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Estimates of Retail Instalment Credit

ACCORDING to our estimates, the dollar amount of consumer debt arising from retail instalment transactions reached an all-time peak in 1937. In that year average outstandings totaled $2,641,300,000, the volume of credit granted was $3,666,800,000, and repayments came to $3,392,400,000.[1]

During the ten-year period covered by our estimates, the low point for credit granted was 1932, when it stood at $1,363,500,000. Its 1933 volume was $1,584,100,000, 16 percent above 1932. Because debts incurred just prior to and during 1932 were paid off at an unusually slow rate, average outstandings did not reach their low point ($1,052,500,000) until a year later than credit granted. The peak years for these two items were widely separated; credit granted was highest in 1929, when it amounted to $4,298,400,000, but average outstandings did not reach their high point until 1937. This divergence between the peak of outstandings and that of credit granted reflects increasingly liberal credit terms during the ten-year period, particularly the tendency to increase the length of contracts, since any increase in contract length tends to prolong the time during which a given amount of credit remains outstanding.

Retail credit granted, repayments, and average outstandings fluctuated widely in amount and showed similar percentage changes from their peak to trough and trough to peak years. Between 1929 and 1932 credit granted decreased 68 percent; between 1932 and 1937 it increased 169 percent.

[1] See Table A-1. All tables referred to in this chapter will be found in Appendix A.

Repayments and average outstandings declined 64 percent and 57 percent respectively between 1929 and 1933, and rose 136 percent and 151 percent respectively between 1933 and 1937.

Despite the striking increase in credit granted from 1932 to 1937, its volume in 1937 was approximately 15 percent below the 1929 peak. Repayments during 1937 were 9 percent lower than in 1929, whereas average outstandings were 7 percent above 1929.

The three items, however, showed somewhat different cyclical patterns. The volume of credit granted declined rapidly from the 1929 figure; in 1930 it fell off 22 percent. Repayments and average outstandings declined only slightly, the former dropping 2 percent and the latter 6 percent. In 1933, credit granted rose 16 percent over 1932, but repayments to liquidate instalment debt declined 28 percent, and average outstandings declined 18 percent. In 1938 there was a sharp decline in the volume of credit granted, but only a moderate drop in repayments and in average outstandings.

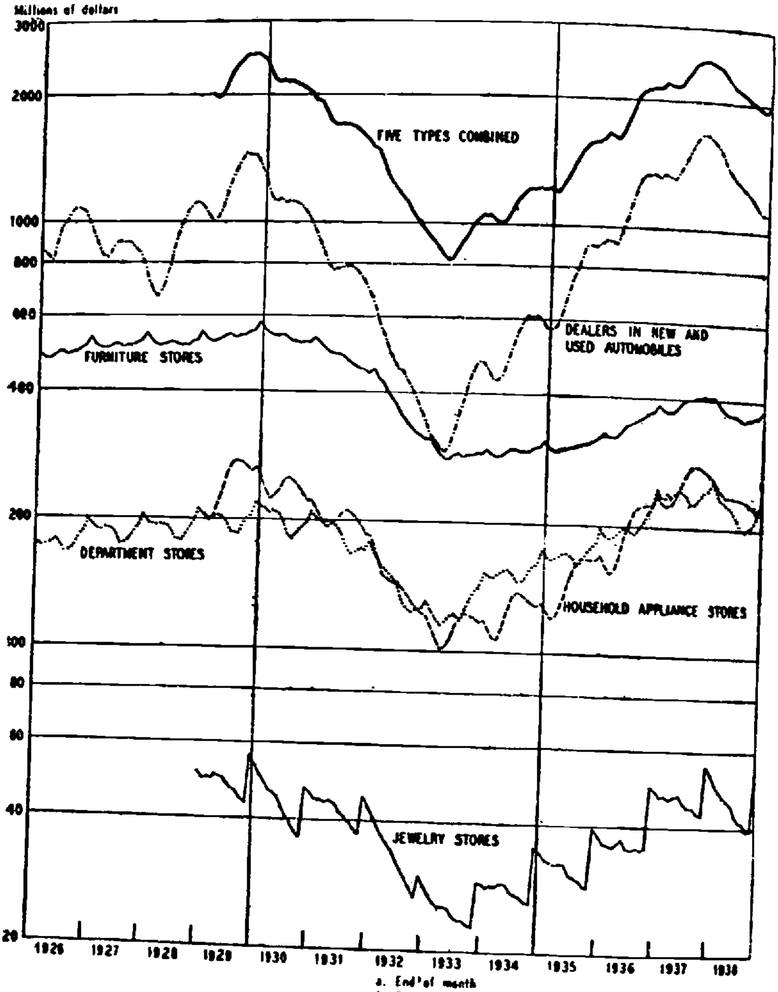
Month-end retail instalment indebtedness over the ten-year period was highest at the end of September 1937 and lowest at the end of March 1933. Before 1933, retail instalment debt had been highest at the close of October 1929. It seems reasonable to suggest, therefore, that the cycles in retail instalment debt move closely with the general swings of business.

