Consumer Credit in the Postwar Period

By L. F. McHugh

One of the major expansionary forces in the postwar economy has been the large increase in consumer expenditures for goods and services. This increase has been made possible not only by the large postwar advance in the spendable incomes of consumers but also by the steady decline in savings from the abnormally high wartime rate. The high wartime savings resulted in a large increase in the liquid assets of individuals to which reference is made in an earlier section of this issue.

The reduced disposition to save has taken three primary forms: (1) Some individuals merely reduced the rate of savings out of current incomes; (2) others have actually liquidated some of their assets to buy goods; and (3) still others have resorted to borrowing as a method of settling for their purchases.

The present article is primarily concerned with the third of these developments; that is, with the role of consumer credit in the current and prospective demand for goods and services. This subject is particularly timely because of the expiration of the last wartime controls on consumer credit on the first of November, in accordance with the resolution of Congress approved on August 8, 1947.

The extensive system of consumer credit controls embodied in the terms of "Regulation W" and administered by the Board of Governors of the Federal Reserve System, was introduced in September 1941 as part of a program to contain inflationary pressures and to aid in channeling resources into vital war industries. Following the end of the war, there was some relaxation of credit controls, but the major part of the system was retained by continuing controls on installment credit. This was considered necessary in view of the continued scarcity of these goods and the general pressure on prices still existing in the postwar situation.

The recent lifting of restrictions on consumer credit will tend to accelerate the rate of credit extension. In order to assess the credit position of consumers at the present time, it is helpful to review the wartime and recent postwar changes in consumer credit and to place these changes in perspective by relating them to credit developments before the war when the economy experienced wide swings in business activity.

Record Volume of Consumer Credit

The volume of consumer credit outstanding at the end of September was at the record amount of 11.4 billion dollars, 6.6 billion above the wartime low in early 1944 and 1.3 billion dollars higher than the prewar peak reached in September 1941. All major types of consumer credit shared in the postwar gain, although some types have not yet recovered to prewar volume. In appraising the absolute totals of outstanding credit, the large increase in the national product and the advance in the general price level should be borne in mind.

As is illustrated in chart 1 and table 1, the largest percentage gain in the postwar period has occurred in installment credit. This type of credit—typically the most volatile of all the types—underwent a marked reduction in the war years, as a result both of the greatly reduced flow of goods usually bought on installment, and of the imposition of wartime controls. The resumption of production of consumer durable goods provided the basis for the rapid postwar advance in installment credit. That the volume of credit of this type is still below the prewar amount is largely the result of restricted output of major durable goods and of the continuance of Government credit regulations until this month.

While controls were also in effect on the various types of noninstallment credit, the wartime contraction in these areas was less extreme, because of the continued expansion of dollar sales of semidurables, soft goods, and services, for which these types of credit are generally used. Aided by continued sales expansion, noninstallment debt rose sharply after VJ-day and is at the present time well above prewar levels.

Table 1.—Consumer Credit Outstanding, Selected Periods, 1929–47[1]

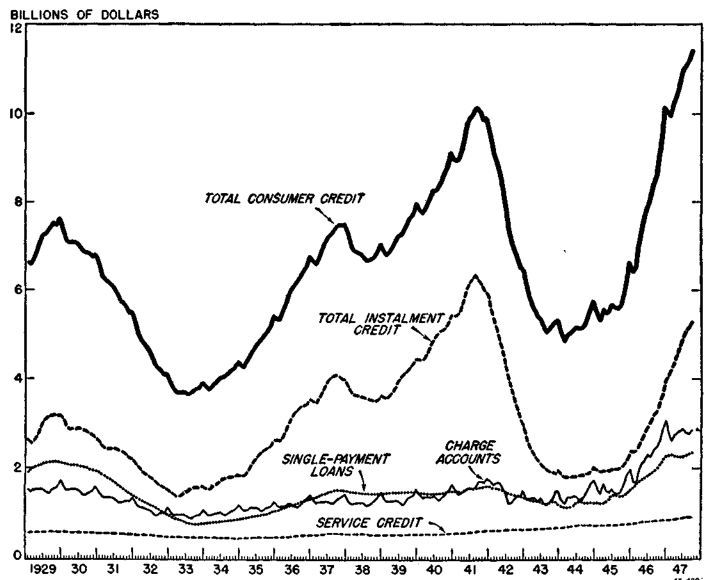
[Millions of dollars]

	High of 20's (December 1929)	Depression low (July 1933)	Recovery high (September 1941)	Wartime low (February 1944)	Year ago (September 1946)	Current (September 1947)
Total consumer credit	7,637	3,633	10,107	4,832	8,643	11,434
Instalment credit	3,167	1,492	6,248	1,803	3,288	5,298
Sale credit	2,515	1,015	4,007	705	1,177	2,254
Cash-loan credit	652	477	2,241	1,098	2,111	3,044
Charge account sale credit	1,749	903	1,712	1,218	2,495	2,859
Single payment loans	2,125	777	1,549	1,114	2,000	2,350
Service credit	596	461	598	697	860	927

[1] Data are for end of month shown.

