking indication of firmer consumer confidence that income will rise further in future months is found in the fact that extensions of consumer credit moved to a new high in April by a substantial margin and were 21 per cent above the same period of last year. May doubtless also witnessed a large volume of credit use.

Stocks and business confidence

The recent stock market decline, may have affected adversely the confidence of the business community and many individual stock-

holders. Some proposed stock offerings have been postponed and there doubtless has been an impact upon "psychology" but this cannot be quantified yet.

Direct barometers of business trends such as employment, income, retail trade, production and capital outlays continue to provide favorable readings. The performance of these measures is particularly impressive when the working off of steel inventories is taken into account. It remains to be seen whether a shift in business confidence sufficient to unbalance the economy and prevent further economic expansion has occurred.

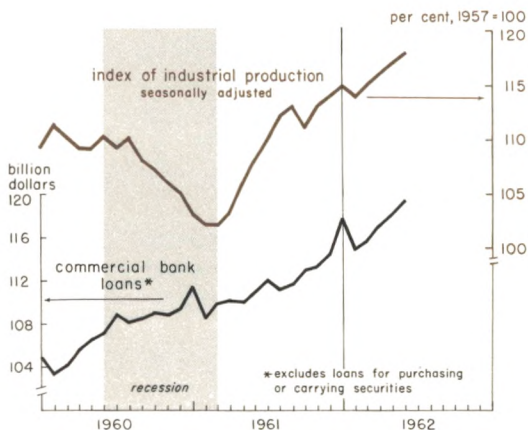
Trends IN BANKING

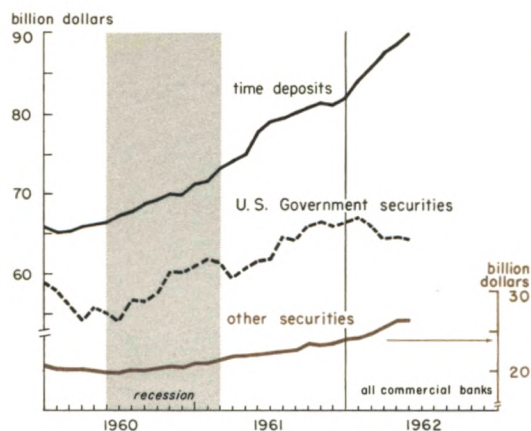
The demand for credit has risen in recent months but at a slower pace than had been widely expected at the beginning of the year. While bank loans (excluding those for pur-

chasing and carrying securities) rose by 1.7 billion dollars in the January-May period, this was somewhat less than in similar years of economic expansion.

Monetary policy has remained easy so as to encourage any tendency for business activity to rise, with the banking system being provided sufficient reserves to support expansion of loans, investments and deposits. Despite the ready availability of funds, individuals and businesses have used demand deposits more intensively and held a larger proportion of funds in the form of time deposits.

In the first half of 1962 time deposits grew very rapidly. From January through May they increased 8 billion dollars, or almost 10 per cent. This reflected, at least in part, the higher interest rates paid by many banks after Jan-





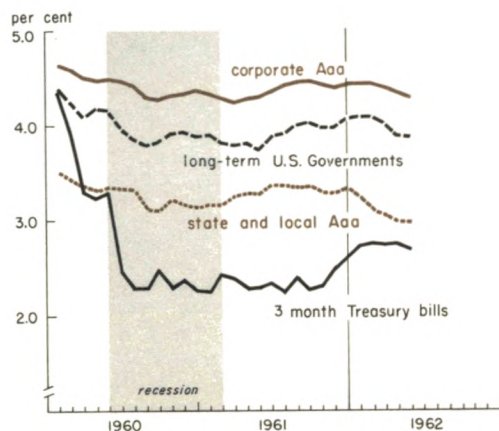
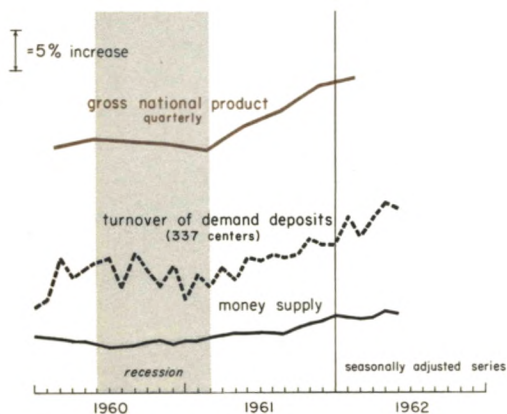
uary 1. In the absence of strong loan demand, banks purchased securities—mainly issues of state and local governments (municipals). Through May 31, holdings of “other” securities by all commercial banks in the United States rose approximately 10 per cent.

