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Construction Boom Fostered by Credit

- **Not only residential but commercial, industrial, and public building has surpassed that of former years, despite rising construction costs**
- **Mortgage lending, insured or guaranteed by federal agencies, comprises major portion of credit in the residential field**

By **OSCAR F. LITTERER**

ONE of the main pillars of postwar economic prosperity in the Ninth Federal Reserve district has been the construction boom. For a substantial proportion of our urban workers, it has provided employment on construction sites, in factories, and, to a smaller measure, in wholesale and retail outlets.

The number of workers employed in this district on construction sites alone has been close to 6% of the total number employed in all types of economic pursuits, exclusive of farming. In states like Montana, North Dakota, and South Dakota, which have large federal government projects under way, employment on construction sites has been close to 10% of the total.

The demand for building materials—structural steel, cement, brick, building blocks, lumber, millwork products, plumbing fixtures, heating equipment, etc.—creates an additional amount of employment. A substantial proportion of the increase in purchasing power in our cities and towns is traced to construction activity.

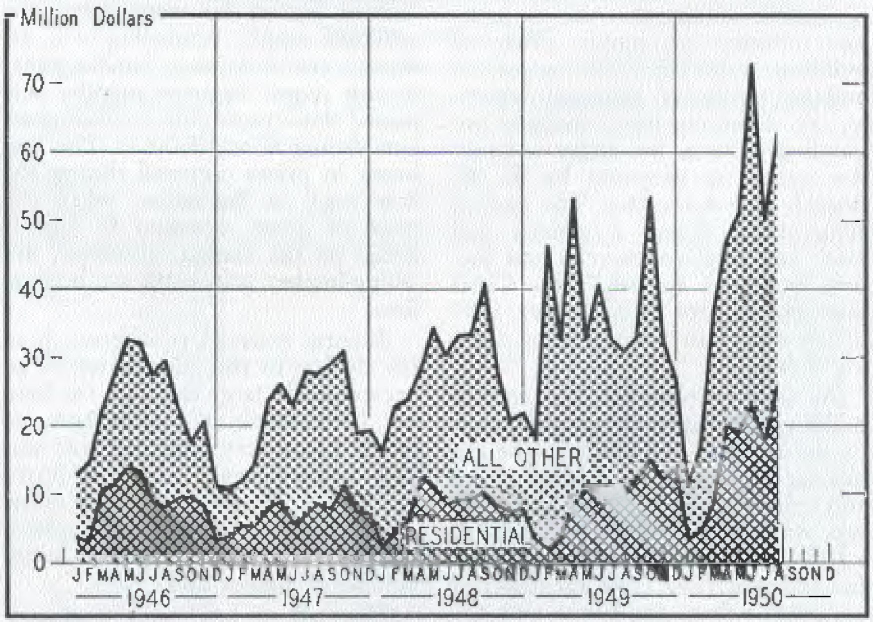
The current construction boom frequently is characterized as a housing boom. In fact, it encompasses decidedly more than the building of houses. Business concerns have invested large sums of money in new plants and equipment. Recently another spurt has taken place in commercial and industrial building. Apparently the heavy demand for civilian merchandise which has been experienced for the past several weeks and the large impending defense program have motivated business executives to hasten the expansion of facilities in their concerns.

In this district, state, county, and municipal governments have spent large sums for public buildings and other facilities. In recent years, the pressing need for additional space in public buildings, for improved highways and streets, and for other expanded public facilities grew out of the virtual shutdown of construction on such projects during World War II and the rapid growth of overpopulation during the past decade.

The dollar amount of contracts awarded from January 1946 to date for commercial, industrial, and public construction and for residential building has been plotted on the accompanying chart. It provides a picture of the relative size of the first type of construction in comparison with the housing boom.

As may be observed on the chart, commercial, industrial, and public

CONSTRUCTION CONTRACTS AWARDED IN THE NINTH DISTRICT
January 1946 to August 1950



ALTHOUGH the total dollar volume of residential construction was less than other types of building, it has increased by a larger percentage in the past year.

Source: F. W. Dodge Corporation.

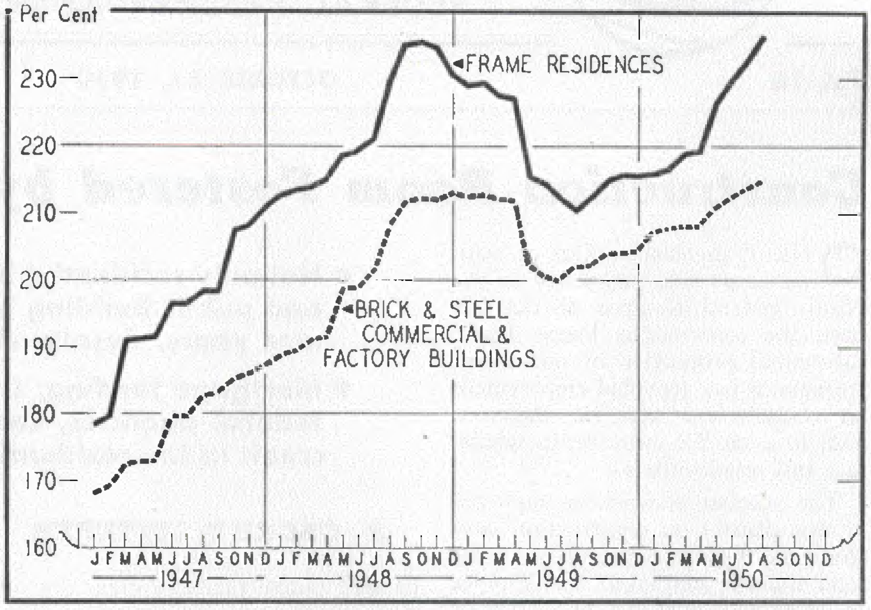
construction greatly exceeds the volume of residential building. Although the volume of residential building is smaller, both types of construction surpassed the volume in previous postwar years. Both types of construction have been a large source of the demand for labor and construction materials and, therefore, led to a shortage of both.

In addition to private residential building, some public housing is under construction. In St. Paul, the local housing and redevelopment authority has accepted bids for the building of 512 units. Planning and other preliminary work to the actual construction of housing are under way in Duluth, Chisholm, Fergus Falls, Hibbing, and Winona. Other cities both in Montana and in the eastern end of this district also may be in a preliminary stage in the construction of public housing.

In the nation as a whole, it is estimated that construction may have been started on close to one and one-half million houses this year. This number will set a record in home building.

CONSTRUCTION COSTS IN THE TWIN CITIES AREA

January 1947 to August 1950 (1926-29=100)



COSTS rose sharply in the recent construction season, and they now surpass the peak reached in the latter quarter of 1948.

