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UNITED STATES DEPARTMENT OF AGRICULTURE
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Institute of Home Economics

PATTERNS OF USE OF CONSUMER INSTALLMENT CREDIT

By Emma G. Holmes, Family Economist

There is much to be learned from facts and figures about the use of credit by consumers in the past, that can be helpful in deciding when, what, and whom to teach about credit. We have such facts and figures in the Federal Reserve Board's periodic estimates of amounts of credit extended and debts repaid and outstanding; its annual studies of consumer finances; and its 1956 study of installment credit. Data from these sources reveal trends and relationships that have followed fairly definite patterns over time. It is these trends and relationships that I refer to as "patterns of use" of consumer installment credit. In confining the discussion to installment credit we exclude noninstallment types of credit like regular charge accounts, service credit, and single-payment loans, as well as mortgage credit for home purchase.

Longtime trend is up.--The longtime trend in amount of installment credit in use, both in terms of credit extended and debt outstanding, is upward. The monthly average of total installment debt outstanding was \$2.9 billion in 1929 (chart 1). The monthly average for January-July 1959 was \$35 billion. A large part of the increase is due to larger population and higher price levels, of course. But even with the effect of these changes eliminated the trend is upward. In terms of 1958 dollars per capita, the average installment debt outstanding was \$41 in 1929 and \$195 in the first 7 months of 1959 (chart 2). The increase of \$154 per person can be attributed to the higher proportion of consumers using installment credit in 1959, the purchase on credit of more goods or more expensive goods, and changes in the structure of consumer credit itself.

One of these changes in credit as an institution, that caused installment debt to rise, was a gradual substitution of installment for some of the noninstallment consumer credit. In 1929, installment debt was about half of the short- and intermediate-term consumer debt outstanding. Now it is approximately three-fourths of the total, and has been at this level since the early 1950's. Another change is the lengthening of the repayment period for installment debts. Permitting smaller monthly payments, spread over a longer time, made outstanding debt pile up fast.

Installment debt rises in "good times"--More installment credit is used when the economic outlook is good than when it is less promising.

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In general, you can expect installment buying to be high when jobs are plentiful, incomes are good, many new homes are being built, and durable goods--especially cars--are selling well. But in times of uncertainty people not only may have more trouble establishing credit, but hesitate to obligate themselves for future payments. The amount of installment credit extended to consumers dropped during the deep depression of the early 1930's and the smaller one of 1937-38. It dropped again in the early 1940's, but this time due to wartime credit controls and scarcity of durable goods. The minor recessions of 1954 and 1957-58 acted as brakes on the upward climb of credit extended to consumers (chart 3).

Installment debt rises when purchase of durables is high.--Use of installment credit is closely related to purchase of consumer durables. The earliest known installment selling in this country is said to have been done by retailers of furniture. Mass production and selling of automobiles and rapid expansion in use of installment credit went together. Nowadays, automobile debt represents a good share of total installment debt--about two-fifths of it at the present time, even though car buying has been relatively slow for a while. According to the Federal Reserve studies, about 60 percent of car buyers in recent years paid for them in installments. A large proportion of the household furniture and appliances bought are paid for in installments, too. Installment credit has been an important factor in the American family's accumulation of durables.

Installment debts climbed fast in the late 1940's when consumers were catching up on the buying of durables they had not been able to get during the war. Debt also rose sharply in 1955, a record year for car buying on credit terms that had recently been liberalized. Car buying slumped after 1955, and installment debt increased at a more modest rate even though income was still rising.

Rising incomes have made it possible for more and more people to include such durables as automobiles, automatic washers, and television sets in their level of living. Eleven percent of the disposable income of consumers went for durable goods in 1929. The ratio dropped during the depression of the 1930's, returned to 11 percent in 1947, averaged about 12 percent from then until 1955 when it reached 13 percent. Changes in installment debt coincide with these changing ratios of income for durables.