Because deposit growth has been mainly in the form of time deposits, the money supply (currency and demand deposits held by the public) has risen only slightly despite continued monetary ease. The average daily money supply in May was only 400 million dollars above last December and 3.3 billion, or slightly more than 2 per cent, above the year-

Over the two-year period of recession and recovery all of the major asset and liability items at Seventh District member banks rose. The fastest growing asset category was “other” securities but this still represents a relatively small proportion of earning assets.

	Change from April 1960 to April 1962	Per cent	Per cent of total April 1962
Deposits			
Demand	+392	+2	59
Time	+2,855	+30	51
Total	+3,247	+12	100
Earning assets			
Loans	+1,639	+12	54
U. S. Government securities	+607	+7	33
Other securities	+927	+34	13
Total	+3,173	+13	100

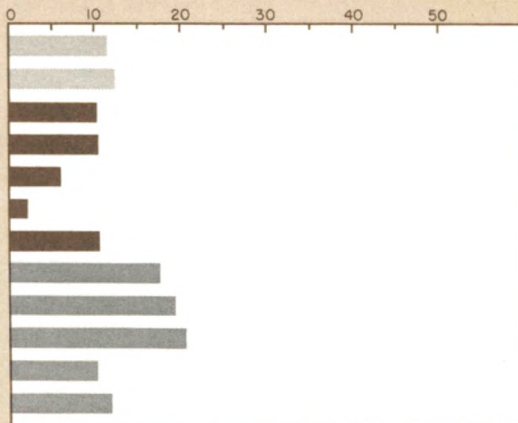
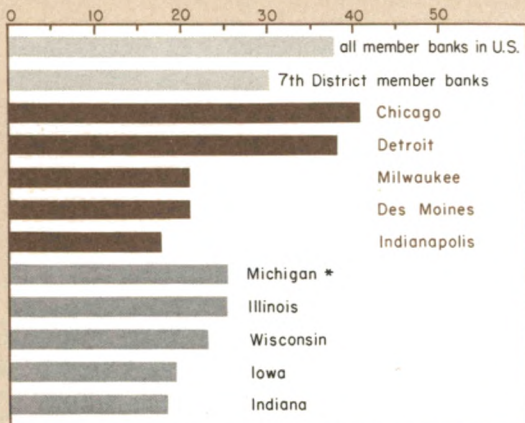
earlier level. The recent increase in the rate of demand deposit turnover reflects not a strong demand for funds, as has been the case in periods of “tight money,” but rather a grow-



District areas compared

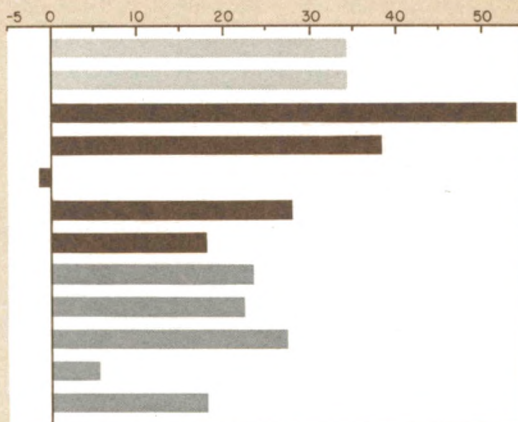
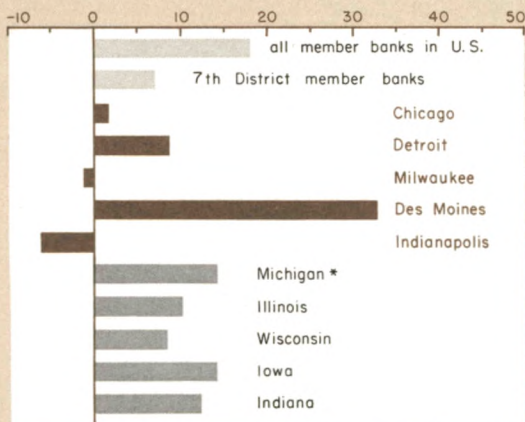
There have been substantial differences among banks in various District areas in both the pace of deposit growth and the accompanying shifts in loans and investments. Comparisons of changes in major items over the two-year period from April 1960 to April 1962 are shown below:

per cent increase, April 27, 1960 - April 25, 1962



TIME DEPOSITS grew less in the Seventh District than for all member banks in the United States. Expansion was greatest in Chicago and Detroit where much of the rise was in negotiable certificates of deposit issued by large banks.