There were marked fluctuations in outstanding debt from peak to low months of business activity. For example, from October 1929 to March 1933 there was a decrease of 67 percent in the end-of-month outstandings, followed by an increase of 220 percent from March 1933 to September 1937, to a point 6 percent above the previous peak at the close of October 1929. A decrease of 24 percent occurred between September 1937 and December 1938. Chart I presents month-end outstandings for the five principal retail series, combined and singly.[2]

2 "All other stores" omitted. See also Table A-2.

Chart 1

MONTHLY TOTALS OF INSTALMENT OUTSTANDINGS[a] FOR FIVE TYPES OF RETAIL ESTABLISHMENTS AND FOR THE FIVE TYPES COMBINED[b]
1926 – 1938



a. End of month

b Data on household appliance stores, jewelry stores and the five types of establishments combined available only from 1929.

There are two key reasons for these wide cyclical swings in retail instalment credit. First and most important, the consumer instalment market tends to center about high-priced durable goods, which consumers are not likely to purchase in periods of depression when they are unsure of their future income, but which they do acquire in periods of recovery when their economic outlook seems brighter. Second, credit grantors do not wish to make deferred payment sales or loans to individuals whose incomes do not meet the qualifications for an acceptable deferred payment risk. Naturally, therefore, in periods of economic decline many individuals to whom instalment credit facilities had hitherto been available might find themselves automatically disqualified from the use of such credit as a result of reduced incomes or unemployment.

Of the five types of retail establishments shown in Chart I, month-end outstandings arising from instalment sales of automobiles declined most sharply in the period of business recession 1929–33, falling off 80 percent from August 1929 to March 1933. Instalment debt occasioned by department store sales showed the least violent drop, yet fell 48 percent from December 1929 to March 1933. Decreases for the other three types of retail establishments ranged between these extremes. Increases from these 1933 low points to the 1937 high points show similar tendencies among the various outlets. Automobile instalment debt rose 475 percent, reaching a point 16 percent above its preceding peak in August 1929; but department store debt increased only one-fourth as much (123 percent), reaching a point 17 percent above its preceding peak, in December 1929. Instalment debt incurred through household appliance stores and jewelry stores rose 175 percent and 143 percent respectively from the low points of 1933 to the high points of 1937; compared to 1929 levels household appliance store debt was 2 percent higher and jewelry store debt was about the same. Retail sales of furniture revived slowly, and debt from this source rose only 44 percent between 1933 and 1937, the 1937 figure being about one-third lower than the 1929 level.

Throughout the period studied, automobile purchases were the most important single source of retail instalment credit. In 1929 they were 55.4 percent of all such credit, and in 1937 they were 58.4 percent.[3] In 1932, however, automo-

[3] See Table A-3.

bile instalment credit granted was only 42.3 percent of the total, and in 1938 it was 50.9 percent, while the percentages for department stores and for "all other stores" increased in those years. The percentage of total credit extended by department stores averaged 12 percent during this period; by furniture stores, 15 percent; by household appliance stores, about 10 percent; by "all other stores," about 10 percent; and by jewelry stores, between 2 and 3 percent.

