

FEDERAL RESERVE BANK OF NEW YORK



MONTHLY REVIEW

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The Business Situation

Economic activity in February appears to have continued at a high level, sustaining the gains made in January after the first impulse from the reopening of the steel mills had spent its strength. Indeed, expansion over the four-month period of renewed steel output has been broadly based and, on the whole, rapid—although the pace recently has not been fully satisfactory to those who had expected the “soaring sixties” to produce immediate miracles. While steel production in February was slightly below the January record, preliminary data suggest that output in many other industries was steady or rising. Auto assemblies, however, were cut back from the very high rate reached in the preceding month, as inventories piled up. Sales of consumer goods maintained high levels and the rate of investment in fixed capital also appeared to be firm. Weekly figures on bank credit corroborated the impression of generally sustained strength, as business loan demand picked up in February following a somewhat weak performance earlier in the year.

THE POST-STRIKE REBOUND

The most pressing needs of the economy in the months immediately after the steel strike were to restore a steady flow of steel products to durable goods manufacturers and to rebuild automobile inventories so as to remove the restraint upon car sales imposed by limited dealer stocks. By the end of February, it appeared that the rapid rate of production since early November had fully met these immediate needs. Output had already risen sufficiently by the end of 1959, according to new United States Department of Commerce figures, to carry fourth-quarter gross national product to a seasonally adjusted annual rate of \$483.5 billion (\$1.5 billion higher than the preliminary estimates of the Council of Economic Advisers). This level was almost \$5 billion above the preceding quarter, although still \$1 billion below the second-quarter 1959 peak. The largest movement within the total was the change in nonfarm inventories, which had been liquidated at a seasonally adjusted annual rate of \$1.8 billion in the third quarter and were replenished in the fourth quarter at a rate of \$2.3 billion.

The brisk pace of industrial production continued into the new year, permitting further inventory building, and by early February a number of industries that had anticipated tight steel supplies for some months to come were

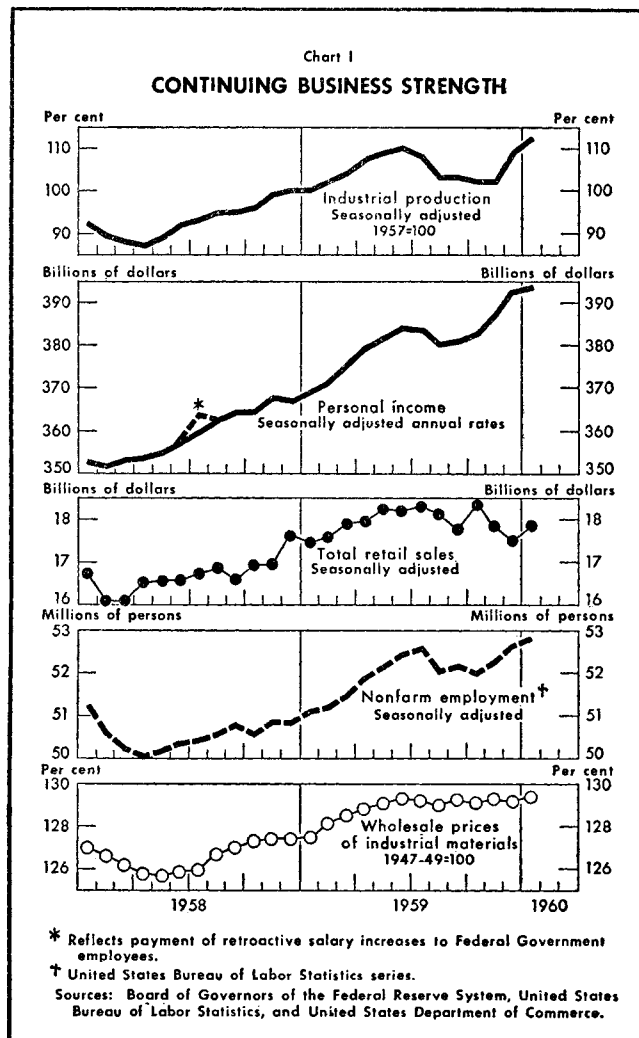
accumulating stocks at a pace that they considered satisfactory. Steel ingot production edged below 95 per cent of capacity in February for the first time since the beginning of December (with the exception of Christmas week), but industry sources expect it to remain above 90 per cent of capacity through March.

Automobile inventories began to rise rapidly after the turn of the year, and dealers were expected to have almost 400,000 more domestically produced cars on hand by the end of February than at the end of December. This would bring inventories close to an all-time record. With stocks accumulating so rapidly, some producers sought to adjust output more closely to current levels of sales and consequently curtailed production during much of February. Although auto production in January had set a new record for that month, it is highly unlikely that the industry's earlier prediction of a quarterly output of 2.2 million cars will be fulfilled. The first-quarter total will still be quite high, however, and the sales figures for February (discussed below) are more encouraging than the January results which led to production cutbacks.

MODERATE BUT WIDESPREAD GAINS

Chiefly because of the sharp rise in output of automobiles and steel, but also reflecting production gains in machinery and other metal-working industries and in certain nondurable goods industries and utilities as well, total industrial production rose 3 points in January to 112 per cent of the 1957 average. This was 2 points above the previous peak, set last June, just before the steel strike (see Chart I). Substantial movements in the index are not likely in February, in view of the declines in steel and automobile output that offset the moderate gains which appear to have continued in some other lines.

Along with the new production record set in January, nonfarm employment also reached a new high, rising by nearly 150,000 persons to 52.8 million (seasonally adjusted Bureau of Labor Statistics series). The increase was concentrated in the auto industry and in retail and wholesale trade. There was a largely seasonal decline in total employment, according to the Census Bureau, reflecting such factors as the termination of holiday jobs. These estimates, based on a population sample survey rather than on reports from employers (and which include farm workers, self-employed persons, and domestic workers),



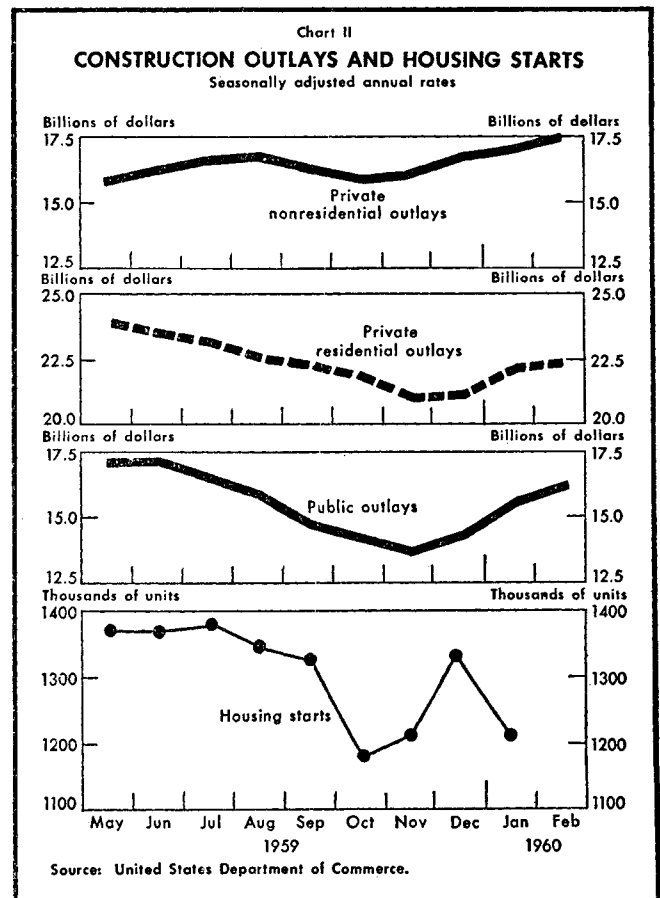
indicate that total employment fell about 3 per cent in January to 63.8 million persons. The seasonally adjusted unemployment rate remained at the December level of 5.2 per cent of the civilian labor force, close to the 4.9 per cent level prevailing before the steel strike.

Average hourly and weekly earnings in manufacturing rose to new highs in January, and average hours worked receded less than is usual for that month, with the result that personal income derived from wages and salaries moved up again. Smaller increases also occurred in some other nonagricultural components of personal income, but no further gains were registered in farm income which had been recovering in the preceding three months. Total personal income rose to a record \$393.3 billion (seasonally adjusted annual rate), 2.5 per cent above the pre-strike peak of last June. The gain of \$1.2 billion over December

occurred despite a \$1.1 billion increase in personal contributions for social insurance, arising primarily from the recent increase in contribution rates (such personal contributions are deducted in computing personal income).

The upward course of personal income, but more particularly the spurt in auto production that alleviated shortages of new cars in dealers' showrooms, pushed total retail sales in January 2 per cent above the reduced December level, after seasonal adjustment (see Chart I). At \$17.8 billion, the January sales total was somewhat below the previous 1959 peak, possibly because income lost in strike-affected areas was still retarding sales in certain lines.