Source: E. H. Boeckh & Associates, Inc., consulting valuation engineers, Washington, D. C.

CONSTRUCTION COSTS EXCEED 1948 PEAK

Since the demand for building and other types of construction has exceeded the volume that the construction industry can supply, prices of building materials and wages of building tradesmen have risen sharply. A comprehensive measure of building costs in the larger cities of the nation is prepared by E. H. Boeckh and Associates. The cost of constructing frame residences and brick and steel commercial and factory buildings in the Twin Cities metropolitan area from January, 1947 to date was plotted on the accompanying chart.

As may be observed, the cost of building a frame residence rose steadily during 1947 and 1948. In the last quarter of 1948, the cost ceased rising and soon turned down. The low point was reached in August, 1949, with a 10% reduction from the 1948 peak. In the fall of 1949, costs again turned up, but the sharp rise began with the present construction season. The cost now exceeds the former peak reached in the autumn of 1948.

Lumber prices have led the rise in building material prices. Exceptionally inclement weather last winter curtailed lumber production. As a result, the demand for lumber in the current season far outstripped the available supply. According to E. H. Boeckh and Associates, lumber prices in the recent summer months surpassed those prevailing in black markets during World War II. The first break in prices occurred during the first week in September when the price of green, common fir lumber broke on the market. However, finishing-lumber prices still are holding firm.

Reports received from retail lumber dealers in this district reflect an exceptionally large demand for lumber. For example, in August the number of board feet of lumber sold was 22% larger than the number of board feet sold in August 1949. The dollar sales were 36% larger, reflecting both the rise in prices and the larger volume of lumber sold.

The cost of brick and steel construction for commercial and factory building, like that of frame residential building, rose steadily during 1948 and 1949. In the last quarter of 1948 and 1949, the cost of such construction was on a plateau. At the beginning of the 1949 construction season, the cost dropped sharply, declining by 6% before the trend was reversed in August of that year. Currently, the cost of such building is above the former high point reached in the winter of 1949.

MOST HOUSES BOUGHT BY THOSE WITH INCOMES OF $4,000 AND OVER

The source of a boom in any phase of economic activity is found in a sudden rise in the demand. Under the present circumstances, the demand for commercial, industrial, and public construction was anticipated. However, the demand for new housing frequently has been characterized as phenomenal.

Numerous developments in the economic outlook as well as liberal credit terms apparently were responsible for the unprecedented demand for new housing. A long expected postwar recession, such as those which have followed all former major wars, did not materialize in 1949. The public finally became convinced that building costs might not decline in

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AGRICULTURE

Land Prices and Farm Debts Heading Upward

FEAR of further inflation seems to be the basis for a vigorous interest in farm land both by farmers and city investors which has been evidenced by an important upward shift that has occurred in recent months in the general trend of land values and farm real-estate credit.

Another thing that has stimulated interest in farm land is the sharp upward trend in prices of farm products, particularly since the start of the Korean war in late June.

Along with the trend to higher land values there has occurred an increase in farm real-estate mortgage debt. Farmers and others are borrowing more on land security, to finance the purchase of land and for other purposes, than they have in recent years.

It is significant that the total volume of farm mortgage debt in the Ninth district turned up substantially this past year for the first time in over a quarter of a century. However, farmers in this area have been successful in halving their real-estate debt during the last 15 years.

This has happened because prices of farm products have been unusually high in relation to costs and because favorable weather conditions have stimulated record agricultural production over the past 10 years or so. As a result, most farmers are now in excellent financial position in relation to mortgage debts.

Whether or not the recent shift from downtrend to uptrend in mortgage debt in 1949—and thus far this year—represents a new long-time trend, will depend on what happens to the general level of prices and income, and to developments in world affairs. Currently, at least, people seem concerned about the prospects of a "cheaper" dollar as defense expenditures mount, and they are reappraising land values and real-estate indebtedness in the light of current inflationary trends in the economy.

Although farm mortgage debt turned upward only last year in the Ninth district, this trend had been noticeable for the U. S. as a whole in each of the last four years. Total debt for the country as a whole on January 1, this year, was $5.4 billion. This was 6% larger than a year earlier and 16% higher than at the low point in 1946.

The record shows that increases of over 30% have already occurred in more than half of the U. S. The increase in the Ninth district has been less than 5% up to January 1 of this year.

The percentage increase in farm real-estate debt for individual states in this district is indicated by the chart on this page. It shows increases from about 3% in Minnesota to 8% in Montana during 1949.

Montana is the only state in this district that had an increase in its farm mortgage debt before 1949. Its debt has been going up steadily since 1946. Land values in Montana have also advanced more percentage-wise than has been true for the other states.

The latest data available on farm real-estate debt is from the June 30, 1950, call reports of member banks. An analysis of this data indicates that the increase in farm debt during 1950 may be substantially higher in all states of the district compared with last year.

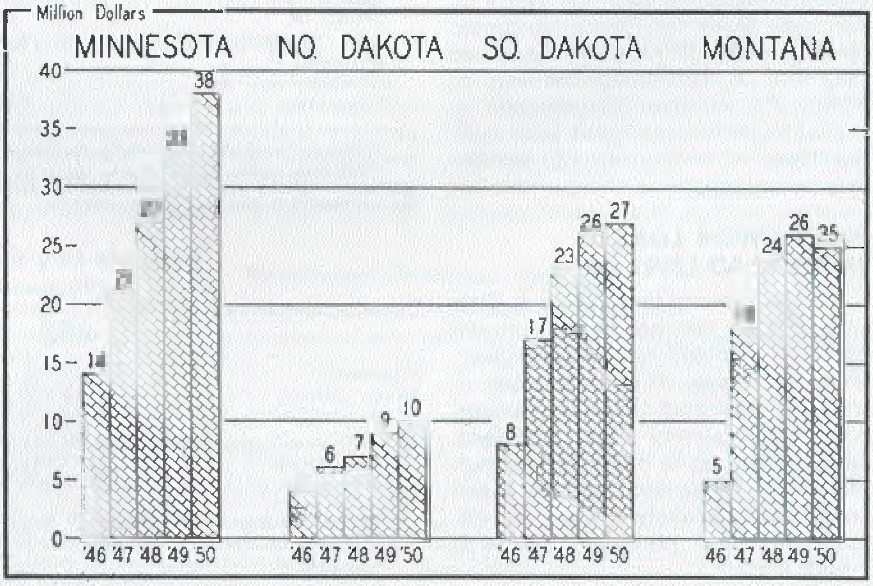
- ***Inflation fears step up interest in farm land.***
- ***District farm real-estate debt turns up for first time in quarter century.***
- ***Farmers treble production credit in past five years in modernizing and equipping farms.***

NON-REAL-ESTATE FARM LOANS TREBLE IN FIVE YEARS

In sharp contrast to the substantial reduction in district farm mortgage debt since the end of World War II, non-real-estate farm loans have more than trebled.

