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Estimates of Retail and Cash Loan Instalment Credit Combined

TOTAL average instalment indebtedness was $3,719,800,000 in 1937, the high point of the ten years covered by this study.[1] The low point was 1933, when indebtedness totaled $1,511,200,000. Both in 1937 and 1938 the amount of instalment indebtedness was larger than in 1929, when it was approximately $3,000,000,000.

Indebtedness arising from retail instalment transactions accounted for approximately 75 percent of all instalment debt during the 1929–38 period as a whole, but its relative importance fell from 82 percent of the total in 1929 to 67.5 percent in 1938. Cash loan debt makes up a larger proportion of total instalment debt during recession years than during times of business revival, retail debt decreasing sharply during periods of recession. In the revival years after 1933, however, cash loan debt accounted for a substantially larger proportion of total debt than it did in 1929; for example, in 1937 it made up 29 percent of total instalment debt, compared to 17.7 percent in 1929.

The trends shown by cash loan instalment debt differ from those shown by retail instalment debt. In 1938 the average amount of cash loan debt was more than twice as great as it had been in 1929, while retail debt was 5 percent lower. Cash loan debt as a whole showed a slight increase in 1930, but retail instalment debt dropped sharply in the latter year. Retail debt rose during 1934 and declined during 1938,

[1] Totals include the six types of retail establishments, and all types of cash loans including the series of insured FHA (Title I) loans. See Table C-1. All tables referred to in this chapter will be found in Appendix C.

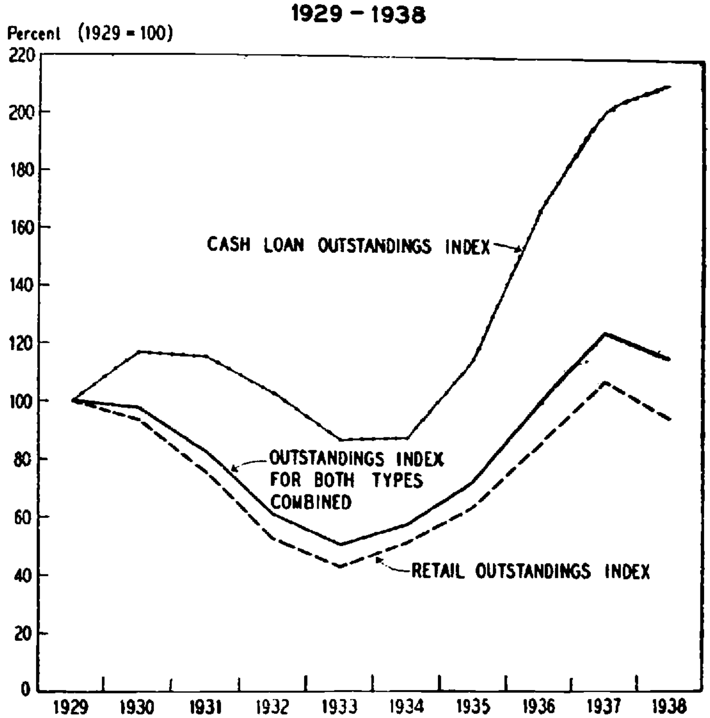
while cash loan outstandings were lowest in 1933–34 and at their highest point in 1938.

Total indebtedness followed a direction generally similar to that of retail indebtedness. This is to be expected, since retail instalment debt made up approximately three-fourths of total consumer instalment debt during the period covered. According to Chart VII, which shows the indices of average

Chart VII

INDICES OF AVERAGE ANNUAL INSTALMENT OUTSTANDINGS FOR ALL TYPES OF RETAIL ESTABLISHMENTS AND CASH-LENDING INSTITUTIONS

1929 – 1938



outstandings for the retail, cash loan, and composite groups,[2] from 1929 to 1933 the composite index declined about 50 percent and the retail index about 60 percent, while the cash

[2] Including all types of agencies, both retail and cash loan, and insured FHA (Title I) loans. See also Table C-1.

loan index decreased 15 percent. After 1933 total indebtedness rose to a new high in 1937, when it was almost 24 percent above its 1929 amount. Retail indebtedness in 1937 was 7 percent over its 1929 volume, and cash loan indebtedness was 103 percent higher; but in 1938 total indebtedness and retail indebtedness fell off, while cash loan debt continued to rise. This steady increase in cash loan debt was occasioned by a striking growth in the loan business of commercial banks and credit unions.

Instalment debt arising from automobile purchases accounted for 25 to 42 percent of total instalment debt during 1929–38.[3] Furniture stores were responsible, on the average, for about 16 percent of total debt during the period, and personal finance companies for 11 percent. The proportion of total outstandings held by commercial banks and credit unions combined was 9.6 percent in 1937, whereas it had been only 2 percent in 1929.

The total volume of credit granted by the major credit agencies in both groups[4] reached its peak in 1929 at $5,282,000,000, and in 1937 it was almost as high ($5,145,000,000). Repayments were high in 1929 ($4,802,000,000) and rose further in 1930, to their peak of $4,821,000,000. Outstandings showed a marked decrease in 1932, when repayments exceeded credit granted by $711,000,000; but in 1936 they increased by $773,000,000, the greatest net change in outstandings during the period studied.