The duration of instalment indebtedness, which represents the average length of time consumed in paying out debts, varied from 12 to 26 months over the ten-year period covered by our estimates.[4] On the average, it was longest for the furniture store group, where the payment period ranged from 18 to 26 months, and shortest for the department store group, where it was about 12 months.[5] Chart II presents the average duration of instalment indebtedness in each of the 5 principal types of establishments.[6]

The duration of consumer indebtedness increased markedly during this ten-year period, especially in household appliance financing, for which the average paying-out time lengthened from 12 to 22 months. The entrance of government agencies into the instalment financing field may account to a large degree for this rapid liberalization of financing arrangements, since it encouraged public utilities to sell appliances on contracts extending for 36 months, and lending institutions to advance instalment loans for property improvement on terms of similar length.

The rapid rise in the duration of consumer instalment indebtedness during 1930–32 is a direct result of delays in repayments occasioned by the recession. The continued effect of bad times upon repayments was still in evidence during 1933, when the duration of indebtedness decreased but

[4] This duration of indebtedness is not the same as contract length, i.e., the specified number of months of an original sales contract.

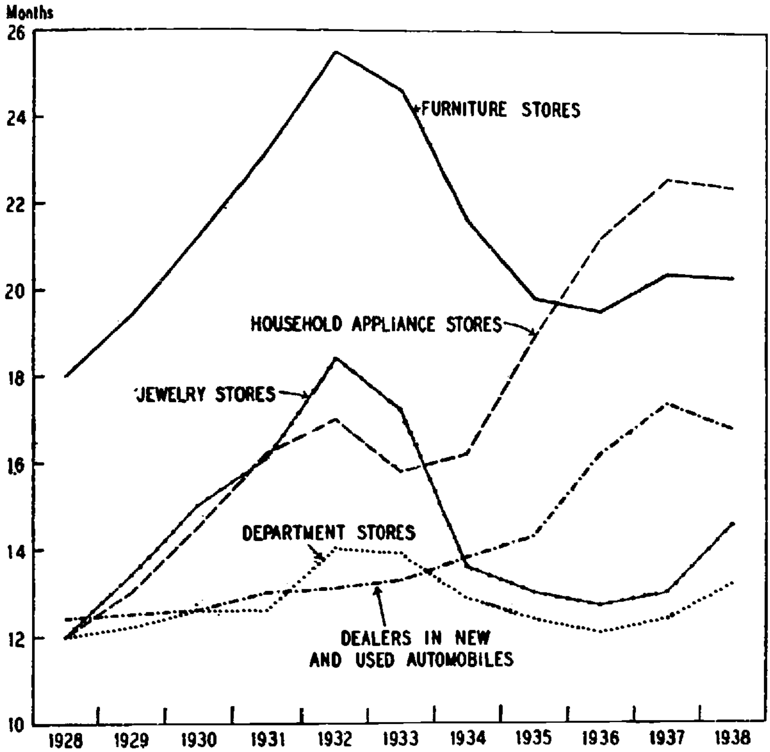
[5] This represents an average of payment periods varying from 3 months for clothing (10-week payment plan) to 36 months or longer for refrigerators.

[6] See also Table A-4.

slightly. A return to more normal times in 1934 is indicated by the abrupt decline in the time required for instalment debt liquidation.

Chart II

AVERAGE DURATION OF INSTALMENT INDEBTEDNESS[a] IN FIVE TYPES OF RETAIL ESTABLISHMENTS 1928 – 1938



[a] Data on automobiles (passenger cars only) refer to formal length of contract and not to actual duration of indebtedness.

Contract length for automobile instalment sales rose gradually from 12 to 17 months during the period covered by the data. In the case of automobile purchases, duration of indebtedness refers to the original contract length rather than to the actual time consumed in paying off the debt. These figures, therefore, do not show the effects of delinquent accounts, prepayments and note renewals as they do for the other retail groups.

Of two retail establishments extending the same amount of instalment credit, the one which allows the longer period for repayment will have on its books a greater proportion of the resultant instalment outstandings. The percent of total credit granted by each type of retail establishment, compared with its percent of total average outstandings, therefore illustrates differences in the payment period among the different types. In 1929, furniture stores accounted for 22 percent of total average outstandings, but for only 16 percent of the total credit granted, indicating that the average payment period in furniture retailing is longer than for retail establishments in general. The department store and automobile dealer series show greater proportions of total credit granted than of total outstandings, reflecting shorter average maturities in these two groups than prevail for all retail groups as a whole.[7]

Approximately 60 percent of the number of all automobiles sold are financed on an instalment basis (Chart III).[8] Household appliance and furniture stores also do a large instalment volume; the proportion ranged between 40 and 50 percent of their total sales during the ten-year period. Instalment sales amounted to 27 percent of total jewelry store sales in 1937, and department store instalment sales amounted to 12 percent. Instalment selling in these two types of stores increased gradually over the ten-year period studied.