Source: Board of Governors of the Federal Reserve System

Chart 1.—Consumer Credit Outstanding, End of Month



Source of data: Board of Governors of the Federal Reserve System.

NOTE.—Mr. McHugh is a member of the Current Business Analysis Division, Office of Business Economics.

The lagging of installment credit relative to other types is also apparent from chart 2. By September, installment credit had risen to 46 percent of the total, a slightly higher share than in 1929, but still substantially below the peak in 1941, when this type of credit accounted for 63 percent of total outstandings.

Shift in Method of Installment Financing

Although total installment debt is still below prewar volume, there has been a marked shift in the method of installment financing. The figures in table 1 indicate that installment cash-loan credit (which originates from commercial banks and lending institutions) is currently higher than before the war, while installment sale credit (which originates with retailers) is substantially lower. Being more directly tied to the volume of sales of durable goods, out standing sales credit fell from 4 billion dollars in September 1941 to 700 million dollars in February 1944, during most of which period new production of the major durable goods was cut sharply. Cash-loan credit declined from 2.2 billion dollars to 1.1 billion dollars between these two dates.

As of the end of September, installment sales credit amounted to 2.3 billion dollars and installment cash-loan credit to 3 billion dollars. Bank activity in the installment loan field was of growing importance before the war, but the volume of installment-loan credit was below the volume of sales credit until the period of wartime contraction.

Postwar Credit Volume Low Relative to Income

As an aid in appraising the current consumer credit position, total credit outstanding is shown in relation to personal incomes after taxes in chart 3. Consumer credit outstanding at the end of each year is measured along the vertical axis in the upper panel of the chart and annual disposable income along the horizontal axis. The points in the chart cover the years from 1929 to 1947.

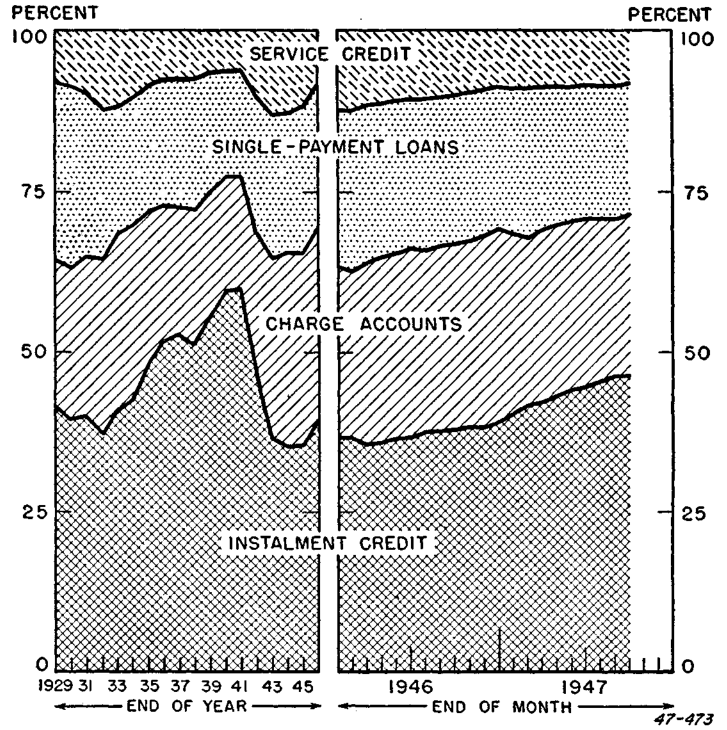
In the prewar period the volume of consumer credit outstanding was closely related to the amount of personal income after taxes. The line "AB" in the chart, having been fitted by the method of least squares, expresses the average relationship between credit outstanding and income during the 1929–40 period.

While this line "fits" the plotted points rather closely, a careful examination of the position of the points in the chart shows that the deviations from the line of regression follow a systematic pattern which is related to time, i. e., the points for the earlier years fall below the line and those for the later years fall above. This pattern is illustrated in the lower panel of the chart, where the deviations are plotted against time in order to depict the growth factor in the trend of credit in the thirties. The steady widening of the market for credit resulted from the entrance of new firms into the field and from increased competition which fostered the trend toward smaller downpayments and longer periods of payments. Underlying this situation in the thirties was the fact that output could expand if profitable sales could be made. At the present time, a very different supply situation exists for passenger cars and other major durable goods.