The daily average rate of automobile sales in January was 31 per cent higher than the previous month and almost 11 per cent above a year earlier. Year-to-year gains increased further during the first twenty days of February. If the February pace were to continue through the year, allowing for seasonal variations, total 1960 sales of domestic autos would be above 6 million units—although less than the 6.5 million figure appearing in many forecasts



late last year. Consumer purchases of other goods, both durable and nondurable, were sustained in January at the levels of the preceding month.

Wholesale prices remained relatively stable during the period of sharply expanding production in December and January. The wholesale price index was unchanged in December and then edged up in January by $\frac{1}{10}$ of a percentage point. Half of the January increase was in farm products and processed foods, however, which usually move up at this time of year. The index of industrial materials prices—which includes all the unfinished goods in the wholesale price index, except for farm products, and is particularly responsive to movements in the prices of metals and minerals—might have been expected to show some upward movement as the production of durable goods rose rapidly. But this index rose only $\frac{2}{10}$ of a point in January, following a drop of $\frac{1}{10}$ in December. Although the January level was a new high, the net rise since mid-1959 has been slight (see Chart I), and there were no signs of any further advance in early February.

CONSTRUCTION TRENDS

Both public and private construction outlays (seasonally adjusted) increased in February for the third consecutive

month, carrying total outlays almost 10 per cent above November. In the private sector, expenditures for new nonresidential construction expanded through most of 1959 (see Chart II) but fell in September and October as a result of steel shortages. While some part of the renewed expansion in the subsequent months was undoubtedly a reaction to this interruption and therefore temporary in character, the accelerated expansion in February seems to indicate basic strength in this area.

Outlays for private residential construction had been falling for six months before turning up in December, with strong competition for funds from other borrowers one major cause of the decline. Probably no great significance should be attached to the marked January increase in outlays, as the sharp jump in seasonally adjusted housing starts in December was followed by an equally sharp decline in the following month (see Chart II). The Federal Housing Administrator has characterized the December increase in housing starts as a “freak figure”. The continued, though smaller, increase in outlays in February does suggest, however, that the 1959 decline may be leveling out. This tends to confirm other indications that the availability of mortgage funds is at least not tightening further.

Money Market in February

The money market remained moderately tight during February. Member bank reserve positions in the aggregate continued under pressure, despite a decline in required reserves resulting from a further seasonal reduction in bank credit. Irregular fluctuations among a number of factors influencing bank reserves caused intermittent relaxation of reserve pressures on the large New York City banks. There was occasional easing in the money market as a result, and some trading in Federal funds occurred at such times at rates below the 4 per cent discount rate. However, there were only three days during the month when the bulk of the trading in Federal funds took place at rates below 4 per cent. Rates on new and renewal loans to Government securities dealers at the New York City banks, which were 5 per cent at the start, ranged from $4\frac{1}{2}$ per cent to $5\frac{1}{4}$ per cent during the course of the month, closing at $4\frac{1}{2}$ -5 per cent. Treasury bill rates extended their sharp decline of January into the early

part of February, but moved higher during the balance of the month.

The market for Treasury notes and bonds, particularly longer term issues, continued during the greater part of the month to react to expectations that the expansion in business and credit would be more moderate than had been anticipated earlier and that there was less danger of an inflationary boom. In the final week of the month, however, rates increased sharply on long-term issues and declined on intermediate issues, in response to legislative developments described below.

MEMBER BANK RESERVES

Average excess reserves of all member banks, at \$423 million, were \$95 million below the average for the four statement weeks in January, while average borrowings at the Federal Reserve were \$90 million lower at \$813 million. A sharp drop in net borrowed reserves during

the last statement week reflected mainly an unexpected increase in float, resulting from heavy snowstorms that delayed check collections.

Weekly reserve changes from operating factors were of moderate size during the first three statement weeks, as fairly wide swings in float were counterbalanced by changes in other factors. In the third week, for example, an increase in float of more than \$300 million was offset by an increase in Treasury deposits at the Federal Reserve and by Treasury interest payments to the Federal Reserve System (this last item is included in the category "other deposits, etc." in the table). In the final statement week, member banks gained a substantial volume of reserves as the unexpected rise in float was added to moderate gains from most other operating factors. Over the four weeks, operating transactions largely balanced out, absorbing \$12 million of reserves. Total required reserves, on the other hand, continued to decline seasonally in each week, releasing \$451 million of reserves over the four-week period.

Changes in Factors Tending to Increase or Decrease Member Bank Reserves, February 1960

(In millions of dollars; (+) denotes increase, (—) decrease in excess reserves)

Factor	Daily averages—week ended				Net changes
	Feb. 3	Feb. 10	Feb. 17	Feb. 24	
Operating transactions					
Treasury operations*	+ 1	+ 88	— 180	+ 70	— 21
Federal Reserve float	+ 5	— 255	+ 314	+ 157	+ 221
Currency in circulation	+ 84	— 33	— 32	+ 69	+ 88
Gold and foreign account	— 31	+ 24	— 22	+ 9	— 20
Other deposits, etc.	+ 1	— 11	— 240	— 29	— 279
Total	+ 60	— 187	— 161	+ 276	— 12
Direct Federal Reserve credit transactions					
Government securities:					
Direct market purchases or sales	— 8	— 87	— 55	— 47	— 197
Held under repurchase agreements	+ 5	+ 29	+ 21	— 55	—
Loans, discounts, and advances:					
Member bank borrowings	+ 35	+ 42	+ 123	— 353	— 153
Other	—	—	— 1	— 2	— 3
Bankers' acceptances:					
Bought outright	— 1	— 2	— 1	—	— 4
Under repurchase agreements	—	—	—	—	—
Total	+ 31	— 16	+ 86	— 457	— 356
Member bank reserves					
With Federal Reserve Banks	+ 91	— 203	— 75	— 181	— 368
Cash allowed as reserves†	— 47	— 16	+ 26	— 4	— 41
Total reserves†	+ 44	— 219	— 49	— 185	— 409
Effect of change in required reserves†	+ 59	+ 211	+ 94	+ 87	+ 451
Excess reserves†	+ 103	— 8	+ 45	— 98	+ 42
Daily average level of member bank:					
Borrowings from Reserve Banks	808	850	973	620	813‡
Excess reserves†	431	423	468	370	423‡
Net borrowed reserves†	377	427	505	250	390‡

Note: Because of rounding, figures do not necessarily add to totals.

* Includes changes in Treasury currency and cash.

† These figures are estimated.

‡ Average for four weeks ended February 24, 1960.

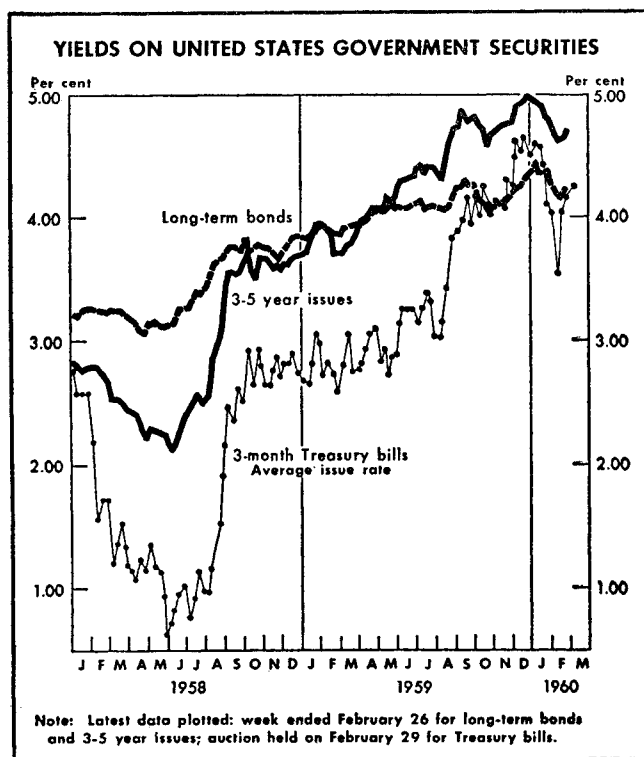
Federal Reserve holdings of Government securities were reduced in each statement week during February, but the amounts involved were small relative to the extensive net sales and redemptions in the previous month, when the return flow of currency was of massive proportions. Between January 27 and February 24, securities held outright by the System Open Market Account were reduced by \$257 million, principally as a result of redemptions.