OUTSTANDING NON-REAL-ESTATE FARM LOANS IN NINTH DISTRICT MEMBER BANKS

June 30, 1946 - 1950



THE TREND in farm production loans has been sharply upward since the end of World War II, but the increase has been tempered somewhat during the past 12 to 15 months.

During the war, farmers were not able to secure all the equipment, machinery, and supplies they needed. As soon as these were available, farmers rushed in to buy. Bank deposits, cash savings, along with an expansion in bank credit, were used to satisfy the deferred demand for goods of all kinds.

Outstanding farm production loans in Ninth district member banks on June 30, 1947, were almost double the amount of a year earlier. Increases have occurred every year since 1947, but it has been at a decreasing rate. (See chart on non-real-estate farm loans.)

There is evidence, also, that a larger proportion of farmers use credit now than did at the end of the war, and the average amount borrowed is larger.

The slowing up in non-real-estate farm loans during the year ended June 30, 1950, may indicate several things: (1) Perhaps farmers have largely satisfied the more pressing demands for machinery, repairs, and equipment, and (2) declining farm prices, and net income—until recently—may have made farmers more cautious about borrowing.

Furthermore, real-estate mortgage credit may increasingly be used to finance capital improvements or even to refinance existing short-term production credit. In fact, one study of the use made of farm mortgage credit in early 1950 showed that more than half of such credit was used to finance the purchase of equipment or capital improvements apart from land purchase or refinancing of existing farm mortgages.

PRODUCTION LOANS TENDING TO LEVEL OFF

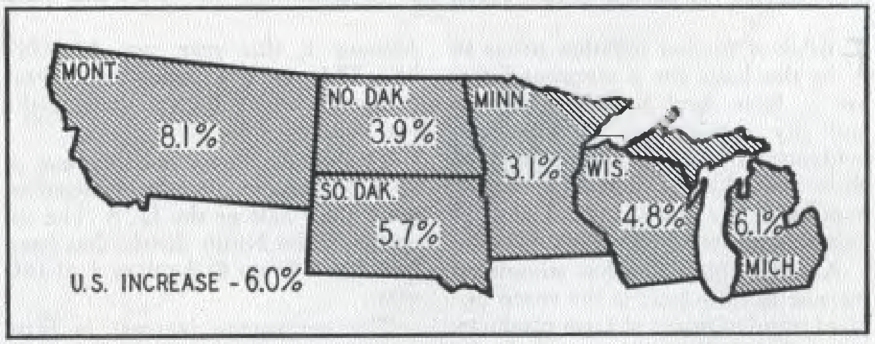
At the present time, there is little to indicate a reversal in the upward trend of non-real-estate farm loans, although it apparently is tending to level off somewhat. Farm production costs are relatively high, and farm adjustments, made necessary by rapidly changing demand and economic conditions, are likely to keep the demand for farm production loans at a high level.

Also, banks are under no particular pressure to reduce their farm loan portfolios. Some banks are currently pretty well "loaned up," but others would welcome additional sound farm loans. Additional loans may be especially welcome in the period ahead if the recent strength in farm product prices is maintained and the agricultural outlook continues favorable.

END

PERCENTAGE INCREASE IN NINTH DISTRICT FARM MORTGAGE DEBT

January 1, 1949 - January 1, 1950



FARM MORTGAGE DEBT increased approximately 4% in the Ninth district during 1949. The first real increase in over a quarter-century, it is continuing in 1950, apparently at an accelerated rate.

*Source: "Agricultural Finance Review" supplement, May, 1950. Wisconsin and Michigan percentage figures are for entire states.

Average Prices Received by Farmers in the Ninth District*

Commodity and Unit	Sept. 15 1937-41 Avg.	Sept 15 1949	Sept. 15 1950	Parity Prices [1] United States Sept. 15, 1950
Crops				
Wheat, bushel	$0.72	$ 1.91	$ 1.95	$ 2.25
Corn, bushel	.57	1.06	1.32	1.63
Oats, bushel	.25	.54	.65	.960
Potatoes, bushel	.47	1.22	1.26	1.78
Livestock and Livestock Products				
Hogs, 100 lbs.	8.53	19.22	20.45	19.50
Beef Cattle, 100 lbs.	7.73	20.10	24.35	17.60
Veal Calves, 100 lbs.	9.22	24.14	28.55	19.70
Lambs, 100 lbs.	8.15	21.24	25.10	19.40
Wool, lb.	.27	.50	.60	.521
Milk, wholesale, 100 lbs.	1.60	3.23	3.20	4.48
Butterfat, lb.	.30	.66	.64	.717
Chickens, live, lb.	.133	.203	.200	.295
Eggs, doz.	.198	.451	.332	.519

*Source: "Agricultural Prices"—September 29, 1950.

[1] 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, 1910-14.

January-July Cash Farm Income*

(Thousands of Dollars)

State	1935-39 Average	1949 [2]	1950	1950 in Percent of 1949
Minnesota	$ 180,401	$ 635,844	$ 602,561	95%
North Dakota	44,916	247,082	167,466	68
South Dakota	54,320	288,413	240,464	83
Montana	32,037	148,749	118,694	80
Ninth District [1]	355,582	1,455,884	1,260,602	87
United States	4,100,168	13,935,359	12,966,994 [3]	93

*Source: "Farm Income Situation," August, 1950.

[1] Includes 15 counties in Michigan and 26 counties in Wisconsin.

[2] Revised.

[3] Includes an upward correction of $10 million for crops in May, USDA.

BUSINESS

Retailing Slackens, but Manufacturing Is Up

INDUSTRY is replenishing the inventories of civilian merchandise which were depleted during the summer months. The volume of outstanding orders among retailers was still high, but shortages gradually were disappearing.

For example, the supply of common fir lumber which was scarce during the summer reached a quantity during the first part of September which forced a break in prices.

In an effort to supply the large demand for civilian merchandise, industrialists have expanded their labor forces. Shortages of certain types of skilled labor have been reported.

EMPLOYMENT APPROACHES POSTWAR HIGH

Employment in this district continues to rise steadily. It may soon equal the all-time high reached in the fall of 1948.

