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SURVEY SHOWS GOOD ACTIVITY SINCE LATE '51

Recovery in the Housing Market Has Continued

by Oscar F. Litterer

RENEWED activity in the housing market which followed upon the decline in prices in the second half of 1951 was maintained during the first half of this year despite the rise in prices which had accompanied the recovery.

Since September 1951 the number of houses sold in Minneapolis and surrounding suburbs each month has exceeded the number sold in the corresponding month of the preceding year.

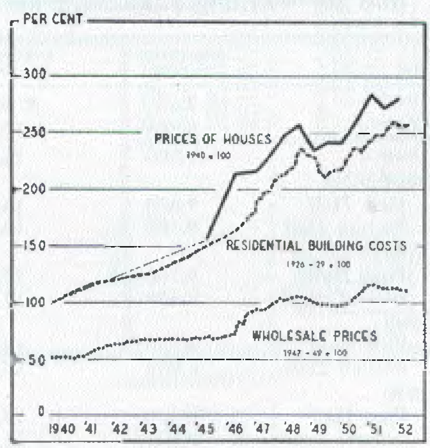
At the same time there was an increase of 3 per cent in the average price.

This was revealed by the fifth survey of the residential real estate market recently completed by the Federal Reserve Bank of Minneapolis in cooperation with the Minneapolis Board of Realtors. Period covered was from July 1, 1951, through June 30, 1952.

The survey, which sought to provide a measure of market prices and activity in the housing market, also revealed:

- Prices of houses sold in Minneapolis and in the surrounding suburbs in the first half of 1952 again were close to the peak reached in the first half of 1951.
- Low-priced houses regained in the first half of 1952 the price loss suffered in the latter half of 1951. And they equaled the former peak in prices reached during the postwar inflationary period.
- Medium-priced houses have continued to decline in price since the first half of 1951. In the current year, the luxurious two-bedroom house and the two-story house have been slow sellers.
- High-priced houses regained in the first half of 1952 most of the price loss suffered in the latter half of 1951.
- As in previous periods of rising residential real estate prices, in the first half of 1952 the prices of houses in the more desirable areas of Minneapolis rose more than those in the less desirable areas. However, contrary to previous periods of declining prices, in the latter half of 1951 the prices of houses in the more desirable areas also declined by the largest percentage.

CHART I RELATIVE PRICES OF HOUSES, BUILDING COSTS, AND WHOLESALE PRICES, 1940-52



AS IN FORMER periods of rapidly rising prices, the prices of houses and building costs have risen faster than the general price level.

▶ Sales of houses in Minneapolis and suburbs since September 1951 have exceeded those in each month of last year.

▶ Prices in the first half of 1952 averaged $14,000, for an increase of 3 per cent.

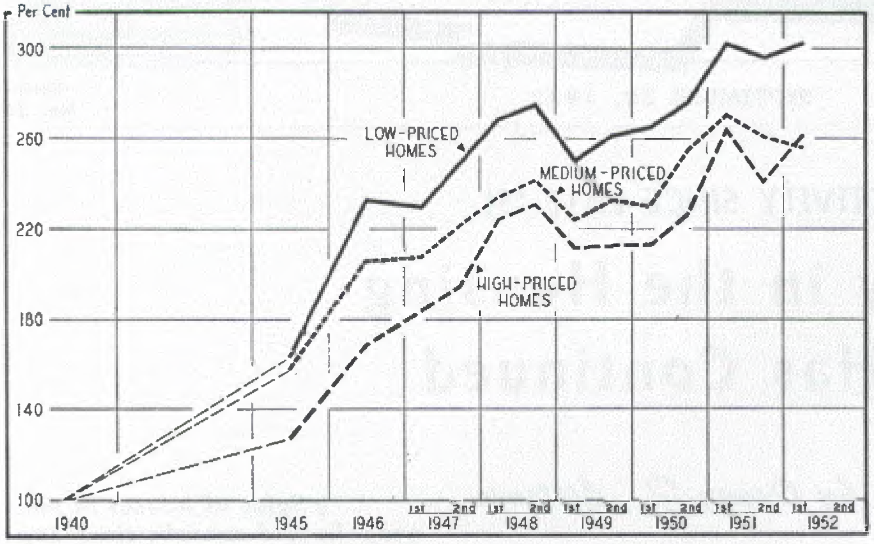
▶ In the first half of 1952, low-priced houses regained their former price peak, and high-priced houses made almost a complete recovery. Medium-priced houses continued the decline experienced in the first half of 1951.

