THE BUSINESS REVIEW

FEDERAL RESERVE BANK
OF PHILADELPHIA

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TRENDS IN RETAIL BUYING

The year 1946 yielded a golden harvest for retail stores throughout the country. More money poured out of pockets and into cash registers than during any previous year. The total amounted to $96 billion. Indeed, to those of us who have recently participated in the chaos of Christmas shopping, the prosperity of the retail merchandising segment of our economy is, perhaps, nothing less than obvious. At this writing the record is not yet complete, but it is clear from preliminary reports that we have just witnessed the greatest, grandest buying spree that ever was.

The glitter and tinsel of the holiday season, dazzling as it was, may have obscured some significant developments in retail trade. It was obvious that more goods were available, both in quantity and variety. It was apparent, too, that the temper of the market places was somehow different from that of last year, and certainly much changed from that of the year before. How much changed and in what direction, are the questions whose answers might give some hint for the future.

War and Post-War Trends in Retail Trade

The trend of retail trade from 1942 through 1946, pictured in the accompanying chart, suggests that the span of nearly five years may be divided into three periods. The first extends from the beginning of 1942 to May of 1943. This was the time of rapidly expanding war production. It was a period of divergent trends. Sales of durable goods declined sharply as stocks of civilian hard goods that were no longer being made were depleted. But sales of nondurable goods, after a brief lag early in 1942, advanced rapidly, almost keeping pace with expanding incomes. Expenditures for food and clothing were the main factors in the rise. Total retail sales rose from $58 billion in 1942 to $64 billion in 1943.

The second part of the picture is a two-year period from May 1943, when a low point in sales at durable goods stores was reached, to May 1945, the end of the war in Europe. The slow rise in durable sales in this period was not indicative of a return of pre-war items to the store shelves. In small measure it was the result of a slight price rise. For the most part, however, it reflected upgrading and substitution of items by durable goods storekeepers who added new lines to help meet overhead costs. Despite these qualifications it is clear that the bottom had been reached and recovery was under way.

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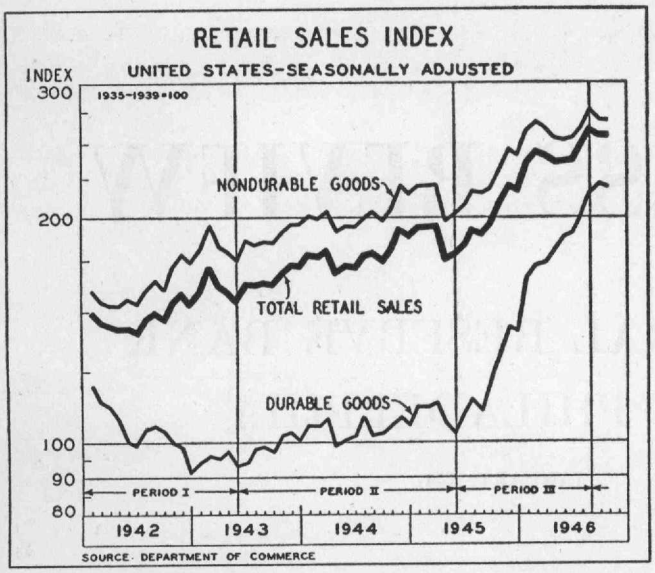


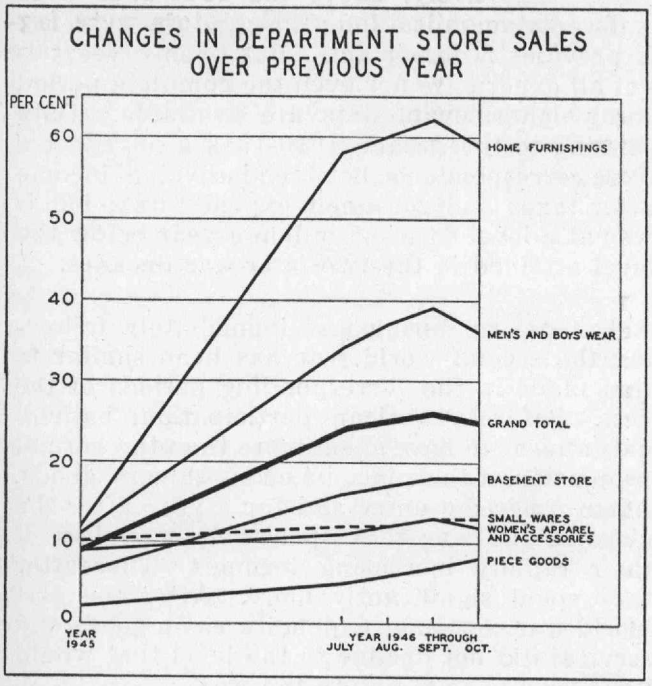
During this period, sales of nondurable goods continued to rise, with women's apparel and accessories stores leading the field—far ahead of what normally might be expected at the existing income level, but not so astonishing in view of the large number of women at work in high-paying jobs. Sales at men's clothing and furnishings stores, on the other hand, did not fall below peacetime proportions despite the large number of men who, at the time, were being outfitted by the armed services.

The end of the period was marked by a decided drop in nondurable sales. Random factors, such as weather and rumors of shortages, were partly responsible for the bulge early in 1944 and the subsequent drop in April. However, the buying spirit probably was dampened primarily by the end of the war in Europe and the anticipation of declining incomes as heavy cut-backs in war production occurred. It is possible also that visions of rapid reconversion made consumers unwilling to continue buying low-grade "ersatz" products.

V-E Day ushered in the third period. Although the flood of washing machines and automobiles failed to materialize as quickly as many had anticipated so hopefully, rapid strides were made in the production of many consumers' durable items. By August of 1946, for instance, after the effects of a wave of paralyzing industrial disputes had passed, manufacturers' shipments of washing machines were proceeding at a rate 25 per cent above pre-war. Shipments of radios and electric irons were 50 and 60 per cent, respectively, above the 1940-1941 average. Automobiles and refrigerators were lagging far behind, and even many items whose rate of production was unexpectedly high seemed scarce; nevertheless, stores that sold consumers' "hard" goods more than doubled their sales from May 1945 to August 1946.

The rise in nondurable sales also accelerated during this period. All categories shot up sharply in relation to income. Filling stations began to enjoy normal business, and food sales boomed. Sales by men's clothing stores zoomed upward as veterans returned; and, during the first half of 1946, the ladies, not to be outdone—although they spend exactly twice as much in apparel shops as men do—increased their purchases in such stores just as sharply. Total retail sales appear to have reached a peak in August. By that time, consumer expenditures had attained a rate which was somewhat above the normal pre-war relationship between income and sales.