GOVERNMENT SECURITIES MARKET

Early in the month, the attention of the Government securities market was focused on the Treasury's refunding of \$11,363 million of 3¾ per cent certificates maturing February 15 and \$198 million of 1½ per cent notes due April 1, 1960. In exchange for these securities the Treasury offered a one-year certificate and a four-year nine-month note, both bearing a 4⅞ per cent coupon; the certificate was offered at par and the note at 99¾ to yield about 4.93 per cent. The refunding terms were announced on January 28, with subscription books open from February 1 to February 3 and settlement as of February 15. During the subscription period, the maturing certificates were bid at a premium, with prices ranging from 100⅓₂ to 100⅞₄, which encouraged holders who had planned to redeem at maturity to sell their holdings in the market. As a result, by the subscription date a large proportion of the maturing issues was in the hands of investors who wished to take advantage of the exchange. Holders of \$10,982 million of the maturing certificates and \$141 million of the notes elected to exchange into \$6,935 million of the new certificate and \$4,188 million of the new note. In "when-issued" trading, both the certificate and the note were generally quoted at small premiums over the Treasury's offering price. This exchange included \$5.5 billion of the maturing securities held by the Federal Reserve System, of which \$2 billion was exchanged for the note and the balance for the certificate. Attrition on the offering amounted to only \$438 million, about 8 per cent of the publicly held portion of the maturing securities.

Toward the end of the month the market for Government notes and bonds was heavily influenced by action taken by the Ways and Means Committee of the House of Representatives. The committee approved a bill that would, if enacted by Congress, permit the Treasury to engage in advance refunding, as well as to undertake other long-term financing in an amount not to exceed 2 per cent of the outstanding marketable debt annually, at yields in excess of the 4¼ per cent statutory interest rate ceiling.

Underlying the strong market for Treasury notes and bonds early in February, and for longer term issues until the final week of the month, was the growing feeling that



the rate of economic expansion might be slower than had been expected earlier, that in any event inflationary pressures seemed to be easing, and that as a consequence the credit markets might not tighten further. The lessened optimism concerning the general business outlook was underscored by continued weakness in the stock market through the first half of February. The bond market was further buoyed by the excellent reception accorded the Treasury's refunding early in the month. The new 4% per cent note of 1964 traded at a premium over offering price throughout the month, closing at 100.14 on February 29. This note and longer term issues as well were in fairly steady demand by small investors and institutional buyers.

Toward the end of the month, prices of most notes and bonds weakened as investors awaited some clearer indication of the prospects for economic activity and credit demands. This tendency was resisted, however, by issues maturing in 1961-62 and certain other issues, which the market considers most eligible for possible advance refunding. Conversely, the prices of long-term Treasury bonds were marked down sharply. Over the month as a whole, the average yield on long-term Treasury bonds had declined to 4.27 per cent by February 29 from 4.34 per cent on January 29. On three- to five-year issues, the yield

decline was from 4.77 per cent to 4.66 per cent.

Treasury bill rates moved sharply lower through February 8, when the second weekly bill auction of the month was held (see chart). Strong demand from nonbank investors during this period was reinforced by switching out of rights to the new Treasury issues into bills. The bill market was further strengthened by expectations that funds released by a sizable net redemption of Government agency obligations and by attrition in the refunding would swell the demand for bills. Under aggressive bidding, the average issue rates in the February 8 auction declined to 3.563 per cent on the 91-day bills and 4.094 per cent on the 182-day bills. These rates were about 1 percentage point lower than those established in the first weekly auction of 1960.

Following the February 8 bill auction, the downward movement in Treasury bill rates was reversed and rates moved sharply higher in response to liquidation by corporations and banks. Moreover, the Government agency redeeming its own securities liquidated bills to obtain the needed funds while the reinvestment demands for Treasury bills arising from this redemption, and from attrition on the Treasury refunding, were smaller than had been expected earlier. In the auctions on February 15 and 22 the average issuing rates on 91-day bills rose to 4.045 per cent and 4.168 per cent, respectively, while the 182-day bills climbed to 4.294 per cent and then to 4.396 per cent. Although the auction held on the last day of the month resulted in rates of 4.278 per cent and 4.458 per cent on 91-day and 182-day bills, respectively, these rates quickly declined in subsequent market trading.

OTHER SECURITIES MARKETS

The market for seasoned corporate and State and local government securities retained a firm tone until the latter part of February, under the same influences that were operative in the Government securities market. Although the volume of new securities flotations was comparatively light, toward the end of the month investor resistance to the current price and yield level appeared to be developing, as new issues were slow in moving from dealer portfolios and the calendar of forthcoming issues, particularly municipals, built up. The average yields on Moody's indexes of seasoned Aaa bonds declined over the month from 4.60 to 4.54 per cent for corporates and from 3.47 to 3.39 per cent for tax-exempt securities.

Flotations of new tax-exempt securities during February totaled only \$523 million, lower than the total for either January 1960 or for February 1959, when volume amounted to \$610 million and \$791 million, respectively. Receptions accorded the new issues were mixed, ranging from poor—in cases where yields were measurably below

recent going levels for comparable outstanding securities—to excellent. Included in the new flotations was a group of eighteen issues of Aaa-rated Housing Authority bonds, totaling \$102.8 million and due 1960-2000. These issues, which were reoffered to yield from 2.60 per cent to 3.90 per cent, were very well received, and some of the longer maturities moved to premium bids as much as 1¼ points above the issuing price.

The volume of new corporate bond offerings continued to be relatively small during February. Flotations of \$240 million fell short of the \$324 million in January, but exceeded the meager \$184 million total in February 1959. The few sizable corporate issues also encountered mixed receptions.

One of the largest issues marketed during the month, not included in the preceding totals, was \$125 million of 25-year 5 per cent bonds of the International Bank for Reconstruction and Development (Aaa rated). This issue, offered at par, quickly moved to a premium but by the end of the month was priced close to par. The initial announcement of the flotation indicated that it would be for \$100 million, but the amount subsequently was raised to \$125 million on the evidence of strong investor interest. The market for United States Government agency obligations continued strong during the month, and new

issues had enthusiastic receptions. Of the \$625 million total of agency flotations, more than three quarters represented refundings. Refundings fell considerably short of total agency redemptions, however, as the agency referred to earlier in this article refunded only \$162 million of \$509 million of maturing securities.

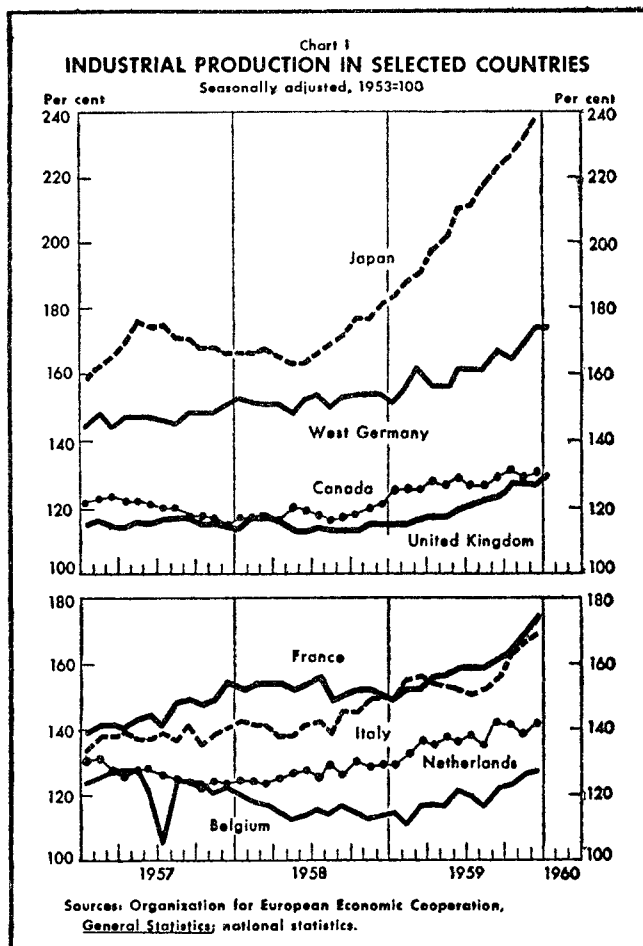
Following the sharp drop in Treasury bill rates early in the month, interest rates on bankers' acceptances, sales finance company paper, and commercial paper were revised downward, but in the two latter cases rates were increased after midmonth. Dealers in bankers' acceptances reduced rates on all maturities by ¼ per cent on February 8, bringing the new bid rate on 90-day unindorsed acceptances to 4½ per cent. Rates on directly placed sales finance company paper were cut by ¼ to ¾ of a percentage point the following day, and at the same time the 30- to 89-day paper was split into maturities of 30 to 59 days and 60 to 89 days. Paper in the latter category was reduced ½ per cent to 3¾ per cent. On February 17 and 18, these companies raised their rates ¼ to ½ per cent, returning the 60- to 89-day paper to the 4¼ per cent level. Rates on prime 4- to 6-month commercial paper were reduced from 4¾ per cent to 4¾ per cent on February 9, but this was nullified by advances of ¼ per cent on February 16 and ⅛ per cent on February 23.

