

Research Department Federal Reserve Bank of San Francisco

December 21, 1973

Bah, Humbug?

The lights may be dimming in shopping centers throughout the land, but there's still some action at the cash registers in this most crucial season of the year for the retail trade. Indeed, retailers expect a great deal of Christmas buying from a consumer sector which, for the first time, has over \$1 trillion in annual income at its disposal.

At the same time, shopkeepers are braced for some highly selective buying on the part of households which are beset by a number of fears about the future. Consumers have become wary of goods which require gasoline or electricity to utilize. On the other hand, they have been buying large quantities of sweaters and blankets (for obvious reasons) as well as small electronic calculators (presumably for adding up gasoline and utility bills). Other energy-crisis items have also become quite popular—candles, bicycles, fireplace equipment, mufflers and granny gowns, to name a few.

Crucial season

For many retailers, everything depends on this one season of the year. In 1972, December alone accounted for 14.5 percent of all apparel-store sales and for 14.9 percent of all sales of department stores and other general-merchandise outlets. (For November and December combined, the comparable figures were 23.8 percent for apparel stores and 24.8 percent for general-merchandise stores.) Also, last year, 12.2 percent of all TV-

appliance store sales, and 11.6 percent of all liquor store sales, were concentrated in the one month of December.

November and (especially) December always provide a strong opportunity for retailers. In that period, they aim for an enormous volume with only a modest increase in overhead, thereby hoping to create a much higher level of profits. But if their huge inventories of appliances, perfumes, jewelry, toys and clothing are not sold within this brief time-span, they have little alternative but to hold post-holiday sales, which bring in the customers but at reduced profitability for the stores.

Merchants' fears

These considerations were very much on merchants' minds as they entered this Christmas season, knowing as they do the extent of consumers' fears over a prospective 1974 recession and a very real 1973 stock-market slump. Household liquidity is another concern, since consumers were heavily in debt even before the onset of the holiday season. In the third quarter, installment-credit extensions amounted to 19.0 percent of consumer disposable income. That ratio has risen more rapidly in the past three years—from 16.2 percent in 1970—than it did in all of the preceding decade.

Consumers also have been pressed to reallocate their budget spending, because of the price upsurge in such commodities as food and

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This is a revised version made necessary by type transpositions in the first printing.

fuels. (Food prices rose 19 percent between October 1972 and October 1973, while fuel prices rose about 12 percent, with even larger increases now developing.) Nonetheless, the consumer still boasts massive buying power, and those who have decided against buying, say, a new car will almost certainly be in the market for something else. In fact, a spokesman for Tiffany's reported recently that the public is buying a great deal of jewelry, especially expensive jewelry.

Retailers generally would be happy just to match the sales performance of the past two Christmas seasons. Sales of leading merchandisers—principally department stores and apparel stores—increased 8.2 percent in 1971 and 8.6 percent in 1972 from the preceding December levels. This very strong sales pace continued into 1973, with sales for the January-September period running 9.5 percent over the year-before level. The 9.5-percent figure represents substantial real growth, since the price rise for nondurable commodities (except food) was only 3.9 percent for this period.

Major retail chains reported smaller sales gains in early fall than they did earlier in the year. The pace apparently picked up in November, how-

ever, despite unseasonably warm weather throughout the eastern part of the country, as department-store-type sales rose 13 percent from November to November. Scattered reports for recent weeks suggest strong sales around Thanksgiving, then some weakening, followed by another upsurge in mid-December.

Murky '74

On balance, the evidence to date indicates that this will be a relatively strong Christmas season, but that many questions about consumer behavior will remain unanswered until early 1974. The odds are lengthening, however, that the consumer will be in a saving rather than a spending mood, pushing the saving rate closer to the 8.1-percent average of 1970-71 from the relatively low 5.8-percent figure of January-September 1973.

The farm segment of the population, with its net income at least one-fourth higher than a year ago, probably is already salting away a large share of its recent windfall gains. In addition, consumers generally may be persuaded by this year's upsurge in prices to increase their saving, in order to restore the real value of their assets. For that matter, the saving rate will tend to rise automatically as consumers begin to repay the heavy debts incurred for cars and other goods during the 1973 sales blitz, since repayments statistically are defined as saving.

