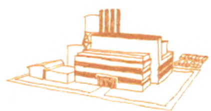
NOVEMBER 1960

# BUSINESS REVIEW

Capital Spending Turns Down

Furniture: Durable but Different



FEDERAL RESERVE BANK OF PHILADELPHIA

# CAPITAL SPENDING TURNS DOWN

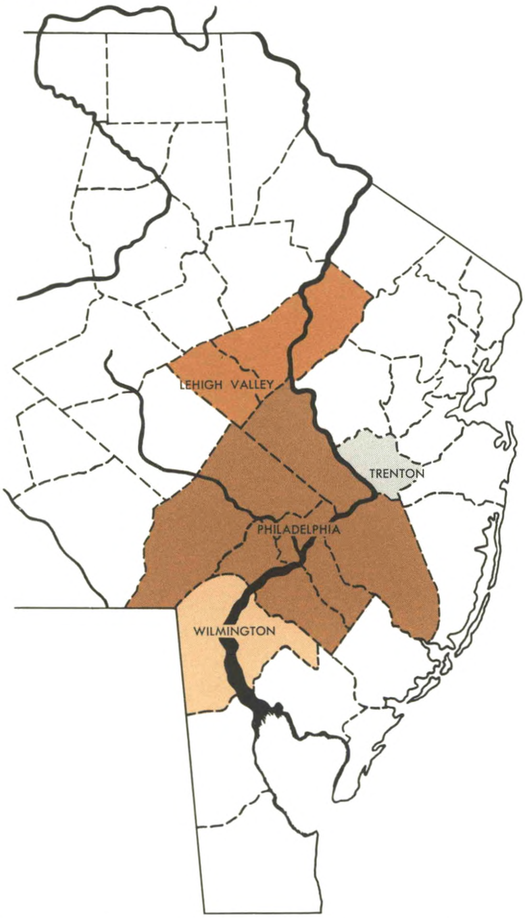
***Manufacturers in the Philadelphia area anticipate substantially lower capital expenditures in 1961, after setting a record in 1960.***

Manufacturers in the Philadelphia Metropolitan Area will spend an estimated $412 million on plant and equipment in 1960. This is about what they reported last March, and is 8 per cent greater than the year-ahead projections they made in September 1959. It surpasses the previous highest estimate recorded in our survey of manufacturers' capital expenditures—$391 million in 1957.

The plant and equipment modernization which these figures reflect means that manufacturers here are backing with large capital outlays their determination to compete for future business. This in a sense is a vote of confidence in the prospects of their companies. But when we asked about capital spending in 1961, a note of hesitancy became evident. The capital expenditures planned for next year add up to only $330 million, a projected drop of 20 per cent. In the history of our survey, such hesitancy is not unusual, but it is by no means universal. Last year, for example, participants in the survey confidently predicted that capital expenditures in 1960 would substantially exceed 1959 totals, and, as it turned out, they were right. This year that note of assuredness is absent.

Manufacturers of both durable and nondurable goods plan to spend less in 1961. Most industries follow the same pattern; increases are few and scattered. The petroleum industry, which in the spring cut back its plans of last fall, has again cut back; however, this industry plans to spend as much in 1961 as in 1960. Printing and publishing, substantial activities in this area, plan to increase capital expenditures 20 per cent next year. Primary metals producers

## AREAS IN THE SURVEY



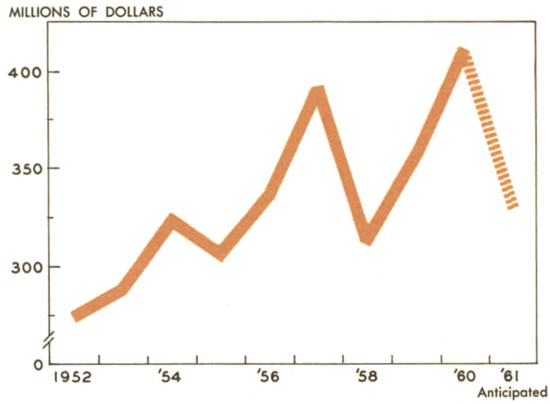

indicate they will sustain their present rate of plant and equipment expenditures. But these industries constitute a minority. No really large increases show up in the returns. Companies are being conservative about 1961.

### Neighboring areas: Trenton, Wilmington, the Lehigh Valley

Cautious planning is evident elsewhere in the Third Federal Reserve District. In the counties surrounding Trenton and Wilmington, and in the Lehigh Valley, manufacturers expect to spend an average 13 per cent less on plant and

## CAPITAL EXPENDITURES OF MANUFACTURERS, 1952–1961

*Philadelphia Area.*



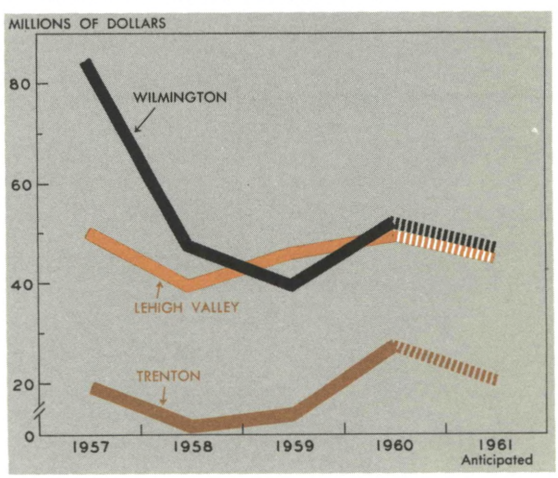

equipment in 1961 than in 1960. As in Philadelphia, most industries anticipate decreases, and no really sizable increases are expected in any category.

### The survey reveals present anticipations; these will change

Plans for capital spending are always under review, continually affected by the ever-changing crosscurrents of a particular industry or of

## CAPITAL EXPENDITURES OF MANUFACTURERS, 1957–1961

*Trenton, Wilmington, Lehigh Valley.*



# PHILADELPHIA MANUFACTURERS' EXPE
# PRODUCTION,

Employment Projections by Quarters
(Index: Third quarter = 100)

| | 1960 Third | 1960 Fourth | 1961 First | 1961 Second |
|---|---|---|---|---|
| All manufacturing | 100.0 | 99.1 | 98.8 | 99.5 |
| Durables | 100.0 | 98.2 | 97.5 | 98.4 |
| Lumber & furniture | 100.0 | 100.9 | 103.8 | 106.8 |
| Stone, clay & glass | 100.0 | 98.5 | 98.2 | 99.8 |
| Primary metals | 100.0 | 103.1 | 103.9 | 104.0 |
| Fabricated metals | 100.0 | 99.0 | 100.0 | 102.4 |
| Machinery (excl. elec.) | 100.0 | 98.9 | 99.0 | 99.2 |
| Electrical machinery | 100.0 | 101.1 | 102.2 | 103.3 |
| Transportation equipment | 100.0 | 86.4 | 76.0 | 77.1 |
| Instruments & miscellaneous | 100.0 | 98.5 | 99.5 | 99.9 |
| Nondurables | 100.0 | 100.1 | 100.2 | 100.8 |
| Food & tobacco | 100.0 | 99.5 | 98.3 | 99.1 |
| Textiles | 100.0 | 100.2 | 107.7 | 111.6 |
| Apparel | 100.0 | 101.4 | 101.4 | 100.5 |
| Paper | 100.0 | 99.5 | 99.0 | 100.2 |
| Printing & publishing | 100.0 | 101.2 | 99.4 | 98.5 |
| Chemicals | 100.0 | 100.3 | 100.4 | 100.8 |
| Petroleum & coal | 100.0 | 99.0 | 99.0 | 99.4 |
| Rubber & leather | 100.0 | 99.6 | 99.3 | 100.6 |

the general economy. The figures reported here represent expectations for 1961. As it so often goes with expectations, they may not be realized. It is quite possible that 1961 could bring with it total capital expenditures commensurate with those of 1960. This happened in 1956, when an anticipated 6 per cent drop turned into a 10 per cent increase, and in 1955, when a projected 20 per cent drop was cut to 5 per cent by the time final totals for the year were in. On the other hand, in 1958 a planned 14 per cent decline turned out finally to be a decrease of 20 per cent.