International Developments

BUSINESS TRENDS ABROAD

The economic advance in the major industrial countries abroad has quickened perceptibly in recent months. The expansion, which had been supported in its earlier stages by a rise in consumption and exports, was reinforced by a distinct pickup of business investment in plant and equipment toward the end of 1959. As a result, the vigorous upswing broadened in the closing months of the year, and in most countries industrial production rose far above the previous peaks of the 1956-57 boom. In 1960, with all major components of demand expanding, it is widely expected that Western Europe, Canada, and Japan will attain new records in output, incomes, and employment. So far, the expansion has generally been orderly, but the danger of excesses has recently begun to loom larger. In several countries, prices have risen somewhat, signs of strain have multiplied in the labor markets, and increases in imports have tended to reduce earlier large surpluses in external payments.

The rising tempo of the business expansion abroad is most apparent in the upsurge of industrial production (see Chart I). In Western Europe, industrial production in the fourth quarter of 1959 rose about 5 per cent above the third quarter on a seasonally adjusted basis, and more than 10 per cent above the last quarter of 1958. The advance was greatest in France and Italy, where industrial output increased by about 6 per cent from the third to the fourth quarter. The expansion also continued at a rapid pace in West Germany, and gathered momentum in Belgium where the revival had been slow earlier in the year. In the United Kingdom industrial production, after reaching a new peak in the fourth quarter of 1959, rose further in January 1960. In Japan, the year's advance was even more rapid than in Europe, with industrial production at the year end a striking 30 per cent above a year earlier. In Canada, industrial expansion was temporarily hampered in late 1959 by steel shortages resulting from the United States steel strike. However, the tendency of the Canadian expansion to level off in mid-



1959 had clearly been reversed by the end of the year, when industrial output exceeded the year-ago level by about 8 per cent.

Although production had advanced in most branches of industry by the end of 1959, the largest increases were generally concentrated in the basic industries and in consumer durables production. The Western European chemical industry showed particularly sharp gains, notably in France and Italy. The advance in steel production was pronounced everywhere but was especially large in West Germany, while the increase of aluminum output over 1958 reached 17 per cent in Italy. Automobile output rose rapidly in all major car-producing countries; in Italy, indeed, it expanded by 25 per cent in 1959. There were also substantial gains in textile output in a number of countries. The capital equipment industries experienced a marked pickup only in the final months of 1959 in most of Western Europe, except in West Germany where the output of these industries expanded throughout the year. In Japan, where an investment boom was also under

way during most of 1959, the output of machinery at the year end was running about 50 per cent ahead of a year earlier.

Vigorous export and consumer demands have persisted as major elements in the economic expansion in most industrial countries abroad. Nearly everywhere exports attained record levels in 1959. The strong uptrend in consumer expenditures has reflected rising earnings and employment, and also in some countries—notably the United Kingdom—more ample consumer credit facilities and some tax reductions in early 1959.

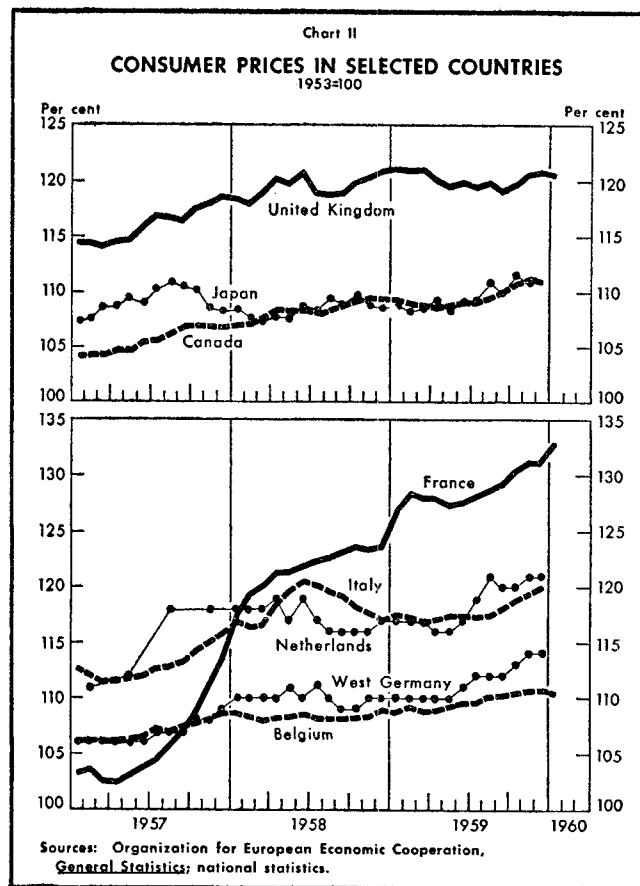
A new expansionary force appearing in a number of countries at the year end was the pickup in business investment that accompanied the fuller utilization of productive capacity. The acceleration of business investment plans in the United Kingdom has been striking. A recent Board of Trade survey reveals that at the year end capital outlays by British manufacturing firms were expected to be 14 per cent higher in 1960 than in 1959, and those by nonmanufacturing firms 20 per cent higher, although a similar survey last August had anticipated virtually no change. Fixed investment also picked up in Italy in the final months of 1959, and plans for the first quarter of 1960 indicated a continuation of this trend. In France, although business investment programs were generally reported as cautious toward the end of 1959, a number of important industries, such as steel and aluminum, were planning a substantial expansion of capacity. In Canada a recent survey of investment plans indicates that total fixed investment, which in 1959 was about the same as in 1958, may rise by about 4 per cent in 1960, chiefly reflecting an expansion of private investment in plant and equipment.

In view of the high rates of fixed investment widely planned for 1960, and with unused production facilities still prevailing in many industries, it appeared at the end of 1959 that sufficient capacity for continued increases in output would generally be available in 1960. In the United Kingdom, for example, only the automobile and some other consumer durable industries had approached the limits of their capacity in 1959, and new investment was expected to lift these limits in 1960; in the capital goods industries, in the meantime, unused capacity was still widespread. In France, too, the capital equipment sector was still operating well below capacity at the end of 1959. On the other hand, pressures on capacity were evident in varying degrees in some countries, particularly in West Germany, where producers of capital goods were reporting rapidly rising order backlogs and construction contracts were outrunning the capacity of the building industry.

A more immediate source of difficulties for 1960, however, appeared to be the state of the labor markets in a number of economies. Employment has continued to advance in most industrial countries, though relatively less than production owing to productivity gains. Seasonally adjusted unemployment showed little change in Canada in the latter part of 1959, but continued to recede in Western Europe. By late 1959, unemployment in West Germany, Denmark, Austria, and Switzerland was lower than at any other time since the Korean war. In the United Kingdom, although unemployment remained substantially higher than job vacancies, the margin narrowed in the latter part of 1959 and regional labor shortages developed. Nation-wide shortages, notably of skilled labor, had become a serious problem in several countries by the year end. In West Germany and Switzerland, in particular, the inadequacy of the labor supply threatens to be a strong limiting factor this year, especially since the reserves of foreign labor that might have been relied upon to alleviate domestic shortages are dwindling as a result of expanding activity throughout Europe.

With the growing tightness of the labor markets, pressure for wage increases has intensified in Western Europe. Although wage rates generally rose slowly through most of 1959, there was a more pronounced upward movement in a number of countries in the final months of the year. This trend may be expected to continue in 1960, for nearly everywhere the renegotiation of expiring labor contracts has been bringing forth demands for substantially higher wages and shorter hours. In the United Kingdom a national railway strike was averted last month by granting the railway workers an immediate 5 per cent wage increase, to be followed by additional increases in the final settlement. Also last month, British construction workers received a 4 per cent wage increase, and the shipbuilding and engineering unions settled for a two-hour shortening of the standard workweek without loss of pay. In West Germany, demands for wage increases had originally run up to 10 and 15 per cent; although these claims now appear to have been scaled down somewhat, a nation-wide contract for workers in the construction industry has recently provided for a 5.6 per cent wage increase, and this may set a pattern for the other wage contracts to be negotiated this year. A number of negotiations pointing to sizable increases in wage levels have also been concluded in France and the Netherlands.

