Mr. Buchanan

APR 22 1960

The Honorable Paul H. Douglas,
Chairman, Subcommittee on Production
and Stabilization,
Committee on Banking and Currency,
United States Senate,
Washington 25, D. C.

Dear Mr. Chairman:

This is in reply to your letter of April 11 raising questions about our consumer credit statistics arising in connection with Professor Beckman's testimony on S.2755 and with the material which I submitted in connection with my testimony.

In presenting historical summary data for outstanding consumer credit, we have typically published end-of-year figures, as we have for banking and other credit statistics. As Professor Beckman notes, however, this practice differs from that with respect to certain indexes of business activity, such as the index of industrial production and consumer and wholesale price indexes, which are published on an annual average basis. From the standpoint of showing the broad sweep of developments, we have found the year-end credit data satisfactory. Moreover, certain problems are encountered in constructing annual averages from month-end data on outstandings which are not met in averaging the flow data to which Professor Beckman refers.

We agree with Professor Beckman, however, that for some analytical purposes the year-end data have defects. The ratio of the December data to the annual average varies from year to year, as Professor Beckman points out. The variation reflects in large part economic developments over the course of the year, which can best be taken into account by analyzing monthly data. The use of monthly data is particularly desirable for any analysis of cyclical developments. Monthly data are published currently in the Federal Reserve Bulletin and in various mimeographed releases, and back data are available from our Division of Research and Statistics.

We agree with Professor Beckman that it is preferable to use annual averages of outstanding credit when the data are related to annual data on disposable personal income, but the differences between the movement of this ratio and one computed from year-end outstandings will not be great. In preparing material pertinent to my testimony before your Committee, for example, the Board's staff included data showing the ratio of outstanding consumer debt on December 31 to disposable income for the year as one broad measure of debt trends. The data were readily available in this form, and it was believed that the broad trends would be similar regardless of the method of computation. We have since computed the annual data on outstanding credit and its ratio to disposable income on the basis of monthly averages and have arranged with your staff to revise Table 6 and the textual reference accordingly. The effect of the revision is to reduce the level of the ratios somewhat without materially affecting the trend; both sets of data show an increase of about 40 per cent in the ratio of outstanding consumer credit to disposable personal income from 1952 to 1959.

The ratio of outstanding credit to disposable personal income gives a convenient measure of the trend of consumer indebtedness. We have made wider use of ratios of extensions and repayments to disposable income, however, for detailed analysis of cyclical developments in instalment credit. The ratio of repayments to disposable income measures the current burden of debt payments. The ratio of extensions to disposable income reflects current financing activity more promptly and foreshadows future changes in debt payments. We do not have data on extensions and repayments of noninstalment credit.

The ratio of instalment credit repayments to extensions, to which Professor Beckman refers, is one way of looking at the growth in outstanding credit. During periods of rapid expansion, such as 1955 and 1959, extensions increase more rapidly than repayments, which are influenced to a large extent by the terms of past instalment contracts. Furthermore, when maturities are lengthening, as in 1955, the typical lag in the rate of repayments is accentuated by the reduced rate of repayments on new contracts. Although the ratio of instalment credit repayments to extensions is a useful analytical tool, it does not appear to us to be a direct measure of credit quality.

We believe that two of Professor Beckman's remarks about our consumer credit data are the result of misunderstandings. We do not understand the basis for his statement that our year-end estimates are not comparable from year to year. As he points out, it is necessary from time to time to revise the estimates on the basis of more accurate data. Each time this has been done, however, the revision has been carried out for as many years as required. Certainly revised estimates for one period should not be compared with unrevised estimates for another period.

It should also be noted that Professor Beckman, in his note to Table 3, attributes too much effect to the introduction of Alaska and Hawaii in 1959. The monthly average of outstanding consumer credit excluding data for Alaska and Hawaii is $47,665 million, and the ratio of this to disposable personal income is 14.24 per cent. The comparable figures including Alaska and Hawaii are $47,761 million and 14.27 per cent. The difference in the averages is about $100 million, rather than the $1 billion assumed by Professor Beckman.

I hope that these comments will be helpful to you and the members of your Subcommittee. If we can assist in any other way, please let us know.

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. Mc.C. Martin, Jr.

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