LOANS rose slightly faster in the District than at all member banks. The largest growth was in smaller cities and rural areas where the impact of business fluctuations is normally less.



Banks' holdings of U. S. GOVERNMENT SECURITIES declined in areas that showed the smallest growth in total deposits and on the whole rose much less at District banks than at all United States member banks.

OTHER SECURITIES rose most in Chicago and Detroit where the gains in time deposits were greatest. The large volume of new securities issued by state and local units also helped to boost banks' investment in these instruments.

*State areas on this page represent Seventh District portion of states, excluding major cities which are charted separately.

ing preference on the part of the public for time deposits rather than cash balances.

Yields in most sectors of the securities markets have declined in recent months as supplies of loanable funds increased and demands for credit remained relatively light. The rate on short-term Treasury bills, how-

ever, has remained relatively stable at around $2\frac{3}{4}$ per cent. Downward pressures on short-term yields have been largely counteracted by Treasury borrowing in that sector of the market and Federal Reserve actions designed to minimize outflows of short-term funds to foreign money centers.

Autos lead the upswing

Late last year most forecasts for auto sales in 1962 varied between 6.5 and 7 million units, including imports. In the January-February period the rate of deliveries to customers, allowing for seasonal variation, was near the lower limit of this range. In March, however, sales rose sharply, and in April and May the annual rate averaged about 7.3 million. This level of sales had been exceeded on only three occasions—last November when new models were introduced, in record sales year, 1955, and briefly in 1950, at the beginning of the Korean War.

As a result of the rise of auto sales in the spring, production schedules for the second quarter were boosted to over 1.9 million units—a rise of about 100,000 from the first quarter. Normally production declines in the second quarter. But with rising sales, the more optimistic projections of 7 million new car deliveries in 1962 came back into fashion. If realized, this would be the largest total for any year other than 1955. Because of higher average prices, this volume would require dollar outlays on new cars in 1962 about 15 per cent above those of 1955.

The relationship of auto sales to total business activity has not been close. In 1949 car

buying continued upward despite the modest recession in general business activity; in 1956 car purchases dropped sharply while over-all production and sales continued to rise. Nevertheless, there is good reason to regard trends in auto sales as an important factor in the general business picture.

Throughout the history of the industry, fluctuations in car sales have been among the more volatile elements in consumer spending. Between the first quarter of 1960 and the first quarter of 1961, for example, the annual rate of total consumer spending on goods declined by 2 billion dollars, or about 1 per cent. This reflected a 4 billion dollar, or 21 per cent, decrease in the rate of purchases of autos and parts and a 2 billion dollar *rise* for all other types of goods. Between the first quarter of 1961 and the first quarter of 1962 when total consumer spending on goods rose by 11.6 billion dollars, or 6 per cent, purchases of autos and parts increased 30 per cent and accounted for 40 per cent of the rise.

New light on auto outlays

Studies of the vitally important auto industry will be aided by an array of new data published by the Department of Commerce in the

March 1962 Survey of Current Business.

Although the auto market customarily is discussed in terms of the vagaries of consumer demands, not all cars are sold to individuals for personal use. While purchases by governmental bodies—less than 100,000 units per year—are a small part of the total, business purchases account for a significant portion of the market. Just how large is not easily determined, partly because of the large number of cars put to *both* business and personal uses.

Surveys by the Public Roads Administration provide the major basis for new estimates of auto use for business. In this analysis business use does not include transportation to and from work but only in the direct conduct of a business.