It will be some time before the August 1946 peak can be identified as the end of the third period with any degree of assurance. There are, however, several indications that this may prove to be the case. Nondurable sales have shown a tendency to level off in the face of a persistent and rapid increase in sales at durable goods stores. The October level of nondurable sales equalled that of the spring of the year. It is true that a similar situation appeared to be shaping up in March and April, but between that time and October 1946 the price situation changed radically. In two years—from March 1944 to March 1946—retail prices of all commodities, according to the Department of Commerce, had risen steadily but slowly—only 6 per cent. By contrast, in the five months from March to August 1946, prices rose 11 per cent. The Department of Commerce index of retail sales, adjusted for price changes, indicates that the peak in the physical volume of total sales actually came during February and March. The spurt in nondurable sales during the summer of 1946, shown in the chart, is primarily a matter of higher prices. It is conceivable, though it seems unlikely, that in the immediate future runaway prices could push dollar sales well beyond the August level. It is highly probable, however, that the first post-war buying boom has spent its force and we have entered a new phase.



Recent Trends in Department Store Sales

The record of department store sales in the Third Federal Reserve District for the past year affords an excellent illustration of the changing pattern of retail sales. Total department store sales conform closely to the index of all retail trade, since, with the exception of a few important items such as automobiles, the modern department store is a composite of all retail distribution.

The progress of the major departments during ten months of 1946 in terms of their increase over the previous year is shown in the accompanying chart. Using the previous year's record as a base has some disadvantages, of course, but in this case comparisons are more significant than dollar amounts.

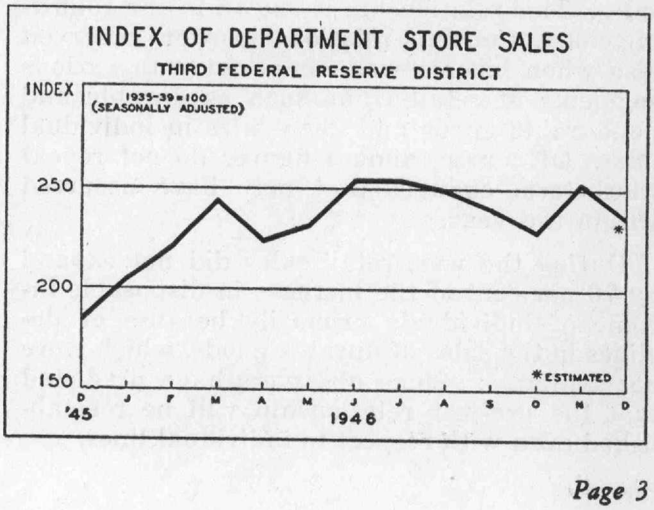
The most striking thing revealed by the chart is the manner in which sales in the various lines took divergent paths during 1946. Sales of home furnishings in 1945 were only 12 per cent above the previous year; but in the first ten months of 1946 they were 60 per cent ahead of 1945. By contrast, small wares and women's apparel, although consistently above 1945 levels, hardly increased their rates of gain at all. Floor coverings and major household appliances, included in the home furnishings group, were the greatest gainers. Women's blouses, skirts, and sportswear, and women's dresses were the only lines whose rates showed a net decline. The only category whose rate of gain accelerated after July was piece goods. The following table shows how these divergent trends affected the distribution of sales by departments and indicates the relative importance of each line.

DISTRIBUTION OF DEPARTMENT STORE SALES BY MAJOR DEPARTMENTS
Third Federal Reserve District

	January through October	
	1945	1946
Women's apparel and accessories	37.3%	33.2%
Men's and boys' wear	8.7	9.5
Home furnishings	19.7	25.1
Piece goods	2.5	2.1
Small wares	8.5	7.7
Miscellaneous	4.6	4.8
Basement stores	18.7	17.6
Grand total	100.0%	100.0%

The greatest factor in the redistribution of sales during 1946 has been an improvement in the supply of goods, especially in the home furnishings department. The ratio of stocks to sales for all departments increased rather steadily from a low point in March, and a marked rise in September and October sent the over-all average well above 1945 levels. For all departments combined, the 2.7 months' supply of goods on hand in October was equal to the 1940 ratio. While supplies are still critically short in many lines, the great improvement in the stock-sales ratio last fall would seem to be still another sign that August might have marked the dividing line between two post-war periods.

Although the rates of change over the previous year, being cumulative, did not turn downward until October, the seasonally adjusted



index of department store sales, shown in the chart, reached a peak in July and has tended slightly downward since that time. Preliminary estimates of total department store sales during the Christmas buying season also indicate a leveling-off process rather than a continuation of the upward trend. During the war, the seasonal adjustment of monthly sales figures made by this Bank was changed to conform with the war-time practice of "pre-season" Christmas buying. The adjustment took account of the shift of some of the customary November and December buying to September and October. Before later figures were collected, it was believed possible that a change back to pre-war shopping custom in 1946 might have caused the adjusted index to slump in September and October. The November recovery indicates that this may actually have occurred to some extent, but the December estimate now appears to confirm the "leveling-off" movement. Christmas in 1946 was bigger than ever in terms of dollar volume of sales, but the physical volume of goods sold was substantially the same as in 1945, and the tide of consumer expenditure was no longer rising.

Income and Sales

One of the few things that did not change in the two decades from 1922 to 1941 was the relationship between individual incomes after taxes and consumer expenditures for goods and services or, alternatively, sales of retail stores. It is, of course, obvious that the more people have to spend the more they do spend; but for two decades which were marked by large and sudden changes in the level of economic activity, an increase or decrease of one dollar in income payments was accompanied by a corresponding change of almost precisely 70 cents in retail sales. This relationship is shown in the following chart. Constant relationships were observed also when income was compared with various segments of retail trade such as durable and nondurable goods and even sales in individual lines. Of course, annual figures do not reveal short term changes that may have occurred within the year.

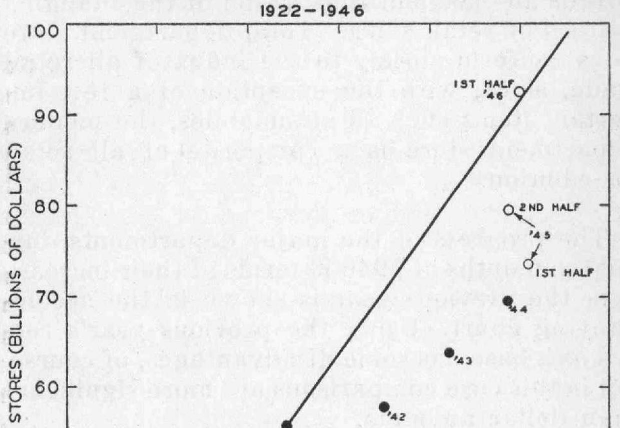
During the war, retail sales did not expand by 70 per cent of the increase in disposable income of individuals primarily because of declines in the sales of durable goods, which were not available. Some observers have predicted that the pre-war relationship will be reestablished even with respect to individual lines.