The average relationship in the prewar years can be expressed as follows: A change of 10 billion dollars in the amount of disposable income was, on the average, associated with a change of 1¼ billion dollars in the amount of credit outstanding. In addition, the growth factor accounted for an average increase of 180 million dollars a year.

During the war years until 1944, the volume of consumer credit moved counter to the prewar pattern, declining while income rose. After reaching a low point early in 1944, the volume started to rise, at first slowly and then, after VJ-day, at an accelerated rate. The post-VJ-day upsurge in credit outstanding was the most rapid on record for any period of comparable length.

Chart 2.—Percentage Distribution of Consumer Credit



Sources: Basic data, Board of Governors of the Federal Reserve System; percentages, computed by U. S. Department of Commerce, Office of Business Economics.

Nevertheless, the total volume of credit outstanding at the present time is far below the amount indicated by an extension of the prewar relationship shown in the chart. The validity of this relationship, however, merits examination; as explained below, one should not expect the prewar relationship to prevail either now or in the near future, despite the elimination of credit controls.

Limitations on Use of Prewar Relationship

Prewar credit-income relationships can be used only sparingly and with caution in analyzing the postwar credit situation. As is the case with practically all analyses which attempt to make use of prewar relationships in interpreting the postwar situation, it is necessary to extend the prewar relationship far beyond the range of observation for the actual points used in fitting the regression line. In the case at hand, for example, disposable income in the first half of 1947 was at a rate of about 170 billion dollars, whereas the upper limit of actual range of observation for the prewar period is 82.5 billion dollars in 1929.

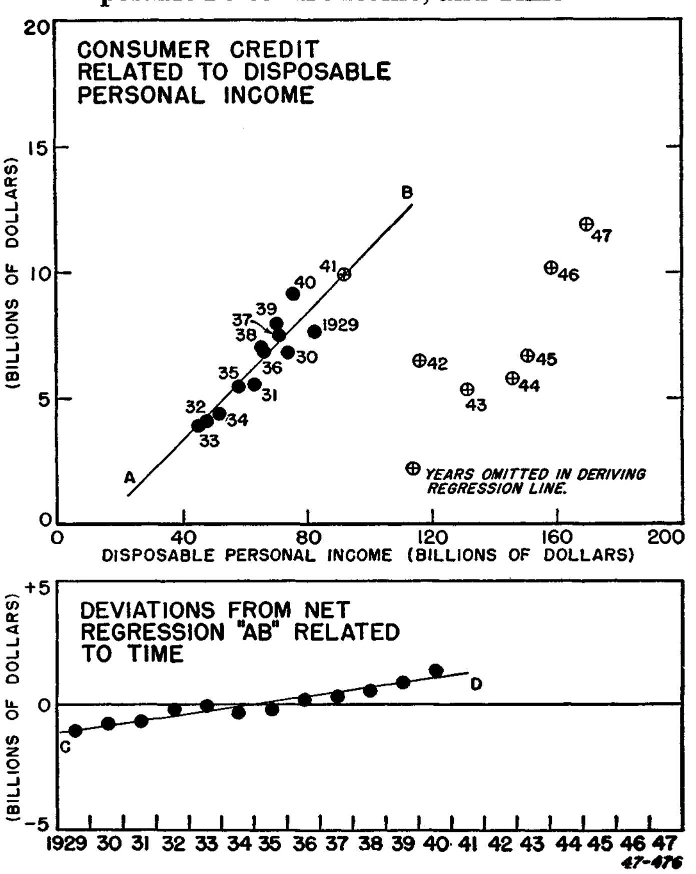
In the present case, moreover, several factors can be cited which point to a significant modification of the prewar relationship, at least insofar as the near-term outlook is concerned. Although the limited supplies of durable consumer goods at the present time can be ascribed for the most part to production difficulties incident to the postwar transitional period, it is nevertheless apparent that these supplies cannot be expected to expand within the near future by the amounts that would be needed to support a credit expansion of the magnitude implied in the prewar credit-income relationship, assuming, of course, that prices of these goods do not advance out of all proportion to the general price level. The situation in automobile installment sales credit is a case in point. Approximate computations presented below indicate that automobile dealers' sales would have to advance almost to two and one-half the present level in order to raise automobile installment credit to the amount yielded by the prewar relationship, assuming prewar experience as to the proportion of credit sales to the total.