The Duluth office of the Minnesota Division of Employment and Security foresees the possibility of a continued rise in employment with the November figure approaching the all-time high of October 1948. The Minneapolis office writes that employment has climbed for the seventh consecutive month. The number of workers employed in September was the highest total for the year. The St. Paul office states that employment has reached the highest level since December 1947 and the highest since World War II, with the exception of November and December 1947.

In Montana, the upward trend in employment was halted in September. According to preliminary estimates released by the Division of Unemployment Commission, the total number of wage earners decreased by .2 of 1%, or by approximately 300 workers. The commission pointed out that the minor drop in employment from August was caused by a lack of applicants rather than from a lack of jobs. College and high school students withdrew from the labor market in late August and early September. The number of migratory workers in the state has been down this year. They are working in the rearmament program in other states and thereby hope to escape the winter layoff in construction and lumbering.

In Minnesota, the rise in employment during September was traced largely to adding of workers to the pay rolls of manufacturing concerns and the reopening of public schools, which placed teachers back on pay rolls. In Minneapolis, several companies are working on government defense orders, which was a factor in the increase.

The shortage of workers was mostly in the skilled classifications. The commission in Montana reported that the shortages of carpenters, miners, and other skilled workmen became acute in local labor markets. Sawmill and logging men, automobile repair mechanics, machinists, and construction laborers also were in great demand.

In the Twin Cities area, skilled and unskilled foundry workers have been in short supply for some time. Machine helpers and general factory workers also have been in short supply. Some industrialists have relaxed specifications for new applicants to acquire needed workers in unskilled classifications.

RETAIL INVENTORIES RISE

In August, the volume of outstanding orders at department stores in this district apparently reached a peak. At that time, such orders aggregated over three and one-half times the amount outstanding at the end of May, before the war in Korea began. By the end of September, the orders outstanding had decreased approximately by 3%.

Although the volume of outstanding orders remained high, stocks held by department stores have risen steadily since the end of July. At that time, the adjusted index of stocks for this district reached a low point of 286% of the prewar base period. By the end of September, the index again was up to 323%—an increase of 13%. In terms of dollar volume, this represents a level of stocks equal to those held at the end of May.

In spite of heavy sales, retail lumber dealers were accumulating some stocks in August. In this district, the number of board feet on hand at the end of August was 10% larger than at the corresponding period of last year. Mounting stocks of common lumber caused a break in prices during the first part of September.

Some items remained in short supply. For instance, appliance dealers reported that major appliances were

- ***Inventories rose materially, although outstanding orders at stores remained high.***
- ***Expansion of factory employment has created shortages of skilled labor.***
- ***Department store sales returned to more normal level.***

Northwest Business Indexes

(Adjusted for Seasonal Variations—1935-39=100)

	Sept. '50	Aug. '50	Sept. '49	Sept. '48
Bank Debits—93 Cities	354	383	313	342
Bank Debits—Farming Centers	472	474	414	429
Ninth District Department Store Sales	289p	321	276	287
City Department Store Sales	320	356	296	299
Country Department Store Sales	258p	285	256	274
Ninth District Department Store Stocks	323p	302	296	336
City Department Store Stocks	285p	271	251	279
Country Department Store Stocks	354p	327	333	381
Country Lumber Sales	178p	192p	202	168
Miscellaneous Carloadings	144	137	145	143
Total Carloadings (excl. Misc.)	115	117	102	118
Farm Prices (Minn. unadj.)		243	228	274

p—preliminary

Index of Department Store Sales by Cities

(Unadjusted 1935-39=100)

	Sept. [1]	Percent change [2] Sept.	Jan.-Sept.
MINNESOTA			
Duluth-Superior	338	+11	+ 4
Fairmont	330	— 5	— 2
Mankato			
Minneapolis	363	+ 7	+ 8
Rochester	252	— 2	— 4
St. Cloud	340	+ 4	— 4
St. Paul [3]	304	+11	+ 8
Willmar	313	+ 4	+ 1
Winona	299	+ 8	+ 5
MONTANA			
Great Falls	343	—12	— 8
NORTH DAKOTA			
Bismarck	349	—16	— 8
Grand Forks	336	—12	— 6
Minot	334	—19	— 5
Valley City	259	— 3	— 7
SOUTH DAKOTA			
Aberdeen	442	+ 0	— 7
Rapid City	398	+ 8	+ 0
Sioux Falls	386	— 4	— 3
Yankton	299	— 1	— 3
WISCONSIN			
La Crosse	277	+ 4	+ 1

[1] Based on daily average sales.

[2] Based on total dollar volume of sales. Percentage comparison is with the same period a year ago.

[3] Reflects in part work stoppages at certain stores last year.

Sales at Ninth District Department Stores*

	% Sept. 1950 of Sept. 1949	% Jan.-Sept. 1950 of Jan.-Sept. 1949	Number of Stores [1] showing Increase	Decrease
Total District	+ 4	+ 4	150	130
Mpls., St. Paul, Dul.-Sup.	+ 7	+ 8	19	10
Country Stores	— 0	— 2	131	120
Minnesota (City and Country)	+ 7	+ 7	162	154
Minnesota (Country)	+ 2	— 1	33	35
Central	+ 6	+ 2	4	4
Northeastern	+ 7	+ 2	3	2
Red River Valley	— 8	— 8	1	3
South Central	— 4	— 4	6	7
Southeastern	+ 5	+ 1	7	4
Southwestern	+ 1	— 1	12	15
Montana	+ 2	+ 0	21	13
Mountains	+12	+ 4	7	3
Plains	— 2	— 1	14	10
North Dakota	—10	— 7	12	37
North Central	— 7	— 5	5	5
Northwestern	—18	— 6	1	6
Red River Valley	— 7	— 6	2	16
Southeastern	—11	—11	3	10
Southwestern	(2)	(2)	....	....
Red River Valley-Minn. & N. D.	— 7	— 6	3	19
South Dakota	— 0	— 3	31	14
Southeastern	— 3	— 0	9	5
Other Eastern	+ 3	— 5	21	5
Western	— 1	— 5	1	4
Wisconsin and Michigan	+ 5	+ 1	34	21
Northern Wisconsin	+ 1	+ 2	7	8
West Central Wisconsin	+ 4	+ 1	18	11
Upper Peninsula Michigan	+ 9	— 0	9	2

*Percentages are based on dollar volume of sales.

[1] September 1950 compared with September 1949.

[2] Not shown, but included in totals. Insufficient number reporting.

difficult to replace. According to furniture dealers, rugs and steel furniture especially were in short supply.

DEPARTMENT STORE SALES RECEDE FROM SUMMER PEAK

Department store sales in September settled back toward the volume prevailing before June of this year. In this district, September sales were 4% above the dollar volume for September 1949. In South Dakota, sales were equal to those of last year and in North Dakota, they were down 10%. Of course, some items still were in great demand.