Twenty years is a long time and the evidence it provides is important. But twenty years is not all experience nor even the complete period for which relevant data are available. Data relating to the decade 1910-1919 also reflect a close correspondence between individual income after taxes and consumer expenditures; but it was at a level $4 to $5 billion a year below the level attained in the two inter-war decades.

The record during and immediately following the second world war has been similar to that made in the corresponding periods of the first. Before American participation, individuals appear to have spent more than the normal proportion of their income on consumers' goods. After American entry and for a year after the close of the war they spent relatively less of their rapidly increasing incomes. Thereafter they spent significantly more. After the first world war consumer expenditures on goods and services did not decline to the level that would have been normal before the war.

RELATIONSHIP BETWEEN SALES AT ALL RETAIL STORES AND DISPOSABLE INCOME OF INDIVIDUALS

1922–1946



SOURCE: SURVEY OF CURRENT BUSINESS, OCTOBER 1946. U.S. DEPARTMENT OF COMMERCE.

A number of factors might now act to sustain, either temporarily or for a long period, consumer expenditures at a level which is higher in relation to income than was the case before the second world war. The first of these is the huge backlog of savings in the hands of individuals. Personal holdings of liquid assets are estimated to have tripled since 1941. In June 1946 they had reached a total of $152 billion. The distribution of these assets is also important. It appears that savings were more widely distributed in 1946 than they were in 1941. Many families have a sizable cushion of reserve purchasing power. It is entirely possible that some of them may set aside a smaller proportion of current income and spend a larger proportion than before the war. On the other hand, it must be remembered that there are many families that have virtually no liquid savings.

Another factor is consumer credit. A large volume of such credit was liquidated during the war. It might again be expanded, thus increasing consumer purchases relative to income. The prospective volume of such credit, however, is influenced primarily by business expectations, and it may not be an equally powerful stimulant under all conditions.

A most important development making for greater consumer expenditures has been the wider distribution of income. It is likely also that deferred demand will be a stimulant for some years to come, especially for durable goods. The refrigerators and automobiles not bought during the war, which have their counterpart in the large volume of savings and the low level of consumer credit, constitute an extraordinary demand. The appearance of new products and new methods of sales promotion operate in the same direction. Automatic laundries, family aircraft, television, and many other wonders of the post-war world may induce greater spending. The strength and duration of all these factors cannot be determined, but their effect will be of crucial importance to the volume of retail sales.

The Outlook

Current developments contain unusual elements of uncertainty which bear close attention. One of these is the extent to which recent buying is of a "non-repeating" nature—veterans replenishing wardrobes, furnishings for new homes, long-deferred consumer expenditures that are not recurrent. Many of the "deferred demand" purchases that are a stimulating force are of this type. The question here is, over how long a period will these expenditures be spread, and how much of such buying has already been done?

Continuing readjustments in the supply of goods, particularly the increasing supply of household durables and automobiles, may make for further alteration in the pattern of consumer buying—possibly in the same way as that which occurred in Third District department stores in 1946. It has been reported recently that sales of luxury goods, such as jewelry and furs, have weakened significantly.

A similar tendency is apparent in the sale of some nondurable items. There have also been some cancellations of orders. Persistence of consumption habits, however, tends to maintain purchases of nondurables, especially in nonluxury fields. Larger expenditures for food and clothing over a number of years, for instance, tend to become part of a family's standard of living, and they are reduced with extreme reluctance. In view of the savings of many families and the availability of consumer credit for the purchase of durable goods, it seems possible, even likely, that some of the increased outlay for soft goods will be continued. It is also possible that reduced prices for nondurable goods and relatively high prices for durables may stimulate the sale of the former.

The general problem of price readjustment has important implications for retail trade. Divergent price trends rather than broad, general movements seem to be the order of the day. Some prices will continue to rise and others may decline. A recent Department of Agriculture forecast, for instance, indicates lower prices for farm products next year. At the same time there will be a strong upward pressure on rents, which might break through existing ceilings.

The most important factor in the total volume of retail sales obviously will remain the level and distribution of individual incomes after taxes. The consumer, however, will have to do a lot of figuring to allocate his dollars most economically, and the pattern of retail sales will undoubtedly reflect his dilemma.

CONSUMER CREDIT

Consumer credit is rapidly recovering from the war. The volume outstanding is already above 1939 levels and is fast approaching the 1941 peak. More than two-thirds of the war-time decline has been regained. The prospects are for a continuation of this upward sweep.

This expansion of consumer credit is significant in two respects. The first involves the role of consumer credit in the economic picture—the use of credit in financing consumer expenditures. The second concerns the position of banks in the consumer credit field and the implications for bank policy.

The Role of Consumer Credit

Consumer expenditures may be financed out of accumulated savings, by drawing from current income, or by anticipating future income. The last method involves the use of consumer credit. Such credit enables individuals to buy goods sooner than would be possible otherwise, but at the expense of buying less when the credit is repaid. It is primarily a means of changing the time of expenditure rather than of increasing an individual's total expenditures over a long period of time.

This method of financing consumer expenditures has become increasingly important. The flood of durable goods produced by the nation's industries has stimulated the use of consumer credit. Since many people would have been unable or unwilling to purchase these goods by other means, consumer credit in turn has contributed to expansion of the durable consumers' goods industries. The rise of financing institutions and the development of new credit practices have gone hand-in-hand with this long-run trend. The attitude toward consumer debt has changed; more people have become willing to incur such debt in the purchase of goods or to meet financial emergencies.

The rapid expansion in the volume of consumer credit has been partly obscured by the sharp fluctuations shown in the following table. Consumer credit fluctuates more widely than expenditures and tends to aggravate the ups and downs of business activity. In boom periods confidence is high; consumers become more willing to incur debt and lenders liberalize their terms. The expansion of credit stimulates aggregate demand for consumers' durables at the very time when such demand already is high. To the extent that banks provide credit, either directly or indirectly, the supply of money is increased. When prospects become poor, consumers postpone expenditures for durable goods. They make their automobiles do and defer purchases of other large items. Their demand, already curtailed, is further reduced by the necessity to repay debts incurred in better times. Credit terms become tighter. Reduction of bank credit diminishes the money supply. In effect, therefore, consumer credit has been used to transfer expenditures from times when they are already low to times when they are already high. Such was the pre-war experience.