In the automobile dealer group the percentage of cars sold on an instalment basis decreased. This decline may be attributed in part to the growing importance of the replacement market in the automobile trade. As a result, more buyers have used cars to trade in against both new-car and used-car purchases.[9] To such buyers the value of "trade-ins" is tanta-

[7] See Tables A-3 and A-5.

[8] See also Table A-6.

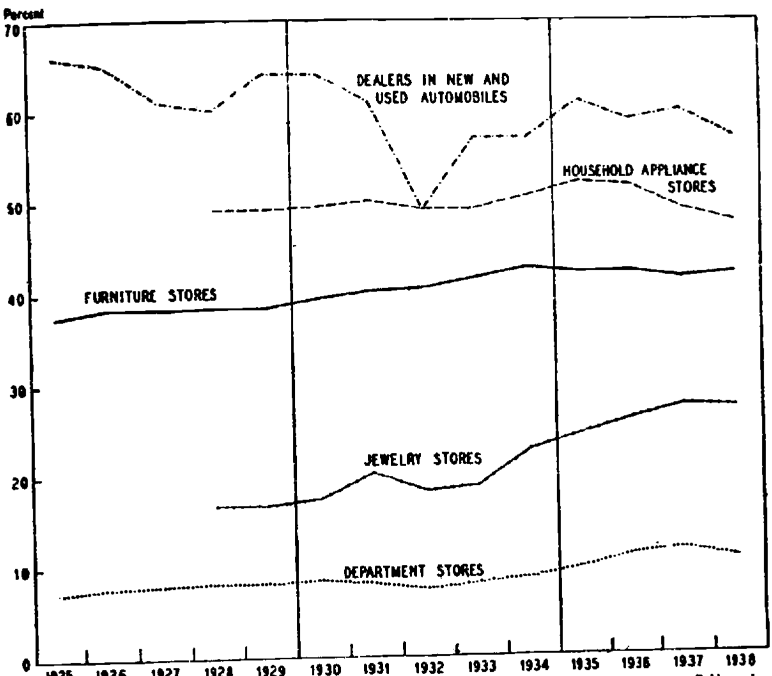
[9] See "Composite Experience of Sales Finance Companies and Automobile Dealers," an annual publication of the National Association of Sales Finance Companies.

mount to cash. When a great many purchasers have that start toward the purchase of a car, some of them who otherwise would have to buy on a time-payment basis will find that they can raise the rest of the money necessary to buy for cash. Perhaps another factor responsible for the decline in the per-

Chart III

INSTALMENT SALES AS A PERCENT OF TOTAL SALES OF EACH OF FIVE TYPES OF RETAIL ESTABLISHMENTS[a]

1925 – 1938



a Data on household appliance and jewelry stores available only from 1928 In the case of automobile dealers the percentage figures apply to units of passenger cars sold; for other groups the total figures apply to volume of sales.

cent of cars sold on an instalment basis is the fact that cash-lending agencies grant an increasing number of direct cash loans to be applied to automobile purchases. Such a purchase appears in the automobile dealer's records as a cash sale, although the loan itself is paid off in monthly instalments.

INDIVIDUAL RETAIL SERIES

Automobile Dealers

The total amount of instalment credit granted for automobile purchases was over $2,000,000,000 in each of three years —1929, 1936 and 1937.[10] Average outstandings were highest in 1937, when they totaled $1,523,900,000, and repayments were highest in 1929, amounting to $2,143,200,000. Credit granted dropped 76 percent from 1929 to its lowest point in 1932, while outstandings declined 70 percent and repayments 71 percent from 1929 to 1933. Between 1933 and 1937, however, credit granted rose 271 percent, repayments 218 percent, and average outstandings 303 percent. Despite these marked increases, credit granted and repayments were one-tenth lower in 1937 than in 1929; average outstandings, however, were one-fifth higher. The greatest drop in outstandings in a single year took place in 1938, when they decreased by $440,200,000 or 28.4 percent.