For the first two weeks in October, sales in the four large cities were only 2% above the volume for the corresponding period last year. Very likely, sales in the smaller communities have fallen below last year's volume. Since last June, sales in the four large cities have led the increase in the district.

With retail sales declining to a normal level and industry operating close to maximum output, inventories soon may be restored. Some retailers, especially appliance dealers, plan to carry smaller inventories than formerly. END

BANKING

Loan Earnings Boosted Bank Profits

BANKS fared well in the first half of 1950. Reporting aggregate net profits of $9,514,000, member banks of the Ninth Federal Reserve district showed a gain in net profits of $1,306,000 (16%) over the record of a year ago.

On an annual basis, net profits in the first half of this year were 8.7% of capital funds compared with a ratio of 8.0% in 1949. Ninth district member banks compared favorably with the national ratio. In the first half of 1950 all U. S. member banks realized net profits at the rate of 8.5% of total capital accounts.

The reasons for this year's improved earnings are not hard to find.

- The drop in reserve requirements in May 1949 gave commercial banks more funds to invest.
- Mounting business activity in the first half of 1950 gave rise to an accelerated demand for loans.
- With many banks reaching the maximum allowable tax deduction for transfers to reserves for bad debts, such charges against current income were less than in the first half of 1949.

GROSS CURRENT EARNINGS ON LOANS ADVANCED 6%

Ninth district member banks reported gross current earnings of $44,566,000 in the first half of this year—up 6% over the 1949 half-year. The main factor in this increase was the rise of $1,942,000 in interest and discounts on loans.

Reflecting the upsurge of business activity accompanied by rising prices, bank loans rose steadily in the first half of this year. On the average, loans in Ninth district member banks were 6½% higher than in the 1949 half-year period. Moreover, higher-yielding consumer and real estate loans accounted for the lion's share of the over-all gain.

Second to earnings on loans was a $323,000 advance in interest and dividends on municipal and corporate securities, while interest on U. S. government securities rose $160,000. Government portfolios averaged slightly higher in the first six months of 1950 than in the same period a year ago. At the same time earnings were lifted by the somewhat stiffened yields on short-term government issues.

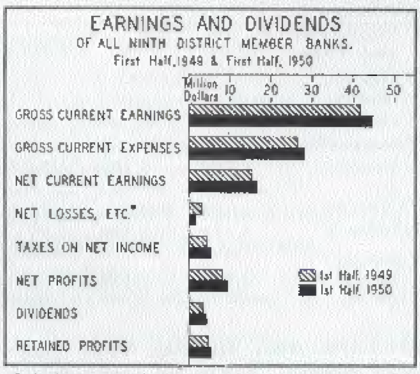
Ninth district member banks also realized higher earnings from service charges on deposit accounts. From $2,705,000 in the first half of last year, income from service charges rose to $2,909,000 in 1950.

LOAN EARNINGS CONTRIBUTED HALF OF CURRENT INCOME

Loans and government security holdings are the major sources of bank earnings. This year interest and discounts on loans totaling $20,568,000 accounted for almost half of the current earnings pie, while interest on government securities of $13,484,000 contributed 30% of total operating earnings.

Since 1946 there has been a steadily rising trend in the importance of earnings on loans, while the relative share of earnings stemming from interest on government securities has continuously fallen. As a result, this year's figures contrast sharply with those of four years ago.

Then—in the first half of 1946—reflecting the tremendous volume of government securities accumulated during World War II, interest on government issues was the source of more than 50% of current earnings. Income on loans trailed considerably behind, accounting for 26%.



* Net losses, charge-offs, and transfers to reserve accounts on loans, securities, and all other losses and charge-offs.

IN LINE with expanding business activity, bank earnings increased in the first half of 1950.

▸ Net profits of Ninth district member banks totaled $9.5 million in the first half of 1950—up $1.3 million over first half of 1949.

▸ Interest and discounts on loans topped last year by 10%.

▸ Nonrecurring charges against current income declined, due mainly to smaller transfers to reserves for bad debts.

EXPENSE TO EARNINGS RATIO SHOWED MARKED STEADINESS

Ninth district member banks reported expenses totaling $28,096,000 for the first half of this year, topping last year's record by 6%. Almost three-fifths of the increase was explained by the rise of $1,011,000 in the bill for wages and salaries. Interest on time deposits showed practically no change, while miscellaneous expenses rose $707,000.

In recent years expenses of member banks in this district have shown marked stability in relation to total earnings. In the first half-year periods of the past three years, banks have spent roughly 65% of their current earnings in meeting operating expenses.

Thus, notwithstanding the persistent rise in current expenses, it has been possible for banks to realize a steadily increasing margin of net operating earnings.

NET NONRECURRING CHARGES AGAINST INCOME DECLINED

For the fourth consecutive year, nonrecurring items—recoveries and losses—resulted in a charge against current income. Since 1948 the main factor in these charges has been large transfers to reserves for bad debt losses.

These transfers have been made in accordance with a Treasury ruling issued December 8, 1947, which authorized banks to set up tax-free reserves for future losses on loans. The amount of deductible reserves is based on the loss experience of the past 20 years. Tax exemptions are permitted for the amount used to initiate the reserve, as well as for additions in following years until the reserve is equal to three times the 20-year annual loss experience.

By mid-year 1950 many of the banks which adopted the reserve for bad debts method had reached the maximum limit to tax-free reserve accumulations. As a result, transfers to reserves for bad debts were considerably lower in the first half of this year than a year ago.

RESERVE FOR BAD DEBTS METHOD ADOPTED BY HALF OF DISTRICT'S MEMBER BANKS

There has been little change in the past year in the number of banks using the reserve for bad debts method of handling loan losses.

Between 1947, when the method was first authorized, and 1949 all of the nine reserve city banks in the Ninth district and 222 of the district's 468 country member banks had switched from the specific charge-off method of handling loan losses to the bad debt reserves method. By mid-year 1950 the number of country member banks using the reserve method had increased to 225.

While roughly half of the Ninth district's member banks currently carry some balance in a valuation reserve for bad debt losses, far more than half of the loan volume of the district is covered by these reserves. This is because the reserve method is more prevalent among the larger banks.

In addition to smaller transfers to reserves for bad debts, net miscellaneous losses decreased considerably in the first half of this year. Slightly offsetting these developments was an increase in net losses on securities.

As a result, net nonrecurring losses of $1,768,000 in the first half of 1950 were roughly 42% lower than net losses, charge-offs, and transfers to reserve accounts of a year ago.