The use of credit varies seasonally.--Data on installment credit extended to consumers over the past 9 years shows that people take on more installment debt in December than in any other month (chart 4). A smaller peak of installment debt comes about the middle of the year--in May to July. The low point is early in the year--usually in January and February, when people are recovering from Christmas shopping.

The December peaking of installment credit is largely due to debt assumed for the group of items classed as "other consumer goods." These include such things as household appliances and furniture, jewelry, and nondurables, but exclude automobiles. In other words, these "other

consumer goods" are the types of things that are frequently bought for use as Christmas gifts. Automobiles usually figure somewhat less heavily than other consumer goods in the December total, but they contribute substantially to the midyear peak. Personal cash installment loans rise in December. Possibly cash is being borrowed to buy Christmas presents, too, or to pay up old bills before the end of the year.

Payments on outstanding debts tend to lag behind credit extended.-- Consumers as a group usually pay less on existing installment debts than they borrow or buy on new installment credit during a given month (chart 4). An exception occurs during times of depression or recession, when people are avoiding new commitments but continuing to make payments on their old debts. Another exception is during the first month or two of the calendar year, when consumers are easing up on credit buying. Payments on automobile debts exceeded new credit assumed during most of 1958, because people weren't buying as many cars as usual.

Chart 5 shows net changes in total outstanding installment debt each month since 1952. When the amount of credit extended to consumers is more than the amount they repay on debts during the month, there is a net increase in the outstanding debt. When consumers repay more than they receive in new credits, a net decrease occurs. In the charts, each vertical line extending above the horizontal line means that new debts exceeded repayments on old ones in the given month, increasing the outstanding debt by the amount shown. Each line extending below indicates that repayments exceeded new debts, so that outstanding debt fell. The fact that a net increase occurs much more frequently than a net decrease explains the persistent upward trend in installment debt outstanding. In the case of cash installment loans, a net increase occurred in every month but 2 between 1952 and July 1959.

At the present time repayments on installment debts amount to about 13 percent of U. S. personal disposable income. In 1929, they were 6.5 percent, reached 9.5 percent in 1940 and 1941, and have been increasing year by year since 1945.

More people are using installment credit.--The proportion of spending units with installment debt is increasing. According to Federal Reserve studies, the proportion of U. S. spending units with installment debt was 22 percent in 1949, 45 percent in 1956, and 48 percent early in 1959.

Those in middle income group use credit most.--People in the middle-to upper-middle-income group are the ones most likely to be users of installment credit. The peak early this year was among the spending units with between \$6,000 and \$7,500 income, where 63 percent had installment debt (chart 6). The proportion wasn't much lower than this in other income groups between \$4,000 and \$10,000, but it dropped at both lower and higher income levels--to 23 percent of the group with less than \$1,000 and 38 percent of the group with \$10,000 or more. This pattern of extensive use of credit by the middle income spending units, but less use by spending units at low and high income levels shows up in various studies made over the years. But the proportion using installment credit at each income level has shifted gradually upward.

The wages or salary of a working wife frequently raise the family income to the range where installment debts are common. Studies show that families with working wives are somewhat more likely to have installment debt than those without this second income. Another income-related factor that may influence people to use credit freely is the increased sense of security fostered by Social Security and related programs. By taking some of the uncertainty out of the future these make people more willing to spend and incur debt in the present.

Installment buying changes with family cycle.--The tendency to buy on the installment plan changes as families progress through the stages of the family life cycle. You will do well to direct your credit programs to young families especially, and those with children growing up. Federal Reserve's 1959 Survey of Consumer Finances shows that the spending units headed by persons between 25 and 34 years old were more likely to have installment debt than the younger or the older ones. Sixty-nine percent of these young families reported such debt early this year (chart 7). The proportion of spending units with heads 18 to 24 and 35 to 44 years old with installment debt was about 60 percent. In the groups where the head was over 45 the proportion with debt decreased quite rapidly, to a low of 16 percent of the 65-and-over group. This older group includes a considerable number of people with low incomes, whom we have described previously as low in the use of installment credit.