Our survey of manufacturers' capital spending in its present scope covering the eight-county Philadelphia area began in 1952. An ideal set of anticipatory figures would always predict correctly. The survey's figures have not achieved this, which is not surprising. Businessmen change their minds as economic events unfold. Consequently, next year we expect to find that actual expenditures will differ from those

# CTATIONS CONCERNING EMPLOYMENT, AND INVENTORIES

| Production as Per Cent of Capacity by Quarters 1960 Third | 1960 Fourth | 1961 First | 1961 Second | Inventory Expectations, 1961 Per Cent of Total Firms Expecting: Increase | No Change | Decrease |
|---|---|---|---|---|---|---|
| 78.0 | 78.9 | 79.5 | 80.4 | 11.6 | 72.3 | 16.1 |
| 72.9 | 74.4 | 75.3 | 76.6 | 11.8 | 67.5 | 20.7 |
| 88.7 | 87.5 | 88.9 | 91.4 | 16.7 | 83.3 | —— |
| 82.4 | 82.4 | 77.8 | 84.4 | 10.0 | 65.0 | 25.0 |
| 61.1 | 75.9 | 78.4 | 79.0 | 17.4 | 52.2 | 30.4 |
| 66.5 | 64.7 | 67.6 | 71.6 | 7.7 | 69.2 | 23.1 |
| 79.9 | 77.3 | 77.8 | 78.3 | 9.3 | 77.8 | 12.9 |
| 82.4 | 83.7 | 84.3 | 85.1 | 20.0 | 50.0 | 30.0 |
| 47.1 | 42.8 | 41.5 | 41.6 | 8.3 | 50.0 | 41.7 |
| 77.6 | 82.0 | 80.7 | 81.6 | 13.0 | 73.9 | 13.1 |
| 83.8 | 83.7 | 84.1 | 84.6 | 11.5 | 76.2 | 12.3 |
| 87.7 | 87.4 | 87.6 | 85.7 | 9.1 | 78.8 | 12.1 |
| 68.7 | 70.9 | 75.8 | 78.1 | 10.8 | 73.8 | 15.4 |
| 92.5 | 92.1 | 94.4 | 91.3 | 5.1 | 79.7 | 15.2 |
| 80.4 | 82.3 | 81.6 | 82.7 | 16.0 | 84.0 | —— |
| 90.7 | 89.0 | 85.9 | 88.3 | 15.4 | 69.2 | 15.4 |
| 78.9 | 78.7 | 81.0 | 83.9 | 22.7 | 77.3 | —— |
| 86.6 | 86.3 | 86.4 | 84.2 | —— | 83.3 | 16.7 |
| 77.3 | 79.1 | 78.4 | 80.1 | 10.7 | 71.4 | 17.9 |

planned now. In such a situation, it is instructive to study the biases in one's data — the changes which seem to deviate persistently from the purely random. Our survey has tended to be on the pessimistic side; only twice in eight years has the gain realized been less than the predicted gain, or the realized loss greater than that predicted. There is, therefore, at least as good a chance that next year's capital expenditures will turn out higher than now anticipated as that they will be lower.

**1962**

The firms in Philadelphia providing information concerning capital expenditures do not seem to have suffered a fundamental impairment of confidence. Although most of them expect to cut back spending substantially in 1961, opinions about 1962 lean a little toward optimism. Two-thirds of those responding said spending in 1962 will equal 1961—not an unusual survey result in a year of uncertainty—but a clear majority of the remaining one-third feel that

## ESTIMATED CAPITAL EXPENDITURES OF MANUFACTURERS

*1960–1961—Delaware and Lehigh Valleys*

| | Expenditures (Millions $) 1960 | 1961 | Per Cent Change 1960–61 |
|---|---|---|---|
| **Philadelphia Metropolitan Area** | | | |
| All manufacturing | 411.9 | 330.3 | — 19.8 |
| Durables | 191.1 | 170.3 | — 10.9 |
| Lumber & furniture | 2.7 | 1.7 | — 37.0 |
| Stone, clay & glass | 8.1 | 6.9 | — 14.8 |
| Primary metals | 81.3 | 84.1 | + 3.4 |
| Fabricated metals | 19.8 | 16.7 | — 15.7 |
| Machinery (excl. elec.) | 25.4 | 17.8 | — 29.9 |
| Electrical machinery | 37.4 | 28.0 | — 25.1 |
| Transportation equipment | 10.4 | 7.9 | — 24.0 |
| Instruments & miscellaneous | 6.0 | 7.2 | + 20.0 |
| Nondurables | 220.8 | 160.0 | — 27.5 |
| Food & tobacco | 36.4 | 21.9 | — 39.8 |
| Textiles | 10.6 | 4.6 | — 56.6 |
| Apparel | 3.2 | 2.2 | — 31.3 |
| Paper | 25.8 | 14.4 | — 44.2 |
| Printing & publishing | 15.4 | 18.7 | + 21.4 |
| Chemicals | 76.2 | 46.9 | — 38.5 |
| Petroleum & coal | 36.7 | 38.6 | + 5.2 |
| Rubber & leather | 16.5 | 12.7 | — 23.0 |
| **Trenton** | | | |
| All manufacturing | 27.6 | 20.5 | — 25.7 |
| Durables | 11.9 | 8.1 | — 31.9 |
| Nondurables | 15.7 | 12.4 | — 21.0 |
| **Wilmington** | | | |
| All manufacturing | 51.7 | 46.8 | — 9.5 |
| **Lehigh Valley** | | | |
| All manufacturing | 49.1 | 44.4 | — 9.6 |
| Durables | 40.3 | 35.8 | — 11.2 |
| Nondurables | 8.8 | 8.6 | — 2.3 |

## ANTICIPATED CHANGE IN CAPITAL EXPENDITURES

*1961–1962—Philadelphia Area*

| | Per Cent of Firms Expecting: Increase | No Change | Decrease |
|---|---|---|---|
| All manufacturing | 19.8 | 66.5 | 13.7 |
| Durables | 25.6 | 59.4 | 15.0 |
| Lumber & furniture | 26.7 | 60.0 | 13.3 |
| Stone, clay & glass | 30.0 | 55.0 | 15.0 |
| Primary metals | 21.1 | 63.1 | 15.8 |
| Fabricated metals | 20.5 | 61.6 | 17.9 |
| Machinery (excl. elec.) | 23.2 | 66.1 | 10.7 |
| Electrical machinery | 35.0 | 40.0 | 25.0 |
| Transportation equipment | 41.7 | 33.3 | 25.0 |
| Instruments & miscellaneous | 23.1 | 69.2 | 7.7 |
| Nondurables | 15.0 | 72.4 | 12.6 |
| Food & tobacco | 27.8 | 66.6 | 5.6 |
| Textiles | 9.1 | 77.3 | 13.6 |
| Apparel | 7.5 | 90.0 | 2.5 |
| Paper | 25.0 | 54.2 | 20.8 |
| Printing & publishing | 17.2 | 65.6 | 17.2 |
| Chemicals | 8.7 | 65.2 | 26.1 |
| Petroleum & coal | —— | 57.1 | 42.9 |
| Rubber & leather | 21.4 | 75.0 | 3.6 |

their spending in 1962 will surpass 1961. Only two important industries—chemicals and petroleum—expressed the contrary opinion, with one-third of the firms anticipating further spending decreases in 1962.