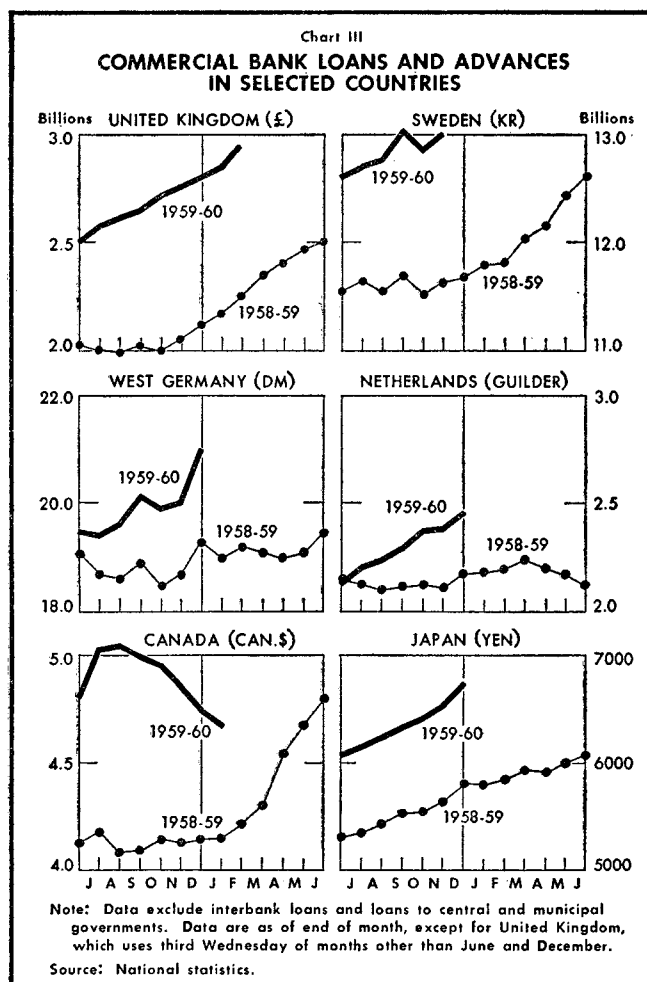
Price increases in Western Europe were generally small in 1959 (see Chart II), but there was some upward movement in the second half of the year. In the United Kingdom, after declining through most of the year, consumer prices inched up in the fourth quarter. On the Continent,



the price rise in the summer and early fall of 1959 was largely attributable to the impact of the severe drought on food and other farm product prices. In a number of countries, the price indexes in December 1959 were up 2 to 3 per cent from their midyear levels, but at the turn of the year the uptrend in both wholesale and consumer prices had generally leveled off. However, expectations of more pronounced price increases for certain industrial products and for services, coupled with an upward trend in import prices, have aroused concern. In the United Kingdom, France, and the Netherlands, the governments have been advocating voluntary price cuts by manufacturers and merchants. Nearly everywhere, a desire to preserve the price stability of the 1958-59 period has evoked official declarations or countermeasures indicating a firm intent to prevent renewed inflationary pressures that would jeopardize the continued expansion of economic activity.

MONETARY TRENDS AND POLICIES

In most industrial countries abroad, the current expansion in economic activity has been accompanied by a sub-



stantial increase in commercial bank lending (see Chart III). There has been an especially large rise in such credit in the United Kingdom, where advances of the London clearing banks increased by 31 per cent during 1959. Much of the British increase has reflected the continued rapid growth of consumer instalment credit, which rose by 53 per cent during the same period.¹ In Continental Western Europe, too, there has been a rise in instalment credit, including personal loans which are now being offered by commercial banks.

In this setting, the trend toward monetary restraint that had first emerged last autumn became more widespread. During the past three months, the authorities in a number of industrial countries abroad either adopted strong meas-

ures to tighten credit or warned the commercial banks to exercise caution in their lending, thus generally acting more vigorously than at the comparable stage of previous expansions. In addition, some central banks made it clear that they stood ready to take further action to prevent the current expansion from spilling over into an inflationary boom. These developments generally reflected the authorities' concern over threats to domestic price stability (as in West Germany and Switzerland), the weakening of the country's balance of payments and the attendant reserve losses (as in Belgium), or both (as in Denmark, Sweden, and the United Kingdom). At the same time, several of the primary-producing countries tightened their credit policies—generally in order to counter the pressure on the balance of payments (as in El Salvador and Guatemala), but in some cases (e.g., Peru) also to sharpen monetary instruments which had not been used for many years and which as a result had lost touch with current credit conditions.

The renewed recourse to monetary restraint in foreign industrial countries in recent months is evidenced most vividly, perhaps, by the number of discount rate increases (see table). Following such increases in Denmark, Germany, and the Netherlands during September-November—the first since the summer of 1957—rates have been raised by the central banks of Belgium, Denmark (for a second time), Iceland, Ireland, Japan, Sweden, and the United Kingdom. In Denmark and Sweden, these rates now are back to where they stood in late 1957, and in Belgium and the United Kingdom back to their levels of mid-1958.

Changes in Foreign Central Bank Discount Rates Since September 1959
(In per cent)

Date of change	Country*	New rate	Amount of change
1959			
Sept. 4	West Germany	3	+1½
Sept. 19	Denmark	5	+1½
Oct. 1	Greece	9	-1
Oct. 19	New Zealand	6	-1
Oct. 23	West Germany	4	+1
Nov. 5	Peru	9½	+3½
Nov. 6	South Korea	7.3	+0.73
Nov. 12	Venezuela	4½	+2½
Nov. 16	Netherlands	3½	+¾
Dec. 2	Japan	7.3	+0.365
Dec. 16	Ceylon	3	+½
Dec. 24	Belgium	4	+¾
Dec. 24	Ceylon	2½	-½
1960			
Jan. 15	Sweden	5	+1½
Jan. 21	United Kingdom	5	+1
Jan. 25	Cuba	6	+1½
Jan. 25	El Salvador	5½	+1½
Jan. 26	Denmark	5½	+1½
Jan. 29	Ireland	4¾	+½
Feb. 22	Iceland	11	+4
Mar. 1	Greece	7	-2

¹ It should be noted, however, that consumer instalment credit in the United Kingdom still is much less widespread than in the United States; in other Western European countries, it is even less important.

* Since November 1956, the discount rate of the Bank of Canada has been set each week at ¼ per cent above the latest average tender rate for Treasury bills. The rate stood at 5.89 per cent on September 3, 1959 and at 4.86 per cent on February 25, 1960.

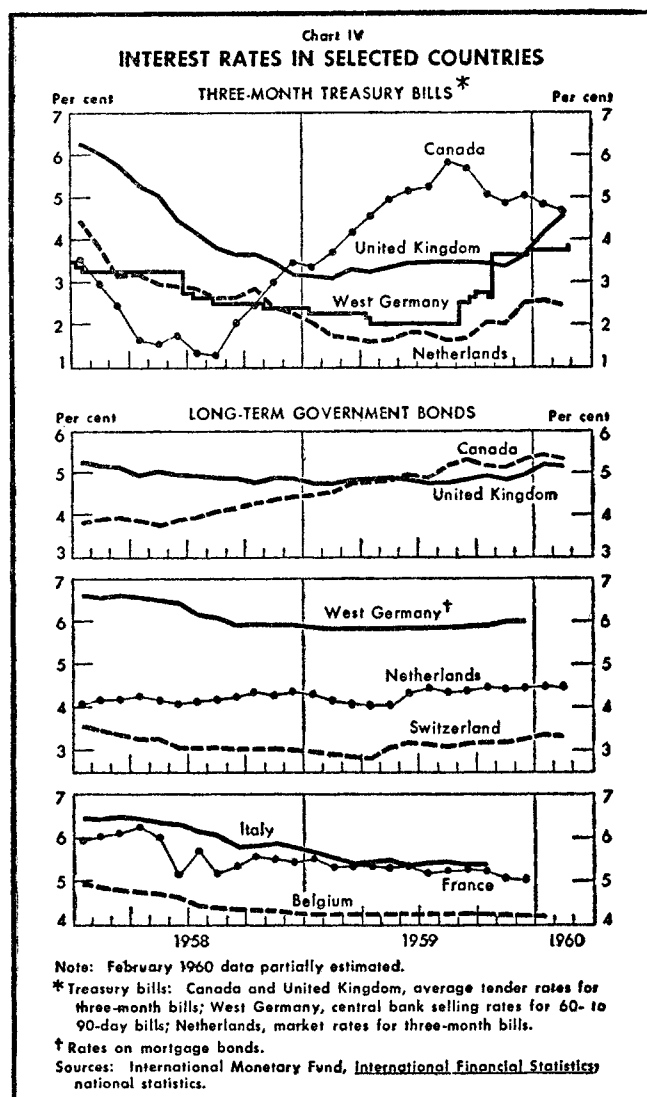
These discount rate increases have generally been accompanied by a rise in interest rates (see Chart IV). While the rate pattern has differed from country to country, the advance has been most pronounced at the short end of the market. The sharp increases in medium- and long-term rates in the United Kingdom since late February appear to reflect the Bank of England's backing away from offerings of government bonds in the market—a policy that should discourage the commercial banks from financing new loans by selling such securities.