Borrowing vs. Use of Liquid Assets

A further qualifying factor to be considered with reference to the implications of the prewar credit-income relationships for analysis of the current situation is the changed liquid asset position of consumers since before the war. At the present time, personal holdings of these assets total in the neighborhood of 160 billion dollars, as compared with 1939 holdings of less than 50 billion dollars. In terms of per capita hodings, the rise has been from less than $400 before the war to over $1,100 at present. In the $2,000 to $3,000 income group, for example, median holdings of liquid assets amounted to $480 in early 1947.[1] This income group, with about one-fourth of total income in 1941, accounted for about half of the net expansion of installment credit in that year.

Opinion differs on the question of whether individuals holding bonds or bank deposits will consider these assets as substitutes for credit. It was found in the survey studies recently made that many individuals said that they were putting their assets away against future contingencies, such

Chart 3.—Relationship Between Consumer Credit, Disposable Personal Income, and Time [1]



[1] Data for disposable personal income are total for the year through 1946; figure for 1947 is total for the first 6 months, seasonally adjusted, at annual rate. Data for consumer credit represent the amount outstanding at end of year through 1946; figure for 1947 is an estimate for the amount of credit outstanding at end of September adjusted, by the U. S. Department of Commerce, Office of Business Economics, for comparability with end-of-year data for prior years. This adjustment is necessary since there is a substantial seasonal increase in credit outstanding from September to December. The lines "AB" and "CD" are derived from the equation, $Y=-1607+125X+183t$, where Y=calculated consumer credit (in millions of dollars), X=disposable personal income (in billions of dollars), and $t=\text{year}-1935$. The equation is derived by the method of least squares using income and credit data for the years 1929–40.

Sources of data: Consumer credit, Board of Governors of the Federal Reserve System; disposable personal income and calculations, U. S. Department of Commerce, Office of Business Economics.

[1] See "Survey of Consumer Finances," *Federal Reserve Bulletin*, July 1947.

as the proverbial "rainy day," or old age, and that they did not consider their accumulations as preparation for the purchases of goods which were necessarily deferred during the war.[2]

As those who conducted the surveys were well aware, it is difficult to determine whether the stated motive for savings was real or merely a rationalization. Even if the real intention is to hold past savings for contingencies, it is important to know whether the assets will continue to be held when the owner desiring to purchase, say, an expensive durable good is faced with the actual decision to use some of his liquid assets or to borrow money.

Credit Use Restricted by Controls

The current low volume of consumer credit relative to income is traceable not only to the limited supplies of durable consumer goods and to the existence of large savings accumulations, but also to the effects of regulation W. Since December 1946, this regulation has applied only to installment credit. The typical prewar terms for major durable consumer goods which are largely bought on installment credit, are compared in table 2 with the minimum downpayments and maximum maturities permitted under the war and postwar credit regulations. The only change between the war and postwar provisions for the goods listed in the table was the lengthening of the contract period from 12 to 15 months for items other than automobiles.

The alteration of terms of lending under the credit control regulation was largest for such items as refrigerators, vacuum cleaners, sewing machines, and furniture. The down payment requirements for these purchases were considerably higher under the wartime regulations than was the practice before the war and the length of contract was shorter. In the case of new automobile credit, the effect of regulation has been in the direction of a somewhat shorter contract maturity. In the case of radios and phonographs, the requirement of larger down payments was the more important effect.

Differential Behavior Among Components

The low position of total consumer credit outstanding relative to current income can be better understood by noting the relation of the various types of credit to income. In an examination of the behavior of the components of the consumer credit total during the war and postwar years, it is possible to distinguish between three categories of goods

Table 2.—Terms on Installment Sale Credit: Prewar, Wartime, and Postwar

	Typical prewar		May 1942 to December 1946 [1]		December 1946 to October 1947 [1]	
	Down-payment[2] (percent of sales price)	Contract maturity (months)[3]	Minimum down-payment (percent of basis price) [4]	Maximum contract maturity (months)	Minimum down-payment (percent of basis price) [4]	Maximum contract maturity (months)
New automobiles	33⅓	18	33⅓	15	33⅓	15
Refrigerators	10	24	33⅓	12	33⅓	15
Radios, phonographs	10	12	33⅓	12	33⅓	15
Vacuum cleaners	10	18	33⅓	12	33⅓	15
Sewing machines	10	18	33⅓	12	33⅓	15
Furniture	10	18	20	12	20	15

[1] Under the terms of regulation W of the Board of Governors of the Federal Reserve System.
[2] Percent of sale price for largest volume of sales.
[3] Maturity for largest volume of sales.
[4] Basis price in the case of automobiles is the sales price; in other cases, it is the sales price minus the allowance for an article traded in.