Credit use varies with place of residence.--Suburban families tend to use installment credit more than either city or rural families. It's easy to find the reason for generous installment buying by suburban families, for they are likely to be young families with children, owners of homes with need for household furnishings and equipment, power lawnmowers, etc., and requiring one or more automobiles. There are regional differences, too, related in part to the composition of the population. Negro families are more likely than white families to be users of installment credit.

Installment buying increases with easing of terms.--Use of installment credit increases when credit terms are relaxed--that is, when smaller downpayments are permitted or monthly payments are reduced by increasing the length of the repayment period. The usual terms for a purchase of considerable size, such as an automobile, used to include a substantial downpayment and repayment to be completed in 12 months. Downpayments have been reduced, and the time allowed for repayment has gradually increased. By 1954, the average maturity on installment contracts for new cars was about 24 months; in 1955 it was 28 months, and in 1956, 36 months. Easier terms persuade some to buy on credit who would not otherwise do so. They also encourage some who would ordinarily have bought cheaper cars or equipment to "trade up" to more expensive models.

Although changing the downpayment or the monthly payment affects the amount of installment debt assumed by consumers, a change in the interest rate doesn't seem to. Few installment buyers pay enough attention to credit charges to know what the rate of interest is. The size of the monthly payment concerns them most, and since an increase in the interest rate makes relatively little difference in the monthly payment, it doesn't worry them.

In 1952, credit controls enforced during the Korean conflict were relaxed, and regulation of downpayments was discontinued. The subsequent increase in buying of household durables reflected this action, as well as the increased availability of such goods on the market as the economy returned to peacetime status.

Debt rises as opportunities to use credit increase.--Still another factor in the increase of consumer installment debt is the extension of credit for an ever-increasing number and variety of consumer goods and services by an ever-increasing number and variety of agencies. Advertising of all kinds carries word to consumers of the many credit opportunities available to them through both old and new kinds of credit plans.

What's ahead.--If the various trends and relationships we have been discussing continue, it seems likely that use of installment credit will continue at a high level. With incomes moving upward year after year, raising standards of living, we can look for relatively more people to be doing installment buying. The generally relaxed attitude toward installment credit for all purposes encourages many to try it.

It seems likely that the importance of installment credit relative to noninstallment credit will increase as new plans for buying "on time" are devised and put into operation. Consumer acceptance of innovations and new models in durable goods will have much to do with credit totals. Acceptance of the new small cars is expected to be a big factor next year.

Some who are concerned about the rising total of installment debt have suggested that the Government check it by imposing credit controls similar to those in force during World War II and the Korean conflict. Except in case of a similar emergency, however, it seems unlikely that this would be done in the near future. Consumers themselves will be responsible for deciding how much installment debt they can handle, and guiding their installment buying accordingly.

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Cox, Reavis. The Economics of Instalment Buying. New York, The Ronald Press, 1948.

Kisselgoff, A. L. Factors Affecting Demand for Consumer Installment Sales Credit. Nat'l. Bureau Econ. Research Tech. paper No. 7, 1952.

