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Urban Realty Prices Display Spotty Rise

Low and Medium-Priced Homes in the Desirable Areas Advance as High-Priced Houses Decline

SHELTER, one of the basic human needs, remains extremely scarce nearly two years after VJ-day, a scarcity which is reflected in the high level of prices.

The increase in the price of residential property since 1940 may in part be traced to such factors as the small supply of houses at the beginning of the war, the increase in the number of family formations during the war, the rise in the per capita income, and the price control program, which may have reduced the number of rental units.

Price ceilings on most commodities gave numerous families more funds to spend on housing, and rent control reduced the number of rental units and forced many families to purchase homes in order to secure the necessary shelter.

A survey of real estate transfers was recently made by leading realtors in Minneapolis. Every effort was made to make the sample of real estate transfers tabulated in the survey as representative as possible of the total transfers made in each period studied. In the postwar years the percent of homes in the more desirable areas in the sample was slightly larger than in 1940.

Low-priced homes (defined as those selling for less than $5,000 in 1940 and the lowest 60 percent of the price range of houses on the market in that year and in subsequent years) selling for an average price of $3,394 in 1940 sold during the first four months of this year for an average price of $8,530—an increase of 151 percent.

In 1946 these properties sold for an average price of $7,930, or an increase of 134 percent over the 1940 price, and in 1945 for $5,542, or 63 percent above the pre-war price.

Thus, the percent increase from 1940 may be subject to some overstatement if one has in mind the price increase on identical units. This should be considered in interpreting the results.

For the lower-priced house there have been only a few signs of a weakening in the price. Houses located in the less desirable residential districts, for example, near the loop or near outlying shopping centers, have declined in price since last year.

Houses in the more desirable districts have continued to rise in price, and those in relatively new additions have risen substantially since last year.

Medium-priced houses (defined as those selling from $5,000 to $10,000 in 1940 and whose price in that year and subsequent years was between the lowest 60 percent and the top 6 percent of all houses in the market) selling for an average price of $6,545 in 1940 were selling for $13,583 in 1947 — approximately double the 1940 price. In general, houses in this price range have shown practically no increase in the last year. In one-half of the areas over the city and suburbs, the prices of these houses have declined.

The older houses in the less desirable residential districts dropped substantially in the last 12 months, while the new houses in the suburban areas continued to increase substantially.

The high-priced homes (defined as those selling for more than $10,000 in 1940 and the top 6 percent of all houses on the market in that year and subsequent years) averaging $12,732 in 1940 have declined the most in price. These houses averaged $21,535 in 1946 and $19,231 during the first four months of this year. This represents a decline of 10 percent in the price during the first part of this year.

In the suburban areas the decline in the price of these houses was less than in the city of Minneapolis, and in one suburban area the price has continued to mount.

On the basis of the survey, residential property in Minneapolis and in the surrounding suburbs on the whole has risen approximately 115 percent since 1940. The low-priced houses (as defined above) have risen about 150 percent; the medium-priced houses (as defined above) have doubled; and the high-priced houses (as defined above) are now about 50 percent above the pre-war price.

BEGINNING OF BUYER'S MARKET INDICATED

Recent changes in the real estate market have been more significant than is reflected by the slight downward trend in the prices of some houses. With a leveling off in prices, sellers are prone to hold their properties longer in an endeavor to secure a better price, which produces a lag in the decline of real estate prices.

Under such conditions the trend in the number of real estate transfers is an important indicator of real estate market conditions. Since the spring of 1946, when transfers were at a peak, the number has declined sharply. Last spring the number of transfers was double the 1940 monthly average, while this spring the number was only slightly over 50 percent above the pre-war average.

The reduction in the number of transfers is a part of the transition from a seller's to a buyer's market. Buyers have become very choosy as to both location and type of house at the present level of prices.

FINISHED HOMES STILL SELLING AT A PREMIUM

In spite of these changes in the real estate market, residential property in Minneapolis is still selling at a premium; that is, above the replacement cost. Building costs for a frame house and a brick house in April were 80 and 76 percent respectively above the 1940 average, as measured by the E. H. Boeckh and Associates' construction costs indexes.

If residential property in 1940 was selling close to replacement costs, then such properties are still selling decidedly above present replacement costs.

The migration of people out of this region in the Thirties undoubtedly created a surplus of houses in some communities. Even though real estate prices during the war and subsequently have risen as much as in Minneapolis and other large centers, present prices, nevertheless, may not be greatly out of line with the general rise in prices.

PERIODIC LOW POINTS OF BUILDING COSTS ARE SUCCESSIVELY HIGHER

Since the economy apparently has reached the peak of the replacement boom, attention is directed more and more to the eventual level of real estate prices after a general readjustment of prices has taken place.

Real estate prices frequently are above or below the replacement costs. Nevertheless, over a period of years such costs tend to establish the market price. Consequently, the future trend in building costs holds a key position in the outlook for real estate prices.

From a historical point of view, building costs have risen significantly even though they are subject to considerable fluctuation over the course of the general business cycle. In each successive recession or depression, building costs have not receded to the low point of the preceding recession or depression.

For example, in the recession of 1920, building costs declined sharply but remained 55 percent above the 1913 level; in the Great Depression of the early Thirties, building costs fell only 10 percent below the low point of the recession in 1921. Since 1932 the costs have again risen substantially, and in April of this year they were 112 percent above the low point of the early Thirties.[2]

However, in a dynamic economy such as ours, it is precarious to base an estimate of the future trend of building costs entirely on a historical trend. Innovations of substantial magnitude frequently upset the cost trend of a particular industry. New methods of prefabrication or radical changes in the conventional methods of construction may greatly alter the historical trend of costs in the building industry.