Source: For typical prewar terms see Duncan McC. Holthausen, "Monthly Estimates of Short-Term Consumer Debt, 1929–42," *Survey*, November 1942, table 3.

[2] See, for example, the discussion by George Katona, "Contribution of Psychological Data to Economic Analysis," *Journal of American Statistical Association*, September 1947.

which are important in credit sales: Automobiles, consumer durable goods other than automobiles, and general merchandise and apparel.

The largest single area for further credit expansion appears to be in the field of automobile installment sale credit. With disposable income almost doubling between 1941 and 1947, the volume of automobile installment sale credit outstanding at the end of September of this year was only about one-half as large as at the end of 1941. Following the reconversion of the industry, automobile sales and associated credit expanded rapidly, but since incomes were likewise expanding, there was only a slight "catching up" of credit.

Factors in Automobile Sales Credit Lag

Only since early 1947 has the dollar volume of sales of automobile dealers reached the prewar level. Since it would take approximately 15 months for all credit outstanding to reflect fully the current rate of credit sales, further additions to outstandings will occur even if sales were continued at the present rate. To illustrate this point, when new credit is extended on a "15-months-to-pay" basis at a constant rate a month, 86 percent of the total increase to eventuate from such a rate of new credit creation will have appeared by the ninth month, the remaining 14 percent being spread over the final 6 months.

It may also be pointed out that current automobile sales, while above prewar, are still low relative to incomes because of relatively low output. Hence, as output and sales move into closer relationship with incomes, there will be a further addition to credit outstanding.

It is fairly clear, however, that neither a liberalization of credit terms nor an expansion of sales will make up the "gap" indicated by any calculation based on the prewar relationship to income. This conclusion can be supported by pointing out that, on the basis of "one-third down, 15 months to pay," credit sales of automobile dealers would have to rise to about 840 million dollars a month if this type of credit were to equal the calculated amount. Even on the assumption that credit sales were to increase to the prewar ratio of 50 percent of total sales, the calculations would imply total cash and credit sales of automobile dealers amounting to about 1.7 billion dollars a month, as compared with the September figure of 750 million dollars.

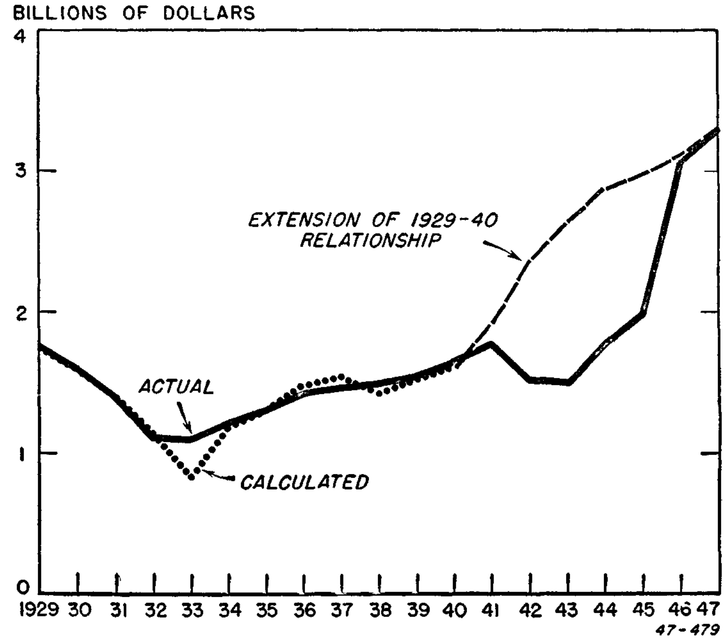
Nonautomotive Installment Sale Credit Also Lags

The amount of nonautomotive installment sale credit also is low relative to current income. In this case, however, there are two underlying differences as compared with the automotive credit situation. In the first place, whereas sales of automobile dealers are below the level indicated by the prewar sales-income relationship, sales of other durable goods are fairly well in line with prewar sales-income relationships. Secondly, the wartime borrowing terms were much more restrictive on nonautomotive than on automotive credit. This has already been noted in the discussion of table 2. The relative importance of these opposing influences is uncertain.

Shift in Form of Installment Financing

The current volume of installment sales credit is affected by the accelerated shift from installment sales credit to installment cash loans during the war period—a shift which was described in a previous section of this article. Even in the installment loan area, however, outstanding volume is below what might have been expected on the basis of current income and long-term growth, so that the shift in form of installment financing has not offset the full effects of credit control and limited supply of durables.