### Inventories, employment, and production

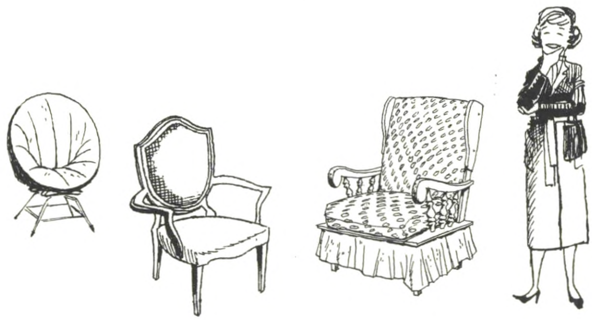
Manufacturers in the Philadelphia area intend no inventory buildup in 1961, but they do anticipate increasing production rates somewhat. The production increases will have to result from increased efficiency, however, for employment is expected at best to hold its own, and in durable goods plants to decline.

### Summarizing

We have seen that manufacturers of the Delaware and Lehigh Valley regions now plan to decrease capital spending in 1961, after reaching new highs in 1960. Plans for capital expenditures can change; in the history of our survey changes have been more often upward than down, so the data presented here by no means guarantee depressed capital spending in 1961. Having noted this very real possibility, however, the survey totals remain, and they are not encouraging. They presage a drop from a record total of $412 million in Philadelphia in 1960 to $330 million in 1961. Decreases also are anticipated in the Trenton, Wilmington, and Lehigh Valley areas.

# FURNITURE:

# DURABLE BUT DIFFERENT



Man started using furniture soon after he climbed down from the trees. A log to sit on, a flat-rock table, a bed of straw or skins—these early caveman pieces developed into one of civilization's most essential and familiar products. Imagine what eating, sleeping, and working would be like without furniture!

Yet for all its necessity and everyday familiarity, furniture is far from understood. Men who use furniture seldom notice it unless it is too lumpy; women who buy it are often confused by style and mystified by construction. And if consumers don't understand the product, neither does the industry seem to understand its consumers—or so it is often alleged.

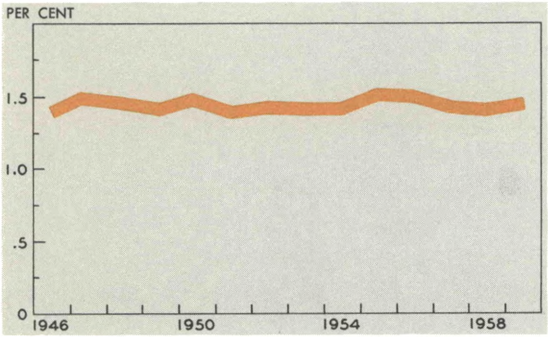
Economists and GNPanists have a tendency to slight furniture. When they speak of consumer durable goods (usually shortened to "durables") they discuss automobiles and appliances but seldom furniture, the most durable of them all. This omission is in spite of the almost $5 billion that is being spent for furniture each year.

Perhaps the widespread lack of understanding is due to the many changes that have taken place in the furniture industry or maybe it is due to the unusual nature of the product and the demand for it.

This article focuses on the demand for furniture—why people buy it and why they don't. First, we shall see that spending for furniture has been behaving in some surprising ways.

## A STEADY SHARE OF THE CONSUMER'S DOLLAR

*Expenditures on furniture as a percentage of disposable personal income.*




### THE REMARKABLE 1.5 PER CENT

The furniture industry's number one target seems to be a bigger share of the consumer's dollar. This goal is mentioned frequently in the industrial self-analyses that appear in the trade publications. It is, of course, a natural objective for it can mean millions of dollars in extra sales.

In the competition for the consumer's dollar furniture has been firmly holding its own.[1] Furniture expenditures as a percentage of disposable personal income have been virtually stable since 1946. The figure has been running just below 1.5 per cent. We should emphasize that furniture spending in dollar terms has doubled since 1946. The stability of which we speak is in relation to disposable income which has also doubled in the same period.

### Like a roller coaster

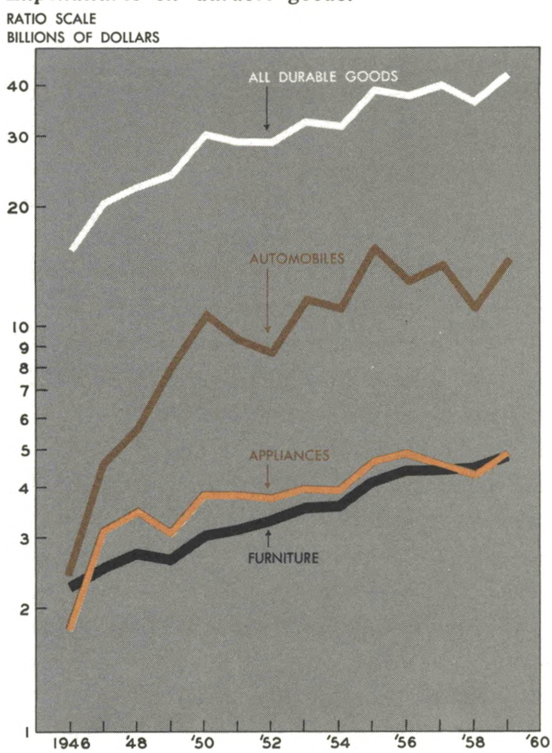
This constant relationship to income is hard to understand. According to economic theory, one would expect furniture spending to fluctuate widely over the business cycle—both in actual volume and as a percentage of income. The demand for durable goods is supposed to swing way up in good times and way down in recessions for durables last a long time and their purchase is usually postponable. When the economy slackens, many consumers make do with what they have, the theory goes, and sharply curtail their buying of new durables.

When the economy moves upward incomes and optimism increase. The future looks bright and many people decide to buy that durable they have been putting off. At this stage of the business cycle, consumers often are quite willing to borrow in order to buy. Propelled by optimism and credit, the sale of durables is supposed to rise considerably faster than income.

The theory works for automobiles and appliances. Their sales charts look like cyclical

## STABILITY IN A FLUCTUATING FAMILY

*Expenditures on durable goods.*




[1] We are dealing with home furniture in this article, including mattresses and bedsprings but excluding floor coverings.

roller coasters. But it does not work nearly so well for furniture. The swings in furniture spending are small no matter how they are measured. It is puzzling for the unstabilizing elements of postponability, credit, and style are ever present in furniture.