• *A SURVEY of residential real estate prices was made last summer in cooperation with the Board of Directors of the Minneapolis Board of Realtors. This survey was repeated recently to make the information current.*

Numerous difficulties were encountered in the measurement of the rise in real estate prices.

A logical method of procedure is the compilation of prices in a representative sample of dwelling units sold in 1940, a reference year, and resold in the subsequent years studied. With identical dwelling units sold and resold, excluding those on which major renovations had been made, the average increase in the price of these units would be a reasonably accurate indication of the general rise in real estate prices. Since it was impossible to secure a sufficient number of dwelling units sold and resold, this straight-forward technique was abandoned.

Furthermore, for some purposes the rise in the price of identical dwelling units is not the measurement desired. Interested parties, dealers in real estate, and lending institutions want to know the average price of the "low-priced" dwelling units, the "medium-priced" dwelling units, and the "high-priced" dwelling units now on the market as compared to those which were actually on the market in 1940.

In 1940 it was found that 60 percent of all houses in the sample sold for $5,000 or less. Therefore, in each period "lower-priced" houses are defined as those in the lowest 60 percent of all houses sold. In other words, if the price of each house sold was listed going from the most to the least expensive, "lower-priced" houses would be the bottom 60 percent.

In 1940, houses selling for $10,000 or over constituted the top 6 percent in such a list. Therefore, "higher-priced" houses in each period were defined as those in the top 6 percent of the houses sold in that period.

"Medium-priced" houses are those whose prices fall between the top 6 percent and the bottom 60 percent in each period.

PREFABRICATION WILL CUT COSTS ONLY MODERATELY

Prefabrication has long been looked upon by some observers as the key to reduced building costs. The prefabrication generally referred to consists of the erection of the shell of the house by building panels in a factory, transporting them to the construction site, placing them on the foundation, and bolting them together.[3]

If prefabricators can reduce building costs materially, a large market will open up for their product. According to numerous home builders and real estate men, the mass market for housing in the coming months will develop in the price range of $7,500 and less.

Families with an income ranging from $2,000 to $3,000 annually will constitute the mass market, and it has become an established rule that a family cannot safely invest more than two and one-half times its annual income for shelter.

Prefabrication has become an important part of the veteran's housing program. By the end of February the federal government had issued 11 contracts to prefabricators guaranteeing them a market for close to 90,000 houses for this year. Additional contracts were negotiated in more recent months.

Some observers are of the opinion that prefabrications this year may reach a volume of sufficient magnitude so the application of mass production techniques may reduce costs significantly. Last year approximately 36,000 prefabricated units were turned out. According to recent esti-

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[2] Engineering News Record building cost index.

[3] See "Prefabricated Homes Approach Mass Production Levels" by W. C. Kilbourne of Northwestern National Life Insurance Company, **Prefabricated Homes**, January, February, 1947, p. 11.

BANKING

Two-Thirds of Deposit Increase to Farmers

SEVERAL significant changes have occurred in the ownership distribution of demand deposits of individuals and businesses in the Ninth District, according to estimates from the Federal Reserve System demand deposit survey of February 26, 1947.

Demand deposits of individuals have increased $246 million in this district since the time of the survey conducted in January 1946, and $180 million since July 1946.

Trade deposits, however, have declined $27 million since a year ago and $77 million since last July.

Farmers' deposits have accounted for $160 million of the increase in personal accounts over a year ago and the deposits of other individuals have accounted for the remaining $86 million gain. In January 1946, farmers' deposits were 21 percent of all demand deposits of individuals and businesses, and in February 1947 they reached 25 percent of the total, changing substantially the pattern of ownership.

The relatively great importance of personal accounts, especially of farmers' accounts in the Ninth District, is shown in Table I. Nationally, at the time of the February 1947 survey, farmers' accounts made up 9 percent of the total and individuals as a whole only 37 percent. This compares with the Ninth District figure of 25 percent of these deposits accounted for by farmers and 55 percent by personal accounts in general.

TABLE I

Ownership of Demand Deposits of Individuals, Partnerships, and Corporations in 9th District Compared to the United States, February 26, 1947

(Estimates in Millions of Dollars)

Type of Holder	Amount 9th District	Amount U. S.	% Total 9th District	% Total U. S.
Non-financial business	$ 835.1	$37,242.9	35	48
Manufacturing and mining	238.5	16,045.1	10	21
Public utilities	105.1	4,233.7	4	5
Trade	379.8	12,487.7	16	16
Other non-financial business	111.7	4,476.3	5	6
Financial business	127.8	6,543.5	5	9
Insurance companies	45.6	2,073.1	2	3
Other financial business	82.2	4,470.4	3	6
Individuals	1,301.8	28,852.3	55	37
Farmers	595.0	6,725.5	25	9
Others	706.8	22,127.3	30	28
Trust funds	19.7	1,686.9	1	2
Nonprofit Associations	87.6	2,721.4	4	3
Foreigners	1.8	771.1	0	1
Total	$ 2,373.8	$77,812.2	100	100