Chart 1.--CONSUMER DEBT OUTSTANDING

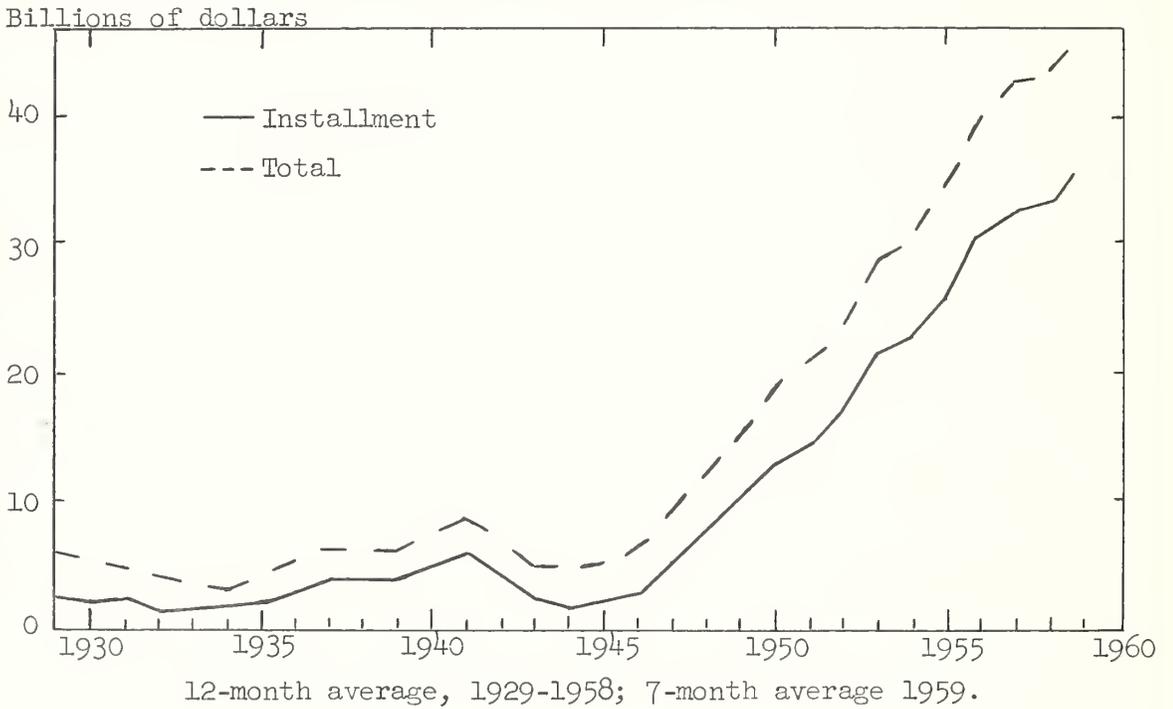
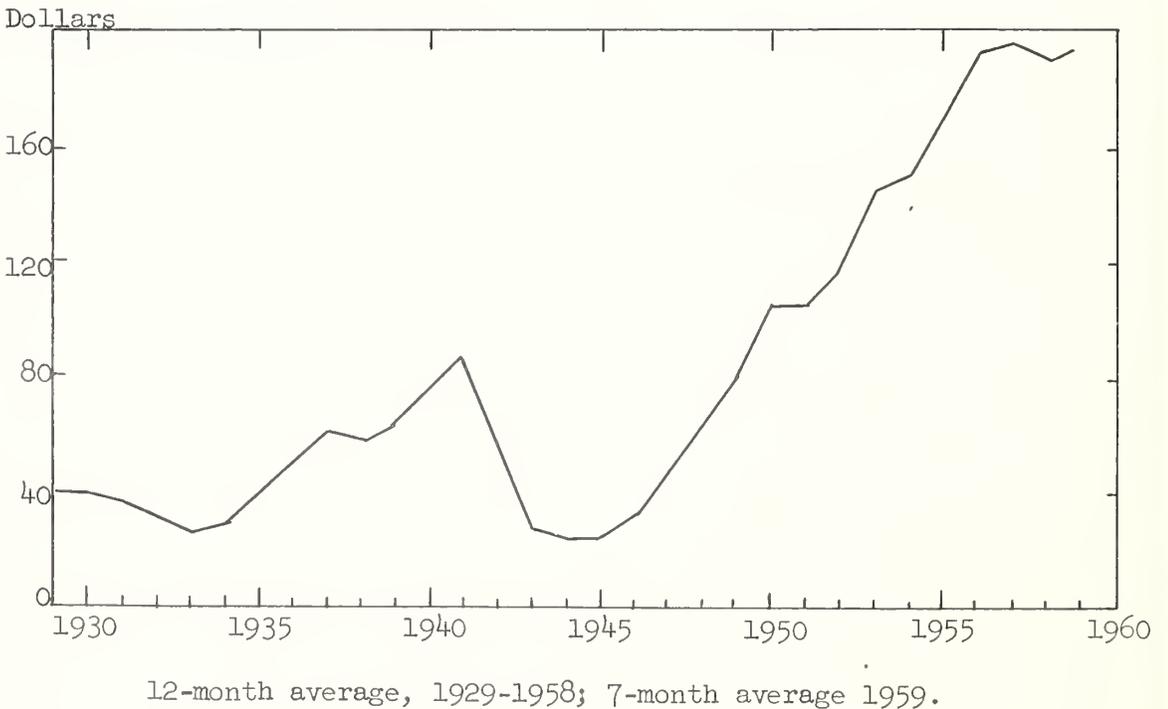