The war brought about a new situation. Although total expenditures rose, consumer credit fell precipitously, exerting a much-needed anti-inflationary influence. The main factor contributing to the drop was the curtailment of production of consumers' durables. The regulation of down payments and length of credit contracts together with the increased liquidity of the buying public also contributed to the decline.

Since the war, consumer credit has been assuming more and more the characteristics of the

Table I

CONSUMER EXPENDITURES AND CREDIT

	Billions $ October 1946	Percentage Change			
		1929 to 1933	1933 to 1941	1941 to Aug.1945	Aug.1945 to Oct. 1946
Consumer Expenditures					
Durable goods	11.3*	−66	+168	−21†	+ 57*
Nondurable goods and services	109.8*	−36	+ 68	+47†	+ 14*
Total	121.1*	−40	+ 76	+39†	+ 17*
Consumer Credit					
Automobile sale credit	.4	−65	+323	−90	+128
Other sale credit	.8	−45	+172	−72	+ 56
Instalment loans	2.2	−30	+375	−41	+ 73
Single-payment loans	1.8	−63	+106	− 8	+ 21
Charge accounts	2.6	−38	+ 63	−18	+ 82
Service credit	.9	−22	+ 31	+24	+ 13
Total	8.7	−49	+153	−43	+ 54

* First half of 1946—annual rates. † First half of 1945.

pre-war era. Automobile and other sales credit have been reviving as durable goods reappear on the market. Regulation of consumer credit has been altered in recognition of changed conditions. Restrictions on charge accounts and single-payment loans have been removed. On all but a dozen categories of durables, which are still in short supply, controls of instalment sales and loans have been abolished.

The situation is still inflationary, however. Minimum down payments on most scarce durables thus remain unchanged although the maximum permissible length for new instalment contracts has been increased. The revival of consumer credit has been accompanied by an expansion in bank loans to business and farmers, and the continued accumulation of money in the hands of individuals. In contrast to the war period when the trend in consumer credit offset inflationary forces to some extent, it is now accentuating them, especially since consumers' durable goods are not coming on the market fast enough to satisfy even the strong cash demand for them.

What about the future? Although it is possible that trade as a whole already has passed its peak, few observers doubt that consumer credit will continue to expand—perhaps to new record levels. It is pointed out that the ratio of consumer credit to consumer expenditures is still only about half as high as in 1941. Any further price rises will inflate the dollar volume of expenditures and credit.

Moreover, any leveling off or decline in trade will be caused primarily by a drop in expenditures for nondurable goods; spending for durables probably will expand rapidly. A national survey of liquid assets suggested that consumers desired to purchase a larger volume of durables during 1946 than could be produced. Many of these were available only in limited quantities even by the close of the year. Only in the event of a severe slump in business activity is it likely that expenditures for durables will fall off. In case of a mild recession it is unlikely that incomes and confidence would be depressed enough to reduce expenditures for durable goods substantially. The prospects for consumer credit are closely tied to this tremendous pent-up demand.

The outlook will be influenced also by the methods used by consumers to finance their expenditures. The survey of liquid assets indicated that individuals expected to borrow one-third of the cost of acquiring durable goods; one-third of the spending units in the market for those goods expected to buy on the instalment plan. The use of accumulated liquid assets probably will account for a larger proportion of expenditures than was the case before the war, but the lower income groups hold a relatively small proportion of these assets and it is these groups which do most of the instalment buying. The outlook, therefore, is for continued expansion in consumer credit volume.

What role will banks play in financing consumer expenditures? What are the implications for bank policy?

Banks in the Consumer Credit Field

Until the war, consumer credit was becoming an increasingly important part of banking. While total loans remained far below the levels of the 1920's, consumer instalment loans were expanding rapidly. During the war the decline in consumer credit reduced the importance of such loans in bank portfolios but the recent upturn is again increasing it. The amount reported in June, the latest date for which details are available, by member banks in the Third District represented one-fifth of their total loans.

Back of this over-all picture lie significant differences in the importance of consumer credit and in the types of such credit extended by

Table II
IMPORTANCE OF CONSUMER LOANS
BY AREA AND SIZE OF BANK
Third Federal Reserve District

(Member banks—June 29, 1946)	Ratio of consumer loans to total loans		Percentage of consumer loans in Third District	
	Instalment credit	Singlepay't loans to individuals	Instalment credit	Singlepay't loans to individuals
Area				
Philadelphia	4%	23%	38%	78%
Outside Philadelphia	7	6	62	22
Third F. R. District	5%	15%	100%	100%
Size of Bank				
Banks with deposits of—				
$100 million or more	4%	23%	38%	78%
$10 to $100 million	6	8	31	14
$2 to $10 million	7	5	27	7
Under $2 million	5	4	4	1
Third F. R. District	5%	15%	100%	100%

banks of various sizes. Instalment credit comprises a considerably more important part of the loan portfolios of banks outside of Philadelphia than of banks in that city. Variations by size of bank are less striking; banks in various size groups extend instalment credit about in line with their share of the deposits in the district.

More significant differences emerge when instalment credit is broken down further as is done in Table III. Generally speaking, and with the exception of the very largest banks, retail instalment loans become more important in the instalment credit pattern and personal instalment cash loans become less important as size of bank decreases. Automobile paper is definitely more important in small banks than in large banks. Other retail paper and repair-modernization loans, on the other hand, are of major importance only in the very largest banks and are about equally important in the other size groups. With the exception of the largest banks, personal instalment cash loans become less important as size of bank decreases.

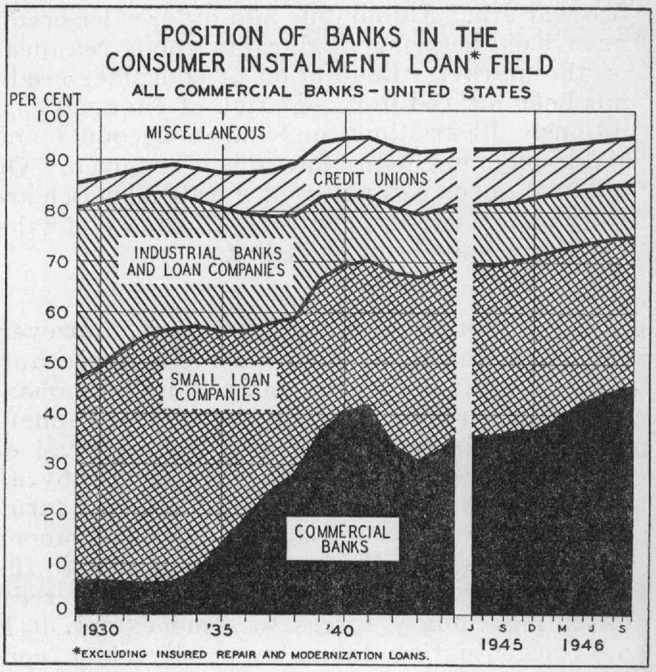
Table III

CONSUMER LOAN PATTERN BY SIZE OF BANK

Third Federal Reserve District

(Member banks— June 29, 1946)	Banks with total deposits of— $100 mil. or more	$10 mil. to $100 mil.	$2 mil. to $10 mil.	Under $2 mil.	All Banks
Instalment Credit					
Retail automobile instalment paper	10%	13%	27%	42%	17%
Other retail & repair-modernization instalment loans	48	22	23	20	32
Personal instalment cash loans	42	65	50	38	51
Total instalment credit	100%	100%	100%	100%	100%
Single Payment Loans to Individuals					
Ratio to instalment credit	570%	123%	71%	96%	277%