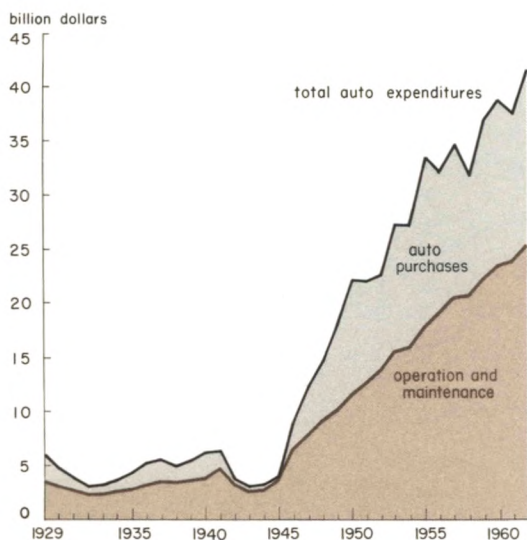
Prior to World War II about 30 per cent of all new cars were purchased for business use. A sharp increase in personal use, associated

with the rising trend of personal income, reduced this proportion to 15 per cent in the mid-Fifties.

Business use of cars is divided into three categories—the self-employed, employees who own their own cars and are reimbursed by their employers and direct business ownership. Car purchases in the first two categories are now allocated two-thirds to business investment and one-third to personal consumption. Of course, the entire cost of cars purchased solely for business use is counted as business investment. On this basis the 15 per cent of total auto purchases attributed to business is divided as follows: cars used by the self-employed, 42 per cent; by business-reimbursed employees, 25 per cent; and those owned and operated entirely by businesses, 33 per cent.

Business and consumer purchases of cars tend to rise and fall together and for much the same reasons. Cars are used more and wear out sooner in good times and funds to make purchases are more readily available when incomes are high and rising. These factors indicate that the tendency to relate car buying trends largely to consumer demand is not misdirected.

Operating expenses rise steadily despite fluctuations in auto purchases



Importance of "auto-related" outlays

Expenditures on goods and services for the maintenance and operation of autos represent a substantially larger share of personal consumption spending than do purchases of cars. In 1961 these "auto-related" expenditures including outlays for gas and oil, parts, insurance, interest, tolls and other items amounted to 24 billion dollars, or 7.1 per cent of consumer spending, while auto purchases totaled only 13.5 billion dollars, or 4.0 per cent of consumer spending. Auto purchases as used here include outlays for new cars and "net purchases of used cars." To

avoid double counting, only the dealer's gross profit on the sale of used cars is included in the net expenditures estimate.

Gas and oil dominate "auto-related" expenditures accounting for almost half of the total. In relatively poor automobile years, like 1958 and 1961, outlays for gas and oil have been nearly as large as total car sales.

Since 1955 total outlays for operation and maintenance of autos have been a stable percentage of all personal consumption expenditures—just over 7 per cent. Aside from tires and parts and accessories, all types of auto-related expenditures have increased each year in absolute terms throughout the postwar period. However, the rate of increase in gas and oil purchases has slowed substantially in recession years.

Unlike outlays for operation and maintenance, the share of consumption spending accounted for by purchases of new and used cars has varied greatly throughout most of the postwar period. These expenditures were as high as 6 per cent of total consumption spending in 1955 and as low as 3.7 per cent in 1958. In 1961, this ratio, at 4 per cent, was near the postwar low.

Despite fluctuations, the proportion of total consumption outlays accounted for by car purchases was very similar in a number of years including 1956, 1957, 1959 and 1960. In each of these years the ratio was very close to the ten-year average of 4.8 per cent. If forecasts of 7 million new cars in 1962 are realized, outlays probably would be near this average proportion of consumer spending. Also, the total of auto purchases and operation and maintenance

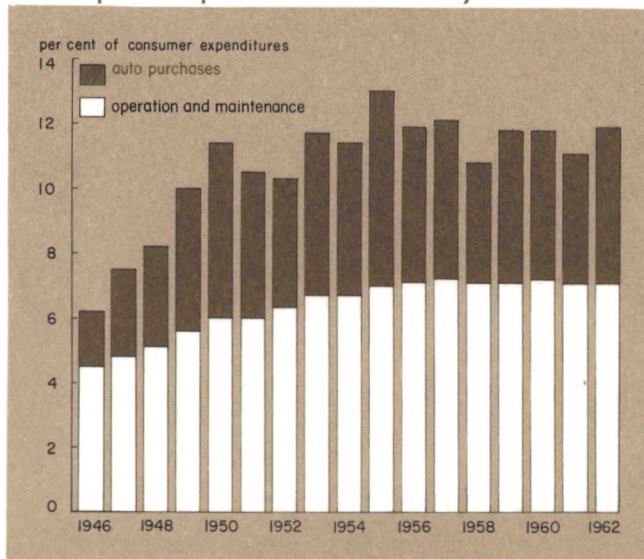
expenditures probably would approximate the 12 per cent average of recent years. This would mean total expenditures on cars of about 42 billion dollars, a new record, and 11 per cent above 1961.