Chart 2.--INSTALLMENT DEBT OUTSTANDING
Per Capita in 1958 Dollars



Data from Federal Reserve Board.

Chart 3.--INSTALLMENT CREDIT EXTENDED

Billions of dollars

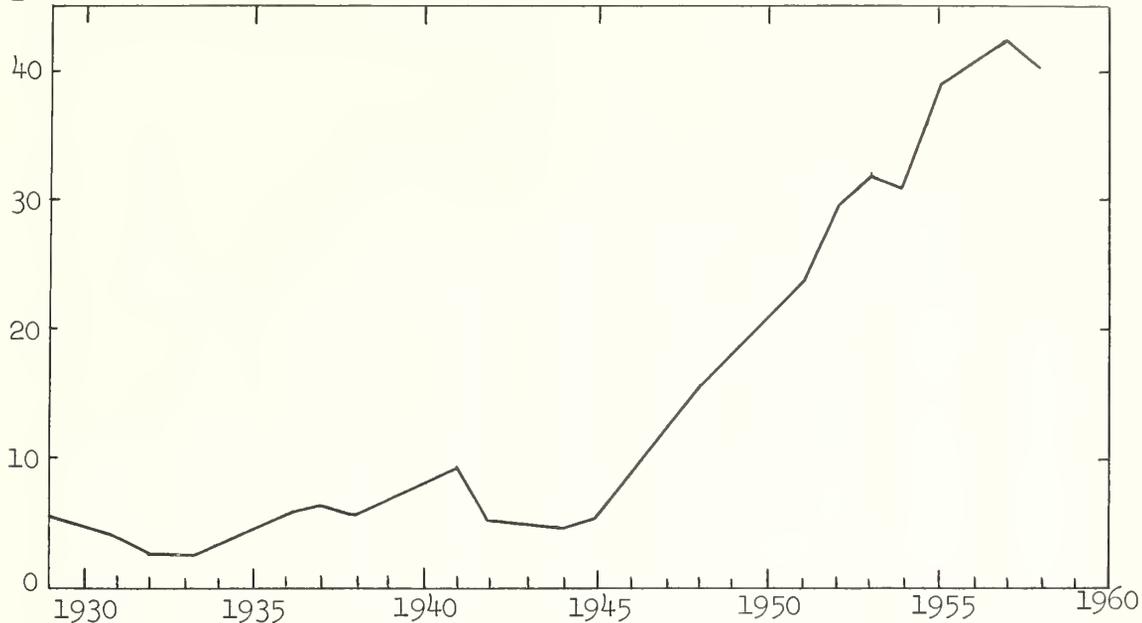
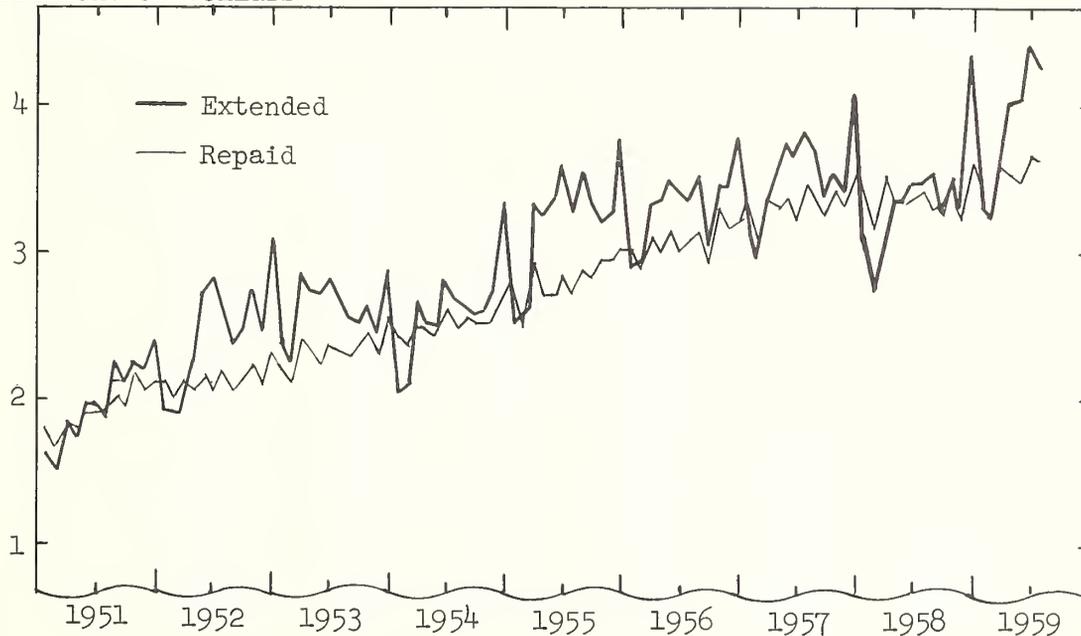