Housing Prices Close To 1951 Peak

Prices on the existing supply of houses, including a very small number of newly built structures, again strengthened this year after displaying a weakening trend in the latter half of 1951. Houses sold in Minneapolis and in the surrounding suburbs in the first half of 1952 averaged $14,000 as compared with an average price of $13,600 for those sold in the

CHART II INDEX OF REAL ESTATE PRICES, 1950 TO 1952

(1940=100)



LOW-PRICED houses continued to lead the rise in the price of residential real estate, while medium-priced houses declined to the level of high-priced houses.

latter half of 1951—an increase of 3 per cent.

The sale of houses, by months, reflected a decline in prices which began in October 1951 and extended through the winter. The significant rise in prices occurred last spring, especially in May and June.

Prices of houses sold in the first half of this year, and even the higher prices recorded in May and June, still were slightly below the peak reached during the first half of 1951. Houses sold in that period averaged $14,200—1 per cent or $200 above the average price for the first half of this year.

Two Dips in Prices Since 1940

Prices of houses have taken two short dips in the general inflationary period since 1940. The first dip, which occurred in the first half of 1949, resulted in a decline of almost 9 per cent. In the latter half of 1948, houses sold for an average price of $12,800, whereas in the first half of 1949 the average price declined to $11,700.

The second price dip occurred in the latter half of 1951. The average price in that period was down 4 per cent from the average price of those sold in the first half of 1951.

Houses Lead General Price Rise

The percentage increase in the prices of houses sold in Minneapolis and in the surrounding suburbs since 1940 is traced in chart I. Houses sold in that year averaged $5,000, while those sold in the first half of 1952 averaged $14,000—an increase of 180 per cent, or over 2¾ times the 1940 price.

Of the three essentials to life — food, clothing, and shelter—the cost of shelter has risen by the largest percentage in this inflationary period, as is generally the case in a period of rapidly rising prices. Since 1940, the price of clothing has risen by 130 per cent and the price of food by 138 per cent, according to the consumer price index, as compared with an increase of 180 per cent for houses.

Houses built in recent years may be of better quality or include more conveniences than those which were on the market a decade ago. Nevertheless, today's prospective home buyers are confronted with comparatively higher prices.