Autos and saving

Through much of the postwar period, consumers "up-graded" their purchases of new cars. Until 1957 the average car tended to become longer, more powerful and more fully equipped and the middle- and high-priced models became more popular. Then, the trend was reversed. Smaller foreign and new compact domestic models represented a rising share of total sales through 1961 when they accounted for over 30 per cent of the total. A number of the existing lines of cars were reduced in size and power during this period.

The trend toward less luxurious cars is evi-

Total spending on cars has been about 12 per cent of personal consumption expenditures in recent years



dent also in the reduced appeal of some "options" available to new car buyers. In 1957, 79 per cent of all domestically produced cars had automatic transmissions; in the past three years it has been about 73 per cent. In 1957, 83 per cent of all new domestic cars had eight-cylinder engines, but by 1961 the proportion had shrunk to 53 per cent. Certain other "options" reached a peak in 1959. In that year 43 per cent of all cars had power steering and 30 per cent had power brakes. Last year these proportions were down to 38 and 23 per cent, respectively.

In the current year, there is evidence that the trend toward "economy models" has

slowed down. Thus far in the 1962 model year the percentage of new cars with eight-cylinder engines and other luxury features has increased somewhat compared with 1961.

The combination of factors mentioned above resulted in a slight decline in the average price of new cars in 1960 and 1961. Prices on comparable models may have increased but the move to the lower-priced lines reduced the average. However, analyses of the 1962 model "mix" suggest that the downward trend in the average price of cars has ended. As a result, the number of units and the dollar volume of new car sales should increase by about the same proportions between 1961 and 1962.

Trading stamps— after a decade of growth

Trading stamps have been one of the fastest growing types of retail sales promotion during the past ten years. According to trade estimates, purchases of trading stamps by retailers and other users amounted to nearly 630 million dollars in 1961—an increase of more than 16 per cent from the previous year and roughly 15 times from the early Fifties.

At present there are about 200 trading stamp companies, three of which account for over half the business. Stamp companies also have become a factor of some significance in the distribution of general merchandise. Last year through their more than 1,700 stamp redemption centers, they distributed merchandise having an estimated retail value of about 600 to 700 million dollars. This

represents only a fraction of 1 per cent of total retail sales, but a much larger proportion for such popular household items as lamps, small kitchen appliances, card tables, hassocks and cooking ware—largely reflecting the emphasis stamp companies have placed on merchandise of "remembrance value" in their catalogs and redemption center displays.

In 1961, about 15 per cent of total United States retail sales were made by stores offering trading stamps. This compares with an estimated 14 per cent of retail sales in 1960, 10 per cent in 1956 and only about 2 per cent in the early Fifties. The number of stores that offer stamps is now close to 260,000, up from 240,000 a year ago. A nationwide

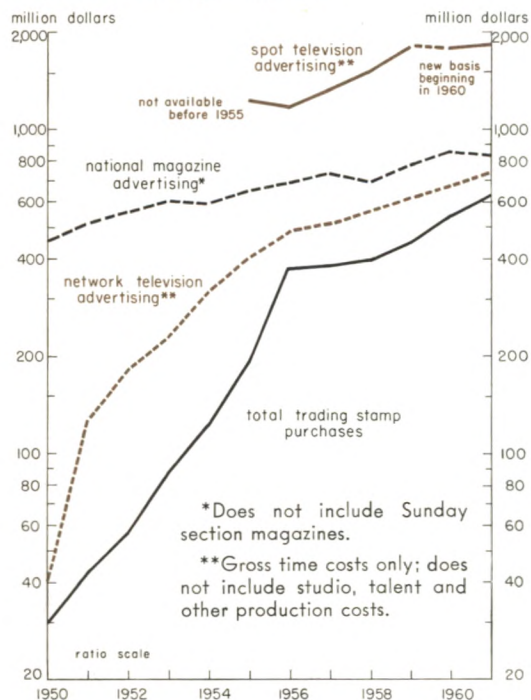
public opinion survey, conducted last year, indicated that close to three-fourths of the nation's 53 million households collect and redeem trading stamps.