There are several possible explanations. In the first place, although furniture is exceedingly durable, not all purchases are, in fact, postponable. Just-married couples and individuals moving out from a family group must of necessity buy some furniture. Up to 20 per cent of all furniture sales, it is estimated, is made to these first-time housekeepers.

Second, there are many ways to scale down furniture purchases. If the time doesn't seem right for a sofa, one might still manage an easy chair; if not, maybe a bureau or maybe just an end table. There is a piece for every pocketbook. The point is that although purchases may be reduced, people will probably continue to buy some furniture. Automobiles and major appliances, on the other hand, are more of a you-buy-it-or-you-don't proposition.

Third, furniture retailers reputedly hold bigger sales and extend them longer than do other durable dealers. This policy gives an extra spark to sales when business is slack.

Finally, furniture lacks some of the glamour and work-saving convenience that stimulate the demand for other durables (or did throughout much of the postwar period). Thus when business conditions improve, furniture gets a relatively low purchase priority and such spending doesn't bounce so high as outlays for automobiles.

It is evident that disposable personal income is one of the principal determinants of furniture demand in good years and bad. Whatever income is, furniture spending is likely to average a shade under 1.5 per cent of it. This, of course, does not mean that all families spend 1.5 per cent of their income on furniture. The percentage varies with the amount of income received. It runs high in the middle-income ranges and drops in the over-$7,500-a-year and under-$4,000-a-year categories.

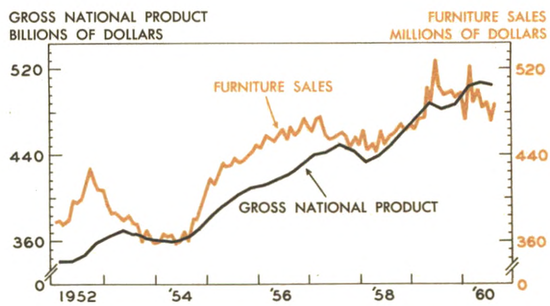
The importance of income as a demand factor shows up on a monthly as well as a yearly basis. We constructed a monthly series of furniture sales and adjusted it for seasonal variations.[1] Plotted together, our series moves closely with monthly personal income.

## Is furniture trying to tell us something

We discovered something else about our furniture series—something we can't explain. It seems to have powers to predict the future. In the recession of 1953, sales of furniture turned down sharply six months before the peak quarter of Gross National Product (see chart). In the 1957 recession, furniture began to drop three months

### CALLING THE TURNS

*The furniture sales series is a seasonally adjusted combination of the sales of furniture stores and the furniture departments of department stores. Gross National Product is shown as a seasonally adjusted annual rate.*




[1] The series was built from furniture store sales and figures for the furniture departments of department stores. There is a whopping seasonal in furniture sales—down in January and February, then up through the year to a spire in December.

before the peak quarter. In both 1954 and 1958, furniture turned up at just about recession trough.

Our series sniffed two recessions coming and signalled when they were over. It's too bad that comparable figures are not available prior to 1952 for it would be interesting to test their performance in earlier recessions.

As this article is written many analysts express considerable doubt about our position in the business cycle. Is the economy in a recession or isn't it? It may be significant that furniture sales have been trending down since last March.

## THE CONFUSING STATUS OF STYLE

Style is a big new feature in the mass furniture market. Arty sorts and people with the money to hire professional decorators have purchased stylized furniture for a long time. Not so the average consumer. Until after World War II she usually settled for "borax," as unstyled furniture is called. Borax is bulky, high-gloss, amorphous stuff but the typical prewar consumer seemed to like it—or at least knew nothing better.

After the war, however, the general level of public taste began to improve and has continued to do so to the present day. As one writer puts it, there has been a "landslide for good taste."

There are many reasons for this landslide. Among them are widespread travel, growing incomes, better education, improvements in mass communications, and the greatly increased influence of the "shelter" magazines. These publications expose legions of homemakers to the essentials of tasteful decoration and whet their appetites for style.

The furniture industry quickly sensed the general improvement in tastes. It responded by introducing stylized furniture—pieces identified with some recognized period or influence—to the mass market.

The initial consumer reaction to style was encouraging and furniture men may have felt they were on to something big. They long have envied the automobile industry and its knack of making the still-good unwanted through style changes. So the manufacturers styled more and more of their furniture and changed styles more frequently.

There are many who believe that style is a good thing for furniture. They say it sells a lot of pieces. But a number of critics close to the industry feel that style has gotten out of hand. There are too many styles, they say, and changes come too fast for consumers to absorb. The result is confusion. The shoppers' heads are churning with new words they don't understand—Mediterranean, fruitwood, Directoire, oil finish, Regency, Danish modern. Confused shoppers can lose confidence in their own tastes and subconsciously dislike buying furniture. The result, critics claim, is that many sales are lost.

Style has backfired! says one side. No, it hasn't, claims the other, style is working well. And the controversy goes on.

It seems to us that the policy of creating demand with style changes, or dynamic obsolescence as it is often called, has not been nearly so successful with furniture as it has been with automobiles. And there is reason to suspect that it never can be as successful.

Without getting into the current argument about dynamic obsolescence—is it good, bad, wasteful, here to stay, dying out, etc.—let's see what has made it work for automobiles.

Automobile styles change once a year. The change is enough to identify each model with a given year yet there is a certain continuity from one year to the next. A basic style usually is carried through each make in the company's line. The idea is to give the customer a simple, easily recognized style on which to concentrate and then to pound it home with heavy advertising. Other essentials are trade-ins and a highly developed used-car market in which to dispose of the dynamically obsolete.

Furniture is entirely different. There is no organized used-furniture market and most dealers will not accept trade-ins. Furniture is not heavily advertised and there are few national brands. Finally, furniture styles are changed so often—three and four times a year by some manufacturers—and exist in such profusion that they do not identify a piece as being made in a certain year.

Quite possibly this proliferation of styles was unavoidable, the furniture industry being set up the way that it is.

## SITTING PRETTY

Webster defines style as "a distinctive or characteristic mode of presentation, construction, or execution." Furniture styles can be divided into two basic groups: contemporary and traditional.

Contemporary or modern was introduced in the 1920's and reached its peak in the mid-1950's. It features clean-lined functionality. Oriental styles usually are put in the contemporary category.

Scandinavia, many feel, is leading the way in good, simplified, contemporary design. Imported furniture, especially from Denmark, is important in this country for its influence rather than for its quantity. Inspired by these imports American designers have developed a style called Danish modern.

Traditional styles, growing more popular all the time, draw from the past. The standbys are Early American and French and Italian Provincial. But this is only the beginning. Traditional styles break down into dozens of sub-categories. Some follow the lead of past designers such as Chippendale, Sheraton, Duncan Phyfe, and Hepplewhite. Others are inspired by historical periods, among them Regency, Gothic, Louis XV, Directoire, Empire, Federal, Victorian, Georgian, and Queen Anne. The American Shaker influence is also important. "Mediterranean" refers to furniture of French, Italian or Spanish derivation.

Recently there has been a tendency to combine various styles. "You take a leg from some old table, an arm from some old chair . . . ," as the old college song goes and the result is a brand-new style.

### Razor-keen competition

The furniture industry has been called a "stronghold of small business." This is an apt description, for there are over 3,000 manufacturers and more than 30,000 retailers with no one or small group of firms in a dominant position.