Other foreign central banks also have taken additional tightening measures. The German Federal Bank (which in the current phase of restraint was the first central bank to raise its discount rate) increased commercial bank reserve requirements one tenth as of January 1, and by

another one fifth effective March 1. These moves, which followed an earlier increase in November, brought the ratios to 9.8-18.2 per cent against sight deposits, 8.4-12.6 against time deposits, and 7.0-8.4 against savings deposits—the applicable rate depending in each case on the individual bank's reserve classification. As of March 1, the Federal Bank also reduced further the commercial banks' rediscount ceilings, which had been cut last October. Moreover, in view of the inflow of foreign funds attracted by higher domestic interest rates, all increases in foreign-owned sight, time, and savings deposits above their November 30 level were made subject, as of January 1, to reserve requirements of 30, 20, and 10 per cent—the maxima permitted by law. In Sweden, the January discount rate increase was similarly bolstered by an increase of 5 percentage points, effective at the end of February, in the commercial banks' liquidity requirements (which must be met by cash and government securities); accordingly, these ratios now stand at 45 per cent for the five largest banks, and 35 and 30 per cent for the two other groups of banks. In Finland, the amount of discounting permissible at the basic rate was reduced from 60 per cent of a credit institution's capital and reserves to 30 per cent (above this ratio the central bank's penalty rates become applicable). In Australia, the trading banks' statutory reserve requirements were raised in February to 17½ per cent from 16½; such requirements, which are uniform for all trading banks, had been introduced in January when they had replaced the trading banks' "special accounts" with the central bank.

But beyond such concrete measures, a number of these central banks (as well as others that have not yet taken any action) issued strongly worded warnings against the perils of overexpansion, and often suggested specific areas where greater restraint, or closer cooperation with the financial authorities, seemed indicated. Thus the governor of the Bank of England warned after the January discount rate increase that the bank would not hesitate to take further restrictive measures to ward off any threat to price stability. In France, where in the current expansion the authorities have not yet taken any restrictive measures, the governor of the central bank late in February urged the commercial banks to be more selective and cautious in granting new credits. Greater restraint on commercial bank lending also was called for by the central banks of Finland, Sweden, and Switzerland. In Norway the banks were urged to give preference to the financing of specific investment projects, such as power stations, and exports.

In Canada, where in recent months commercial bank reserve positions have been easier than during the sum-



mer and early fall of last year, but where the banks have continued to reduce their outstanding loans, the governor of the central bank in January called for closer coordination of the government's fiscal operations with monetary policy. He stressed that the maintenance of monetary stability was not sufficient by itself to assure sound growth or prevent inflation, but required

action in many other fields besides monetary policy. For example, all levels of government can assist by holding down their spending programmes, including lending programmes, during the buoyant phase of private business expenditures. Taxation policy can also make an important contribution. The anticyclical modulation of government spending and taxing can have the double effect both of moderating the fluctuations in private business itself . . . and of offsetting to some degree those fluctuations in the private sector which are not directly so influenced.

Other central banks also have taken a more emphatic stand than in previous periods of marked business growth and credit expansion, and in a number of instances have not hesitated to urge on their governments their concern over the current economic climate and their views as to appropriate action. At the end of November, the German Federal Bank appealed to the authorities at all governmental levels to draw up their 1960-61 budgets in such a way as to support the bank's monetary policy and, if possible, to relieve the bank of some of the burden of applying credit restraint. More recently, at the express request of the government the Federal Bank drew up a memorandum on price and wage developments in 1959 and on the possible impact of pending wage increases on the domestic price level. In this memorandum, which appears to have had some effect in softening recent wage demands, the bank stated that, if high-productivity industries had translated their productivity gains to a larger extent into lower prices during the past two years, the unions' wage demands undoubtedly would have been more moderate. The bank emphasized that, in order to maintain the growth in economic activity, it was necessary both to keep wage demands from becoming excessive and to reduce prices whenever cost conditions make this feasible. Much, the bank concluded, could also be achieved by government measures, such as a liberal import policy, greater streamlining of the distribution system, and stronger action against monopolistic pricing practices.

EXCHANGE RATES

The New York foreign exchange market was quiet during February. Commercial activity in spot sterling was on

a reduced scale, with most of the activity apparently centering on interbank transactions and on dealings with the Continent. Thus, in the early part of the month the quotation moved only between \$2.8025 and \$2.8035. However, following the interim settlement of the British rail strike threat at the midmonth, the rate advanced appreciably to \$2.8050. Thereafter, it eased off gradually, and on February 29 stood at \$2.8039.

In the forward market, the discounts on three and six months' sterling widened from 2 and 4 points, respectively, to 23 and 35 by February 10, reflecting an adjustment in the short-term interest rate differential between London and New York. Subsequently, as the United States Treasury bill yield increased, the spreads narrowed and at the month end were 8 and 18 points.

The Canadian dollar, with commercial activity at minimum levels, fluctuated for most of the month somewhat erratically between \$1.04⁸³/₆₄ and \$1.05¹³/₆₄. The latter quotation, reached shortly after the middle of February, resulted primarily from the repatriation of the proceeds of a Canadian bond issue previously placed in the New York market. At the month end, however, following the announcement that an additional issue would shortly be placed in the New York market, the quotation reached \$1.05¹/₄, the high for the year.

Except for the Swiss franc, which declined somewhat, most European currencies firmed slightly against the dollar during February.

ANNUAL REPORT—1959

This Bank has just published its forty-fifth *Annual Report*, which reviews the 1959 business and financial scene in the United States and abroad and also comments on some of the developments of the past decade and their implications for the 1960's. The *Report* gives considerable attention to the immediate impact of the 1959 steel strike and to the special problems it posed in framing suitable credit policies for an otherwise prosperous economy. The *Report* also focuses attention on the changing role of the United States in the world economy, forcefully revealed in the sizable balance-of-payments deficits of the past two years. Copies of the *Annual Report* are available, upon request, from the Publications Division, Federal Reserve Bank of New York, New York 45, N. Y.

The Behavior of Consumer Credit

The rapid increase in consumer spending during 1959 was a major force in the general recovery and expansion of business activity. This spending, in turn, was stimulated and supported by a sharp expansion in consumer credit. The pace of the advance in consumer credit during 1959 rivaled that of the previous consumer borrowing boom in 1955 and, as in the earlier period, aroused a widespread sense of uneasiness. It is of timely relevance, therefore, to compare the growth of consumer credit in the two periods and to consider some of the problems that rapid growth of consumer credit may raise.

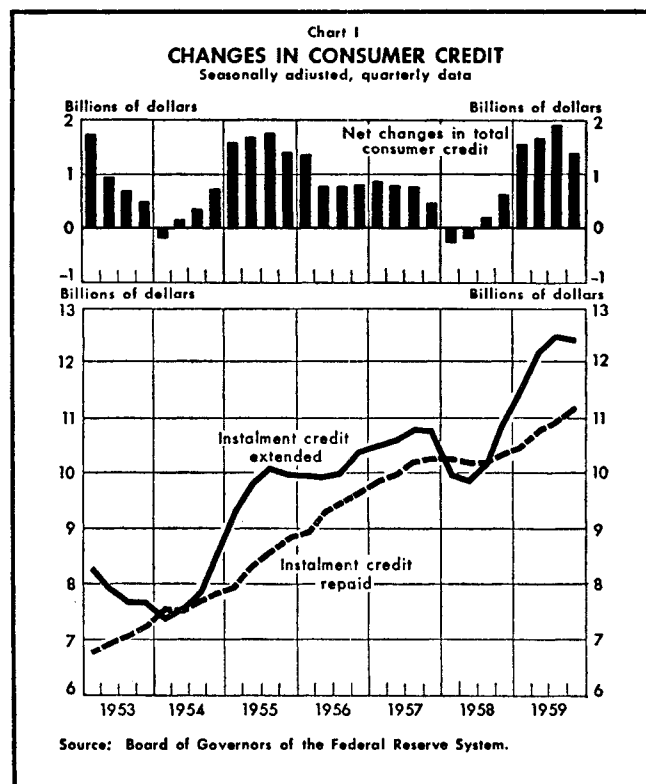
THE CHANGES IN TOTAL CONSUMPTION AND CONSUMER CREDIT

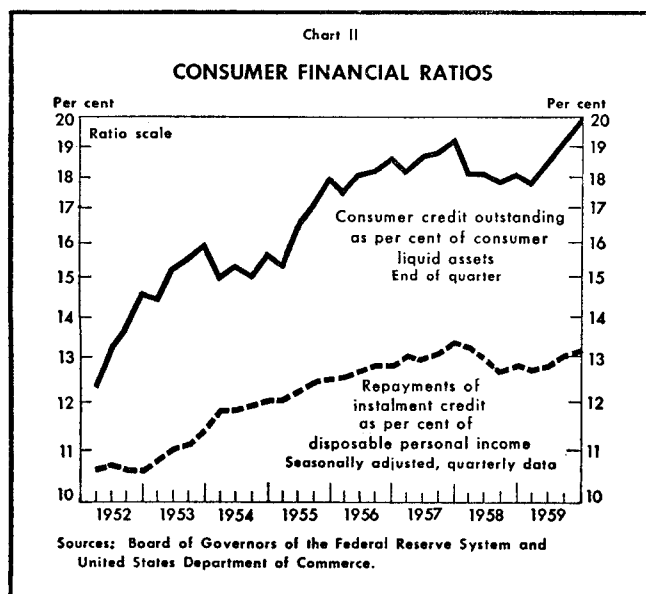
The broad contour of the growth in consumer credit during 1959 was remarkably similar to 1955. In each of the preceding years—1954 and 1958—the rate of growth in consumer credit outstanding had been sharply reduced; and during some months repayments on outstanding debt actually exceeded new extensions. In fact, the \$0.3 billion growth in 1958 and the \$1.1 billion growth in 1954—both years of recession and the early beginning of recovery—were the smallest increases for any year since 1945. The recession-induced reduction in consumer credit, in both cases, had run its course by the time broad business recovery began, and in both 1954 and 1958 consumer credit outstanding was moving steadily higher during the last half of the year (see Chart I). But the real burst, again in both cases, was reserved for the following year of strong recovery. In both 1955 and 1959 total consumer credit outstanding shot up by about \$6½ billion, although in 1959 this increase represented a smaller percentage rate of growth since it began from a higher base.