Future growth of trading stamps may proceed at a much slower pace than in the past decade. To a considerable extent, this would reflect the high degree of stamp penetration among grocery stores. Some analysts have predicted that many merchants now using stamps may ultimately abandon them in favor of other sales promotion techniques.

Origin of the trading stamp idea

The first stamp plan is thought to date back

During the past decade trading stamps have been one of the growing forms of sales promotion



SOURCE: Dept. of Commerce and trade estimates.

to 1891. In that year a Milwaukee, Wisconsin, department store began to offer stamps to customers with each cash purchase or upon prompt payment of monthly bills; with each cash transaction the customer received twice as many stamps as he would have on a credit transaction. When the customer had filled a book, he could redeem it for cash or merchandise at the store. By stimulating increased cash sales and faster collections on accounts receivable, the stamp plan helped to ease the firm's working capital requirements.

The first independent stamp company was organized in Michigan in 1896. The company offered a complete plan to merchants—stamps, collector books, premium catalogs and redemption centers. It was an immediate success and a large number of competing stamp ventures were soon organized.

After this initial burst of activity, there followed a period of consolidation and by the end of World War I trading stamp companies resumed their growth but at a greatly reduced pace. This ended with the onset of depression in the early Thirties and during World War II shortages, rationing and price controls put a further crimp on the expansion of trading stamp activity.

Trading stamps at supermarkets

A trading stamp's major selling point is its ability to differentiate one merchant in an otherwise homogeneous group from his competitors. This was demonstrated after the war with the proliferation of supermarkets in the field of grocery retailing.

The large national food chains launched vigorous supermarket construction programs to develop new marketing areas and expand sales. Many independent grocers also converted to a supermarket type of operation to stay competitive. Most supermarkets offered

comparable merchandise and services. These factors, plus mounting evidences of over-capacity stemming from the rapid pace of supermarket construction, placed a high priority on the quest for new sales promotion techniques.

In the early Fifties a small supermarket chain in the Denver area began to offer trading stamps with a view to improving its competitive position. The idea spread rapidly and by the mid-Fifties most major national grocery chains were using stamps as either an offensive or defensive sales weapon. According to a survey by Supermarket Institute in early 1961, 78 per cent of its member supermarkets gave stamps compared with 72 per cent a year earlier.

Supermarkets formed an excellent platform for trading stamp penetration into other areas of retailing. To begin with, one or more supermarkets are generally the focal point in a shopping area, drawing a large, steady flow of customers. After signing up the key retailer, the stamp company would undertake to sell its plan to a "family" of noncompeting merchants—gasoline stations, hardware stores, drug stores and the like—in the surrounding territory. An intensive local publicity campaign to increase customer interest in the stamps would follow. As part of the "package," the trading stamp company usually opened a redemption center in the community so it would be convenient for the stamp savers to exchange their stamps for desired merchandise.

Cost considerations

Customarily, trading stamp companies bill their larger retail accounts such as supermarkets and department stores on the basis of a fixed percentage of sales. One large stamp company reports that this works out to an effective average cost to the retailer of about

2 per cent of sales. This figure, however, represents only the "out-of-pocket" cost to the merchant. A further amount must be added to cover accounting, promotional and other incremental costs associated with operation of a stamp plan. Studies indicate that the total cost of trading stamps to most retailers lies somewhere within the range of 2-3 per cent of annual sales.

Unfortunately, no authoritative evidence, and hence no agreement, is available on how trading stamp costs are absorbed. Stamp companies have argued that the costs can be fully covered through operating economies resulting from increased retail sales volume, while opponents of stamps maintain that the consumer pays the full cost in the form of higher prices. A Department of Agriculture study of trading stamps and their impact on food prices, conducted with the cooperation of the Bureau of Labor Statistics during 1956-57, indicated that the cost of stamps used by food stores "was covered in part by reduced costs resulting from increased volume, in part by higher prices and in part by a decline in profit per dollar of sales."

As part of this study, the USDA made two separate surveys of retail food prices. One compared prices in 21 cities both before (November 1953-August 1955) and after (August 1956-March 1957) the introduction of trading stamps at various chain and independent supermarket stores in these cities; it showed that the average relative price increase in stores adding stamps was about 0.6 per cent greater than in nonstamp stores. The USDA noted, however, that a strong seasonal pattern in the data, reflecting variations in the supply and perishability of fresh meats and produce, might have distorted the results.