Chart 4.—Charge-Account Credit Outstanding, End of Year [1]



[1] "Actual" figure for 1947 is the amount outstanding at end of September, adjusted by the U. S. Department of Commerce, Office of Business Economics, for comparability with end-of-year data for prior years. This adjustment is necessary since there is a substantial seasonal increase in this type of credit outstanding from September to December. Data for "calculated" are based upon the equation, $Y=+257+18x$. Units for the variables, years included, and method used in calculating the equation are the same as stated in footnote 1, chart 3.

Sources of data: "Actual," Board of Governors of the Federal Reserve System; "calculated," U. S. Department of Commerce, Office of Business Economics.

Evidence of Less Buying on Credit

At first glance chart 4, which relates to charge account credit, appears to present a picture which is sharply at variance with the general credit situation which has been described so far, since actual outstandings and calculated are about equal at the present time. Several reasons for the coincidence of the two lines readily come to mind. Not only has charge account credit been free of controls since December 1946, but most merchandise bought on charge accounts is in relatively plentiful supply, and has been so almost throughout the war and postwar period.

Actually, an analysis of the charge account-income relationship suggests a greater disposition of consumers to pay cash for their purchases today as compared with prewar. The fact that the two lines coincide in the chart is explained by the fortuitous occurrence of two offsetting influences: One, the greater disposition to pay cash, and two, the unusually high volume of sales of the kinds of goods typically bought on charge accounts. Sales at both general merchandise and apparel stores in the third quarter of 1947 were above the amounts indicated by prewar sales-income relationships. The limited supplies of passenger cars and the continuance of rent controls undoubtedly account for a part of this sales bulge.

Direct evidence of the reduced use of charge account facilities is currently available for department stores. In the first 9 months of 1947 charge account sales at these stores accounted for 38 percent of total sales. In contrast, in the similar period in 1941 the proportion amounted to 43 percent. Thus, while department store cash sales rose by 150 percent from 1941, the expansion in charge account sales amounted to 90 percent. The proportion of charge account to total sales was 32 percent during 1944 and 1945 when regulation W prevented stores from granting new credit to persons who had not paid for purchases by the 10th day of the second calendar month after purchase.

Changes in Terms Will Affect Installment Credit Volume

The area of potential credit expansion in the period ahead is largely centered in the installment field partly because of an expected expansion in sales of passenger cars, refrigerators, and household appliances, and partly because of the effects of regulation W. Termination of this regulation on November 1 will encourage the relaxation of credit terms and thus result in some expansion in the volume of installment credit outstanding.

For purposes of orientation, chart 5 presents in diagrammatic form the effect of relaxing down payment and maturity requirements. In order to isolate these effects, credit sales are assumed to be constant, not only over the time period shown in the chart but over the preceding 15 months as well. In this earlier period, it is further assumed that installment credit purchases were made on the basis of one-third down and 15 months to pay. Thus, with no change in terms and sales, there would be no further expansion of credit outstanding over the period shown in the chart, as repayments on old loans would match new loans made. This is shown by line A.

If at the start of the period shown, down payments required were reduced from one-third to one-fifth—line B—outstandings would immediately expand. Although the full effect of the change—a 20-percent increase on outstandings—would not be felt for 15 months, the bulk of the increase would occur relatively early in the period. For example, the increase would have amounted to over 10 percent by the fifth month and 15 percent by the eighth month following relaxation.

The impact of lengthening contract maturities to 24 months, while leaving down payments the same, is shown by line C. In this instance, the achievement of the full expansionary effect on credit is delayed to a greater extent. In the example cited, by the sixteenth month outstandings will have risen by about 40 percent, but an additional 16-point rise would follow in the succeeding 9 months, making a total rise of 56 percent over the 24-month interval.

The combined effect of these two changes in down payment and length of contract is depicted by line D. It is clear that credit outstanding would be practically doubled with these assumptions, with the increase spread about equally over a 2-year period.

The assumptions underlying chart 5 were chosen for illustrative purposes only, and were not contemplated as forecasts of terms likely to ensue following the expiration of controls. It may be pointed out, for example, that an implicit assumption in the chart is that any change in terms of lending would be made simultaneously by all lenders. In actual practice this would very probably not take place. The establishing of any typical pattern of postwar terms will be achieved only gradually, as the forces of competition among lenders take time to operate. As a result, the effects of a relaxation of terms of lending will, in actuality, require more time to be reflected fully in the volume of outstandings than the time period shown in the chart.