DIVIDEND PAYMENTS UP 23%

In line with the increase in taxable income, Ninth district member banks set aside more funds for state and federal income taxes in the first half of 1950 than in the 1949 half-year period. Taxes on net income amounted to $5,188,000 in the first six months of this year as against $4,196,000 a year ago.

Dividend payments remained conservative but continued their postwar growth. Of total net profits of $9,514,000, banks distributed $4,198,000 or 44% to their stockholders. Last year, stockholders received a 42% slice of net profits.

Strengthening their capital positions, Ninth district member banks added $5,316,000 of retained earnings to surplus in the first half of this year. A year ago, retained earnings, while representing a larger portion of net profits, were 10% less than this year. END

Gross Current Earnings of 9th District Member Banks

(In thousands of $)

	1st Half 1949	1st Half 1950	% Change
Interest and Dividends on: Government Securities	$13,324	$13,484	+ 1%
Other Sec.	2,023	2,346	+16
Interest and Discounts on Loans	18,626	20,568	+10
Service Charges on Deposit Accounts	2,705	2,909	+ 8
Other Earnings	5,150	5,259	+ 2
Total	$41,828	$44,566	+ 6%

Gross Current Expenses of 9th District Member Banks

(In Thousands of $)

	1st Half 1949	1st Half 1950	% Change
Salaries and Wages	$12,921	$13,932	+ 8%
Interest on Time Deposits	4,329	4,324	....
Other	9,133	9,840	+ 8
Total	$26,383	$28,096	+ 6%

Disposition of Ninth District Member Bank Earnings

(In Thousands of $)

	1st Half 1949	1st Half 1950	% Change
Gross Current Earnings	$41,828	$44,566	+ 6%
Gross Current Expenses	26,383	28,096	+ 6
Net Current Earnings	$15,445	$16,470	+ 7%
Net Losses, Chargeoffs, and Transfers to Reserve Accounts	3,041	1,768	—42
Taxes on Net Income	4,196	5,188	+24
Net Profits	$ 8,208	$ 9,514	+16%
Dividends	3,414	4,198	+23
Retained Profits	4,794	5,316	+11

September Banking Developments

SINCE mid-year 1950, Ninth district member banks have rapidly expanded loans to private borrowers and to state and local governments. During September and the first half of October the expansion of business loans was especially marked and loans to real estate owners and consumers continued to show sizeable increases.

Waging its battle against current inflationary pressures, the Board of Governors of the Federal Reserve System during September and the first half of October instituted controls over consumer credit and real estate credit.

Total loans in Ninth district member banks were at a record high of $1,050 million at the close of September. Increasing $45 million during the month—$33 million in the 20 reporting city banks, and $12 million in the country member banks—loans staged the sharpest monthly increase so far this year.

In the 20 reporting banks, the gain in total loans stemmed largely from increased commercial, industrial, and agricultural loans. During September and the first half of October, business loans rose 14% to a high of $265 million. In addition, investments in securities other than U. S. Government issues rose sharply in September.

Nationally, business loans in weekly reporting banks scored rapid increases, marking the sharpest advances so far this year.

U. S. government security portfolios dropped considerably this month, down $40 million in city banks and $18 million in country banks. Presumably, banks liquidated government securities in order to meet the increased demand for bank credit.

In the 20 reporting banks, holdings of bills, CI's, and notes showed practically no change, while bonds bore the brunt of the declines in total portfolios.

Demand deposits, other than inter-bank, declined $16 million in city banks, while increasing $2 million in country member banks. The decline in the city banks was due partly to a drop in deposits of individuals, partnerships, and corporations, reflecting September 15 income tax collections.

In addition, U. S. government deposits dropped sharply in response to calls on these accounts from the Treasury. The U. S. Treasurer drew on his deposits in commercial banks in order to meet interest payments on the national debt due September 15 and to pay off the cash redemptions of the unexchanged September 15 maturities of government securities.

In country banks, the factors decreasing deposits were overshadowed by the seasonal inflow of funds incident to crop marketings.

Credit controls instituted by the Federal Reserve Board during September and the first half of October were authorized under the Defense Production Act of 1950. On September 18, the Board reinstated Regulation W, stipulating minimum down payments and maximum time periods for instalment sale credit and instalment loans by banks and other lenders. On October 16, the Board announced a tightening of the terms of Regulation W.

Regulation X, a new instrument of credit control which stipulates minimum down payments and maximum time periods on mortgage loans, became effective October 12. END

*This table in part estimated. Data on loans and discounts, U. S. government obligations and other securities are obtained by reports directly from the member banks. Balances with domestic banks, cash items, and data on deposits are largely taken from semi-monthly reports which member banks make to the Federal Reserve bank for the purpose of computing reserves.

Reserve balances and data on borrowings from the Federal Reserve banks are taken directly from the books of the Federal Reserve bank. Data on other borrowings are estimated. Capital funds, other assets, and the other liabilities are extrapolated from call report data.

Assets and Liabilities of Twenty Reporting Banks

(In Million Dollars)

	Aug. 30, 1950	Sept. 27, 1950	Oct. 11, 1950	$ Change Aug. 30-Sept. 27
ASSETS				
Comm., Ind., and Ag. Loans	$ 232	$ 258	$ 265	+ 26
Real Estate Loans	91	94	96	+ 3
Loans on Securities	10	12	11	+ 2
Other (largely consumer) Loans	161	163	165	+ 2
Total Gross Loans & Discounts	$ 494	$ 527	$ 537	+ 33
Less Reserves	7	7	7	....
Total Net Loans & Discounts	$ 487	$ 520	$ 530	+ 33
U. S. Treasury Bills	19	19	23	....
U. S. Treasury C. of I.'s	34	31	29	— 3
U. S. Treasury Notes	143	144	144	+ 1
U. S. Government Bonds	417	379	379	— 38
Total U. S. Gov't Securities	$ 613	$ 573	$ 575	— 40
Other Investments	133	140	140	+ 7
Cash and Due from Banks	443	440	491	— 3
Miscellaneous Assets	18	17	16	— 1
Total Assets	$1,694	$1,690	$1,752	— 4
LIABILITIES				
Due to Banks	$ 272	$ 283	$ 324	+ 11
Demand Deposits, Ind., Part., Corp.	839	834	874	— 5
Demand Deposits, U. S. Gov't	65	56	56	— 9
Other Demand Deposits	131	129	119	— 2
Total Demand Deposits	$1,307	$1,302	$1,373	— 5
Time Deposits	248	247	246	— 1
Total Deposits	$1,555	$1,549	$1,619	— 6
Borrowings	14	15	8	+ 1
Miscellaneous Liabilities	20	20	19	....
Capital Funds	105	106	106	+ 1
Total Liabilities & Capital	$1,694	$1,690	$1,752	— 4