Single payment loans to consumers present an entirely different picture from that of instalment credit. Tabulations from June 1946 call reports suggest a heavy concentration of such loans in the large banks (Table II), and a high ratio of single payment loans to instalment credit in those institutions (Table III). This picture, however, may not be entirely accurate because of difficulties experienced in classifying loans. Some single payment loans to individuals may be classified as consumer loans even though they are for business purposes; and conversely, some loans classified as business loans may be for consumer purposes.



Banks did not enter directly into the instalment loan field in earnest until 1934. They were beginning to accumulate excess funds, and the returns on consumer loans were attractive compared with those on the limited or even shrinking supply of other loans and investments available. Moreover, the success of other consumer credit agencies during the depression indicated that this field could be profitable and safe for banks. In eight years, banks increased their share of instalment loans (excluding repair and modernization loans) from 6 to 42 per cent of total outstandings. The relative gain by banks was accompanied by relative decreases on the

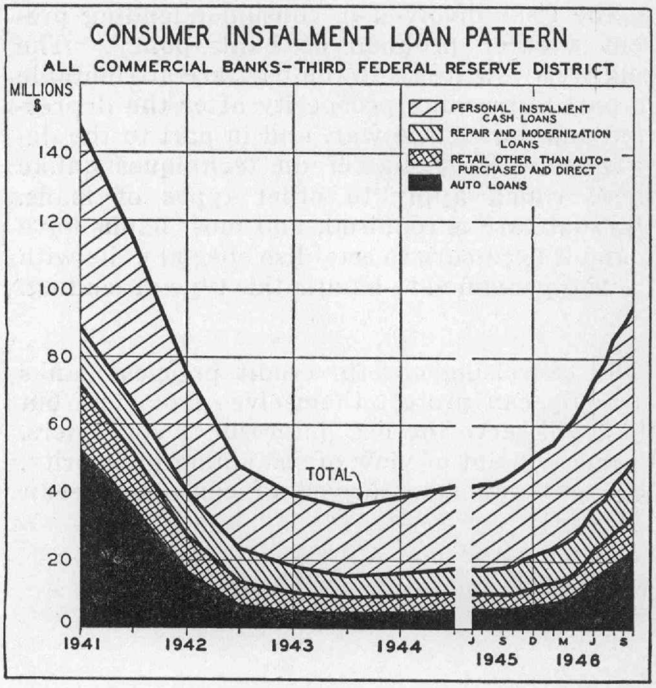
Table IV

EXTENT OF BANK ENTRY INTO THE CONSUMER CREDIT FIELD

Third Federal Reserve District

(Member banks— June 29, 1946)	Banks with total deposits of— $100 mil. or more	$10 mil. to $100 mil.	$2 mil. to $10 mil.	Under $2 mil.	All Banks
Percentage of banks in each group					
With all types of consumer loans outstanding	60%	46%	28%	12%	26%
With no consumer loans outstanding	..	3	11	19	12
With no retail automobile instalment paper	20	30	31	39	33
With no "other" retail and repair-modernization instalment loans	40	30	43	70	49
With no personal instalment cash loans	10	8	36	56	38
With no single-payment loans to individuals	..	30	44	57	45

part of small loan companies, industrial banks, and industrial loan companies. The war interrupted these trends only temporarily. After dropping from 42 to 31 per cent between 1941 and 1943, the share of instalment loans held by banks rose once again and now, at 45 per cent, is greater than ever before. This record was achieved even though as recently as June 1946 one-eighth of the member banks in the Third District had no consumer loans of any kind outstanding; one-third had no retail automobile instalment paper; one-half had no non-automobile retail paper or repair-modernization instalment loans; two-fifths had no personal instalment cash loans; and 45 per cent had no single-payment loans to consumers. A breakdown of these categories in Table IV indicates that the small banks account for the majority of these institutions.



Prospects and Implications

The volume of consumer credit is once more increasing rapidly in a period of prosperity. Competition to extend more such credit is becoming keener than before the war. Sales finance companies are strengthening their connections and are expanding their branch systems. Some have lowered their rates. Small loan companies are seeking permission to make larger loans. Industrial banking companies have been converting to commercial bank status in order to escape certain legal restrictions and to secure funds from demand deposits rather than interest-bearing time deposits. Some credit unions expect to offer more extensive services to their members.

Meanwhile banks are increasing their activity in the field. Many of those already extending consumer credit hope to expand their volume and many other banks expect to establish new departments. A number of organizations of banks have been established to facilitate financing of automobile and household appliance purchases. Arrangements are being made to encourage direct financing through banks rather than by finance companies.

All types of consumer credit extended by banks probably will continue to increase. The greatest expansion, however, is likely to be in instalment credit for the purchase of automobiles and other durable goods. These types of credit fell most drastically during the war, and although subsequently they have increased considerably they have by no means regained their pre-war importance in the percentage pattern of instalment loans. Personal instalment cash loans, on the other hand, declined less during the war and their growth probably will be less rapid. Single-payment cash loans are likely to expand the least; they are usually more stable than instalment loans and will be less influenced by the demand for consumers' durables.

This potential growth in consumer credit of banks has significant implications for bank policy. First as to earnings: Although consumer loans yield a gross return higher than that on investments and other loans, the cost of extending and servicing such credit is high. In their efforts to obtain a sufficient volume of loans to make the business profitable, many banks are making substantial outlays to set up specialized consumer credit units or departments and to secure experienced personnel. But to maintain the advantages of such a policy a large loan volume is necessary; if volume declines, the average cost per loan will become greater and net earnings smaller. Even during the period of expanding volume, earnings may be limited if competition leads to indiscriminate lowering of rates. The chances for greatly increased earnings may, therefore, be less than is commonly believed.