The monthly movement of outstandings for the principal agencies covered in our estimates[5] appears in Chart VIII. Total outstandings reached a peak at the close of September 1937, having risen 15 percent above the previous peak point (October 1929) and 195 percent above March 1933, the low point of the ten-year period. Between October 1929 and March 1933 total outstandings fell 59 percent. The peak in

[3] See Table C-2.

[4] Including the six types of retail establishments; excluding unregulated lenders and insured FHA (Title I) loans from the cash loan group. See Table C-3.

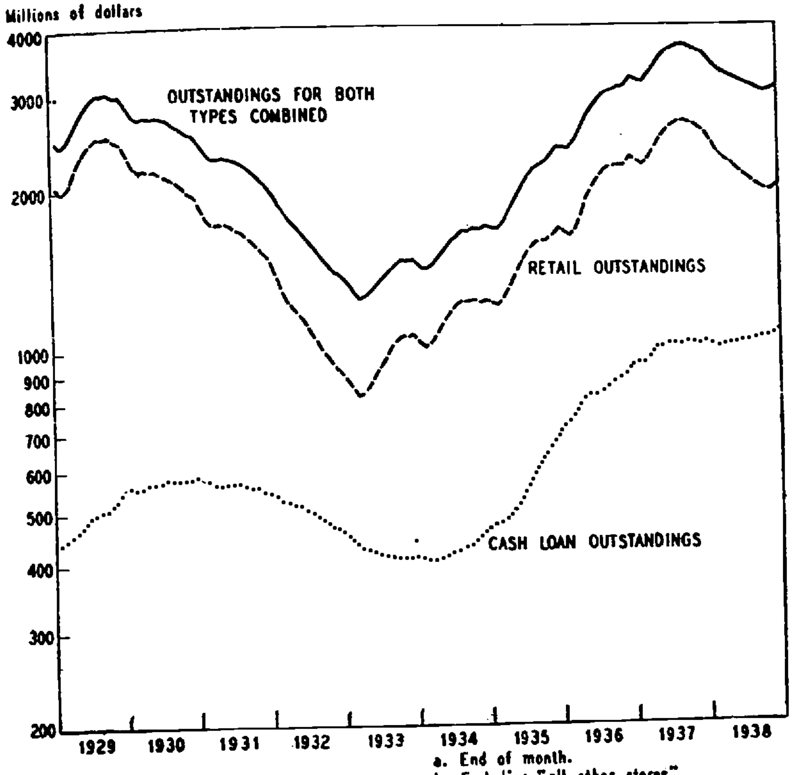
[5] Excluding "all other stores" from the retail group, and unregulated lenders from the cash loan group. See also Tables A-2, B-3, and C-4.

total instalment debt which occurred at the end of September 1937 was 15 percent above the previous peak point in October 1929. Retail outstandings show some seasonal move-

Chart VIII

MONTHLY TOTALS OF INSTALMENT OUTSTANDINGS[a] FOR THE PRINCIPAL TYPES OF RETAIL ESTABLISHMENTS[b] AND CASH-LENDING INSTITUTIONS[c]

1929-1938



a. End of month.
b. Excluding "all other stores."
c. Excluding unregulated lenders but including insured FHA (Title I) loans.

ment, rising in the spring months and again in December; but cash loan outstandings show practically no seasonal pattern. Outstandings for both types of credit combined show a slight seasonal movement which follows, as would be expected, the pattern of retail outstandings.

INSTALMENT CREDIT IN RELATION TO INCOME PAYMENTS

According to the evidence assembled in the consumer instalment financing studies of the National Bureau, the vast bulk of consumer instalment credit is extended to individuals whose annual incomes do not exceed $5,000. A comparison of the present instalment credit series with estimates of total income payments received by these individual consumers from 1929–38 shows that an average of approximately 9 percent was added to their total purchasing power by instalment credit, while repayments of such credit absorbed on the average a similar proportion of their total income.[6] In 1932, at the bottom of the 1929–37 business swing, instalment credit granted amounted to only 6 percent of the aggregate income of the consumers using it, but at the top of the swing (1937), it amounted to 11 percent. Repayments, lagging cyclically behind credit granted, reached a low in 1933 of 6.4 percent of the aggregate incomes of consumers using instalment credit, and a peak of 11 percent in 1938.

In years of business advance, instalment credit granted consistently exceeded repayments of instalment debt, giving rise to a net addition to the stream of consumer purchasing power. In each year of business contraction, a net drain on consumer purchasing power was created. The maximum net addition to purchasing power during this ten-year period occurred in 1936, and the largest net drain in 1932. In both years, however, the amount involved was relatively small, roughly 2 percent of the total income of consumers receiving annual incomes of $5,000 and less. The economic significance of consumer instalment credit, however, is not to be judged solely by its quantitative amount relative to the total income payments.

[6] See Table C-5.