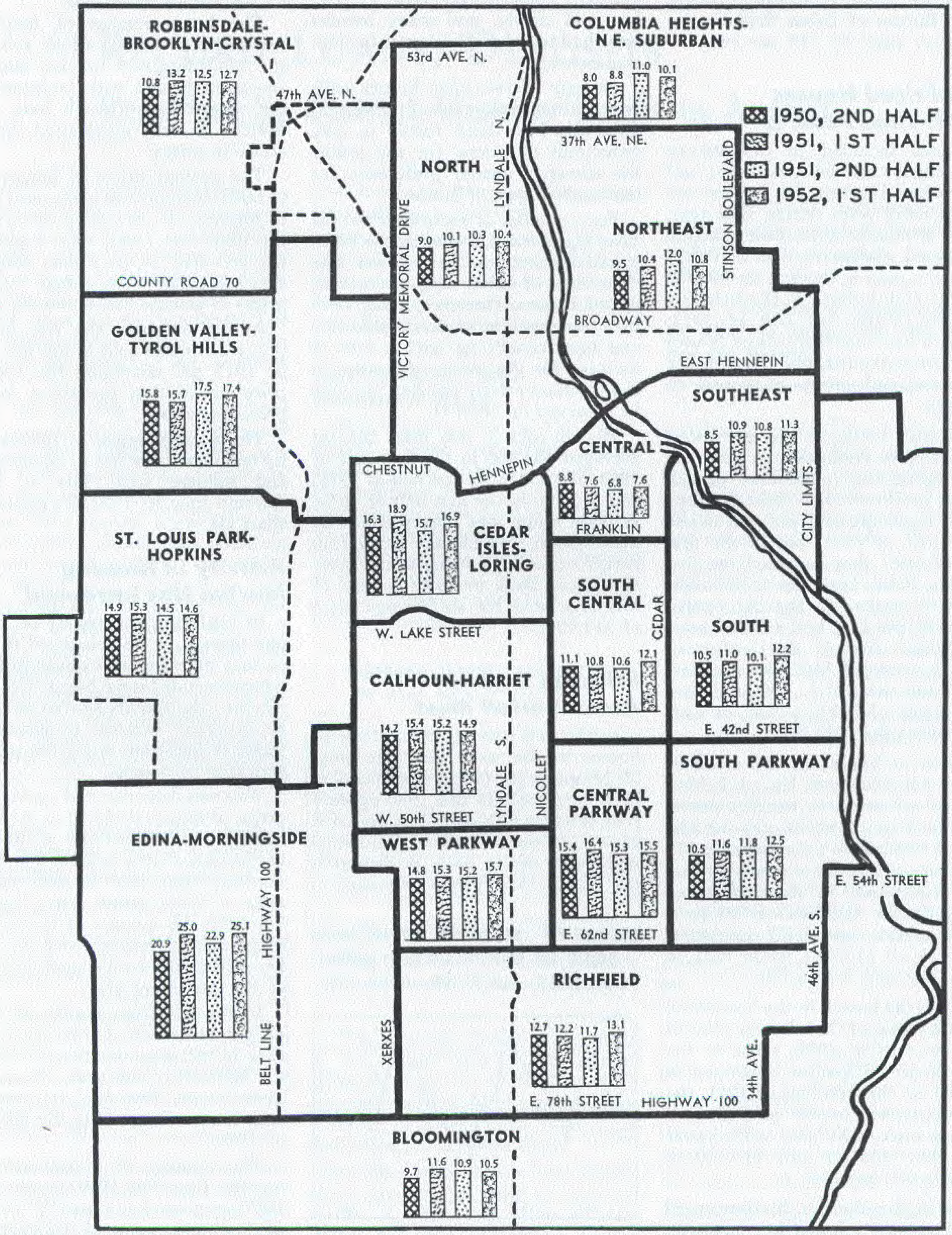
The rise in prices of the existing supply of houses continued to hold the lead over an increase in building costs. Since 1940, building costs—including labor, materials, profits, and overhead — of frame houses in Minneapolis and St. Paul area, as measured by the E. H. Boeckh and Associates index, have risen by 142 per cent, while the prices of houses have risen by 180 per cent.

Since 1940, the prices of houses and building costs have risen decidedly more than the general price level,

Residential Real Estate Prices, by Price Bracket, in Minneapolis and Surrounding Suburbs, from 1940 and 1945 to July 1, 1952

Year	Low-Priced Houses	Medium-Priced Houses	High-Priced Houses	All Houses
1940	$ 3,400	$ 6,500	$12,700	$ 5,000
1945	5,500	10,300	16,300	7,800
1946	7,900	13,500	21,500	10,700
1947				
First Half	7,800	13,600	23,600	10,800
Second Half	8,500	14,500	24,900	11,500
1948				
First Half	9,100	15,400	28,600	12,400
Second Half	9,400	15,900	29,500	12,800
1949				
First Half	8,500	14,700	27,000	11,700
Second Half	8,900	15,200	27,100	12,100
1950				
First Half	9,000	15,000	27,100	12,100
Second Half	9,400	16,600	28,900	13,000
1951				
First Half	10,300	17,600	33,700	14,200
Second Half	10,100	17,000	30,600	13,600
1952				
First Half	10,300	16,700	33,300	14,000

CHART III AVERAGE PRICES (IN THOUSANDS) OF HOUSES SOLD IN MINNEAPOLIS AND SUBURBS JULY 1, 1950 THROUGH JUNE 30, 1952



PRICES of houses by real estate districts have not followed a uniform trend. In most districts, the average price of houses sold in the first half of 1952 was up from the average price for those sold in the second half of 1951. In a few other districts the average price was down in the first half of this year.

as may be observed on chart I. Wholesale prices as measured by the U. S. Bureau of Labor Statistics index have risen by 118 per cent.