Manufacturers, for the most part, bypass wholesalers and sell directly to retailers. The furniture "market" is an important merchandising institution. Markets are periodic expositions where manufacturers display their latest lines for the retailers to inspect and purchase. One of the most important markets is held twice a year in Chicago and another at High Point, North Carolina. Others take place at varying intervals in Dallas, New York City, Los Angeles, and other regional centers.

With a large number of manufacturers trying to sell to an even larger number of retailers, competition is razor keen. The manufacturers seem to feel that style is an especially appropriate competitive weapon. Style changes do not take large amounts of capital. Any firm, no matter how small, can get into the act. The main requirement is imagination. Many manufacturers, therefore, try to have a new style to show at each important market.

Another incentive for offering multiple styles is the retailer's fondness for exclusive rights to sell a certain style in his area. The more style lines a manufacturer has, the more "exclusives" he can grant in a given locality.

The multitude of styles and the frequent changes seem to have their bases in the small-scale, competitive nature of the industry and the market institution. The present profusion of styles may be more a product of manufacturers' efforts to sell to retailers than of retailers' efforts to sell to consumers.

There are those who would disagree with this statement. They would say that retailers demand a large number of styles because that's what the consumer wants. Ladies crave the opportunity to express their individuality with furniture as with clothes. Others would claim, however, that the furniture industry has been generally weak in market research and in buying-motivation studies and quite possibly doesn't know what its consumers really want.

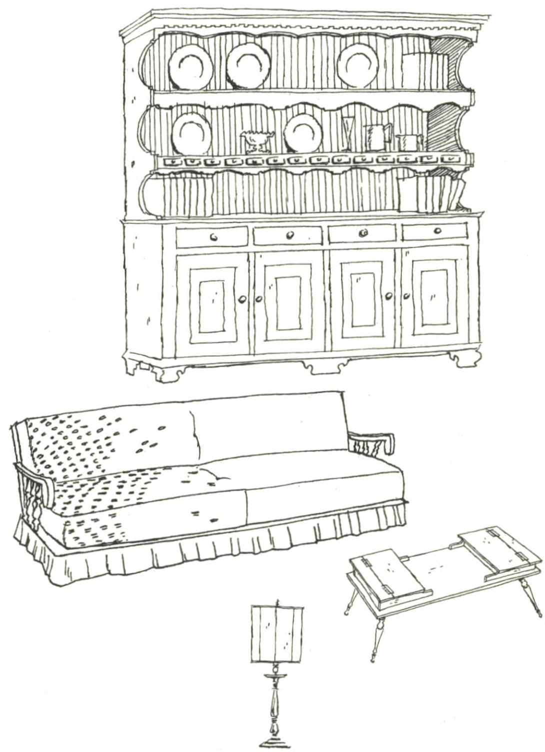
The acid test is, does style increase demand? Style has become much more common in the past five or ten years yet there has been no sustained increase in furniture's share of the consumer's dollar during that time. There is no conclusive evidence but the weight of expert opinion seems to be that style is an important factor in the selection of specific furniture—once the decision to buy has been made—but that style increases the total demand for furniture only slightly, if at all. The effect of style is vastly different on a chaise, a Chevy, and a chemise.

## An outpost of elegance

There are really three furniture markets—the class market, the huge middle market, and the remnants of the borax market. Styles are relatively stable in the class market. Changes are made infrequently and most styles stay on display for years. Contemporary styles are important in the class market and traditional styles are usually pure rather than combinations.

The low-priced, borax market which deals in a product called "foinicher" is shrinking as its customers move up but it is not yet dead. Here style is virtually nonexistent.

EARLY AMERICAN



The huge middle market accounts for the bulk of furniture sales and it is where style is now rampant. Early American is an ever-popular staple. It holds this position partly by default. Shoppers, not trusting their tastes and confused by other styles, often select Early American because it is safe and accepted. Contemporary styles have declined in importance during the past five years but they are still significant.

Aside from Early American and Contemporary, there is a jumbled hodgepodge of styles in the huge middle market. No one style seems to dominate but there is a currently fashionable influence or effect noticeable in a number of popular styles. In a word, it is elegance. It involves embellishment and ornamentation, bold flowing lines, inlays, carvings, lush colors, and plush fabrics. The effect is of cozy opulence.

It is possible that the shelter magazines started the trend to elegance. They certainly have been playing it up. But it might be that they have merely been reporting an existing phenomenon. Some experts feel that such basic drifts of furniture fashion have deep psychological roots.

It is said that elegance in furniture is a reflection of our current affluence. People want to express their new status and prosperity and they do it with embellishments just as the well-to-do have done for centuries. In fact, a number of the current styles derive from earlier periods of opulence: France before the Revolution, the Italian Renaissance, the Georgian period in England.

The cold war enters into the picture, too. People are supposed to crave cozy, graceful elegance at home to give them a feeling of security in insecure times.

It is curious that while color and ornamentation are ascending in furniture, they are waning in automobiles. In the mid-1950's, cars ran to two-tone pastel colors, fins, chrome, and all sorts of sculptured protuberances. But these are now giving way, we understand, to compact simplicity.

Maybe automobiles are a weather vane pointing to a broad shift in public tastes and furniture elegance is due for a change. Or it could be that car-buying men have become more self-conscious about displaying affluence than their furniture-buying women. Or possibly homes are increasing in importance as a status symbol while autos are decreasing.

## DEMAND PUSHES AND PULLS

So far we have concluded that income has a big effect on the sale of furniture and that style probably does not increase total spending very much. We shall discuss other factors which play a part in the demand for furniture in the remaining sections of this article.

### New ways to sell

The old-time furniture store presented an imposing panorama to the customer. Merchandise was tightly packed over an acre or more of floor space. Here a herd of sofas grazed flank to flank, there a phalanx of dinette sets, in the corner a copse of lamps—furniture everywhere with only narrow, knee-bumping aisles between.

Consumers like a good selection but such chock-a-block variety can be overpowering, even self-defeating. Many stores still display their wares in the old-time manner but there has been a trend away from it. An increasing number of stores in the middle market are showing off their furniture in room-like settings complete with accessories. This gives the shopper an idea of how the furniture will look in its natural environment, her home.

A new institution has blossomed in the class market during the postwar period—the showroom. Here high-priced, quality furniture is displayed in dignified settings. But you just can't walk in off the street and buy at a showroom. Like the old speakeasy, someone has to send you. It could be an interior decorator, architect, or another dealer. The buyer pays full price and the person who referred her gets a percentage. In a sense, showrooms are wholesalers with retail patrons.

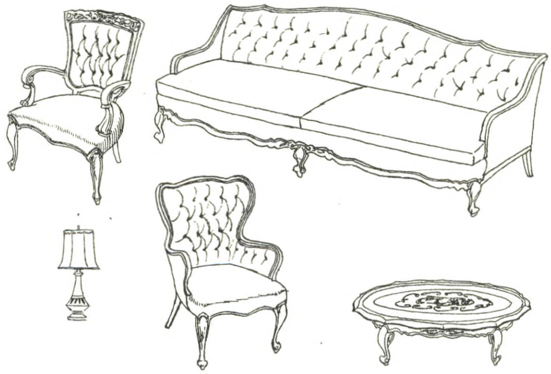
Showrooms are taking a good share of the high-quality market from the regular retailers. But most of these retailers are happy to turn the expensive pieces over to specialists. It is slow moving, takes lots of floor space to display to proper advantage, and requires salespeople with special knowledge and ability.