The risks involved in consumer lending present another problem of bank policy. The relatively low losses in the past are attributable in part to growing prosperity after the depression and during the war, and in part to the development of special credit techniques unlike those which apply to other types of loans. Unusual care is required, and most banks have found it necessary to establish special units with trained personnel to handle this type of lending.

By exercising careful credit policies, banks not only can protect themselves from loss but they will serve the best interests of consumers. From the point of view of sustaining prosperity, the most important aspect of consumer credit is the timing of increases and declines in volume. If volume is increased in periods of strong demand and contracted in periods of weak demand, consumer credit will again serve to aggravate the ups and downs of economic activity. On the other hand, if the timing of changes in volume can be reversed, consumer credit would be useful as a means of mitigating fluctuations in activity. Moreover, as the role of bank credit in financing consumer expenditures increases, the inflationary and deflationary swings of consumer credit become even more important, for the activities of banks directly affect the money supply. In taking on a greater proportion of the consumer loan business, banks are assuming greater responsibility for the well-being of the economy.

BUSINESS STATISTICS

Production
Philadelphia Federal Reserve District

Indexes: 1923-5 = 100	Adjusted for seasonal variation						Not adjusted		
	Nov. 1946	Oct. 1946	Nov. 1945	Per cent change: Nov. 1946 from Mo. ago	Per cent change: Nov. 1946 from Year ago	Per cent change: 1946 from 11 mos. 1945	Nov. 1946	Oct. 1946	Nov 1945
INDUSTRIAL PRODUCTION	108p	104	104	+ 4	+ 4	− 16	111p	109	105
MANUFACTURING	109p	104	105r	+ 5	+ 4	− 18	112p	109	106
Durable goods	117p	113	125r	+ 4	− 6	− 39	.....	.....	.....
Consumers' goods	101p	95	88r	+ 6	+ 15	+ 10	.....	.....	.....
Metal products	135	128	121	+ 5	+ 11	− 27	135	133	121
Textile products	71p	71	61	+ 1	+ 17	+ 12	74p	74	63
Transportation equipment	144p	148	237	− 2	− 39	− 57	138p	141	231
Food products	133p	109	119	+ 22	+ 12	+ 3	136p	121	122
Tobacco and products	113	109	103	+ 4	+ 10	+ 22	135	133	122
Building materials	52p	48	38	+ 7	+ 37	+ 25	51p	51	37r
Chemicals and products	154p	146	152r	+ 6	+ 1	− 10	154p	148	152r
Leather and products	82p	73	78r	+ 13	+ 6	+ 1	78p	78	74
Paper and printing	118	117	111	+ 1	+ 7	+ 16	119	118	112
Individual lines									
Pig iron	94	94	90	0	+ 5	− 9	95	93	91
Steel	109	102r	104	+ 7	+ 5	− 23	105	102r	100
Iron castings	79	81	71	− 2	+ 11	+ 9	80	86	73
Steel castings	112	120	146	− 6	− 23	− 48	104	114	136
Electrical apparatus	201	191r	165	+ 5	+ 22	− 32	213	208r	175
Motor vehicles	34	24	48	+ 39	− 30	− 44	29	22	42
Automobile parts and bodies	133	131	121	+ 1	+ 10	− 8	122	124	111
Locomotives and cars	72	69	75	+ 6	− 4	− 34	67	65	70
Shipbuilding	.....	.....	.....	− 10	− 56	− 65	.....	.....	.....
Silk manufactures	88	87	79	0	+ 12	+ 5	89	89	80
Woolen and worsteds	70p	69	58r	+ 2	+ 20	+ 19	76p	75	63r
Cotton products	50	53	43	− 6	+ 17	+ 18	53	55	45
Carpets and rugs	72p	72	51r	− 1	+ 41	+ 39	78p	79	56r
Hosiery	71	70	60	+ 2	+ 19	+ 16	81	77	68
Underwear	146	132	134	+ 11	+ 9	+ 6	148	143	135
Cement	86p	73	50	+ 17	+ 71	+ 86	84p	82	49
Brick	60	59	48	+ 2	+ 24	+ 10	60	60	48
Lumber and products	26	27	24r	− 3	+ 9	− 9	27	28r	25
Bread and bakery products	.....	.....	.....	+ 14	− 6	− 8	118p	104	126
Slaughtering, meat packing	122	95	113	+ 29	+ 9	+ 6	135	99	123
Sugar refining	161	46	58	+253	+179	− 8	105	38	38
Canning and preserving	197p	163	156	+ 20	+ 26	+ 15	214p	210	169
Cigars	113	109	101	+ 4	+ 12	+ 23	136	134	122
Paper and wood pulp	92	88	89	+ 4	+ 3	+ 6	92	90	89
Printing and publishing	124	123	115	0	+ 7	+ 17	125	124	116
Shoes	112p	101	103	+ 12	+ 9	+ 7	106p	109	97
Leather, goat and kid	54p	46	53	+ 16	+ 2	− 9	52p	48	51
Explosives	82p	85	79	− 4	+ 4	− 57	82p	86	79
Paints and varnishes	93	91	90	+ 2	+ 3	+ 3	95	98r	92
Petroleum products	210p	194	214r	+ 8	− 2	0	210p	195	215r
Coke, by-product	176p	168	154	+ 5	+ 14	− 13	169p	164	147
COAL MINING	76	81r	72	− 5	+ 6	+ 8	77	81	73
Anthracite	77	78	70	− 1	+ 10	+ 9	77	78	70
Bituminous	72	102r	89r	− 30	− 20	− 5	79	109r	98r
CRUDE OIL	315	312	316	+ 1	0	− 6	306	312	307
ELEC. POWER—OUTPUT	431	433	399	0	+ 8	0	448	446	415
Sales, total	437	433	400	+ 1	+ 9	− 1	450	433	412
Sales to industries	327	317	293	+ 3	+ 11	− 8	333	307	299
BUILDING CONTRACTS									
TOTAL AWARDS†	103	115	79	− 11	+ 31	+121	112	118	86
Residential†	103	104	26	− 2	+296	**	115	120	29
Nonresidential†	97	103	121	− 6	− 19	+ 59	97	99	121
Public works and utilities†	117	147	149	− 21	− 22	− 24	134	154	171

* Unadjusted for seasonal variation. p—Preliminary.
† 3-month moving daily average centered at 3rd month. r—Revised.
** Increase of 1000% or more from the low level.