Chart 4.--INSTALLMENT CREDIT EXTENDED AND DEBT REPAYED

Billions of dollars

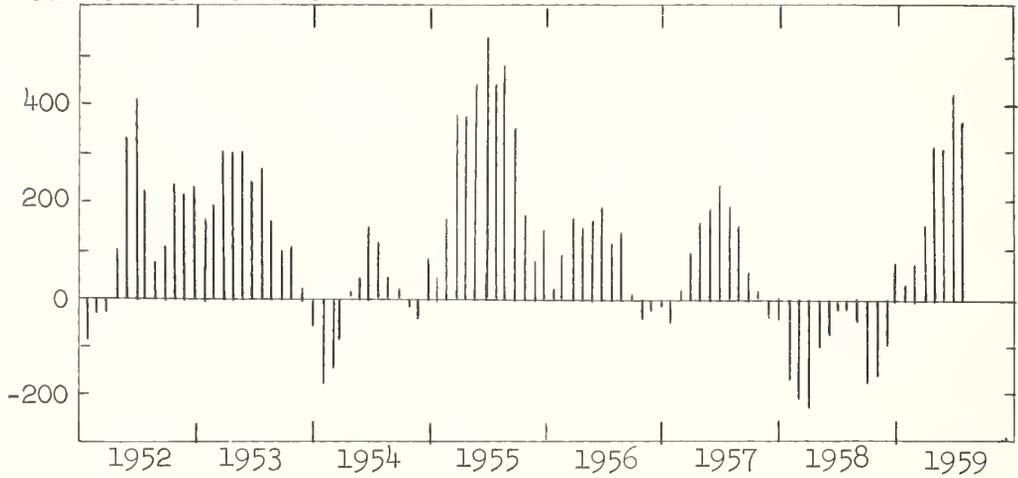


Data from Federal Reserve Board.