Further, as the murky winter of 1974 unfolds, consumers may be persuaded to save rather than spend their abnormally large tax-refund checks. (In 1973, refunds frequently were used as downpayments on big-ticket items, thus fueling the retail-sales boom.) In view of the widespread pessimism seen in this fall's Michigan Survey—a worse level of pessimism than at the 1970 recession low—a slowdown in consumer spending for discretionary items appears increasingly likely.

Centers without cars

The consumer mood is worrisome to retailers, but just as disconcerting is the question of what will happen to the large suburban shopping centers—one of the major products of the automobile age—in this new era of energy crisis. Some customers will use their scarce and increasingly expensive gasoline to reach their favorite shopping centers; others will not, and thus will tend to restrict the geographic area which each center requires to generate a profitable sales volume.

The problem may not have been so important in earlier periods, when chain-store activity still revolved around their downtown main stores, but it is crucial today. Older cities have witnessed an accelerated flight from downtown just within the past decade. Manhattan and San Francisco have each lost four major stores within that period;

fast-growing Phoenix now supports one major downtown store but 125 shopping centers, mostly on the outskirts of town.

Shopping centers today account for roughly half of all retail sales, excluding autos and gasoline, but for four-fifths of all new retail space. In little over a decade, shopping-center sales of one major West Coast chain (Broadway-Hale) have jumped from 47 to 78 percent of total sales.

Any slowdown in this type of sales should have a double impact on the retail business—not just in terms of cash-register activity, but also in terms of land-development activity. Many major chains have become heavily involved in recent years in shopping-center development, and now count on this side of the business for a major share of their profits. (In one recent year, Sears' real-estate ventures helped it write off in depreciation a sum equal to 20 percent of its after-tax profits.) But since development activity is geared to a rising trend of auto usage and a widening circle of sales territories, any reversal of these trends is bound to challenge a basic assumption of the chains' current marketing strategy.

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BANKING DATA—TWELFTH FEDERAL RESERVE DISTRICT

(Dollar amounts in millions)

Selected Assets and Liabilities Large Commercial Banks	Amount Outstanding 12/5/73	Change from 11/28/73	Change from year ago	
			Dollar	Percent
Loans adjusted and investments*	76,639	+ 522	+9,226	+ 13.69
Loans adjusted—total*	58,151	+ 174	+9,212	+ 18.82
Securities loans	1,229	— 108	— 127	— 9.37
Commercial and industrial	20,177	+ 176	+2,916	+ 16.89
Real estate	18,011	— 33	+3,134	+ 21.07
Consumer instalment	8,886	— 6	+1,271	+ 16.69
U.S. Treasury securities	6,216	+ 282	— 695	— 10.06
Other securities	12,272	+ 66	+ 709	+ 6.13
Deposits (less cash items)—total*	72,257	+ 573	+6,325	+ 9.59
Demand deposits adjusted	22,300	+ 495	+ 791	+ 3.68
U.S. Government deposits	479	+ 5	— 323	— 40.27
Time deposits—total*	48,129	— 95	+5,773	+ 13.63
Savings	17,451	— 28	— 734	— 4.04
Other time I.P.C.	22,172	+ 119	+5,283	+ 31.28
State and political subdivisions	5,585	+ 6	+ 519	+ 10.24
(Large negotiable CD's)	10,489	+ 9	+3,760	+ 55.88
Weekly Averages of Daily Figures	Week ended 12/5/73	Week ended 11/28/73	Comparable year-ago period	
Member Bank Reserve Position				
Excess reserves	66	12		52
Borrowings	293	19		4
Net free (+) / Net borrowed (—)	— 227	— 7		+ 48
Federal Funds—Seven Large Banks				
Interbank Federal funds transactions				
Net purchases (+) / Net sales (—)	+ 820	+ 933		+ 762
Transactions: U.S. securities dealers				
Net loans (+) / Net borrowings (—)	— 17	— 21		+ 196

*Includes items not shown separately.