Assets and Liabilities of All Ninth District Member Banks*

(In Million Dollars)

	Aug. 30, 1950	Sept. 27, 1950	$ Change Aug. 30, 1950 Sept. 27, 1950	$ Change Sept. 28, 1949 Sept. 27, 1950
ASSETS				
Loans and Discounts	$1,005	$1,050	+ 45	+ 171
U. S. Government Obligations	1,556	1,498	— 58	— 249
Other Securities	267	274	+ 7	+ 45
Cash and Due from Banks & Res.	817	821	+ 4	— 45
Other Assets	33	33	....	+ 2
Total Assets	$3,678	$3,676	— 2	— 76
LIABILITIES AND CAPITAL				
Due to Banks	$ 310	$ 325	+ 15	— 55
Other Demand Deposits	2,191	2,177	— 14	— 25
Total Demand Deposits	$2,501	$2,502	+ 1	— 80
Time Deposits	914	910	— 4	— 22
Total Deposits	$3,415	$3,412	— 3	— 102
Borrowings	15	15	....	+ 8
Other Liabilities	26	26	....	+ 4
Capital Funds	222	223	+ 1	+ 14
Total Liabilities & Capital	$3,678	$3,676	— 2	— 76

CONSTRUCTION BOOM FOSTERED BY CREDIT

Continued from Page 103

the near future. Many retired farmers and others who had been waiting for a break in building costs decided to proceed with their plans this year. Most of these individuals had savings in some form of liquid assets set aside for this purpose; consequently, they needed practically no credit.

A second group of individuals who do not have large amounts of accumulated savings are purchasing houses. They recently have established families of their own or have been living in rented quarters. No doubt high incomes and prospects for continued employment had a bearing on their decisions, but more important was the accessibility of mortgage credit which was tailored to their budgets. In the large and medium-sized cities of this district, these individuals constituted the mass market for low-priced houses.

A Federal Reserve System survey of consumer finances sheds some light on the financial status of individuals in this nation who purchased houses in 1949. Of the actual purchasers of new and existing houses, slightly over one-fourth, or about 27%, had annual incomes of less than $3,000. Approximately a comparable proportion of the house buyers had incomes between $3,000 and $4,000, and less than one-half, or about 45%, had incomes of $4,000 and over.

A large proportion of those purchasing houses were veterans of World War II. Of the number purchasing houses in 1949, about 40% had veteran status. In many instances, the preference given veterans on insurance or guarantee of mortgage loans brought the prices of houses within the range of their budgets.

According to this survey, roughly four out of every five purchasers of houses secured some borrowed funds. In almost every case, the borrowers took out mortgages on their properties, but a large number of purchasers obtained other credit as well.

LARGE PROPORTION OF LOANS HELD BY BANKS INSURED BY U. S. AGENCIES

Among the private financial institutions, commercial banks are important lenders of real estate credit. To secure basic information for a study of the type of loans held by banks, a supplement was added to the June 30 call report. Information was requested in regard to the number and amount outstanding on the several types of real estate loans secured by residential properties, on loans for construction of residential properties, and on loans to nonbank mortgage lenders.

This information on residential real estate financing was obtained from all banks. At present, the results are available only for member banks of the Federal Reserve System.

In the statistical compilation of the data, the member banks of this district were divided into three groups: reserve city banks, which include the correspondent banks in Minneapolis, St. Paul, and Helena, Montana; national banks outside of these cities, and state member banks. The amount outstanding on the several types of loans and the per cent of the total were compiled, by the three groups of banks, in Table I.

Residential Real-Estate Financing by Commercial Banks in the Ninth District

	Reserve City Banks Millions of dollars	%	Country Nat'l Banks Millions of dollars	%	State Member Banks Millions of dollars	%
Type of Loan Outstanding						
I. Residential real-estate loans secured by						
A. One to four family properties						
1. FHA insured	$26,243.7	50	$ 35,280.3	30	$10,293.2	34
2. VA first lien	14,050.0	27	32,778.1	28	7,133.5	23
3. VA junior lien	687.8	1	655.8	1	333.0	1
4. Conventional amortized	10,159.4	19	40,058.9	34	9,958.9	32
5. Conventional nonamortized	172.4	*	5,955.4	5	2,037.9	7
Total loans secured by one to four family properties	51,313.3	98	114,728.5	99	29,756.5	97
B. Five or more family properties						
1. FHA or VA insured or guaranteed	572.1	1	190.4	*	460.6	2
2. Conventional amortized	467.8	1	1,259.9	1	384.0	1
3. Conventional nonamortized	....	....	151.6	*	49.2	*
Total loans secured by five or more family properties	1,039.9	2	1,601.9	1	893.8	3
Total guaranteed or insured loans	41,553.6	79	68,904.6	59	18,220.3	59
Total conventional loans	10,799.6	21	47,425.8	41	12,430.0	40
C. Loans secured by vacant lots	....	....	....	....	70.2	*
Total mortgage loans	52,353.2	100	116,330.4	100	30,720.5	100
II. Loans for construction of residential properties	1,083.0		3,110.8		783.3	
III. Loans to nonbank mortgage lenders	143.2		342.6		22.5	
Total residential real-estate financing	54,579.4		119,783.8		31,526.3	

*Less than one-half of one per cent.

No doubt the most significant fact revealed by the statistical data gathered from banks on the supplement is the large proportion of loans which are insured or guaranteed by one of the federal agencies and which are held by banks. Of the total amount of residential real estate credit outstanding at the reserve city banks, 80% was FHA insured or VA insured or guaranteed. Of the loans held by the national banks outside of the reserve cities and by the state member banks, approximately 60% was insured or guaranteed.

The reserve city banks held a larger proportion of loans FHA insured as compared with those held by either the national banks outside of these cities or by the state member banks. This coincides with the long known fact that a relatively larger number of residential mortgages is insured in the larger cities. The proportion of loans outstanding with first liens VA similar among the three groups of banks. A small amount was outstanding on loans with junior liens VA guaranteed.

While a large proportion of FHA insured loans are held by reserve city banks, in the smaller communities both the national banks and the state member banks held more loans of the conventional amortized type. Although the conventional nonamortized loans are fast disappearing, these banks had over 5% of their total residential mortgage credit outstanding on this type of loan.