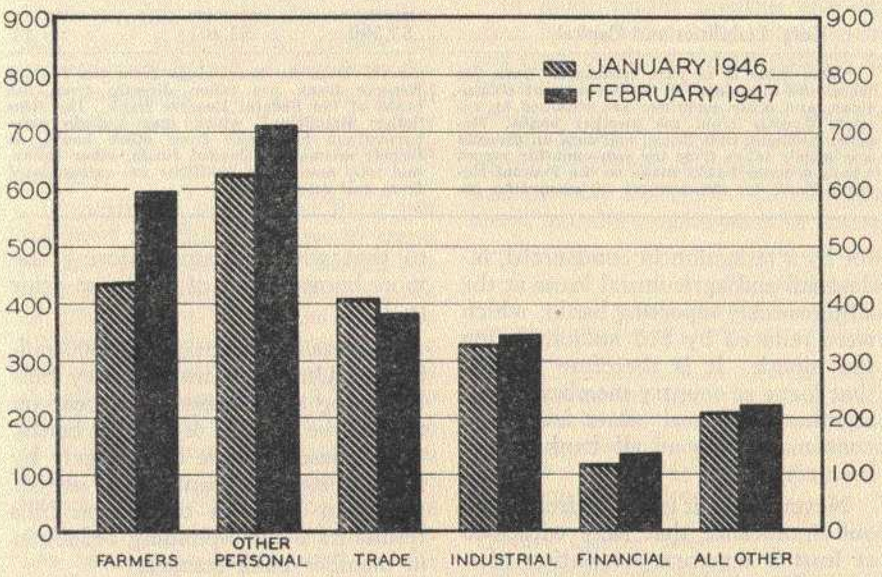
The increase in farmers' deposits during this period, especially noticeable in the Ninth District, has been due presumably to the great increase in farm income during the past year. While cash farm income in the United States rose 32 percent between January 1946 and January 1947, the increase was even greater —59 percent—in the Ninth District for the corresponding period.

Although the distribution of deposits was not altered to any great degree for most other types of business in the Ninth District, the demand deposits of trade concerns did rise from $407 million in January 1946 to $457 million in July 1946, only to experience a heavy decline to $380 million by February of this year.

Retail and wholesale trade de-

DEMAND DEPOSITS HELD BY DIFFERENT TYPES OF BUSINESSES IN ALL NINTH DISTRICT BANKS

(In Million Dollars)



TRADE—Wholesalers and Retailers; INDUSTRIAL—Manufacturing and Mining Firms.

SURVEY reveals farmers' demand balances up $160 million, others $86 million.

Rise in inventories explains drop in demand deposits of trade concerns.

Relative increase in total demand deposits of individuals and businesses since July 1946 was larger than in most other districts.

Bank loans decline $4 million in May, reversing recent trend.

posits therefore showed a rise in the January-July period in 1946, but they have since, in the July-February 1947 period, dropped to a level below that of a year ago. In January 1946, the deposits of trade concerns amounted to 19 percent of the total deposits and in February 1947, this percentage was only 16.

Department store statistics for the Ninth District show that sales increased from an index of 212 in January 1946, to 261 in February 1947, while stocks showed a much larger gain in the year's period, rising from 166 to 276. This rapid rise in inventories probably supplies the major clue as to why the deposits of trade concerns have contracted so sharply in the past six months.

Deposits of both financial businesses and non-financial businesses as a whole declined $5 million and $70 million respectively from July 1946, to February 1947, in the Ninth District, but these declines are not revealed in an annual comparison of surveys as is shown in Table II.

The decrease in financial and non-financial business deposits since July 1946 in the Ninth District was more than offset by the gain in individual deposits, and the total demand deposits of individuals and businesses have risen $98 million, or 4.3 percent since July 1946, and 13 percent since a year ago.

The relative increase in total demand deposits of individuals and businesses since July 1946, was larger in the Ninth District than in most other districts and can be largely attributed to the growth of farmers' deposits in this region during the past year.

TABLE II
Ownership of Demand Deposits of Individuals, Partnerships, and Corporations in All Ninth District Banks.

Type of Holder	Jan. '46	July '46	Feb. '47	Change Jan. '46-Feb. '47	Change July '46-Feb. '47
Non-financial business	$ 827.4	$ 904.6	$ 835.1	+ $ 7.7	— $69.5
Manufacturing and mining	212.2	246.6	238.5	+ 26.3	— 8.1
Public Utilities	112.8	100.8	105.1	— 7.7	+ 4.3
Trade	407.2	457.2	379.8	— 27.4	— 77.4
Other non-financial business	95.2	100.0	111.7	+ 16.5	+ 11.7
Financial business	113.0	132.4	127.8	+ 14.8	— 4.6
Insurance companies	33.9	42.2	45.6	+ 11.7	+ 3.4
Other financial business	79.1	90.2	82.2	+ 3.1	— 8.0
Individuals	1,055.9	1,122.1	1,301.8	+ 245.9	+ 179.7
Farmers	434.9	490.0	595.0	+ 160.1	+ 105.0
Others	621.0	632.1	706.8	+ 85.8	+ 74.7
Trust Funds	18.8	33.4	19.7	+ .9	— 13.7
Non-profit Associations	89.8	82.8	87.6	— 2.2	+ 4.8
Foreigners	.8	.7	1.8	+ 1.0	+ 1.1
Total	$2,105.7	$2,276.0	$2,373.8	+ 268.1	+ 97.8

Assets and Liabilities of All Ninth District Member Banks*
(In Million Dollars)

	May 28, 1947	April 30, 1947	Change
Assets			
Loans and Discounts	$ 639	$ 643	$ — 4
U. S. Government Obligations	1,799	1,811	— 12
Other Securities	156	157	— 1
Cash due from banks	766	766	......
Other Assets	30	24	+ 6
Total Assets	$3,390	$3,401	— 11
Liabilities and Capital			
Due to banks	322	337	— 15
War Loan Deposits	59	73	— 14
Other Demand Deposits	1,901	1,888	+ 13
Total Demand Deposits	$2,282	$2,298	— 16
Time Deposits	901	900	+ 1
Total Deposits	$3,183	$3,198	— 15
Borrowings from Federal Reserve Bank	1	2	— 1
Other Liabilities	16	13	+ 3
Capital Funds	190	188	+ 2
Total Liabilities and Capital	$3,390	$3,401	— 11

* This table is in part estimated. Data for loans and discounts, U. S. Government obligations, and other securities are obtained by reports directly from the member banks. Reserve balances, cash items, and data on deposits are largely taken from the semi-monthly report which member banks make to the Federal Reserve Bank for the purpose of computing reserves. Data for borrowings from the Federal Reserve Bank are taken directly from the books of the Federal Reserve Bank. The item "other liabilities," which may include some borrowings by banks from other banks, is largely estimated. Capital funds, other assets, and total assets and liabilities are extrapolated from call report data.