Furniture has a high retail markup—100 per cent in some cases. The industry usually justifies this by saying that retailers perform many wholesale functions and must carry a large, slow-moving inventory that is subject to the risks of changing styles. What is high can come down, however, and this markup policy means that good furniture bargains often can be had when stores hold sales.

High markups also attract discount houses. This kind of furniture store has multiplied rapidly in recent years. In addition to the local variety, at least one discount chain has set up a furniture subsidiary and others are considering it.

We wonder how the discount stores will operate and what their ultimate success will be. Lacking brand names on which to compare prices, and lacking knowledge of construction, how can the average customer know if she actually is getting a bargain? And if she can't tell, won't it be tempting for the discount house not to cut

FRENCH PROVINCIAL



prices at all except on the few nationally advertised brands?

The "wayside" furniture store is another marketing innovation. Waysides are usually high-volume outlets located in a monster Quonset hut or some large building on a heavily traveled highway. Waysides have grown rapidly with the exploding suburbs and the week-end drivers they serve.

Furniture retailing may be efficient or it may not. You can find either opinion in the trade press. The point we are trying to make is that marketing practices have been changing in recent years and seem to be moving in the direction of greater efficiency.

## Families and the purchasing pattern

Most families buy some furniture more or less continuously—a lamp now, a bookcase next spring, an occasional table. Yet there are definite purchasing peaks and troughs in the average family's career. Let's look at Jack and Betty, a mythical but typical couple.

They were married in May. Shortly before the wedding they went shopping to furnish the new apartment. They already had appropriated a few tables and chairs from their parents' attics so they bought some big stuff—a bed, bureaus, an easy chair, and a sofa.

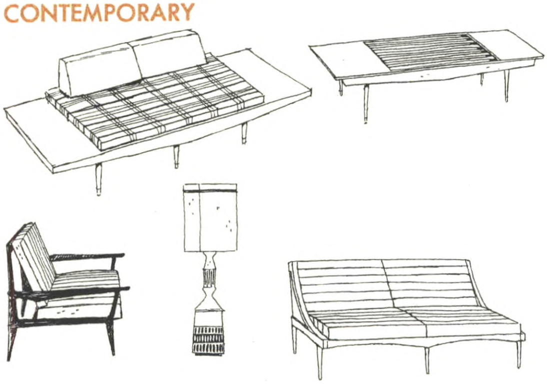
They lived in the apartment several years while Betty continued to work. During this period they managed to replace some of the "early mother-in-law" pieces.

Then the baby came and the apartment was too crowded—baby things everywhere and that nighttime wailing. They started making Sunday trips to sample houses. The house they bought was quite a bit larger than the apartment and they needed extra furniture. They bought some but not so much as they would have liked because of the down payment on the house, the settlement charges, and the expense of moving.

Jack and Betty continued to buy furniture in dribs and drabs until the children were in their early teens. Then they went on a substantial buying campaign. The children needed more "grown-up" furniture in their rooms and there was the new recreation room to furnish. Besides, some of their first furniture, now 15 years old, was just about shot.

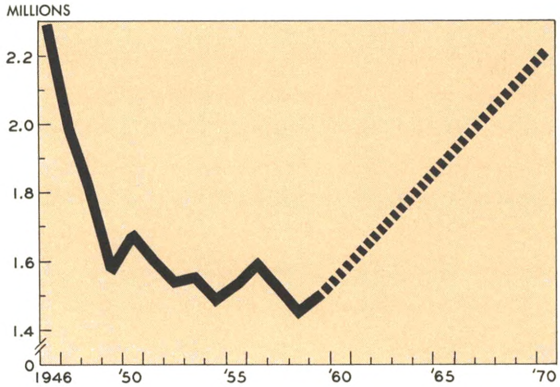
It seemed like no time at all before the children were educated and out on their own. Jack was at the peak of his earning power and this sudden drop in expenses made him feel rich.

CONTEMPORARY



A TROUGH IN TROTHS

*The number of marriages actual and projected to 1970.*




They decided to replace much of their old furniture.

Like Jack and Betty, many couples buy furniture in spurts—when they marry, when they move, when the children become more than tots, and when the children leave home. Of them all, the marriage peak may well be the most important.

The lifetime purchasing pattern has a significant effect on the present demand for furniture. Marriages are now at reduced levels due to the low birth rate in the 1930's. This also means relatively few children are leaving their parents to go out on their own. Thus two purchasing peaks may be somewhat depressed.

There are more older folks today and more of them are living alone. This is something of a plus factor in the demand for furniture but it is doubtful that retirement incomes permit extensive buying of major pieces.

The big news in the population mix is the tidal wave of teenagers. When they start marrying and setting up housekeeping — probably around 1965—they should give a hearty boost to furniture sales. Until then, the effect of the population structure may be neutral.

### The great popularity of antiques

Sales of antique and semi-antique furniture are soaring. In a market that was once the province of rich dowagers and society matrons, it is not unusual to find plumbers, machinists, and all sorts of workingmen waiting slightly bored while their wives dicker over the price of a wobbly cobbler's bench.

From 1952 to 1957 the number of antique dealers increased by one-half to 12,000. Undoubtedly there are many more today. Although there is usually a downtown cluster, the typical antique shop is located along the highway in the exurban fringe. But not all antiques are sold from shops. Auctions held by churches or for the liquidation of an estate are also good sources.

Status is undoubtedly one reason why antiques are so popular. They have always been associated with the "upper crust" and are being used today by the nouveau affluent to express wealth and taste. Some people buy antiques because they can be good investments. They are limited in supply and, if well chosen, are likely to increase in value while being used. Antiques also help ease the consumer's taste jitters. They were accepted once and are likely to be a safe choice.

"Antiquing" or browse shopping is high adventure to the *aficionados*. One never knows what treasure he will find, maybe something valuable that can be had at a "steal" price. And one can never tell what a piece will look like when the dirty old paint is peeled off and the wood glows with its mellow patina. In fact, the refinishing and repairing that many antiques and semi-antiques require may be a part of their appeal. Do-it-yourself is a hot trend today and it is said that 11 million homes have workshops.

As a substitute for new furniture, antiques probably reduce sales of the new. The antique vogue, on the other hand, may have stimulated interest in furniture generally. Antiques mix well with new furniture and may induce some extra sales.

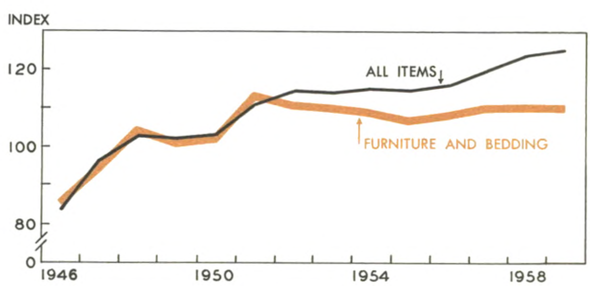
### A bargain at today's prices

The retail price of furniture trended upward from the end of World War II to 1951. During that period, furniture prices moved together with the consumer price or cost-of-living index. Since 1951, however, furniture prices have been stable to declining while the over-all index has continued to climb.