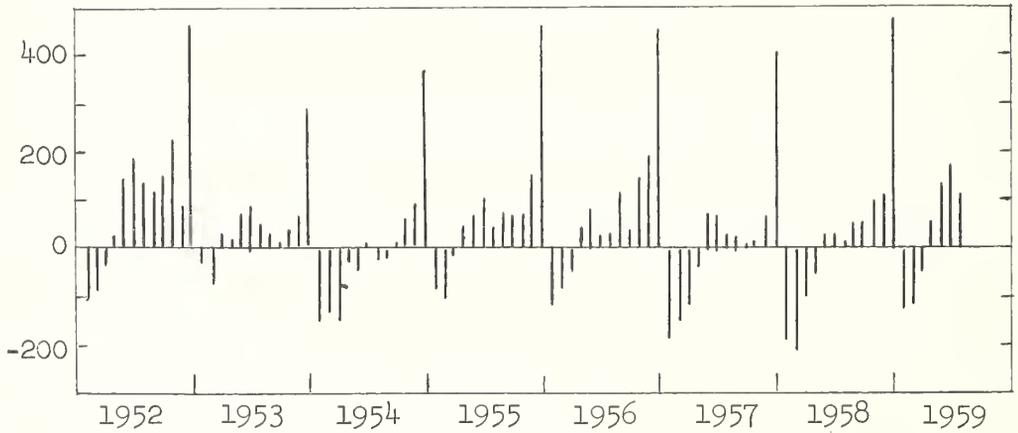
Chart 5.--MONTHLY NET CHANGE IN INSTALLMENT DEBT, BY TYPE

A. Automobiles

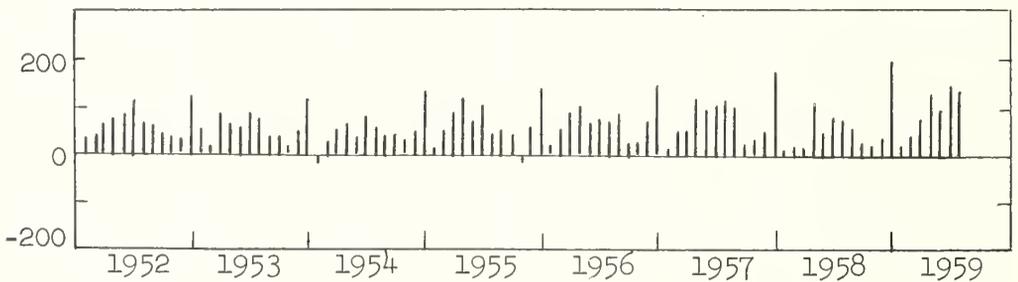
Millions of dollars



B. Other consumer goods



C. Personal cash loans



Data from Federal Reserve Board.