RISING TREND OF BANK LOANS HALTED

During May the most striking banking development in the Ninth District was the modest decline in member bank loans and discounts. This, for the time being, brought to a halt the rising tide of bank loans which began to swell about the middle of 1946 and continued through the first quarter of 1947.

The monthly rate of loan expansion earlier this year reached a peak of $22 million in March, leveled off in April with only a $2 million increase, and declined $4 million in May.

The decline is entirely accounted for by a reduction in commercial, industrial, and agricultural loans at the larger weekly reporting banks, which were reduced by $10 million during the month. It is therefore evident that loans at country member banks, together with real estate loans and consumer loans at all banks, have been continuing to rise.

Nevertheless it is not entirely without significance that May witnessed at least a temporary cessation of a rate of bank loan expansion equal to that which occurred during the more buoyant part of the boom prior to 1920.

The cash redemption of $600 million of United States Treasury bills did bring some pressure to bear on the reserve position of member banks. Since these bills are held largely by Federal Reserve banks, the use of war loan balances to redeem bills results in a corresponding reduction in member bank reserves.

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BUSINESS

Peak Business Volume Covers Readjustments

THE much-discussed, prospective business recession, so prevalent in present analysis of economic conditions, has had only a moderate effect, if any, on the Ninth District economy. Economic distress growing out of unemployment and business failures has yet to appear.

The dollar volume of business transacted in this district has possibly contracted since the first of the year, if the trend of bank debits is an accurate indicator. For the most part, they are checks drawn against depositors' accounts and thus, except in financial districts, represent largely the payments made for goods, services, debts, etc.

They do, however, include the transfer of some funds which have no significance in the measurement of general business activity, making necessary considerable caution about conclusions based on bank debits information done.

In January of this year, bank debits in this district reached a peak of 214 percent above the 1935 to 1939 average with an adjustment for the usual seasonal variation. Since that time the volume of debits has declined noticeably. In April the adjusted index was 14 points below the January peak.

In May a small rise again occurred. However, this rise, for the most part, may have reflected the greatly increased withdrawal of war loan deposit accounts from commercial banks by the U. S. Treasury rather than a rise in general business activity.

Department store sales have not followed a definite downward trend as have bank debits. In March the sales in this district reached a peak of 179 percent above the 1935 to 1939 average with an adjustment for the usual seasonal variation. In April the adjusted index dropped 22 points, which appeared to be the beginning of a decline, but in May the index again rose to within 7 points of the March peak. The decline in sales since the peak was reached in March has been more pronounced in the smaller cities and towns of the district than in the larger cities.

The dollar volume of stocks held by department stores in this district has leveled off. The almost steady rise in stocks came to an end at the beginning of the year. For the end of April, the adjusted index was 287, or about 186 percent above the pre-war average. Preliminary figures for May indicate that the adjusted index has dropped 15 points.

Outstanding orders held by department stores in this district have contracted sharply since June 1946. In that month the volume of orders totaled over 3½ times the volume of monthly sales. In April, the amount of orders fell below the amount of monthly sales.

DOLLAR volume of business transacted has declined, bank debits indicate.

May department store sales, down moderately from March peak, up over April.

Volume of outstanding orders has declined.

Manufacturing employment decline appears offset by expansion in other lines.

Small number of new "starts" in construction foreshadows possibility of less activity in coming months.

RISE IN UNEMPLOYMENT IN DISTRICT NEGLIGIBLE

Employment in manufacturing establishments is more sensitive to changes in general business conditions than employment in other types of concerns.

In the four states wholly within this district, manufacturing employment reached a peak in November of last year. A small decline during the winter months was attributed to usual slack conditions. During the spring, however, such employment continued to contract slowly. The employment in March was approximately 1,500 less than in Febraury.

In more recent months, the decline in manufacturing employment has been confined almost entirely to Minnesota, where most of the manufacturing in this district is concentrated. In April, employment in Minnesota concerns declined by 2,650 and in May by 1,600. In the past three months employment in manufacturing concerns in this state has dropped by 6,000.

The decline in manufacturing employment is only in part traced to a decrease in consumer demand. Wholesalers and jobbers have reduced their orders for some high-priced items. This has resulted from both a liquidation of inventories as well as a decline in consumer purchases.

Some manufacturers have traced the decline in the demand for their products to bottlenecks in other industries. This is especially true in the electrical equipment field. There has been no evidence of a slackening in the consumer demand for these products.

Even though manufacturing employment has contracted during the past several months, the rise in unemployment has been negligible in the district. Some labor has migrated from the urban centers to the smaller

Northwest Business Indexes

Adjusted for Seasonal Variations — 1935-1939 = 100

	May 1947	April 1947	May 1946	May 1945
Bank Debits—93 Cities	273	265	225	201
Bank Debits—Farming Centers	320	334	260	207
City Department Store Sales	289	273	263	182
Country Department Store Sales	256P	241	240	159
City Department Store Stocks	246P	282	191	168
Country Department Store Stocks	291P	291	196	179
Country Lumber Sales	135P	152	148	100
Miscellaneous Carloadings	130	133	112	120
Total Carloadings (excl. Misc.)	146	141	96	145
Farm Prices (Minn. unadj.)	247	254	190	180

P—Preliminary.

communities and especially to the resort region.

A substantial number of the older men and women are retiring from the labor market and numerous factory workers have secured employment in other establishments. For example, employment in construction in Minnesota increased by 9.8 percent.