Several factors have helped hold the price line. Like textiles, the furniture industry has been moving to the South where cheaper labor is available. Although furniture is still not a mass production industry, in the last decade many firms have introduced cost-cutting, assembly-line techniques. Better and cheaper materials such as plastics and new glues also have trimmed expenses. Important, too, are declining retail markups, in part the result of discount competition.

ONE PRICE THAT HASN'T GONE UP

*The consumer price index, 1947–1949 = 100.*

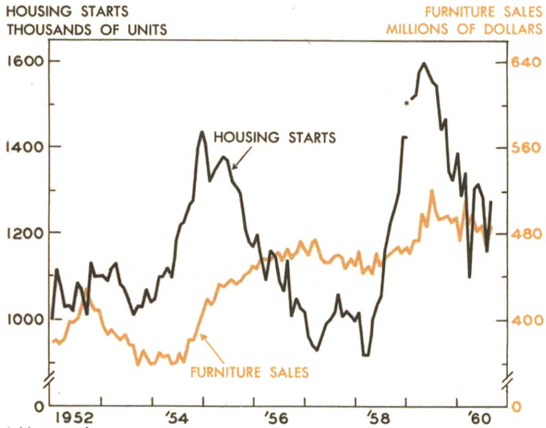



### 10,000,000 moving days a year

New housing starts are supposed to have a big effect on demand for furniture. People buy a

## FOLLOWING THE LEADER?

*Privately owned housing starts are shown as a seasonally adjusted annual rate. The series on furniture sales is the same as used in the chart on page 9.*




* New series.

new and probably larger house and right away they need a lot of new furniture, the reasoning goes. Here are the facts.

Housing starts peaked in 1950, 1955, and 1959. In all three years furniture sales moved up, too. But sales also rose in 1951 and 1956—years when starts plummeted. These are yearly figures, however, and may average away some delicate relationships.

To get a closer look, we plotted our monthly furniture series against monthly housing starts. Starts bounced up in mid-1953 and furniture sales turned upward about a year later. Starts peaked out in late 1954 but furniture sales continued to climb until 1957. Starts picked up slightly ahead of sales in the spring of 1958. The revised series of starts has been slipping since April 1959 while sales have been jiggling lower since March 1960. Thus starts led furniture up by about a year, down by about two years, up by a month, and down by a year.

We should point out, however, that furniture sales and housing starts have behaved differently in the business cycle. Sales, as we mentioned earlier, moved in step with business conditions. Starts, on the other hand, have tended to fluctuate in a contracyclical fashion—up in recessions, down in booms. The effect of the business cycle is likely more responsible for the two series' behavior than any cause-and-effect relationships between them.

This does not mean that housing has little or no effect on furniture sales. A 1950 study made by the Bureau of Labor Statistics and the Wharton School of the University of Pennsylvania shows that families who moved into different homes during the year spent 4.3 per cent of their income on furniture. This is 2½ times as much as the figure for all families. If this is true, why didn't our chart show a consistently close relationship between furniture sales and new housing starts?

New housing starts are only a partial measure of the number of houses sold during the year. Two or more used houses change hands for every new one. People buying an existing house have an equal need for extra furniture. In fact, they may actually be able to buy more furniture because an older house usually comes better equipped. Storm windows often are installed, lawns are established, plantings and patios are in place, freeing money for furniture.

We also should consider families that move into rented housing. They outnumber all buyers three to one. No doubt many of them move to larger quarters and have to buy extra furniture. In some cases even renting less space can lead to extra furniture purchases. Take the case of an older couple switching from a house to an apartment. Their existing furniture could be too big and bulky to fit comfortably in the new unit.

It seems to us that moving from one residence to another is a basic factor in the demand for furniture. New starts alone greatly understate the full impact of housing on furniture sales. With mobility at a high level during the postwar years, there is little question that housing (or moving) has had a buoyant effect on the demand for furniture.

## Architectural crosscurrents

The way houses are built influences how much and what type furniture people buy. Indeed, there are those who say our heterogeneous architecture is partially responsible for the profusion of furniture styles.

Though over-all floor space is increasing, there is a trend toward smaller rooms in new homes. This creates a demand for smaller pieces and built-in storage space to take the place of furniture. Dining rooms are shrinking into dining areas or giving way entirely to large kitchens. As a result, dinette and kitchen furniture is a big seller.

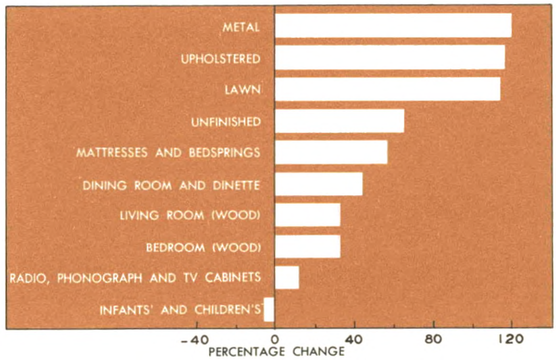
With more children to accommodate, the number of bedrooms is increasing. In 1949, 30 per cent of all new houses had three or more bedrooms. Only seven years later the figure had zoomed to 80 per cent and it is probably still higher today. Naturally many more beds and bureaus are needed. The game or recreation room now included in many homes means a demand for more casual furniture.

Alas, the porch is gone from new houses, and with it the need for wicker rockers and gliders. A slab patio has replaced the porch and has created a demand for sun- and rainproof metal and plastic furniture.

## The castle with the crab grass moat

Family life now centers more closely around the home. Parents and children have drawn closer together and spend more time doing things at home—watching TV, reading, completing do-it-yourself projects. One reason is the long-standing tendency of man to withdraw to the castle in troubled times. Entertaining, too, is becoming more homey with nightclubbers switching to living room buffets.

**THE BEST SELLER LIST**
*Household furniture: The percentage change in value of shipments, 1947 to 1958.*




Since the home is being used more intensively, it is natural to want it to be more attractively furnished. With more guests to notice it, furniture has an increased potential as a status symbol.

## On the cuff

Credit is an essential lubricant in the process of selling furniture. The average furniture purchase is large and 85 per cent of all sales are made on time. More furniture dealers carry their own retail paper than do other durable goods merchants, but bank and finance companies also play an important part.

In 1955 furniture credit terms eased—lower down payments, long maturities—and this helped to bulge furniture sales. We have no up-to-date information but it is reasonable to assume that, since the same lenders are active in both fields, furniture terms tend to behave in the same manner as automobile terms. Automobile terms have not eased materially in recent years and it is likely that furniture has not received any significant boost from credit since the mid-1950's.

### Competition in the cornucopia

Never before have so many attractive consumer goods and services been available. But nearly everybody has unlimited wants and limited budgets and consumers must pick and choose and assign priorities. In a very real sense, furniture must compete with all the other things available to consumers—refurnish the house or go to Europe or buy a new car, buy a new easy chair or an outboard motor, a coffee table or a new dress for mother.

Furniture may be at somewhat of a disadvantage in this competition. It is not exciting like a vacation trip or a sports car. It is not cultural, educational, or entertaining. Furniture is not heavily advertised and it contains no magic ingredient. And, as we said, its purchase can in many cases be postponed. People can make do with their old furniture when something more attractive catches their fancy.