The rapidity of the advance was, in both periods, closely associated with increased personal spending, especially for durable goods. Ordinarily, consumer credit may be considered as simply a device to help translate consumer wants into effective demand, and changes in consumer credit as no more than reflections of the changing size and composition of consumer wants. But even when viewed in this way, as a passive factor, the extreme variability over the business cycle of consumer demand for durable items, on which the bulk of consumer credit is used, implies that the ready availability of such credit facilitates wide swings in consumer spending. Moreover,

when lending terms are liberalized as part of an aggressive sales campaign—for example, through a lengthening of repayment periods—credit can be an active factor in encouraging consumers to increase their instalment purchases and other credit purchases. Terms involving maturities of three years on new automobiles are now quite common, while only a relatively small portion ran this long in 1955. However, there apparently has not been any marked move toward further lengthening of maturities this time. Maturities extending beyond three years must be accompanied by fairly large downpayments, if the lender is not to find himself overexposed during the earlier months—because the value of the collateral would for some time decline faster than the size of the note.

The consumer-credit burst in 1955 had played itself out by the end of the year. Credit extensions continued to exceed repayments, but for the rest of the business expansion the margin was narrower than in 1955. Whether the more recent consumer-credit boom has reached this point of diminishing vigor is not yet clear. In the last quarter





of 1959 the margin of credit extensions over repayments narrowed slightly, but this largely reflected shortages of durable consumer goods, particularly automobiles, resulting from the steel strike. And in January the margin again widened, although it was still smaller than last summer.

What has accounted for these sharp bursts of consumer credit that have arisen during the revival stage of the business expansions? Undoubtedly, a number of factors, not all of them well understood, have interacted to produce this result. Strangely enough, the recessions themselves probably helped set the stage. During recession periods consumers, as a precautionary or defensive reaction, typically reduce their "postponable" outlays—which nowadays include such items as vacations in Bermuda as well as spending on durable goods. However, they continue to add to their holdings of liquid assets or to repay debt, so that the ratio of debt to assets declines.

Chart II shows that the post-World War II rise in the ratio of debt to liquid assets¹ was interrupted during each of the last two recessions. Basic wants and needs for durable goods were, of course, piling up steadily at the same time that liquidity positions were being improved. Then, as the economy emerged from recession, consumers became more optimistic about their financial future. Fears that they might lose their jobs lessened, and they may have begun to anticipate a rise in income—thus setting the stage for a burst of spending on credit. Unemployed workers found jobs, and those on short hours

¹ Liquid assets include currency and deposits, savings and loan shares, credit union shares, and United States Savings bonds held by the consumer sector.

began to draw full pay. Further encouragement, if any was needed, was provided by the generally easy credit conditions that arose during the recessions and the willingness of lenders to liberalize terms. Consumer enthusiasm for the newest model automobiles also was an important factor in 1955, and the reception of the new models may be an important influence this year.

Apparently, these credit splurges have some self-limiting tendencies. After a while, unfilled consumer needs become less pressing at the same time that repayments of outstanding debt become increasingly burdensome. Also as monetary ease gives way to restraint, and as other credit demands press hard on available sources of credit, commercial banks and other lenders find it more difficult to divert large amounts of funds from other possible uses to consumer credit. New credit extensions, therefore, may tend to decline or to grow more slowly, although they are not likely to fall below repayments so long as the business expansion continues. Once a recession appears, however, with personal income leveling off and a growing atmosphere of caution, a sharp drop in new extensions may occur. In both 1954 and 1958 a point was reached where extensions fell short of repayments (see Chart I).

THE COMPONENTS OF CONSUMER CREDIT

Historically, the extension of instalment credit has been closely associated with sales of durable goods, particularly automobiles. These outlays rose considerably less in 1959 than in 1955; yet instalment credit (and total consumer credit) increased by about the same amount as in the earlier period. How did this happen? The smaller increase in automobile sales during 1959 was indeed reflected in a smaller expansion of automobile instalment loans (see Table I), even though a slightly larger proportion of new cars was bought on credit than in 1955. However, other types of instalment credit expanded more and faster than in 1955. As a result, the share of automobile paper in the total increase in consumer credit fell to 36 per cent in 1959 from 57 per cent in 1955.

Instalment credit of all types gave rise to about the same proportion of the total increase in consumer credit in both periods. The larger increase in 1959 than in 1955 in non-automobile instalment credit, which occurred despite a smaller rise in durable goods sales, probably reflected a number of interrelated factors. There has been growing acceptance in recent years of the practice of purchasing nondurable goods, and services as well, on credit, and sales of such items increased rapidly during 1959. Moreover, various developments in the credit field may have encouraged people to buy a larger proportion of all types of goods on credit. Bank revolving credit plans, which pro-

vide what amounts to an automatic line of credit for consumers, took a leap forward in 1959. With this type of credit, consumers can buy anything from vacuum cleaners to vacations. Revolving credit plans of retail stores, which have been in operation longer than the bank plans, apparently are being used more actively than ever before. These plans permit consumers to pay in instalments, if they prefer to do so. Repair and modernization loans rose considerably more in 1959 than in 1955 both in dollar and percentage terms, in line with the increased emphasis on the qualitative improvement of housing and the need for larger living quarters to accommodate bigger families.

Changes in the relative importance of the various types of instalment credit have been accompanied by shifts in the relative importance of lending institutions. Most striking, as Table II shows, was the smaller part played by sales finance companies. In 1955, instalment loans of these companies accounted for 36 per cent of the increase in total consumer credit, whereas in 1959 their share dropped to 22 per cent. Sales finance companies fell behind primarily because of the smaller increase in automobile paper, which comprises almost three quarters of their consumer loans. Moreover, these companies acquired a smaller share of the available automobile paper in the recent credit boom, as a larger proportion of consumers financed their purchases at banks.

Lenders who rely less heavily than finance companies on automobile financing were, as a consequence, more important in the recent expansion than in 1955. This was true of commercial banks and other financial institutions. And it was also true of retail stores, in part because of the stronger performance of consumer goods paper. However,

CONSUMER CREDIT DEFINITIONS

Instalment credit: Consumer credit scheduled to be repaid in a number of instalments.

Automobile paper: Instalment credit extended to purchase automobiles.

Other consumer goods paper: Instalment credit extended to purchase consumer goods other than automobiles (includes revolving credit plans of retail stores).

Repair and modernization loans: Instalment credit extended to finance maintenance and improvement of owner-occupied dwelling units.

Personal loans: All other instalment loans, mostly for consolidation of consumer debt, medical and other emergency expenses, education, travel, etc. (including bank revolving credit plans).

Noninstalment credit: Consumer credit scheduled to be repaid at one time.

Single payment loans: Noninstalment loans to individuals. (For most of the period covered here, bank charge-account plans presumably were included in single payment loans, although they often could be repaid in instalments. New call report instructions issued in November 1959 provide directions on when to include these plans in other consumer goods paper.)

Charge accounts: Balances owed to retailers and on credit cards.

Service credit: Amounts owed by consumers to professional men and service establishments, primarily for medical expenses and public utility services.

the larger share of instalment credit of retail outlets in the over-all rise may have resulted partly from greater relative gains in revolving credit plans of retail stores, compared with the customary noninstalment retail charge plans.

THE BURDEN OF DEBT

Consumer credit performs a valuable economic function. When used to acquire durable goods, for example, the availability of credit makes it possible for consumers to pay for these goods as they are used. Indeed, outlays on such items as electrical appliances and automobiles often represent substitutes for expenditures that, in an earlier day, would have been directed toward domestic services or public transportation—on a “pay-as-you-go” basis. Borrowing often can be used advantageously to smooth out a family’s expenditure stream over time so as to coincide more closely with its consumption needs. This is of particular importance in the case of young families, which are more likely to be borrowers than older families. In early 1959, for example, eight out of ten families where the head was from 25 to 34 years of age, had some personal debt,² whereas for families where the head was 55 to 64 years of age, only four out of ten had such debt.