NO BUILDING BOOM

In spite of the rise in construction employment, the building boom envisaged for this year apparently is not living up to early expectations. The number of new units started has been only a fraction of the number started a year ago. As compared with the corresponding months of a year ago, the valuation of building permits has ranged from 76 percent less in February to 20 percent less in April. In May the total valuation was about equal to the total in May, 1946.

The valuation of contracts awarded for all types of building as compiled by the F. W. Dodge Corporation reflect a similar trend. The total valuation for the first five months was consistently below that of a year ago. In May the valuation totaled 22 percent less than in May, 1946.

Residential construction at the present time is concentrated on the completion of units started last year or during the winter months. The number of new units started is decidedly less than last year. The valuation of contracts awarded for residential construction for the first five months averaged 30 percent less than for the same period in 1946. Even though the valuation increased during the spring months, the increase has been much less than a year ago.

Even though general business activity in the Ninth District has at least for the time being reached a plateau, the economy of this district, nevertheless, is still in a prosperous condition and operating at very high levels.

Sales at Ninth District Department Stores[1]

	% May 1947 of May 1946	% Jan.-May 1947 of Jan.-May 1946	Number of Stores[2] Showing Increase	Decrease
Total District	110	113	219	47
Mpls., St. Paul, Dul.-Sup.	109	112	18	4
Country Stores	112	115	201	43
Minnesota	111	113	55	15
Central	93	102	3	4
Northeastern	112	107	6	0
Red River Valley	103	113	2	2
South Central	118	119	13	4
Southeastern	118	120	12	1
Southwestern	109	112	19	4
Montana	112	116	25	8
Mountains	111	116	7	4
Plains	113	117	18	4
North Dakota	111	117	39	9
North Central	105	116	7	2
Northwestern	102	112	5	1
Red River Valley	124	124	15	1
Southeastern	99	111	10	5
Southwestern	(3)	(3)	----	----
Red River Valley-Minn. & N. D.	121	122	17	3
South Dakota	106	112	38	9
Southeastern	108	114	12	2
Other Eastern	103	110	19	6
Western	111	110	7	1
Wisconsin and Michigan	119	118	44	2
Northern Wisconsin	122	116	10	0
West Central Wisconsin	123	119	30	0
Upper Peninsula Michigan	103	110	4	2

[1]Percentages are based on dollar volume of sales.
[2]May, 1947, compared with May, 1946.
[3]Not shown, but included in totals. Insufficient number reporting.

Department Store Sales by Cities

	Percent One Year Ago May	Percent One Year Ago Jan.-May	Percent 1935-1939 Average May
Minneapolis	107	109	278
St. Paul	114	118	266
Duluth-Superior	117	112	
La Crosse	124	117	263
Mankato	111	113	240
St. Cloud	99	107	321

URBAN REALTY PRICES DISPLAY SPOTTY RISE

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mates, approximately 60,000 or 70,000 units may be turned out this year.

When both the automobile and aircraft industries reached an output of 50,000 units they had reached a critical point; the application of mass production techniques materially reduced costs. On the basis of this parallel drawn with other mass production industries, prefabricators may be close to the brink of substantial reductions in their costs.

A further examination of the development of prefabrication, however, reveals obstacles which were not present in the automobile or aircraft industries.

According to some observers, a revolutionary reduction in prefabrication costs cannot be made with the use of conventional building materials. These materials limit the average prefabricator to a market radius from 200 to 300 miles from the factory. The use of lightweight materials, especially plastics, will greatly extend this market radius, making possible a larger volume and the application of mass production techniques.

However, since a new house in many instances constitutes a lifetime investment, the general public is very conservative in accepting new construction materials. Consequently, prefabricators may find it necessary, if they have not already provided for it, to launch an advertising and selling campaign extending over several years to overcome the public's prejudice against the use of new materials.

The building cycle also hinders the prefabricators in the adoption of mass production techniques. The building industry is subject to larger swings in the cycle than any other industry. Since the construction of houses involves the outlay of a large sum of money, home building is highly concentrated into periods when the public is confident of the future.

Even though prefabricators might materially reduce building costs, they

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AGRICULTURE

Farming Picture Continues Bright

CROP prospects for the district as a whole continue favorable. Wet and cold weather retarded crop development in late May and early June, but the weather has been mostly favorable since mid-June.

Unusually favorable soil moisture conditions plus the cool weather have been important in establishing an exceptionally strong root development in small grain crops. Some private reports indicate that only unusually bad weather conditions in July and August will prevent a record grain harvest, although these were made prior to recent adverse weather developments.

A wheat crop of nearly 170 million bushels has been forecast for North Dakota. If such a crop materializes it will be the largest on record for the state, and it will exceed the previous peak of 159 million bushels produced in 1915 by 10 million bushels.

It would be 21 percent larger than last year's crop and 60 percent larger than the average production for the 10-year period, 1936-45.

In South Dakota, crop prospects are again excellent in spite of the cold, wet and late planting season. It is now apparent that freezing and near-freezing temperatures in late May did little damage to the grain crops.

The largest winter wheat crop on record is indicated for South Dakota this year, although total spring and winter wheat may not quite equal last year's record production.

In Minnesota and Wisconsin, crop prospects are improving daily. The season is, of course, late, and grain crops may be filling at a time when temperatures are high. If growing conditions continue favorable, however, crop production may exceed earlier expectations.

Most small grain acreage is now planted to improved rust and disease-resistant varieties, which will be an important factor in yield prospects.

Crop reports from Montana indicated a spotty condition. The east end of the state apparently is in better condition than is true just east of the Rockies.

Range and pasture conditions have definitely improved. Development was extremely slow this year. Range feed conditions are now reported good to excellent in the Dakotas and throughout most sections of Montana.

PRICES OF FARM PRODUCTS HOLD AT HIGH LEVEL

There is an unprecedented interest in prices of farm products. Unfortunately, there is a growing feeling, particularly in the industrial centers, that food prices are out of line with past relationships.