The assumption that credit sales remain constant would also not apply to any actual situation, since relaxation of terms would undoubtedly lead to a larger volume of credit sales and, hence, to a higher volume of outstanding credit.

It may help to summarize the above discussion if we make a rough calculation of the potential credit expansion which would be associated with a return to the typical prewar terms of installment credit. The method used in calculating the curves shown in chart 5 can also be used to derive percentage changes in amounts outstanding on the simple assumption that wartime terms of borrowing are replaced by prewar terms. When these percentages are applied to the various types of installment credit outstanding, an aggregate increase of about 2 billion dollars is indicated. This increase, which makes no allowance for an increase in the volume of installment sales, would be spread over a year and a half period. Thus, the increase in the amount of installment debt outstanding would be at a rate of about 100 million dollars a month. Total installment credit outstanding is estimated at 5.3 billion dollars as of the end of September.

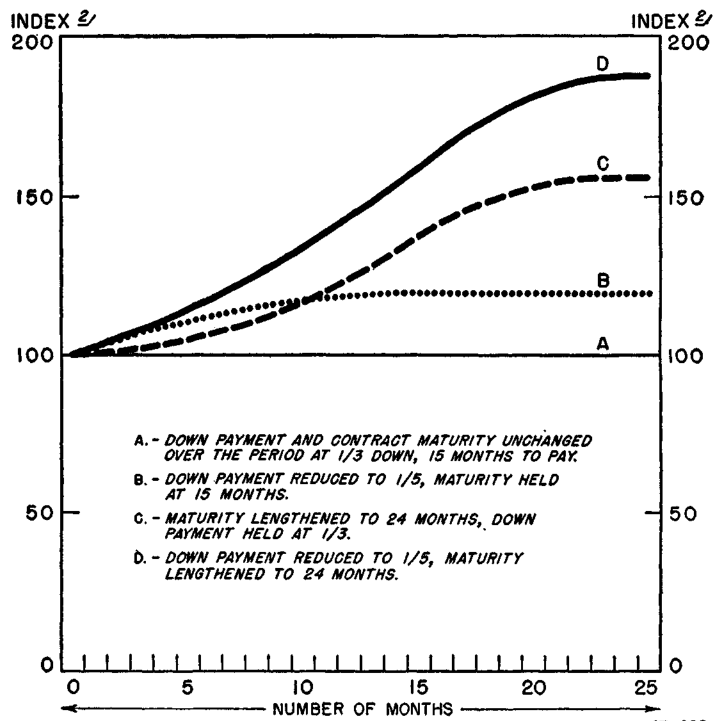
These magnitudes are at best rough approximations of the effect of a return to prewar installment terms. On the one hand, it would appear likely that the actual expansion in installment debt will be substantially less than these amounts, since it is not probable that credit agencies will rapidly revert to prewar conditions of sales credit or loans. Moreover, borrowers may be less inclined to demand such liberal terms in view of their substantially improved savings condition as compared with prewar. On the other hand, the relaxation of terms may stimulate increased installment credit sales. Some further credit expansion will occur merely because of the growth still to be realized from the upward trend of credit extended in the past year and from the steadily improving supply of various durable goods.

Effects of Credit Expansion

In the past, changes in consumer credit have contributed to the development of general business trends, reinforcing consumer purchasing power in the rising phase and adding to the cumulative pressure on the downside in the declining phase. Owing to the unusual position of consumer credit at the end of the war, the postwar credit expansion has been very rapid, but from a low base.

(*Continued on p. 24*)

Chart 5.—Illustrative Calculations of Changes in Volume of Consumer Credit Outstanding as a Result of Modifications of Terms of Installment Selling, With Sales Held at a Constant Rate [1]



[1] The computations assume that installment sales have been held at a constant rate for at least 15 months prior to the period illustrated in the chart. It is further assumed that all sales are made according to the specified terms of borrowing.

[2] Amount of credit outstanding for the initial month shown is taken as 100. Terms on this credit are assumed to be ⅓ down, 15 months to pay.

Source of data: U. S. Department of Commerce, Office of Business Economics.

the 800 corporations than for the 200 largest. In both years the 800 were more profitable than the largest when judged by this standard.

As previously noted, the 800 corporations made appreciably greater relative gains between 1939 and 1946 in assets, sales, net profits, and in most of the significant balance-sheet items. These changes, however, must be interpreted in the light of the usual cyclical factors which influence the behavior of firms of different size. Experience indicates that incomes of smaller concerns are typically more sensitive to cyclical swings in business activity, and that as a consequence the relative importance of the largest corporations regularly increases in depression and is reduced in prosperity.

