Research Department
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December 21, 1979

FRBSF Weekly Letter

Bah, Humbug?

Auto dealers seem to be hunkered down for a hard winter, but questions still remain about the other retailers who live or die by the cash-register results on Christmas Eve. Will they repeat the strong finish that made the 1978 Christmas season so successful? Or will their customers cut back, because of fears of recession, energy shortages, and surpluses of debts?

Early returns suggest that sales will increase only modestly over a year ago, at least in real terms. After a fall season of unseasonably warm weather and tepid sales, energy-conscious consumers are now buying sweaters and quilted coats, plus last year's hot seller—the zippered "snug sack," which is ideal for lounging in frigid living rooms. But many other items are going rather slowly.

Mistletoe season

For many retailers, everything depends on this one season of the year. In 1978, December alone accounted for 15.0 percent of all apparel-store sales and for 15.8 percent of all sales of department stores and other general-merchandise outlets. Also, last year, liquor stores and TV-appliance stores both rang up 12.2 percent of their entire sales in the one merry month of December.

For apparel and general-merchandise outlets, in particular, about one-fourth of their annual sales occur in the two months of November and December. Moreover, this sales concentration was even greater in the past two years. Over the 1972-76 period (except for a dismal 1974 Christmas season), combined November-December sales of apparel and general-merchandise stores hovered around 24.4 percent of their combined annual sales. But in both 1977 and 1978, their Christmas-season sales rose to 25.5 percent or more of their annual sales, as consumers embarked on late-year buying sprees, of $31.5 billion and $34.5 billion, respectively, in those two seasons.

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 opportunity but to hold post-holiday sales, which bring in the customers but at reduced profitability for the stores.

Income and Xmas sales

Department and apparel-store owners have reason to expect only modest sales gains this season, because their Christmas sales reflect the annual movements of consumer disposable income (although with greater amplitude), and 1979's income gain probably will be somewhat smaller than 1978's gain. As examples of that relationship, the income increase in 1976, 9.0 percent, fell below the preceding year's gain, but the 1976 Christmas-sales increase, 7.4 percent, fell even farther below the comparable 1975 figure—while in contrast, in 1977 the income increase accelerated to 10.1 percent while the Christmas-sales gain accelerated even more to 14.0 percent (see chart).

Last year was an exception, as the increase in Christmas sales (9.4 percent) failed to match the previous year's increase, despite an acceleration in annual disposable income from 10.1 to 11.7 percent. However, the seasonal sales pace at apparel and department stores was weak only in relation to the unprecedented strength of the 1977 Christmas season—the $34.5 billion spent at apparel and general-merchandise stores in November-December 1978 was fully half again as large as the amounts spent in the 1973 and 1974 seasons. In any event, with the increase in disposable income likely to decelerate this year to about 11.1 percent, signs of weakness may show up increasingly

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at soft-goods retailers, as they already have at auto dealers' showrooms.

Debt and Xmas sales

The increasing burden of consumer debt may provide another damper on retailer's hopes. The ratio of consumer instalment debt to personal income, which hovered around 13 percent through most of the 1966-76 period, has increased sharply during the inflationary 1977-79 period. Since last spring, the ratio has exceeded 15 percent as consumers have accepted a heavier burden of debt.

Similarly, retailers are worried about the sharply rising delinquency rates (30 days and over) on consumer instalment loans. The average delinquency rate never exceeded 2.0 percent prior to the last recession, but then jumped sharply, and even during the 1976-78 recovery hovered in the area of 2.2-2.5 percent. The average delinquency rate has again worsened this year, rising between February and September from 2.3 to 2.6 percent—a point exceeded only during the worst of the last recession.

Lenders also have become worried about this burden of consumer debt, and meanwhile, in a period of high interest rates, have become less happy with the 18-percent interest they receive on credit-card money. As a result, lenders have not been encouraging households to splurge this Christmas. In fact, early in the season, one large California bank said in a newspaper ad, "We don't want to play Scrooge. But we do hope you'll use your credit judiciously, so you'll feel better come January."

Help from outer space?

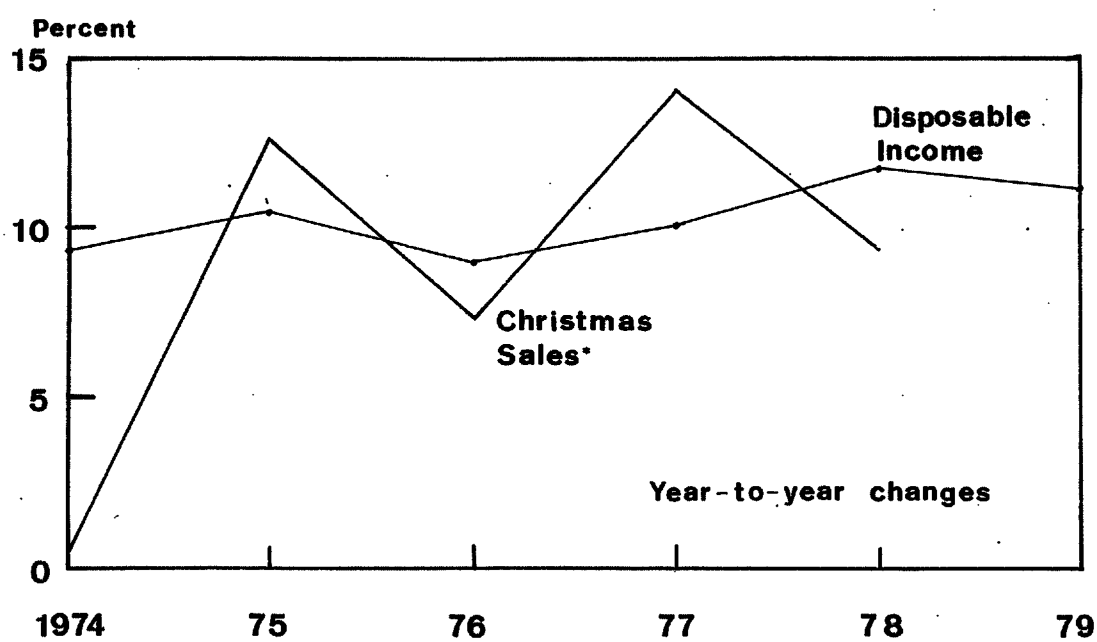
Faced with all these minus signs, retailers may have found a partial salvation in a new gimmick—the computer toys and games which now account for a crucial portion of the toy market. These artifacts represent a spinoff from the nation's last great spurt of research-and-development spending—the one associated with the moon-landing program of a decade ago—and they will probably find their greatest sales among the young-adult generation which grew up during that exciting period and whose tastes now dominate the marketplace.