Instalment sales for the automobile group, as reflected in credit extended, show wide seasonal movements, as indicated in Chart IV-A.[11] May and June are the most important months for credit granting, and outstandings reach a seasonal peak during the fall months. Beginning with 1935, when new car models were introduced at the end of each year, credit granted and outstandings show slight increases in December and January. For the most part the repayments curve is smooth, distinguished by little seasonal movement.[12]

Department Stores

Instalment credit grants by department stores reached a peak in 1937 of $441,200,000, an 18 percent increase over the 1929 total. The low year in credit granted was 1932, when the vol-

[10] See Table A-7.

[11] See also Table A-8.

[12] This is because repayments during any one month result from operations during a number of previous months, usually 12 to 18.

ume was $211,300,000—a 43 percent decrease from 1929. Average outstandings declined 37 percent between 1929 and 1933, then rose to their highest point in 1937 ($238,800,000). Repayments, like credit granted, rose 18 percent between 1929 and the peak year 1937, when they totaled $429,900,000. The greatest changes in outstandings took place in 1932 and in 1936; in the former year outstandings decreased $49,000,000 and in the latter they increased by the same amount.[13] In general, the year-to-year movements of the several credit items in the department store series were much less marked than in the automobile series.

Monthly estimates for department stores show significant seasonal variations, which appear in Chart IV-B.[14] As in the automobile series, outstandings vary less than credit granted. The primary seasonal peak in both credit granted and outstandings occurs in December, with a secondary peak in October for credit granted and in May or June for outstandings. The trough for both is usually in July or August.

Department store outstandings and volume of credit granted are greatest in the same month, whereas the automobile outstandings peak lagged two or three months behind the seasonal peak of credit granted. In December, department store credit granted considerably exceeds the volume of repayments, so that outstanding debt increases sharply; but in January credit grants drop very sharply below repayments, so that outstanding debt decreases. Automobile instalment sales, on the other hand, are heaviest in three or four consecutive months (March to June), but they rise and fall at a moderate rate; so that for several months after the sales peak occurs the volume of credit granted continues to exceed repayments, and outstandings continue to rise.