Chart 6.--PERCENT OF SPENDING UNITS WITH INSTALLMENT DEBT,
EARLY 1959, BY INCOME

Percent

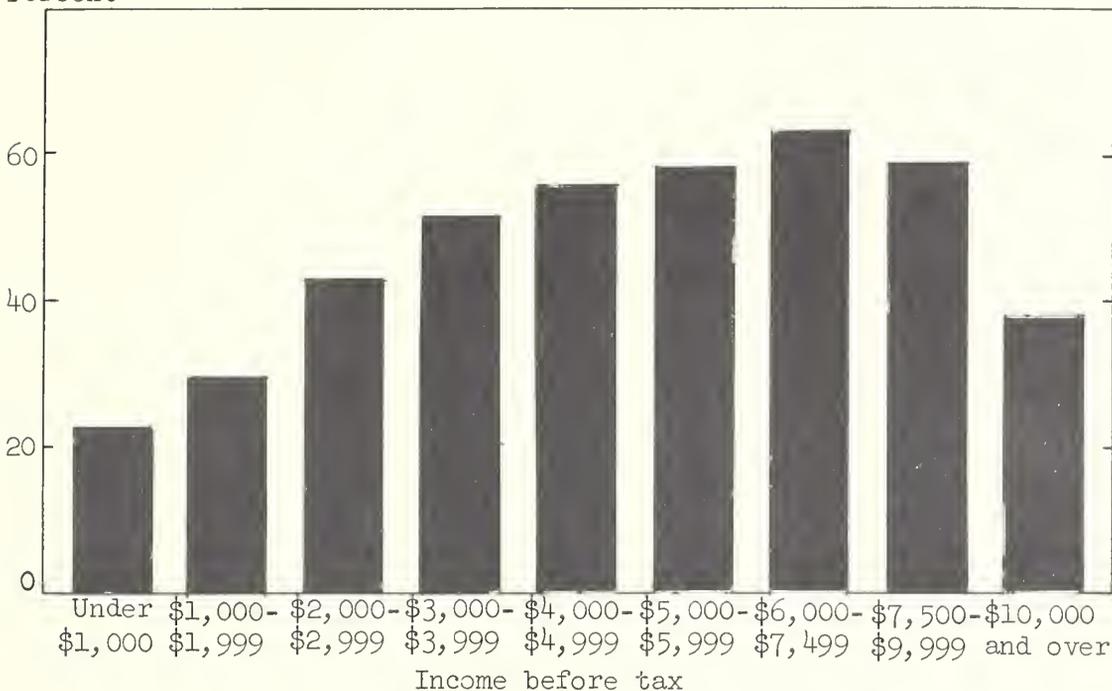
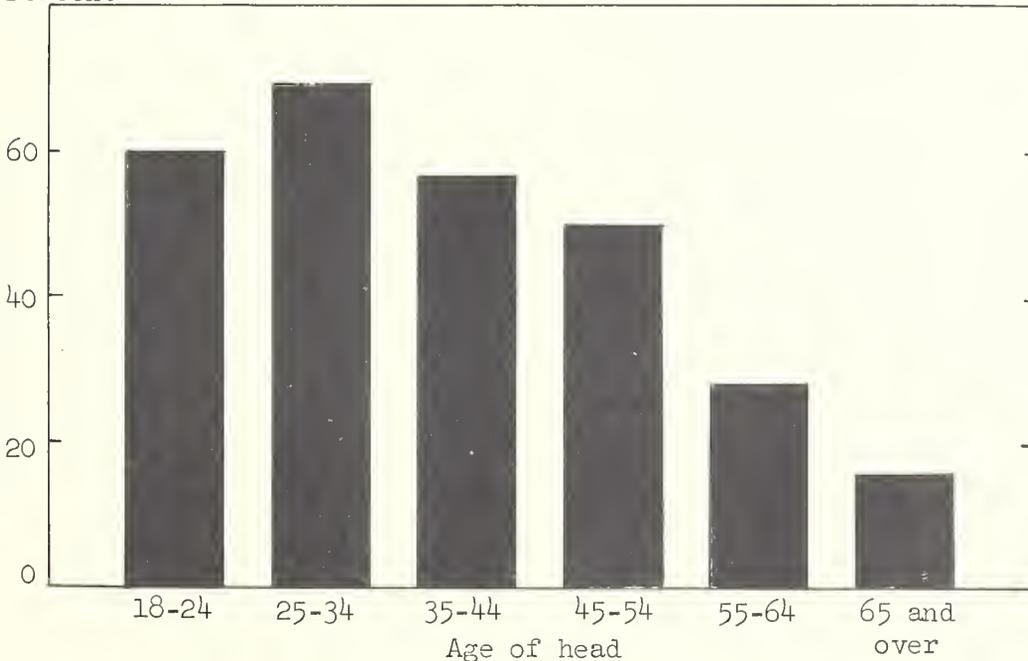


Chart 7.--PERCENT OF SPENDING UNITS WITH INSTALLMENT DEBT,
EARLY 1959, BY AGE OF HEAD

Percent



Data from Federal Reserve Board.