Low-Priced Houses At All-Time Peak

Houses included in this survey were divided into low-, medium-, and high-priced brackets for a closer examination of price trends. Last year, prices of houses in all three brackets followed a similar trend in that they reached a peak in the first six months of 1951 and declined in the latter six months. In the first half of 1952, prices of low- and high-priced houses again strengthened, but those in the medium-priced group continued to weaken.

Prices of houses in the low-priced bracket have continued to hold the lead during this inflationary period, as may be observed on chart II. They took a slight dip of 2 per cent in the latter half of 1951, but in the first half of 1952 they regained the loss in price. Prices again are at the highest level reached in the last twelve years. In the first half of this year, the houses sold in the low-priced bracket averaged $10,300 as against an average price of $3,400 in 1940—an increase of 203 per cent, or over three times the 1940 price.

Prices of houses in the medium-priced bracket have lagged behind the rise of those in the low-priced bracket. From 1940 through the first half of 1952, these prices rose by 157 per cent—a significantly smaller rise than for those in the low-priced group. In the first half of this year, houses of this type sold for an average price of $16,700, while back in 1940 they sold for $6,500.

While the houses in the low-priced bracket regained their loss in price in the first half of 1952, those in the medium-priced bracket continued to decline. In the first half of 1951, the medium-priced houses sold for an average price of $17,600, while a year later they sold for only $16,700—a decrease of 5 per cent.

The explanation for this downward trend in price is found in a comparatively large supply of luxurious two-bedroom houses and two-story houses in relation to the demand for them on the market. The luxurious two-bedroom house priced above $13,200 has sold slowly, and many owners have had to reduce their price to close transactions.

Owners of two-story houses with two or three bedrooms on the second floor also have been forced to take reductions in prices, for the public has shown a greater preference for the rambler type of house.

For a number of years after World War II, prices of houses in the high-priced bracket rose at a slower rate than those of either medium- or low-priced houses. However, since 1949 they have risen at an accelerated rate and have caught up with a rate of increase for the prices of houses in the medium-priced bracket, as may be observed on chart II.

Houses sold in this price bracket averaged $33,300 in the first half of 1952; $30,600 in the last half of 1951; and $33,700 in the first half of 1951. A wide range was observed among these houses—which may account, in part, for the large swing in the average price. Back in 1940, houses of this type sold for an average price of $12,700.

Prices in Desirable Areas Varied Most

In the first half of 1952, prices of houses in the more desirable areas of Minneapolis (areas designated as high rent areas in the 1940 census) rose more than those in less desirable areas. However, when residential real estate prices were declining in the fall of 1951, prices of houses in the more desirable areas also declined by the largest percentage.

The large number of luxurious two-bedroom houses which fell into the medium-priced bracket and the two-story houses with bedrooms on the second floor (which have been difficult to sell) accelerated the decrease in prices.

The average prices of houses sold in both medium- and low-priced areas of Minneapolis, as distinguished from the high rent areas, were higher in the first half of 1952 than those in the preceding year, when housing prices in general had reached a peak.

In the suburbs, the rise in the prices of houses sold in the first half of 1952 did not bring the average price up to that prevailing in the preceding year.

The average prices of houses sold by real estate districts in Minneapolis and suburbs from July 1, 1950, through June 30, 1952, are plotted on chart III.

Activity in Housing Market Has Increased

In analyzing the results of previous surveys, it was observed that in periods of rising real estate prices—which excluded some buyers from the market—the activity slowed, as might be expected, whereas in periods of stable or declining prices the activity generally increased.

This was demonstrated again when prices of houses declined in the latter half of 1951 and activity in the market increased. It is notable that it has remained high thus far this year in spite of rising prices. Since September 1951, the number of houses sold in each month has exceeded the number sold in the corresponding month of the preceding year.

In the last four months of 1951, 42 per cent more houses were sold than in the same months of 1950. In the first half of this year, 30 per cent more houses were sold as compared with the number sold in the first half of 1951.