Hand-held computer toys and games first appeared in quantity about two years ago, but their sales could be ten times greater this year, in the range of several hundred million dollars. Retailers are happy to note that adults are buying these games for themselves as well as for children—and more importantly, that they aren't confining their purchases to the Christmas season. This trend could be a lifesaver for toy merchants, who generally are even more dependent than other retailers on Christmas sales.

In some cases, the new gadgets will play games with their owners while announcing the moves and commenting on the play in understandable spoken English, or even in other languages. And many consumers are willing to pay several times the $15 to $20 average which retailers used to consider a realistic toy-sales purchase. Some individuals are even purchasing this season a reaction-time contest called Space Invaders, where the participant must shoot down the massed, marching aliens shown on a large TV screen before they shoot him. One sharp-shooting Pennsylvania college student claims to have cut down 257,000 aliens before being himself overwhelmed. Price: below $2,500.

Help from the business cycle?
Whatever happens this season, the counter traffic may lag even more as the New Year begins. Commerce Department analysts recently estimated 9-percent sales gains in 1979 for both apparel and department stores, and they expect little if any improvement over those levels in 1980. But that would represent only a modest gain in real sales for two years in a row, because prices of commodities (less food and energy) have risen 8 percent over the past year and are widely expected to rise in that same range next year. Still, the Scrooge spirit might be less apparent as Christmas 1980 rolls around, provided that the standard forecast is correct, and that the nation by then begins to overcome its problems of inflation and recession.

William Burke



Sales (November-December) of apparel stores and general merchandise stores

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Alaska • Arizona • California • Hawaii
Idaho • Nevada • Oregon • Utah • Washington

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BANKING DATA—TWELFTH FEDERAL RESERVE DISTRICT
(Dollar amounts in millions)

Selected Assets and Liabilities Large Commercial Banks	Amount Outstanding 12/5/79	Change from 11/28/79	Change from year ago @ Dollar	Percent
Loans (gross, adjusted) and investments*	136,089	+ 842	+ 16,260	+ 13.57
Loans (gross, adjusted) — total#	113,034	+ 888	+ 15,572	+ 15.98
Commercial and industrial	31,583	+ 434	+ 3,253	+ 11.48
Real estate	42,825	+ 133	+ 8,911	+ 26.28
Loans to individuals	24,138	+ 81	NA	NA
Securities loans	1,511	+ 102	NA	NA
U.S. Treasury securities*	7,386	− 27	− 695	− 8.60
Other securities*	15,669	− 19	+ 1,383	+ 9.68
Demand deposits — total#	46,516	+2,925	+ 4,348	+ 10.31
Demand deposits — adjusted	32,437	+1,394	+ 1,686	+ 5.48
Savings deposits — total	28,679	− 8	− 1,529	− 5.06
Time deposits — total#	58,806	+ 368	+ 8,898	+ 17.83
Individuals, part. & corp.	50,213	+ 347	+ 9,552	+ 23.49
(Large negotiable CD's)	22,046	+ 292	+ 2,384	+ 12.12

Weekly Averages of Daily Figures	Week ended 12/2/79	Week ended 11/28/79	Comparable year-ago period
Member Bank Reserve Position			
Excess Reserves (+)/Deficiency (−)	− 26	+ 25	+ 91
Borrowings	281	+ 107	+ 18
Net free reserves (+)/Net borrowed(−)	− 308	− 83	+ 73
Federal Funds — Seven Large Banks			
Net interbank transactions [Purchases (+)/Sales (−)]	+ 287	+ 712	+ 660
Net, U.S. Securities dealer transactions [Loans (+)/Borrowings (−)]	− 881	+ 81	+ 381

* Excludes trading account securities.
\# Includes items not shown separately.
@ **Historical data are not strictly comparable due to changes in the reporting panel; however, adjustments have been applied to 1978 data to remove as much as possible the effects of the changes in coverage. In addition, for some items, historical data are not available due to definitional changes.**

Editorial comments may be addressed to the editor (William Burke) or to the author .... Free copies of this and other Federal Reserve publications can be obtained by calling or writing the Public Information Section, Federal Reserve Bank of San Francisco, P.O. Box 7702, San Francisco 94120. Phone (415) 544-2184.