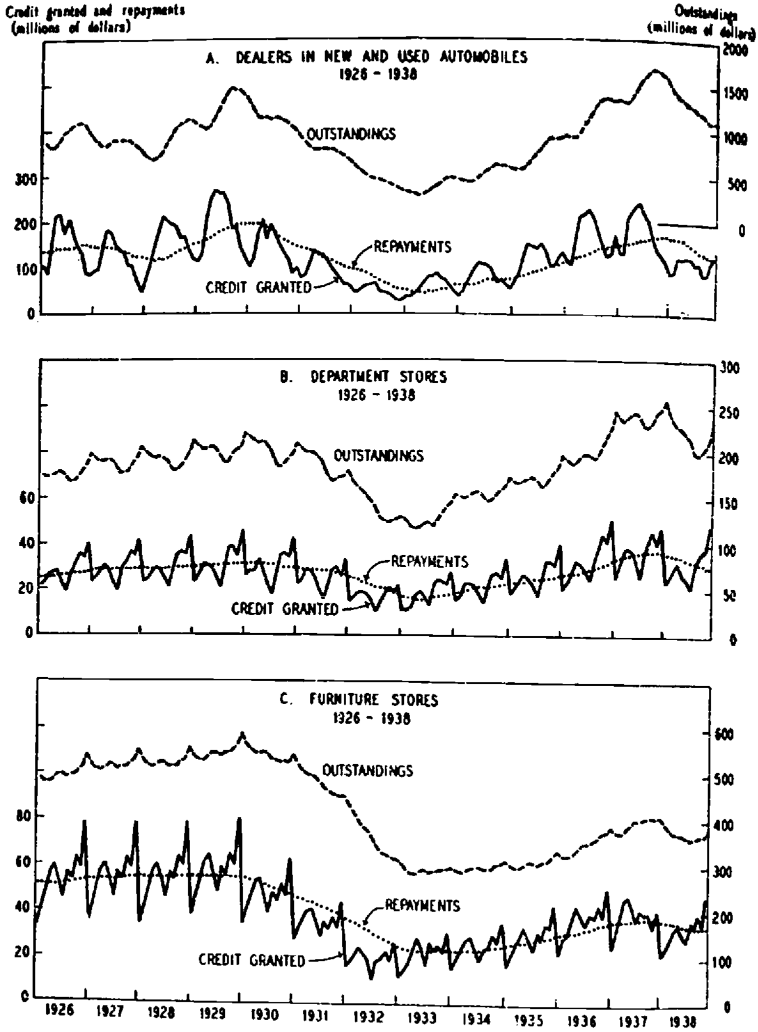
Furniture Stores

Furniture store instalment credit sales were greatest in 1929, when almost $691,000.000 worth of instalment credit was

[13] See Table A-9.
[14] See also Table A-10.

Chart IV

MONTHLY TOTALS OF INSTALMENT CREDIT GRANTED, REPAYMENTS AND OUTSTANDINGS[a] FOR FIVE TYPES OF RETAIL ESTABLISHMENTS AND FOR THE FIVE TYPES COMBINED

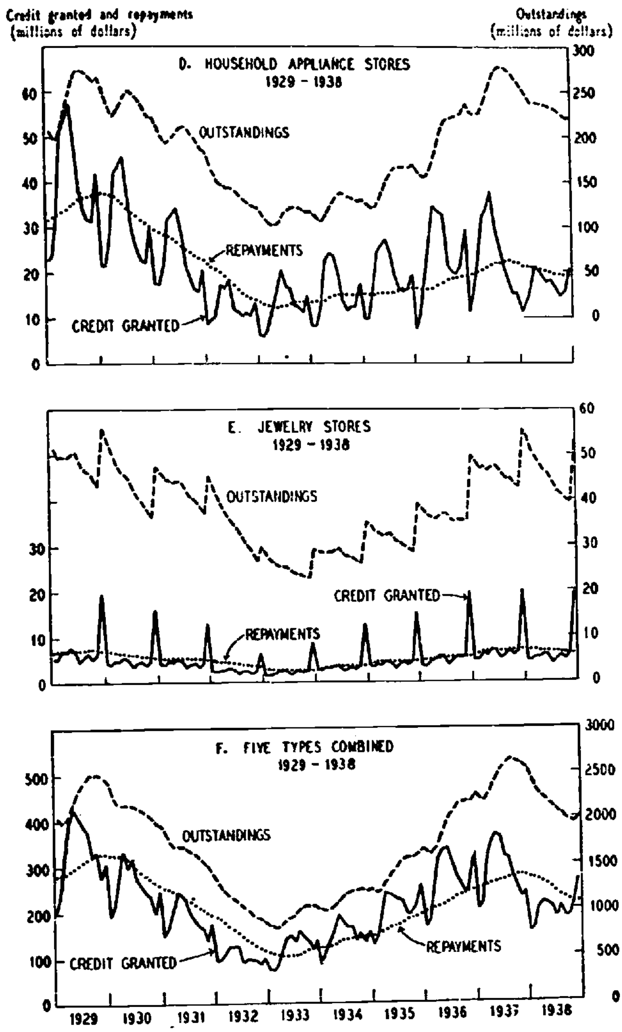


a End of month.

extended to consumers.[15] During the same year average outstandings, totaling $541,900,000, and repayments, amounting to $659,000,000, were likewise at their highest figures. As

[15] See Table A-11.

Chart IV (continued)



in the automobile and department store series, the lowest point for credit granted was reached in 1932, when it was 66 percent below 1929, for average outstandings and repayments in 1933, when these items were 46 and 57 percent respectively below 1929. Unlike the two series already discussed, however, the volume of furniture store sales never again approached its 1929 peak, and since the average duration of indebtedness was about the same in 1937 as in 1929, the volume of outstandings as well as of credit granted and repayments remained approximately 30 percent below the 1929 levels. The sharpest change in outstandings during any one year was the decrease of $140,600,000 in 1932.

Monthly figures for furniture stores reveal seasonal movements very much like those which characterize the department store series (Chart IV-C).[16] December is the peak month for credit granted and outstandings. Smaller seasonal peaks are registered for both items in October and in the spring months. The low month for the amount of credit granted is January; for outstandings it is February or March.