It follows, therefore, that such shifts are not necessarily indicative of enduring alterations in the structure of business and that a study of these latter changes would require a considerably more comprehensive analysis—from the standpoint of time-span covered—than was undertaken in this survey.

Explanatory Notes

To clarify the basic material of this article, further details and explanations are summarized below.

Since financial data of the 1,000 manufacturing corporations are based largely on consolidated statements of corporate groups, the number of individual corporations represented is considerably more than 1,000. The consolidated statements usually include data for all subsidiary corporations the majority of whose voting stock is held by the parent company.

With minor exceptions, the analysis for the 11-year period (1936–46) covers an identical group of 1,000 parent corporations. In the initial selection of the 1,000 corporations, only those companies were included whose financial data were available for the entire period from 1936 through 1943; thus the same number of corporate returns is included throughout this period. Largely because of mergers and acquisitions within the original group of 1,000, the number of corporate returns was reduced to 992 in 1944, 981 in 1945, and 974 in 1946. Since the operations of these merged companies are still included in the financial statistics of the combined group, the reduction in absolute number of separate corporate returns does not impair the validity of the data. For convenience, the term "1,000 corporations" is used generally in this article.

Obviously, in compiling data from consolidated returns of corporations, some businesses other than manufacturing are included. However, multiple corporations reporting on a consolidated basis were included in this survey only if it could be ascertained that manufacturing activity accounted for the largest percentage of total receipts.

To obtain consistency in the matter of reporting United States tax notes, some adjustments were made in the total assets data as shown by certain corporations. In most corporation reports, United States tax notes were treated as a part of current assets; some corporations, however, deducted tax notes from the income-tax liability instead of including them under assets. In such cases, tax notes were added back to the balance-sheet account.

Statistics reported under the caption of a specific year include data for 12-month accounting periods ending from June 30 to December 31 of that year; whereas data for accounting periods ending prior to June 30 were included under the heading of the previous year, or the year which included the greater part of the 12-month accounting period A financial statement for 12 months ended May 31, 1947, for example, was included under the year 1946.

The Business Situation

(Continued from p. 10)

savings rate, with reduced participation in the pay roll deduction plan for savings bond purchases and less insistent patriotic appeals in bond selling operating as important factors. "E" bond purchases are currently concentrated in higher denominations as small investors who previously purchased low denominations reverted to traditional habits by depositing their savings in banks.

Savings Rate Reflects Postwar Influences

The restoration of a savings-income relationship in the recent postwar period which does not differ much from the rate which existed in years of high income and employment before the war tends to obscure the effects of special factors operating in the postwar transitional period. In the first place, consumers entered the postwar period with huge backlog requirements for passenger cars and other durable goods. The trend of production in the reconverted durable goods industries is reviewed in an earlier section in this issue. Because the working-off of backlog requirements has been slow, there has not been any unusual bulge in durable goods expenditures relative to current income. As further production progress is made in these industries the existence of deferred demands may have an impact on the rate of consumer savings.

The relatively low volume of consumer credit outstanding in comparison with the current level of consumer income—a situation which is described in detail in a feature article in this issue—is a further factor affecting postwar savings patterns. The existence of record liquid asset accumulation should also be noted. Persons holding these accumulations are in a position to step up their rate of spending. However, to the extent that these assets are used as an alternative to consumer borrowing there would not be any net effect on the savings rate.

Consumer Credit in the Postwar Period

(Continued from p. 15)

The actual effects of the postwar credit expansion have been shaped by factors peculiar to the transition period. In the first place, the postwar sellers' markets for the major durable consumer goods has meant that the amount of these goods purchased has not been influenced by the availability of credit. The stimulating effect of "time" purchasing has been felt chiefly in other areas of consumer demand where sales were strengthened either because of the spending of funds which would have been absorbed in durable goods purchases had credit not been available, or because of the extension of charge account credit, single payment loans, and other forms of credit not primarily associated with durable goods purchases. With supplies limited in most areas of the economy either by capacity considerations or by various production difficulties incident to the reconversion period, the tendency has been for the added purchasing power to make itself felt in pressure on prices—to a greater extent than in a more normal period of business expansion.

Secondly, to the extent that postwar borrowing has been merely a substitute for the drawing down of the large liquid asset holdings carried over from the war period, the borrowing has not actually increased consumer spending, although it has increased the amount of funds which may be readily spent by consumers.

The acceleration of credit extension which will follow from any relaxation of terms of borrowing will not bring forth any larger supplies of the major durable goods which will remain short of demand for the near-term, but will stimulate consumer purchasing in other areas. Insofar as there is no improvement in supplies relative to demand, credit extension adds to the pressure on prices.