It is true, of course, that the increase in farm prices, percentagewise, has been larger than it has for industrial products. Farm prices have almost tripled from pre-war levels. It is also true that the farmer has been fortunate in being able to expand production at a time of record domestic and foreign demand for his products.

It should not be forgotten, however, that during much of the inter-war period farm product prices were low relative to other prices and the pre-war period is therefore a low base for comparison. It should also be remembered that the farmer has no assurance that the present demand situation will last much longer.

Prices received by farmers in April were down slightly from the March peak. Seasonally lower prices for dairy products and a decline in prices of some oil bearing crops were sufficient to pull the average down to 272 percent of the base period, 1909-14. In March the all-time high was 280 percent. Farm prices in 1939 averaged only 95 percent of the base period.

Normally, domestic demand is the most important factor in the general level of farm prices. During the war and currently, foreign demand has greatly influenced prices, and may continue to do so for some months.

It is reasonably certain that foreign demand for American food products will continue strong during the rest of 1947. Foreign food production prospects are not too bright this year, and apparently it is the Administration's policy to make food available to needy people to the limit of our ability for the next several months at least.

RECORD wheat production a possibility.

Prices of farm products are being maintained at near-record levels.

Cash farm income is up 34% from previous years.

Eventually, however, foreign agricultural production will recuperate. It is also questionable how much longer dollar exchange will be available to the importing countries or how much of it they may continue to use for food purchases from the United States.

The domestic business situation is, of course, the most important factor in the demand for farm product prices. There is a close relationship between the two. Right now there are both inflationary and deflationary forces at work. These have been discussed in more detail elsewhere in the pages of this Review, but it may be worthwhile briefly to enumerate them here.*

On the inflationary side are such influences as the large amount of cash and credit available, wage increases, almost full employment, and short supplies of many hard goods.

However, there also are certain deflationary forces that may become increasingly important. Government is taxing more heavily than it is spending. The prices of some products are out of line with what consumers apparently considered normal.

This does not mean that prices will necessarily return to pre-war relationships. Cost and supply relationships may have changed. In general, however, the period of transition is apparently about at an end. Larger and larger supplies of goods are becoming available. Inventories have increased. Some prices of the so-called soft line of goods have tended to weaken.

These deflationary forces are not without interest to farmers since, if business activity declines, generally

*See Monthly Review, January, 1947, and Business Section each month.

a falling demand for farm products is the result. In such periods farm prices have always declined more sharply than have most other prices.

FIRST QUARTER CASH FARM INCOME UP THIRD

District cash farm income continues to climb to further unprecedented heights. Since the first of the year, farm income has averaged about a third larger than the same period last year.

The sharp increase in cash farm income is almost entirely a reflection of higher prices for farm products, which currently average at least a third higher than in early 1946.

Production of farm products has also been maintained at near peak levels, which contributes along with excellent prices to sustain total cash farm income.

There are indications, however, that farmers in the district have been marketing their stored grain much more rapidly than usual in recent months. Stocks of wheat, corn, oats, barley, and rye on April 1 were all less compared with a year earlier. Wheat stocks on district farms on April 1 were sharply reduced from last year and were below the April 1, 1936-45 average.

In view of the fact that crop production last year was a near record, or about 50 percent larger than a recent 10-year average, it might be that a larger than usual proportion of last year's crop has already been marketed. If this is true, farm receipts just prior to new-crop marketings may decline more than might be indicated by the farm price level.

Higher cash farm income does not necessarily mean the farmer is banking a larger net income. Costs of farming have also increased sharply from a year earlier.

Prices paid by farmers on May 15 were 229 percent of the 1909-14 base period. A year earlier they were at 185. In other words, costs of farming are up 24 percent. The farmer's net income, therefore, may have increased only slightly from 1946 levels.

Average Prices Received By Farmers[1]

Commodity and Unit	Ninth District May 15, 1937-1941 Avg.	Ninth District May 15, 1946	Ninth District May 15, 1947	Parity Prices[2] United States May 15, 1947
Crops				
Wheat, bushel	$0.80	$1.65	$2.33	$2.02
Corn, bushel	.60	1.20	1.43	1.47
Oats, bushel	.30	.73	.82	.914
Potatoes, bushel	.64	1.22	1.31	1.69
Livestock and Livestock Products				
Hogs, 100 lbs.	7.33	14.05	23.04	16.60
Beef Cattle, 100 lbs.	7.17	13.29	18.30	12.40
Veal Calves, 100 lbs.	8.33	13.55	20.67	15.50
Lambs, 100 lbs.	8.20	13.75	18.81	13.50
Wool, lb.	.27	.43	.40	.419
Milk, wholesale, 100 lbs.	1.45	2.79	3.21	3.29
Butterfat, lb.	.29	.54	.66	.57
Chickens, live, lb.	.128	.213	.225	.261
Eggs, dozen	.156	.311	.374	.423

[1]Data compiled from "Agricultural Prices," United States Department of Agriculture.
[2]The term parity as applied to the price of an agricultural commodity is that price which will give to the commodity a purchasing power equivalent to the average purchasing power of the commodity in the base period, 1910-1914.

January-March Cash Farm Income[1]

(Thousands of Dollars)

State	1935-1939 Average	1946	1947	1947 in Percent of 1946
Minnesota	$ 76,843	$ 212,785	$ 287,442	135%
North Dakota	17,388	78,784	101,387	129
South Dakota	23,345	108,143	144,068	133
Montana	12,874	41,320	55,912	135
Ninth District[2]	148,196	486,502	652,331	134
United States	1,680,482	4,486,000	5,840,000	130

[1]Data from "The Farm Income Situation," United States Department of Agriculture.
[2]Includes 15 counties in Michigan and 26 counties in Wisconsin.