Local Business Conditions*

Percentage change—November 1946 from month and year ago	Factory employment		Factory payrolls		Building permits value		Retail sales		Debits	
	Oct. 1946	Nov. 1945	Oct. 1946	Nov. 1945	Oct. 1946	Nov. 1945	Oct. 1946	Nov. 1945	Oct. 1946	Nov. 1945
Allentown	+ 8	+10	0	+15	+ 12	+ 21	+22	+18	+ 1	+21
Altoona	+ 1	+ 8	+ 2	+19	+ 38	+ 20	+24	+23	− 9	+25
Harrisburg	− 2	+ 7	− 7	+22	+ 88	− 15	+36	+35	− 4	+19
Johnstown	+ 2	+15	− 9	+17	− 50	− 31	+25	+28	− 1	+31
Lancaster	+ 2	+15	+ 5	+37	+168	+563	+33	+26	−15	+20
Philadelphia	+ 2	+12	+ 2	+24	− 54	− 11	+18	+20	− 6	+ 2
Reading	+ 1	+13	+ 2	+33	+ 16	− 36	+39	+44	+ 1	+24
Scranton	+ 6	+14	+ 3	+33	− 19	− 43	+20	+37	+ 9	+ 7
Trenton	.....	.....	.....	.....	− 37	− 41	+27	+21	− 6	− 9
Wilkes-Barre	+ 1	+ 9	+ 3	+33	+108	+ 30	+19	+33	− 3	+17
Williamsport	− 2	+ 9	− 2	+26	− 37	+ 4	.....	.....	+ 1	+22
Wilmington	+ 1	+ 6	+ 2	+22	− 26	− 45	+ 5	+25	− 9	+12
York	0	+16	− 1	+30	− 14	+291	+33	+30	− 6	+10

* Area not restricted to the corporate limits of cities given here.

Employment and Income
in Pennsylvania

Industry, Trade and Service

Indexes: 1932 = 100	Employment			Payrolls		
	Nov. 1946 index	Per cent change from Oct. 1946	Per cent change from Nov. 1945	Nov. 1946 index	Per cent change from Oct. 1946	Per cent change from Nov. 1945
GENERAL INDEX	137	+ 4	+13	346	+ 5	+28
Manufacturing	168	+ 4	+12	455	+ 6	+26
Bituminous coal mining	99	+ 2	+31	515	− 5	+38
Building and construction	68	− 1	+17	166	0	+31
Quar. and nonmet. mining	100	− 1	+26	385	− 3	+55
Crude petroleum prod.	145	0	+ 6	292	+ 9	+15
Public utilities	124	+ 5	+23	201	+ 5	+29
Retail trade	150	+ 9	+11	247	+11	+33
Wholesale trade	122	+ 1	+11	212	+ 7	+28
Hotels	96	− 1	−15	202	0	− 4
Laundries	103	+ 3	+ 3	231	+ 5	+21
Dyeing and cleaning	101	− 1	+ 4	249	− 2	+25

Manufacturing

Indexes: 1923-5 = 100	Employment*			Payrolls*		
	Nov. 1946 index	Per cent change from Oct. 1946	Per cent change from Nov. 1945	Nov. 1946 index	Per cent change from Oct. 1946	Per cent change from Nov. 1945
TOTAL	108	+ 4	+12	186	+ 6	+26
Iron, steel and products	112	+ 5	+16	231	+ 8	+29
Nonferrous metal products	204	+ 3	+15	453	+ 9	+30
Transportation equipment	97	+ 7	− 6	165	+ 3	+ 3
Textiles and clothing	85	+ 1	+15	165	+ 2	+36
Textiles	80	+ 1	+15	156	+ 1	+35
Clothing	106	+ 3	+15	211	+ 6	+42
Food products	120	+16	− 1	215	+23	+10
Stone, clay and glass	106	− 1	+37	187	0	+62
Lumber products	58	+ 4	+26	105	0	+46
Chemicals and products	119	0	+10	217	+ 1	+18
Leather and products	81	− 2	+ 8	146	− 2	+23
Paper and printing	123	+ 1	+11	228	+ 2	+27
Printing	119	+ 2	+10	213	+ 1	+28
Others:						
Cigars and tobacco	58	+ 3	+27	104	+ 5	+46
Rubber tires, goods	147	0	+17	360	− 5	+27
Musical instruments	87	+ 3	−16	179	+ 4	+ 7

* Figures from 2737 plants.

Hours and Wages

Factory workers Averages November 1946 and per cent change from year ago	Weekly working time*		Hourly earnings*		Weekly earnings†	
	Average hours	Ch'ge	Average	Ch'ge	Average	Ch'ge
TOTAL	39.7	− 3	$1.180	+15	$46.74	+12
Iron, steel and prods.	39.4	− 3	1.256	+15	49.54	+12
Nonfer. metal prods.	39.4	− 6	1.162	+18	45.86	+12
Transportation equip.	39.4	− 4	1.315	+12	51.78	+ 8
Textiles and clothing	39.4	+ 1	.989	+18	39.04	+20
Textiles	40.4	+ 1	1.005	+17	40.60	+17
Clothing	37.0	+ 4	.941	+22	35.53	+28
Food products	42.0	− 4	.961	+15	41.12	+11
Stone, clay and glass	38.6	− 2	1.125	+20	43.53	+18
Lumber products	41.5	0	.930	+19	38.42	+19
Chemicals and prods.	40.0	− 3	1.231	+11	49.21	+ 7
Leather and products	38.4	− 3	.940	+20	35.84	+15
Paper and Printing	43.1	− 3	1.173	+20	50.70	+16
Printing	42.5	+ 1	1.346	+18	57.08	+19
Others:						
Cigars and tobacco	37.4	−11	.877	+29	32.80	+15
Rubber tires, goods	42.0	− 7	1.294	+16	54.37	+ 8
Musical instruments	47.5	+ 3	1.128	+24	53.60	+28

* Figures from 2592 plants. † Figures from 2737 plants.

Distribution and Prices

Wholesale trade Unadjusted for seasonal variation	Per cent change: Nov. 1946 from Month ago	Nov. 1946 from Year ago	1946 from 11 mos. 1945
Sales			
Total of all lines	+16	+ 41	+31
Dry goods	− 9	+ 51	+43
Electrical supplies	− 8	+ 57	.....
Groceries	+39	+ 56	+33
Hardware	+20	+ 84	+47
Jewelry	+ 3	+ 25	+57
Paper	− 2	+ 38	+21
Inventories			
Total of all lines	+10	+ 44	.....
Dry goods	− 2	+ 69	.....
Electrical supplies	+21	+ 61	.....
Groceries	+17	+ 34	.....
Hardware	+ 3	+ 21	.....
Jewelry	− 8	+171	.....
Paper	− 6	+ 4	.....

Source: U. S. Department of Commerce.