Household Appliance Stores

Credit granted and repayments were high in 1929, with volumes of $466,800,000 and $417,400,000 respectively, but average outstandings were highest in 1937, totaling $255,-900,000.[17] Although credit granted and repayments fell approximately 40 percent from 1929 to 1937, average outstandings rose 6 per cent as a result of a trend toward increasing the length of instalment contracts on household appliances. Credit granted fell 68 percent from 1929 to 1932, reaching a low point of $149,200,000 in the latter year. Repayments and outstandings decreased through 1933, when the volume of repayments was $156,400,000 and of outstandings $113,900,-000. These figures represent decreases from 1929 of 63 percent in repayments and 53 percent in average outstandings. The greatest changes in outstandings occurred in 1932, when they decreased by about $63,000,000, and in 1936, when they rose by $67,000,000.

In spite of the fact that the number of appliances sold on an instalment basis increased greatly between 1929 and 1937, credit extensions by household appliance stores amounted to less in 1937 than in 1929. Most of this decrease may be traced

[16] See also Table A-12.
[17] See Table A-13.

to two factors. First, appliances became much less expensive. The tremendous decline in household appliance retail prices over the last ten years is well illustrated by data from a trade journal, which show that in 1938 the average retail price of electric refrigerators was 41 percent lower than in 1929, of washing machines 36 percent lower, and of electric ranges 19 percent. Radio prices declined 60 percent from 1929 through 1937. Vacuum cleaners were the one exception to this trend, increasing in price by 19 percent from 1929 to 1938.[18] Second, household appliances were being distributed through department stores, drugstores, furniture stores, hardware stores, mail order houses, and many other retail outlets besides appliance stores.

The primary seasonal peak in credit granted usually occurred in May or June, after a heavy concentration of sales for several months (Chart IV-D). A secondary peak was also registered during December. The peak in outstandings lagged by one to three months behind that for credit granted, developing usually in July or August. January seems to have been the trough month for credit granted, and February or March for outstanding debt.[19]

Jewelry Stores

Of the five types of retail establishments covered in this study, the jewelry store group transacted the smallest volume of instalment business. Credit extended to consumers by jewelry stores was greatest in 1929, totaling $88,800,000, and almost as large in 1937, when it totaled $84,600,000.[20] Average outstandings in each of these years came to approximately $47,000,000. Credit granted, repayments, and average outstandings were lowest in 1933, when these items had decreased 64 percent, 61 percent, and 48 percent respectively from their 1929 levels. The greatest net change in end-of-year outstandings during one year was a $15,600,000 decrease in 1932.

[18] *Electrical Merchandising*, Statistical and Marketing Issue, January 1939.
[19] See also Table A-14.
[20] See Table A-15.

The monthly estimates for jewelry stores show striking seasonal changes (Chart IV-E). Extensions of instalment credit reach a tremendous seasonal peak in December; at least one-third of the annual instalment transactions of jewelry stores are made in that month, causing a sharp peak in outstandings as well.[21]

"All Other Stores"

The "all other stores" classification included many retail apparel and accessory outlets whose sales did not vary as much as those of most concerns selling on an instalment basis. The volume of credit granted was at its peak in 1929, when it amounted to $296,600,000.[22] Repayments were highest in 1930, totaling $276,700,000, and average outstandings in 1938, when they reached $195,000,000.

As with the other groups in our series, credit granted was lowest in 1932 when the volume stood at $153,500,000; but 1933 marks the low point both for repayments ($152,800,000) and for outstandings ($116,500,000). These three figures represent decreases of 48 percent, 44 percent, and 33 percent respectively from the 1929 figures.

No figures were available for monthly estimates for stores in this classification.

Monthly Totals for the Five Principal Retail Credit Establishments Combined

For the five major retail establishments combined, the heaviest concentration of credit granted occurred during the spring months (Chart IV-F), with another rise during December.[23] Because automobile debt constitutes approximately one-half of total retail debt, the seasonal pattern in total credit granted is quite similar to that of the automobile series. Outstandings reached modified seasonal peaks during the summer months and in December.

[21] See also Table A-16.
[22] See Table A-17.
[23] See also Table A-2.