URBAN REALTY PRICES DISPLAY SPOTTY RISE

(Continued from Page 465)

could at best only moderate the amplitude of the cycle. Thus, prefabricators with a substantial amount of capital tied up in plant and equipment must be prepared to weather slack building seasons or develop plans to maintain a market during such periods.

Prior to the war, prefabricators did not offer serious competition to the conventional building contractors. The cost per cubic foot was higher for practically all prefabricated houses of comparable quality than those built in the conventional way.

Since the shell of the house constitutes only about 40 percent of the total cost of a completed house, some prefabricators since the war have processed more items which go into a house in an endeavor to pull down their costs. Some have included a complete line of plumbing, heating, and electric wiring. These materials are pre-cut in the factory, reducing the cost of installation.

On the basis of all the evidence available, prefabricated housing costs, most likely, will decline gradually during the next few years. No revolutionary changes in design or costs are anticipated during the present building boom. Consequently, prefabrication may not pull costs away from the historically rising trend.

CHANGES IN CONVENTIONAL METHODS REDUCE COSTS

In the conventional method of home construction, some changes resulting in lower cost are also taking place. Some contractors are increasing the scope of their operations to eliminate subcontracting. Subcontracting, some observers estimate, adds from 10 to 15 percent to the total cost of a house.

Some building contractors now have their own excavating machinery, operate their own cement block plant, pre-cut the materials with power machinery in their shop, and do their own landscaping. This has resulted in a considerable saving in on-site construction costs.

Prefabrication has also become a part of the conventional method of construction. More of the small units which are a part of every house are built in factories. For example, window frames are now manufactured as a unit; that is, the frame, sash, storm window and screen are made as a unit. The contractor buys the unit from the factory and sets it in the frame of the structure. Kitchen equipment, cupboards, and stairways are now factory built, and flooring is sanded and treated before it is laid.

Some architects and contractors are of the opinion that the prefabrication of the small units which are a part of every house may eventually result in a greater reduction in building costs than the prefabrication of the shell of the house.

According to the postwar developments in the building industry, costs very likely will fall from the present high level. The output per construction worker will rise with an even flow of materials to the construction site. As competition returns to the industry, the profits of building material manufacturers and of contractors will decline to the pre-war margin.

While these factors will reduce costs, the public's demand for houses with all the modern comforts and conveniences plus some individuality of design will tend to raise total costs. Consequently, future building costs may not deviate noticeably from the historical trend of rising costs.

LOANS ON URBAN REAL ESTATE EXPAND RAPIDLY

Financial institutions engaged in mortgage lending have a vital interest in the trend of real estate prices, and, therefore, indirectly in the trend of building costs.

During a period of rising real estate prices, individuals holding such property as an investment tend to sell their holdings. With uncontrolled real estate prices, on the one hand, and rent controls, on the other, real estate owners have had an unusually favorable market for disposing of their properties. The growing shortage of dwelling units increased the number of purchasers of residential property, for many families were forced to purchase homes in order to secure shelter.

As a result of the sale of real estate held as an investment, the investor's money in such property has been replaced by money loaned on mortgages. In 1946 the urban real estate debt in the United States increased faster than in any other year on record. The amount of non-farm mortgages recorded last year totaled \$10.4 billion as compared with \$5.6 billion in 1945 and \$3.5 billion in 1939.[4] As a result of this rise in real estate loans, the urban mortgage debt is now over \$35 billion.

The urban mortgage debt in the Ninth District has followed closely the national trend. In the four states wholly within this district, commercial banks at the end of 1946 held \$172 million of real estate loans secured by residential property as compared with \$58 million at the end of 1940.

Average Non-Farm Mortgage Recorded by Banks in 9th District and in U. S. in 1946[1], 1945, and 1940

	1946	1945	1940
Minnesota	\$3,773	\$3,313	\$2,213
Montana	4,147	3,309	2,935
North Dakota	2,344	2,221	1,676
South Dakota	2,390	2,091	1,883
United States	4,444	3,742	3,253

[1]Figures for 1946 cover only the first six months.

Source: This information was prepared by the Real Estate Finance Department of the American Bankers Association from data secured from the Federal Home Loan Bank Administration.

The average size* non-farm mortgage of \$20,000 or less recorded by banks in 1945 and in the first six months of 1946 was significantly larger than in 1940 as a result of the rise in real estate prices, as may be observed in the accompanying table.

The average size non-farm mortgage recorded by banks in Minnesota in the first six months of 1946 was 70 percent larger than in 1940; in Montana the average size was 41 percent larger; in North Dakota, 40 percent larger; and in South Dakota 27 percent larger.

In the United States as a whole, the average size non-farm mortgage recorded by banks in the first six months of 1946 was 36 percent larger than in 1940.

Commercial banks in the nation recorded approximately one-fourth of the non-farm mortgages recorded in recent years. During the past year, banks have increased their proportion of the total recordings. Whereas in 1945 banks loaned 19 percent of the total amount of non-farm mortgages recorded, during the latter half of 1946 they loaned 27 percent of the total.

In this district, commercial banks in Montana and in North Dakota increased their proportionate holdings by a comparable percentage. In Minnesota and in South Dakota no proportionate increase has taken place.

Savings and loan associations hold the larger share of non-farm real estate loans. In this district these associations have extended a larger proportion of the total credit than in the nation as a whole.

In North Dakota they recorded 50 percent of the total amount of non-farm mortgages recorded in recent years. In Minnesota and in South Dakota the proportion is close to 40 percent of the total, and in Montana the proportion is approximately one-third of the total, which is comparable to the national average.

The other lending institutions, insurance companies and mutual savings banks, hold a relatively small proportion of the urban mortgage debt. Both institutions in the United States hold roughly 5 percent of the amount of non-farm mortgages recorded in recent years. Of the non-farm mortgages recorded in this district, insurance companies hold approximately the same proportion of the total.