Yet it is obvious that there is a very real reason for concern that a sharp rise in consumer debt may, if continued,

Table I
Increase in Consumer Credit, by Major Components

Major components	Millions of dollars		Percentage of total increase	
	1959	1955	1959	1955
Instalment credit.....	5,402	5,390	83.6	84.0
Automobile paper.....	2,353	3,663	36.4	57.1
Other consumer goods paper.....	1,320	883	20.4	13.8
Repair and modernization loans.....	354	73	5.5	1.1
Personal loans.....	1,375	771	21.3	12.0
Noninstalment credit.....	1,058	1,028	16.4	16.0
Single payment loans.....	530	594	8.2	9.3
Charge accounts.....	291	310	4.5	4.8
Service credit.....	237	124	3.7	1.9
Total consumer credit.....	6,460	6,418	100.0	100.0

Note: The 1959 increase includes the addition of the amount of credit outstanding in Alaska and Hawaii which was about \$200 million. Because of rounding, figures do not necessarily add to totals.

Source: Board of Governors of the Federal Reserve System.

² Personal debt includes all short- and intermediate-term debt other than charge accounts; mortgage and business debt are excluded.

Table II
Increase in Consumer Credit, by Lender

Lender	Millions of dollars		Percentage of total increase	
	1959	1955	1959	1955
Instalment credit.....	5,402	5,390	83.6	84.0
Commercial banks.....	2,142	1,805	33.2	28.1
Sales finance companies....	1,405	2,299	21.7	35.8
Other financial institutions..	1,194	896	18.5	14.0
Retail outlets.....	661	390	10.2	6.1
Noninstalment credit.....	1,053	1,023	16.4	16.0
Total consumer credit.....	6,460	6,413	100.0	100.0

Note: The 1959 increase includes the addition of the amount of credit outstanding in Alaska and Hawaii which was about \$200 million. Because of rounding, figures do not necessarily add to totals.

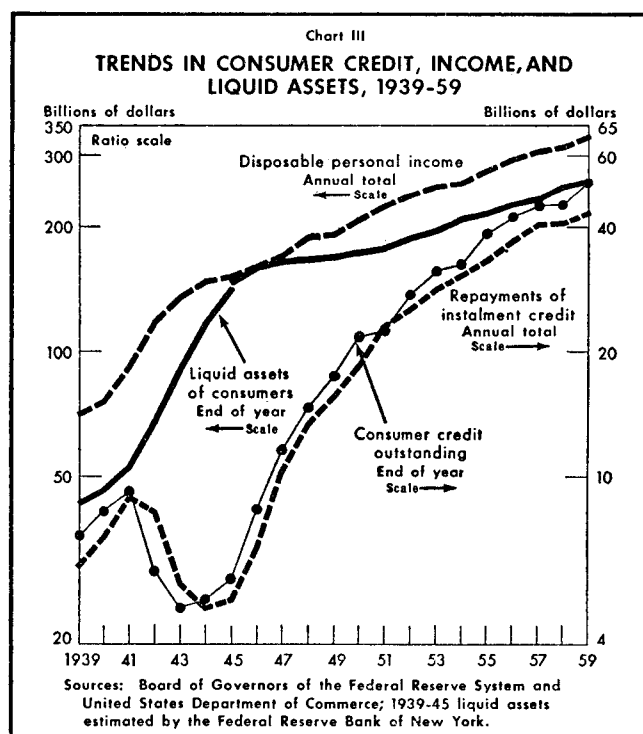
Source: Board of Governors of the Federal Reserve System.

result in an unduly heavy burden on borrowers—particularly in the event of more serious economic recessions than those experienced in recent years. Since the end of World War II, consumer debt has increased at a substantially faster rate than consumer liquid assets, while the rate of growth of debt repayments has outstripped that of disposable income (see Chart III). These developments do not in themselves indicate that consumer debt has become “excessive”. Clearly, a large part of the post-World War II increase in consumer credit has been a natural recovery from the abnormally depressed levels of the war years. Scarcities of goods and credit controls during the war resulted in a sharp decline in consumer credit at the same time that incomes and liquid assets were increasing rapidly. The exceptionally rapid rise in consumer credit during the early postwar years, when consumer goods began to appear in volume, in large part reflected the necessary restocking of “consumer inventories” in established families, as well as the rapid pace at which new families were being formed.

The rate of growth of consumer debt has slowed noticeably since 1950, after the initial postwar rebuilding of consumers’ inventories of goods was completed, and in recent years it has been more nearly in line with the growth of disposable personal income and liquid assets. The ratio of instalment debt repayments to disposable income has been close to 13 cents per dollar for the last four years (see Chart II). The ratio of debt to liquid assets also has increased more slowly since 1950 than in earlier postwar years, although in the past year the rise has been sharp. Many families that have increased their indebtedness over the past several years perhaps have now reached the point where the burden of repayments discourages further borrowing. In addition, the proportion of borrowing families seems to have stabilized. According

to the Survey of Consumer Finances conducted by the Board of Governors of the Federal Reserve System in cooperation with the Survey Research Center of the University of Michigan, in 1949 about seven tenths of all families were nonborrowers. By early 1957, nonborrowing families had fallen to about four tenths of the total, but in the next two years this ratio changed very little. These figures should be interpreted cautiously, however, since the 1959 survey on which they are based was made early in the year, before the rapid growth in total consumer debt was fully reflected.

Any realistic appraisal of the “burden” of consumer debt should take account not only of consumers’ ability to service debt—usually measured by the relation of payments to disposable personal income—but also of other fixed commitments which represent an inescapable drain on income. The National Industrial Conference Board has combined payments on instalment debt, mortgage debt (including property taxes), insurance and pension payments, and rent into a total of “major fixed commitments”. The ratio of these commitments to disposable income has increased rapidly during the post-World War II period, but not so rapidly as payments on instalment debt alone. Nor is the ratio of major fixed commitments to disposable income very much higher today than immediately prior to World War II. Unfortunately, these data are available



only on an aggregative basis and fail to reveal anything concerning the *distribution* of the burden, which is all important.

The Survey of Consumer Finances throws some light on the distribution of the burden among individual families, although the estimates probably understate consumer liabilities. In early 1959, instalment payments alone accounted for 20 per cent or more of disposable income in the case of about 13 per cent of all spending units; a few units had committed themselves to instalment payments amounting to 40 per cent or more of their income. Perhaps more significant is the fact that in the "lower middle-income" group, with annual income of \$3,000 to \$5,000 per family, close to 20 per cent of all spending units were devoting 20 per cent or more of their disposable income to instalment payments. This is the group in which so many younger families are found.

Using a broader concept of "regular payments", which includes (in addition to instalment payments) mortgage and rent payments, life insurance premiums, and payments into social security and retirement funds, about one half of all spending units in early 1957, the latest date for which information is available, had committed 20 per cent or more of their income, while somewhat less than one fifth were committed for 40 per cent or more. The latter group was heavily concentrated, moreover, in the lower income brackets. Although it would be necessary to know much more about the characteristics of these units before valid inferences could be drawn as to whether or not they were overcommitted, these tentative estimates suggest that a significant proportion of the population has committed itself to an extremely heavy burden of regular fixed payments.

Despite the weight of instalment debt on some house-

holds, delinquencies generally have not been high. In recent years, "delinquent instalment loans" of commercial banks—loans having an instalment thirty days or more overdue—have been less than 2 per cent of their total outstanding loans; this was true even in the 1958 recession. The experience of consumer finance companies and sales finance companies has also been relatively favorable. Nevertheless, there has been a tendency for delinquencies and losses to rise during periods of recession, a clear indication of the potential cumulative danger if a more severe economic contraction should occur.

CONCLUSION

The discussion and comment on consumer debt have grown in pace with the growth of the debt itself in recent years. Part of the discussion has "viewed with alarm", warning that the profligacy of American consumers has led to ever-larger debt burdens which will, in time, become a strong force in precipitating, or gravely accelerating, economic recessions. Others have viewed the whole process with complacency, suggesting that consumer debt is doing no more than facilitating the attainment of higher standards of living from which everyone benefits. It is, of course, unnecessary to accept either extreme. Consumer credit has played a valuable role in the postwar economy and, hopefully, will give an assist to the growing economy that is confidently expected in the 1960's. But the proliferation of new opportunities and methods for consumers to borrow—and new enticements to encourage them to do so—lead naturally to concern as to where all of this will lead. The real question is whether the growth of this genuinely useful aid to better living and greater employment will proceed at a pace and magnitude consistent with reasonable stability in the American economy.