In the second survey the USDA compared food prices for one full week during 1957 at paired stamp and nonstamp supermarkets in

five cities. (This was to allow for possible weekend price specials whereas the first study had been based only on prices gathered during the first part of the week.) The survey showed that the prices at stamp stores in these five cities averaged 2.2 per cent higher than at nonstamp stores.

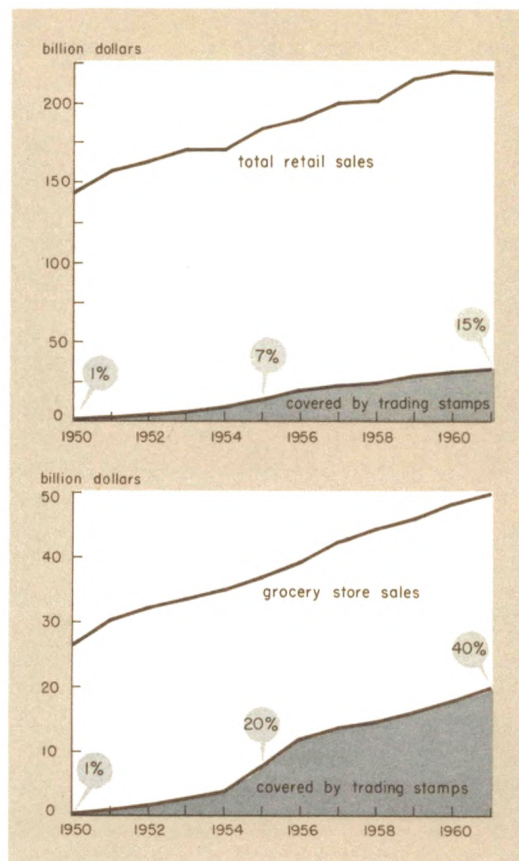
But again several limitations were noted. A similar price difference could have existed before stamps were adopted. Moreover, the difference might have reflected factors other than stamps, such as services and quality of products. Perhaps the USDA's most tangible finding was that weekend price reductions were *less* in stamp than in nonstamp stores.

A number of other independent studies on the effects of trading stamps on food prices found little evidence that stamps had caused food prices to rise in stamp-saturated cities. One concluded that stamps may actually have helped to hold down price increases owing to competitive moves by nonstamp food stores.

These studies have been criticized for their failure to make proper allowances for weekend price specials. Moreover, they appear to have accepted the assumption that if trading stamps caused food prices to rise, the increase would occur at the time or shortly after the stamps were introduced. This ignores the possibility that prices may have been gradually increased prior to the introduction of stamps or that the retailer may delay price increases for a considerable period until he has had sufficient time to assess all cost aspects of his stamp program.

Any price increases at stores offering stamps must be related to the value of the merchandise obtainable at the stamp redemption center. A commonly cited premium value for most stamp plans is about \$2.50 for every 1,000 stamps—representing a minimum of \$100 of retail purchases. In other words with every dollar purchase the consumer would

Trading stamps have had greatest acceptance among grocery retailers



SOURCE: U.S. Department of Commerce and trade estimates.

receive stamps having an average redemption value of approximately 2.5 cents.

A number of other factors, however, must be taken into account in evaluating this return. Typically, one stamp is given with each ten-cent purchase; but if the bill comes to \$1.99, the consumer receives only 19 stamps. In the circumstances, the consumer conceivably might have to spend substantially more than

\$100 to obtain 1,000 stamps, provided he received no "bonus" stamps. Not all stamps are redeemed; this is largely a function of consumer acceptance of the particular stamp plan. Estimates of the proportion of stamps which are never turned in range from less than 2 per cent to about 20 per cent.

Allowance also should be made for an interest cost if the consumer paid for the stamps in the form of higher prices at the store. His money remains invested until the stamps are redeemed. Finally, the consumer may be able to obtain the merchandise displayed in the stamp company catalog on a lower-cost basis by purchasing it outright, say, at a special sale. This reflects the fact that stamp plan premium values are usually based on "ordinary" department store prices.

Future prospects

Trading stamp companies view the future with considerable optimism. One large company, accounting for 35-40 per cent of the total stamp sales, hopes to double its business in the next ten years. This firm expects that consumer interest in stamps will remain strong; that more stores will adopt trading stamps to differentiate themselves from their competitors; and that stamps will make greater penetration into the department, variety

and discount stores. Also trading stamps are expected to be used increasingly as sales incentives and rewards for superior work performance in the industrial and wholesale sectors as well as in retailing.