The number of houses sold, by months, from July 1949 through June 1952 are plotted on chart IV. In spite of the regular seasonal swings in real estate activity, a cyclical fluctuation may be observed. For example, while

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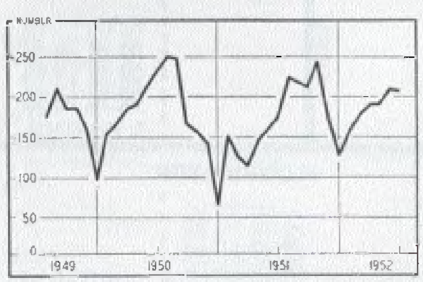
CHART IV NUMBER OF HOUSES SOLD IN MINNEAPOLIS AND SUBURBS, JULY '49 - JULY '52



IN ADDITION to the regular seasonal swings in real estate activity, a low point occurred in December 1950.

Seasonal Inflow Boosts Footings

RECORD LOANS, DEPOSITS

Reported by District Member Banks in August

LOANS and deposits reached an all-time high level in August, according to reports of Ninth district member banks. Investments leveled off after having increased since April. The deposit record was not unexpected, since this year's seasonal low was substantially higher than the seasonal low point of any previous year.

In the last five years such lows have ranged from \$3.23 billion in 1948 to \$3.53 billion this year and have been successively higher in every year except last.

The rising deposit trend over the last few years, rather than reflecting an improvement in the "favorableness" of our trade relationships with the rest of the country, mostly reflects the additional credit extended both by banks here and in the rest of the country.

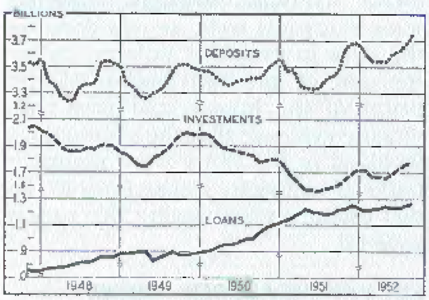
In the year ended June 25, for example, loans and investments were up \$7.5 billion at all member banks and \$197 million at Ninth district member banks. Such credit expansion has been going on almost continuously since mid-1949.

Seasonal deposit fluctuations—the ups and downs that occur with regularity each year—do however result mostly from our trade relationships with the rest of the country.

Agriculture Plays Dominant Role

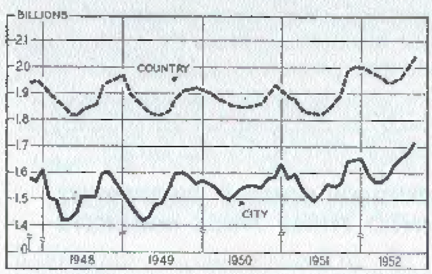
The western part of the Ninth district (North and South Dakota and Montana) derives a larger part of its income from agriculture than any other area in the United States. The dominant position enjoyed by agriculture means that bank deposits in these states tend to swell and recede in sympathy with farm income, which is notoriously seasonal.

LOANS, INVESTMENTS, AND DEPOSITS OF NINTH DISTRICT MEMBER BANKS, 1948-52



BOTH LOANS and deposits attained record levels at Ninth district member banks in August. Loans, at \$1.269 billion, were slightly higher than the last record level of \$1.255 billion in November 1951.

MEMBER BANK DEPOSITS IN THE NINTH DISTRICT



THE RECORD level of deposits reflects all-time highs at city and country banks.

This seasonal factor is apparent in the eastern part of the district also, although it is not as pronounced because of the greater importance of more stable commercial and industrial actvities there.

For the entire district these fluctuations are on the order of approximately 8 per cent, although last year's rise was somewhat greater than that amount and this year's decline somewhat less.

▶Credit expansion, together with receipts from agriculture, sent deposits to \$3.75 billion.

▶Country loans were at an all-time high, with city loans not far behind.

Besides starting at a higher level, this year's rise began earlier than last year, when the seasonal loss failed to reverse itself until June. In all of the other years since 1947 the reversal occurred in May.

Deposit movements have been shared by city and country banks alike, although the timing differs consistently in at least one respect. In each of the last five years, the seasonal rise has begun earlier in the city than in the country. No such consistent difference appears in the timing of the subsequent reversal.