With only one mutual savings bank in the district, the proportion held by this type of institution is obviously decidedly less than in the nation.

The larger amount loaned on residential property undoubtedly reflects the competition among lending institutions, as well as a belief that real estate values in the next recession or depression will not recede to those of the preceding one.

—Oscar F. Litterer.

*Arithmetic average of all mortgages recorded by commercial banks.

[4]Information on non-farm mortgage recordings is taken from the **Federal Home Loan Bank Review.**

National Summary of Business Conditions

COMPILED BY THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM, JUNE 27, 1947

OUTPUT and employment at factories showed further slight declines in May, although employment in the economy as a whole increased seasonally. Value of retail trade in May and the early part of June was at earlier record levels. The general index of wholesale prices advanced slightly after the early part of May, with widely varying changes for individual commodities.

INDUSTRIAL PRODUCTION—Production of manufactured goods showed a further slight decline in May, while output of minerals increased considerably, and the Board's preliminary seasonally adjusted index of industrial production was maintained at the April rate of 186 percent of the 1935-39 average.

Activity in durable goods industries in May was somewhat below the April rate, reflecting small decreases in most lines. Steel production increased, however, and was at the highest level since May, 1945. Activity at electrical machinery plants declined somewhat further in May, and output of passenger cars and trucks was curtailed about 11 percent, mainly because of a shortage of steel sheets. Automobile production increased in the first three weeks of June but remained below the April rate. Non-ferrous metal fabricating activity declined somewhat further in May; and output of most building materials continued to show a smaller increase than is usual at this season.

Production of non-durable goods, as measured by the Board's index, continued to decline in May. Output at cotton and most wool textile mills declined further. Cotton consumption in May was about 10 percent below the peak rate reached last November and apparel wool consumption has been reduced by a larger amount. Output at wool carpet and rayon fabric mills, on the other hand, increased in that period. Production of most manufactured food products declined somewhat in May after allowance for usual seasonal changes. Activity in rubber products industries continued to be curtailed. Output of paperboard, however, rose to a new record rate, which was 84 percent above the 1935-39 average. Production of most other non-durable goods showed little change or declined slightly.

Output of minerals rose 7 percent in May, reflecting a substantial gain in fuels production to the highest rate on record. Output of coal advanced sharply after declining in April because of work stoppages early in that month, and output of crude petroleum advanced further to a new peak rate.

EMPLOYMENT—Manufacturing employment continued to decline somewhat in May, owing mainly to production curtailments in various industries, while employment in most other types of nonagricultural establishments increased somewhat. The number of persons unemployed in May declined to about 2 million from a level of about 2.4 million during the first four months of this year.

DISTRIBUTION — Department store sales increased in May and the Board's seasonally adjusted index rose from a level of about 275 in March and April to 290 percent of the 1935-39 average, equaling the all-time high reached in August 1946. Sales in the first two weeks of June continued at the high May level.

COMMODITY PRICES—The general level of wholesale prices increased slightly from the beginning of May to the third week of June, reflecting chiefly increases in prices of cotton, corn, cattle, and beef. Prices of wheat, flour, and vegetable oils declined further.

Crude rubber prices dropped from 25 cents per pound to 14 cents, which is 3 cents lower than the price prevailing at the outbreak of war in 1939. Prices of various other industrial materials showed further declines, but some items like hides, coke, and steel scrap increased. Prices of automobile tires and soap were reduced, while prices of most other manufactured goods continued to show little change.

TREASURY FINANCE AND BANK CREDIT—During May and the first three weeks of June, reserve funds were supplied by a substantial gold inflow and by a decline in foreign deposits at Reserve banks. As a result, member bank reserve balances increased and Reserve bank holdings of Government securities declined further. Treasury debt retirement continued in May and June with redemption for cash of a part of certain bill issues and $1 billion of certificates maturing June 1.

BANKING (Cont. from Page 463)

To meet this pressure on reserves, some United States Treasury bills were sold to the Federal Reserve banks on repurchase option, some securities were purchased in the open market by the Federal Reserve System, and in individual cases some banks borrowed substantially during the month from the Federal Reserve Bank.

The weekly reporting member banks alone during the week ending May 21 had borrowed an aggregate of $7 million from the Federal Reserve Bank.

Deposits of member banks during the month declined by $16 million. Deposits due to other banks and war loan accounts declined $29 million, but this was partly offset by a rise in other demand deposits of $13 million. An increase of $1 million in time deposits resulted in a net total deposit decline of member banks in this district of $15 million during the month.

This deposit decline was general throughout the district. Only member banks in the Upper Peninsula of Michigan registered a gain.

Assets and Liabilities of Twenty Reporting Banks

(In Million Dollars)

	June 11, 1947	May 14, 1947	Change
Assets			
Commercial, Industrial and Agricultural Loans	$ 193	$ 201	$ — 8
Real Estate Loans	47	46	+ 1
Loans on Securities	19	19	
Other Loans	85	82	+ 3
Total Loans	$ 344	$ 348	$ — 4
Total U. S. Government Securities	701	705	— 4
Other Investments	61	60	+ 1
Cash and due from banks	424	411	+ 13
Miscellaneous Assets	17	16	+ 1
Total Assets	$1,547	$1,540	+ 7
Liabilities			
Demand Deposits, Individual, Partnership, Corporation	740	730	+ 10
Demand Deposits, United States Government	8	31	— 23
Due to other banks	297	288	+ 9
Other Deposits	383	378	+ 5
Total Deposits	$1,428	$1,427	+ 1
Borrowings	12	6	+ 6
Miscellaneous Liabilities	12	12	......
Capital Funds	95	95	......
Total Liabilities and Capital	$1,547	$1,540	+ 7
Excess Reserves	10	7	+ 3