## IN CONCLUSION

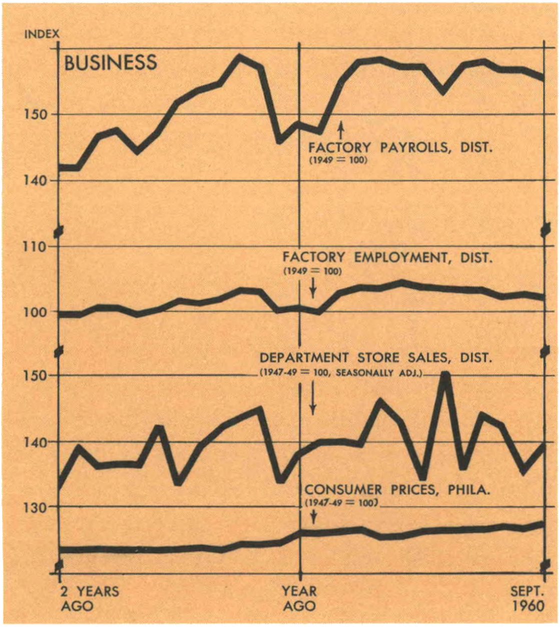
A number of factors have been tugging the demand for furniture—some pulling up, others down. The net effect has been favorable. Furniture sales have moved up steadily to double their 1946 level. The rise has not been due primarily to inflation, nor to an increase in the number of households. Retail prices of furniture have been stable in the past decade and expenditures per household have increased more than 60 per cent since 1946.

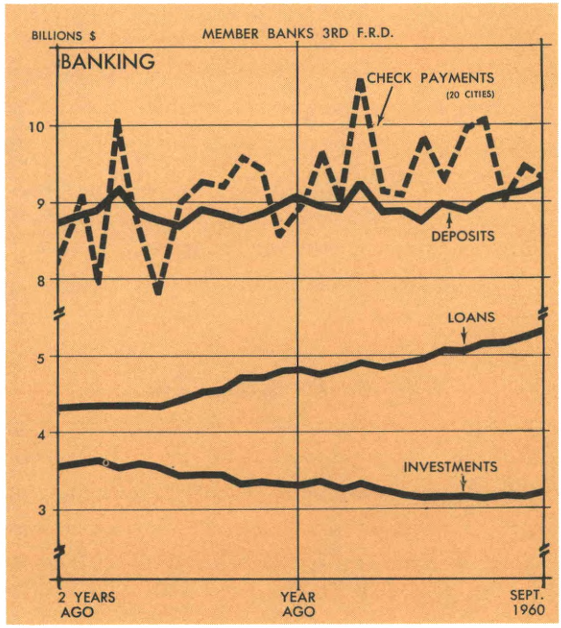
Perhaps the most important factor in the demand for furniture is consumer income. Furniture spending seems to seek a natural level of around 1.5 per cent of disposable personal income. Spending has been near this figure during the entire postwar period. If the traditional 1.5 per cent of income is maintained, furniture sales should zoom to around $8 billion in the year 1970. This would mean an average of over half a million dollars more sales a year for each manufacturer and $100,000 extra sales for each retailer in the nation.

There is reason to wonder about the 1.5 percentage, however. Studies show that higher-income families spend a smaller share of that income on furniture. Though some of the lustre has been rubbed off the "soaring" 1960's, incomes are still expected to rise sensationally. More and more families should be moving into the upper brackets where furniture's share of income declines.

Success in the attempts to create dynamic obsolescence in furniture could put sales in orbit any time. This, however, may be too much to expect. A policy of accepting trade-ins would help but neither the industry nor the product appears particularly well-suited to dynamic obsolescence. Furniture is still the different durable.

# FOR THE RECORD...




| SUMMARY | Third Federal Reserve District | | | United States | | |
|---|---|---|---|---|---|---|
| | Per cent change | | | Per cent change | | |
| | Sept. 1960 from | | 9 mos. 1960 from | Sept. 1960 from | | 9 mos. 1960 from |
| | mo. ago | year ago | year ago | mo. ago | year ago | year ago |
| **OUTPUT** | | | | | | |
| Manufacturing production | −2 | 0 | 0 | +1 | +3 | +4 |
| Construction contracts | +10 | −8 | −8 | −5 | +2 | −4 |
| Coal mining | −5 | +6 | −1 | −1 | +4 | +2 |
| **EMPLOYMENT AND INCOME** | | | | | | |
| Factory employment (Total) | −1 | +2 | +2 | 0 | +1 | +2 |
| Factory wage income | −1 | +4 | +4 | .... | .... | .... |
| **TRADE*** | | | | | | |
| Department store sales | +2 | 0 | +2 | +1 | 0 | +1 |
| Department store stocks | 0 | +2 | .... | −1 | +5 | .... |
| **BANKING** (All member banks) | | | | | | |
| Deposits | +1 | +2 | +1 | +2 | +1 | 0 |
| Loans | +1 | +9 | +11 | +1 | +7 | +10 |
| Investments | +1 | −4 | −7 | +2 | −3 | −10 |
| U.S. Govt. securities | +2 | −5 | −9 | +2 | −3 | −12 |
| Other | +1 | −1 | −2 | +1 | −3 | −4 |
| Check payments | −2† | +3† | +5† | 0 | +12 | +7 |
| **PRICES** | | | | | | |
| Wholesale | .... | .... | .... | 0 | 0 | 0 |
| Consumer | 0‡ | +1‡ | +2‡ | 0 | +1 | +2 |

*Adjusted for seasonal variation. †20 Cities ‡Philadelphia

| LOCAL CHANGES | Factory* | | | | Department Store† | | | | Check Payments | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Employment | | Payrolls | | Sales | | Stocks | | | |
| | Per cent change Sept. 1960 from | | Per cent change Sept. 1960 from | | Per cent change Sept. 1960 from | | Per cent change Sept. 1960 from | | Per cent change Sept. 1960 from | |
| | mo. ago | year ago | mo. ago | year ago | mo. ago | year ago | mo. ago | year ago | mo. ago | year ago |
| Lehigh Valley | −1 | +18 | 0 | +38 | .... | .... | .... | .... | −4 | +2 |
| Harrisburg | −4 | +6 | −6 | +16 | .... | .... | .... | .... | −5 | +4 |
| Lancaster | −1 | −4 | −2 | −3 | +19 | +4 | +1 | +3 | −5 | −4 |
| Philadelphia | 0 | 0 | 0 | +1 | −2 | −4 | +1 | +3 | −2 | +4 |
| Reading | 0 | −3 | 0 | −4 | +3 | +2 | 0 | +2 | −7 | +10 |
| Scranton | 0 | −2 | −3 | −1 | +2 | −4 | −5 | −5 | −2 | +6 |
| Trenton | 0 | −5 | −2 | −3 | +4 | +3 | −4 | +3 | −15 | −5 |
| Wilkes-Barre | 0 | −3 | −1 | −1 | +6 | +3 | −1 | −9 | −1 | +3 |
| Wilmington | −2 | +1 | +1 | 0 | +6 | 0 | −1 | +1 | +11 | −5 |
| York | −1 | −3 | −5 | −5 | +13 | +3 | +1 | 0 | −1 | −2 |

*Not restricted to corporate limits of cities but covers areas of one or more counties.
†Adjusted for seasonal variation.