In the state member banks, the average amount outstanding on FHA insured loans ranged from $4,269 to $4,788 in the reserve city banks. At the state member banks, the average amount outstanding on VA insured or guaranteed loans was $3,650 and at reserve city banks, $5,976. At the national banks outside of the reserve cities, these loans averaged $3,920. The average amount outstanding on conventional amortized loans was much smaller; $2,180 at the national banks outside of the reserve cities, $2,216 at the state member banks, and $3,889 at the reserve city banks.

The residential real estate loans were secured largely by single dwelling units and some two, three, and four family units. Less than 10% of the credit outstanding was secured by apartments consisting of five or more family units.

Furthermore, banks extended credit for the construction of residential and business properties and granted a line of credit to nonbank mortgage lenders. The member banks of this district had nearly $5 million outstanding on loans for the construction of residential properties and $1.4 million for the construction of other kinds of properties. In addition, $500,000 was outstanding to nonbank mortgage lenders, such as savings and loan associations, mortgage companies, mortgage brokers, mortgage loan correspondents, or others primarily engaged in residential real estate financing. Nearly $5 million, mostly at the reserve city banks, was outstanding to nonbank mortgage lenders who were engaged primarily in the financing of business properties.

This information provides a brief picture of the role assumed by the member banks in this district in the financing of residential properties and in the construction of such properties as well as of business properties.

FEDERAL GOVERNMENT PLAYS PROMINENT ROLE IN REAL ESTATE FINANCING

The federal government has assumed a dominant role in the financing of residential properties. The insurance and guarantee of mortgage loans by the Federal Housing administration and by the Veterans administration have had far-reaching effects on lending practices. As was pointed out above, the largest share of the loans held by commercial banks were FHA insured or VA insured or guaranteed. Through the insurance or guarantee, the government has assumed the risk with high loan values, long terms, and low interest rates. These terms have brought many families into the housing market.

Also, through the Federal National Mortgage association, the federal government has provided a market for insured and guaranteed mortgage loans. As a result, private lending institutions holding FHA and VA loans have had a ready market for them.

The federal government also has engaged in direct lending on real estate. The Public Housing administration grants loans to local housing and redevelopment authorities for low rent public housing, such as is presently under construction in St. Paul. Loans are also granted for planning and preliminary architectural work. Such loans have been granted in Minnesota to Duluth, Chisholm, Fergus Falls, Hibbing, Minneapolis, and Winona.

The Federal Home Loan banks are in a position to extend loans to their members, which are mostly savings and loan associations. They are empowered to extend long-term loans up to 10 years, secured by first mortgages or government securities, or short-term loans up to one year, which may be insecured.

In the present objective to contract real estate credit, the controls cover both credit extended directly or indirectly by the federal government and that extended by private lending institutions. END

National Summary of Business Conditions

COMPILED BY THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM, OCTOBER 27, 1950

INDUSTRIAL activity, employment, and payrolls increased somewhat further in September and early October. Business and consumer demands for goods were less active after mid-September and wholesale commodity prices showed little change. Retail prices continued upward, reflecting in part earlier advances in wholesale markets. Credit to business, consumers, and real estate owners expanded considerably further. Consumer credit regulations, which became effective on September 18, were tightened on October 16 and housing credit restrictions were put into effect October 12.

INDUSTRIAL PRODUCTION—Industrial production showed a small further increase in September and early October, following the sharp advance in August. Reflecting mainly continued gains in output of iron and steel and their products, machinery, and crude petroleum, the Board's seasonally adjusted index rose from 209 in August to 211 in September. In October, a further small increase is likely, as a result chiefly of expanded output of steel and of producers durable goods and military equipment.

Steel production increased in September to a level slightly above the June rate, and in October has advanced about 3% further to a new record. The gain in activity in machinery industries in September was much smaller than in August, mainly because labor disputes curtailed operations in some important plants. Automobile production continued close to the high level of recent months. In view of the growing volume of defense production and the limited supply of metals and certain other industrial materials, the National Production Authority has established a priority system for defense orders.

Output of textile, paper, rubber, and petroleum products in September was maintained at the exceptionally high levels reached in August. Meat production rose much more than seasonally. In mid-October, the National Production Authority announced more stringent measures to curtail consumption of rubber in civilian products.

Output of crude petroleum advanced further to a new record rate in mid-September but subsequently levelled off. Coal output showed little change and production of iron ore was maintained in record volume over this period.

CONSTRUCTION — Contracts awarded in September for most types of private and public construction declined more than seasonally from the record summer level. The number of housing units started in September was estimated to be 115,000. This was 28,000 fewer units than the average number started during the summer months but 12,000 more than in September 1949.

EMPLOYMENT — The total number employed in non-agricultural industries was at an all-time high of about 45 million in September, 2 million more than in September 1949. Unemployment declined moderately further to 2.3 million and was at the lowest level since late 1948.

DISTRIBUTION — Consumer buying showed less than the usual seasonal increase in September and early October from the peak rates reached during the summer. Value of purchases, however, remained substantially above year-ago levels, reflecting in part higher prices. Purchases of durable goods continued above the high levels reached during the first half of this year. Distributor stocks of most goods have increased further in this period following a reduction in July. At department stores value of stocks by the end of September was about one-fifth above the relatively low level reached a year ago.

COMMODITY PRICES — The average level of wholesale prices changed little from mid-September to the third week of October, as livestock and meat prices showed seasonal declines and increases in prices of nonfood commodities slowed down. Prices of industrial materials levelled off as buying became less urgent, and increases in finished goods were less numerous.

The consumers price index rose .5% from mid-August to mid-September, reflecting mainly marked increases in retail prices of apparel and housefurnishings. Since that time additional advances in these and other goods have been announced.

BANK CREDIT — Total loans and corporate and municipal security investments of commercial banks showed further sharp increases during September and the first half of October. The expansion at banks in leading cities totalled $1.8 billion and brought the total rise at these banks since June to almost $4 billion. Business loans increased much more than seasonally, while loans to real estate owners and consumers continued to rise substantially.

Treasury deposits at Federal Reserve banks, which were large in late September owing to tax collections, were drawn down in the first three weeks of October, thus supplying a substantial volume of reserve funds. Outflows of currency into circulation and of gold and cash redemption of part of the maturing Treasury bills held by the Reserve banks absorbed some of these funds. Commercial banks, however, continued to sell government securities, in part to the Federal Reserve System, and built up their excess reserve balances.

An increase in interest rates to bank customers, initiated in New York City in late September, became more widespread in early October.

SECURITY MARKETS — Common stock prices, after rising somewhat further in the first two weeks of October to the highest levels since September 1930, showed little change during the following 10 days. Yields on most bank eligible Treasury securities increased further in the first three weeks of October, while yields on Treasury bills declined somewhat.

There was little change in yields on long-term Treasury and high-grade corporate bonds.