Nonetheless, some great unknowns still cloud the projected rise in sales of trading stamps. As noted above, one of the key areas of retailing and nearly always the jumping off point for a trading stamp plan—grocery supermarkets—is already heavily penetrated by stamps and the recent decision by the nation's largest grocery chain to adopt a stamp plan in most of its stores will increase the coverage still further.

Late last year, this company, with an annual sales volume of over 5 billion dollars, began to offer trading stamps in selected cities to meet competition from other stamp-giving supermarkets. Although the program was expected to spread gradually to other areas, by the end of May 2,700 of the company's 4,400 stores were offering stamps. It has been estimated that if this firm extends stamps to all its stores, the proportion of total domestic grocery store sales covered by stamps will increase to roughly 55 per cent. A year ago this ratio was only about 40 per cent.

In the past, brisk sales gains were generally achieved by the first merchant to offer stamps in a previously nonstamp community, but the initial burst of growth invariably waned as competitors also adopted stamps or other promotional techniques as defensive moves. As stamps gain general acceptance in one type of store, they lose much of their chief selling point, namely, their ability to provide one retailer in an otherwise homogeneous group with a competitive advantage over his rivals. At this point, the merchant with some assistance from the trading stamp company may have to step up promotion of his stamp plan by advertising "bigger and better" premiums

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and giving "bonus" stamps in order to maintain customer interest.

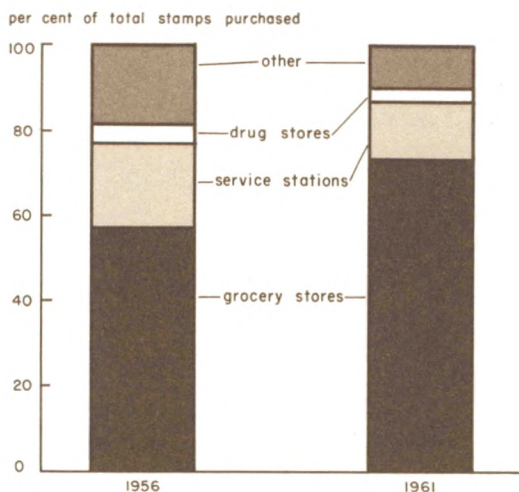
Trading stamp companies have expanded and upgraded their selections of premium merchandise and opened scores of new redemption centers to enhance the appeal of their particular stamp plans. Most now give the stamp saver a wide range of choices in the soft goods line—towels and linen, ready-to-wear dresses, sporting apparel—and a few even offer all-expense tours to popular vacation spots both in this country and abroad. This represents a marked departure from the traditional emphasis on durable household goods which continually remind the customer of the benefits of saving stamps.

Modification of the basic stamp saving formula—no merchandise until the stamp books are filled—may be a further manifestation of the mounting trading stamp competition. Late last year, one stamp company experimented with an open-end account arrangement at one of its redemption centers. A customer could obtain the merchandise he wanted and pay for it later in stamps.

Unquestionably, trading stamps have a broad consumer appeal. Many shoppers feel they are getting "an extra dividend" of merchandise, or "something for nothing," when they purchase their groceries, gasoline and other necessities at stores which give stamps. However, a large number of consumers find the device objectionable. Their reasons range from suspicion that prices may have been raised at stamp stores to annoyance over the time and effort involved in saving stamps. Thus, the number of potential stamp collectors is not inexhaustible.

Merchants, moreover, may develop more economical and effective selling techniques. In some areas of retailing, notably food and gasoline which are the largest users of trading stamps, a number of major firms are placing

Grocery stores are dominant users of trading stamps



SOURCE: U.S. Department of Agriculture and trade estimates.

greater emphasis on vigorous price competition. This is reflected in the emergence of austere "discount" supermarkets and "economy" grade gasolines. The latter are intended to meet competition from lower-price, private brand gasoline dealers.

Finally, a number of observers have suggested that restrictive legislation—varying from complete prohibition, as now exists in Kansas, to heavy license taxes on merchants giving stamps and other onerous restrictions—rather than consumer rebellion or the adoption of other merchandising techniques may halt or slow the growth of trading stamps. Although in the past such legislation has been advocated primarily by retailers not using stamps, it has been suggested that similar measures might also be supported by merchants who have been using them but were reluctant to abandon them because of possible adverse effects on sales.