Volume Title: The Cyclical Timing of Consumer Credit, 1920–67

Volume Author/Editor: Philip A. Klein

Volume Publisher: NBER

Volume ISBN: 0-87014-225-9

Volume URL: http://www.nber.org/books/klei71-1

Publication Date: 1971

Chapter Title: Introduction to "The Cyclical Timing of Consumer Credit, 1920–67"

Chapter Author: Philip A. Klein

Chapter URL: http://www.nber.org/chapters/c3418

Chapter pages in book: (p. 1 - 3)

1

Introduction

THE RAPID INCREASE in the volume of consumer credit during recent decades, both absolutely and relative to income, has attracted the interest and attention of economists concerned with the impact of this development on general economic stability. This study examines the cyclical patterns of selected measures of consumer credit activity, and analyzes their relation not only to each other but to general economic activity. The amplitudes of expansions and contractions in credit are related to comparable changes in income as one measure of the importance of credit in the economy. The major focus of the study, however, is on timing relationships—that is, on the relationships among cyclical turning points in various consumer credit series, and the relation between the credit series and general business cycles.[1]

Consumer credit can be divided broadly into instalment credit and noninstalment credit. In Chapter 2, we shall briefly consider the cyclical record of consumer credit and the contribution to that record made by both of these components. Chapter 3 then concentrates on instalment credit as the most cyclically volatile component. The impact of instalment credit on economic activity can be measured in several ways —as the volume of new credit injected into the economy (extensions), as credit paid off and thus removed from the economy (repayments), as the *change* in credit outstanding resulting from both (net credit change), or as the total amount of credit in existence at a given point in time (instalment credit outstanding). We consider the interrelationships of these four measures and their relationship to the business cycle.

[1] The major earlier examination of the pattern of turning points in various measures of consumer credit was Gottfried Haberler's *Consumer Instalment Credit and Economic Fluctuations* published by the National Bureau in 1942 (and dealing, therefore, exclusively with the prewar period.)

In Chapter 4, we then turn to the biggest component of instalment credit—that utilized in the purchase of automobiles. Not only is automobile instalment credit important by itself, but it can be directly related to the volume of automobiles sold. We, therefore, carry the analysis one step further—relating cycles in credit activity to cycles in the product for which the credit was created. Thus, we study the parts of consumer credit from the total to its components and, as it turns out, focus attention on that part of consumer credit most sensitive to the business cycle.

Chapter 5 lists the conclusions of the study. Appendix A is a general note on sources. Appendix B presents timing analyses utilizing new passenger car registrations as the basic reference chronology instead of the National Bureau reference dates. Appendix C contains the basic data underlying the study and brings together the relevant monthly series for 1920–67, which are nowhere else available in this form.

It is true that ultimately we are interested in the much larger question of whether movements in consumer credit reflect in general the *reaction* of this industry to prior changes in general economic activity, or whether the chain of causality is the other way round (that is, whether credit changes are part, albeit modest, of the tangled interactions that lead intermittently to recessions in the general economy), or whether the relationship is best viewed as one of mutual interaction. We trust that our study will be useful in considering this important question. It cannot possibly provide the answer by itself, partly because a study of the timing interrelationships cannot alone pose—let alone answer—all the relevant questions concerning the interrelationship of credit and other broader measures of economic activity. At the very least, one would have to consider the importance that attaches to the amplitudes of the relevant cycles and to any pattern of magnification or diminution that such analysis might reveal.

Because cyclical fluctuations do not stem primarily from consumer credit changes, our study can provide only modest evidence for the study of instability. For one thing, business cycles were a factor in economic life long before consumer credit assumed much significance. Moreover, even for products such as automobiles and other durables on which the influence of credit conditions is likely to be relatively strong, other cyclically variable factors such as price and income change are also likely to have a powerful effect on the pattern of fluctuation in expenditures.

An examination of the turning point relationships in several of the consumer credit measures, as well as in the production and sale of products for which consumer credit is used, and in general economic activity, should be of considerable benefit in helping to understand and recognize cyclical movements. To the extent that the patterns are systematic, a description of these patterns should help in knowing what to expect when examining current changes in consumer credit, and also in helping to recognize what is unusual. Increased understanding of how the credit system operates, as well as how credit variation is related to variation in purchases, can make a significant contribution to our ability to understand cyclical movements in general business.

Wesley Clair Mitchell suggested a number of years ago the importance of efforts to isolate what he called "characteristic cyclical timing" when he wrote:

> It is not surprising to find that the bulk of . . . time series fluctuate in unison. Nor is it surprising to find that many . . . series lead or lag at business-cycle troughs and peaks. . . . Indeed, these differences of characteristic timing make it easier to grasp the way in which business cycles propagate (I do not say cause) themselves. But that is a later part of the complicated story.[2]

The story is no less complicated today. But the importance of movements in consumer credit is assuredly greater today because of the growth in consumer credit.

[2] Wesley Clair Mitchell, *What Happens During Business Cycles: A Progress Report,* New York, National Bureau of Economic Research, 1951 pp. 78–79.