Prices	Nov. 1946	Per cent change from Month ago	Year ago	Aug. 1939
Basic commodities (Aug. 1939 = 100)	290	+15	+55	+190
Wholesale (1926 = 100)	140	+ 4	+31	+ 86
Farm	170	+ 3	+30	+178
Food	165	+ 5	+53	+146
Other	121	+ 4	+20	+ 51
Living costs (1935-1939 = 100)				
United States	152	+ 2	+17	+ 54
Philadelphia	151	+ 2	+17	+ 54
Food	182	+ 2	+32	+ 95
Clothing	164	+ 1	+10	+ 65
Fuels	121	0	+ 7	+ 25
Housefurnishings	168	+ 1	+15	+ 67
Other	129	+ 1	+ 7	+ 28

Source: U. S. Bureau of Labor Statistics.

Indexes: 1935-1939 = 100	Adjusted for seasonal variation: Nov 1946	Oct. 1946	Nov. 1945	Per cent change: Nov. 1946 from Month ago	Nov. 1946 from Year ago	1946 from 11 mos. 1945	Not adjusted: Nov. 1946	Oct. 1946	Nov. 1945
RETAIL TRADE									
Sales									
Department stores—District	253	229	202	+11	+ 25	+ 28	319	259	255
Philadelphia	220	218	183	+ 1	+ 20	+ 25	294	245	245
Women's apparel	252	238r	213r	+ 6	+ 18	+ 29	285	273	241
Men's apparel	264	243	222	+ 8	+ 19	+ 29	302	260	254
Shoe	213p	206	207	+ 3	+ 3	+ 31	211p	219	205
Furniture	.....	.....	.....	+ 5*	+ 27*	.....	.....	.....	.....
Inventories									
Department stores—District	215p	217	149	− 1	+ 44	.....	237p	247	164
Philadelphia	204p	205	145	− 1	+ 40	.....	224p	235	160
Women's apparel	251	242	182r	+ 4	+ 38	.....	297	295	216
Shoe	93p	83	56	+12	+ 65	.....	94p	84	57
Furniture	.....	.....	.....	−13*	+ 32*	.....	.....	.....	.....
FREIGHT-CAR LOADINGS									
Total	140	136	134	+ 2	+ 4	− 6	141	147	135
Merchandise and miscellaneous	135	130	120	+ 4	+ 13	− 5	139	138	123
Merchandise—l.c.l.	102	97	90	+ 6	+ 13	+ 9	105	102	93
Coal	125	144	145	−13	− 14	− 2	136	159	157
Ore	193	152	154	+27	+ 25	− 24	193	218	154
Coke	147	165	164	−11	− 10	− 22	165	188	184
Forest products	104	90	95	+16	+ 10	− 2	100	105	91
Grain and products	130	140	145	− 7	− 10	− 14	147	140	163
Livestock	125	132	144	− 5	− 13	0	143	155	164
MISCELLANEOUS									
Life insurance sales	183	183	139r	0	+ 32	+ 60	207	191	157r
Business liquidations									
Number	.....	.....	.....	−24*	+100*	+155*	9	12	4
Amount of liabilities	.....	.....	.....	−91*	+167*	+886*	5	56	2
Check payments	214	217	202	− 2	+ 6	+ 10	229	213	216

* Computed from unadjusted data. p—Preliminary. r—Revised.

BANKING STATISTICS

MEMBER BANK RESERVES AND RELATED FACTORS

Reporting member banks (Millions $)	Dec. 24, 1946	Changes in— Four weeks	One year
Assets			
Commercial loans	$ 385	−$ 11	+$141
Loans to brokers, etc.	31	− 1	− 12
Other loans to carry secur.	18	− 5	− 65
Loans on real estate	46	+ 2	+ 13
Loans to banks	7	+ 4	+ 6
Other loans	170	+ 4	+ 30
Total loans	$ 657	−$ 7	+$113
Government securities	$1425	+$ 16	−$659
Obligations fully guar'teed	.....	.....	.....
Other securities	214	+ 3	+ 8
Total investments	$1639	+$ 19	−$651
Total loans & investments	$2296	+$ 12	−$538
Reserve with F.R. Bank	460	+ 38	+ 31
Cash in vault	39	+ 6	+ 3
Balances with other banks	94	+ 2	+ 8
Other assets—net	44	− 4	+ 1
Liabilities			
Demand deposits, adjusted	$1960	+$124	+$138
Time deposits	267	+ 2	+ 47
U. S. Government deposits	71	− 87	− 644
Interbank deposits	346	+ 16	− 46
Borrowings	.....	− 1	− 3
Other liabilities	27	+ 1	+ 5
Capital account	262	− 1	+ 8

Third Federal Reserve District (Millions of dollars)	Changes in weeks ended— Dec. 4	Dec. 11	Dec. 18	Dec. 24	Changes in four weeks
Sources of funds:					
Reserve Bank credit extended in district	−28	−17	+17	+37	+ 9
Commercial transfers (chiefly interdistrict)	+21	+34	+75	+36	+166
Treasury operations	+19	− 4	−74	−31	− 90
Total	+12	+13	+18	+42	+ 85
Uses of funds:					
Currency demand	+ 5	+ 7	+ 4	+12	+ 28
Member bank reserve deposits	+ 7	+ 6	+13	+30	+ 56
"Other deposits" at Reserve Bank	.....	.....	+ 1	.....	+ 1
Other Federal Reserve accounts	.....	.....	.....	.....	.....
Total	+12	+13	+18	+42	+ 85

Member bank reserves (Daily averages: dollar figures in millions)	Held	Required	Excess	Ratio of excess to required
Phila. banks				
1945: Dec. 1-15	$427	$413	$14	3%
1946: Nov. 1-15	412	406	6	2
Nov. 16-30	413	405	8	2
Dec. 1-15	419	410	9	2
Country banks				
1945: Dec. 1-15	$373	$292	$81	28%
1946: Nov. 1-15	391	338	53	16
Nov. 16-30	382	338	44	13
Dec. 1-15	387	340	47	14

Federal Reserve Bank of Phila. (Dollar figures in millions)	Dec. 24, 1946	Changes in Four weeks	One year
Discounts and advances	$ 23	+$ 3	+$14
Industrial loans	1	.....	− 1
U. S. securities	1661	+ 8	+ 40
Total	$1685	+$11	+$53
Fed. Reserve notes	1712	+ 31	+ 68
Member bk. deposits	843	+ 56	+ 59
U. S. general account	31	− 15	− 52
Foreign deposits	41	− 11	− 32
Other deposits	3	+ 1	.....
Gold certificate res.	915	+ 16	− 22
Reserve ratio	34.8%	− 0.2%	− 1.4%