In spite of the fact that, to a limited degree, movements in the city result from the deposit and with-

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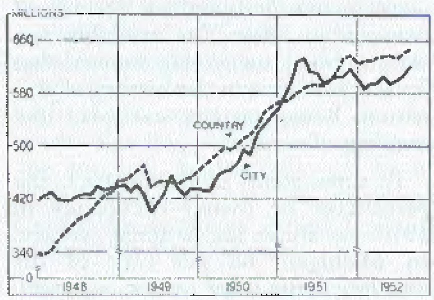
LOANS OUTSTANDING AT NINTH DISTRICT MEMBER BANKS, CITY AND COUNTRY



INCREASED loans at country banks more than compensated for the decline at city banks from their record of April 1951.

RECOVERY IN HOUSING MARKET CONTINUES

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activity in December is usually the lowest in the year, the activity in December 1950 was noticeably lower than in either December 1949 or 1951.

Since the end of World War II, there has been an increasing number of families purchasing houses. This has had a significant effect on the activity in the residential real estate market. Where 41 per cent of the occupied dwelling units in Minneapolis were owner occupied in 1940, 52 per cent were owner occupied in 1950.

The prosperity of the Forties fostered a strong tendency towards home ownership similar to that experienced in previous periods of general prosperity. Home ownership has been promoted not only by high employment and high incomes, but also by liberal government guarantees and insurance of VA and FHA mortgage loans.

Small down payments on houses and long maturities on mortgage loans have opened home ownership to many families. Furthermore, home ownership has been promoted by rent control, which has caused many owners of real estate to sell their income properties.

According to the 1950 housing census, 55 per cent of the occupied dwelling units in the United States were owner occupied as against 44 per cent in 1940. The available records on home ownership showed that for the first time in the history of this nation home owners exceeded the number of tenants.

In some states of this district, the percentage of owner occupancy in 1950 was above the national average. In Michigan, 68 per cent of the dwelling units were owner occupied; in South Dakota, 62 per cent, and in Montana, 60 per cent. Comparable figures for the other states in this district have not been released by the U. S. census bureau. END

Methods and Procedure Employed in Survey

THE most recent survey was conducted during July 1952. Data were compiled for the period from July 1, 1951, through June 30, 1952. Former surveys were made in 1946, 1947, 1949, and 1951 covering the period from 1940 to July 1, 1951.

As in the past, the recent survey was conducted in cooperation with the Minneapolis Board of Realtors. In a bulletin, their executive secretary announced the bank's plans to repeat the survey. A large representative number of members of the Board of Realtors was approached in regard to this survey, and all cooperated by furnishing the essential information from their records.

The data secured from the real estate firms were the dates of sales of residential properties, prices paid by purchasers, and approximate addresses of such properties for the period from July 1, 1951, through June 30, 1952.

With the addresses of the residential properties sold by real estate firms, the properties were segregated into homogeneous residential areas within Minneapolis and surrounding suburbs. After an examination of the properties sold in each area, the atypical cases were eliminated from the tabulations. From the typical residential properties sold in each area, an average price was computed for each month and for each half-year period covered by the survey.

SURVEY DIVIDES PROPERTIES INTO THREE PRICE BRACKETS

As in former surveys, the typical residential properties were divided into three price brackets: low-, medium-, and high-priced houses. Originally the houses sold in 1940 were divided into these three price brackets. After a study of the prices of houses sold in 1940 and some consultations with realtors cooperating in the project, it was concluded that houses selling for $5,000 or less at that time were generally classified as low-priced houses; those selling between $5,000 and $10,000 as medium-prices houses; and those selling above $10,000 as high-priced houses.

Of the total number of houses sold in 1940 which were included in the survey, 60 per cent were sold for $5,000 or less, thereby falling into the low-priced bracket. On the other end of the price range, houses which sold for more than $10,000 in 1940 comprised 6 per cent of the total included in the study. In between these price ranges, the medium-priced houses which sold for between $5,000 and $10,000 constituted the remaining 34 per cent.

As a result of the rise in real estate prices since 1940, the price ranges for the three classes of houses sold in that year became obsolete quickly. In order to divide the transactions for subsequent years into the three price brackets, the houses sold were arrayed from the lowest price realized on a sale to the highest price realized, and the 1940 percentage distribution was applied to the sample of houses sold during each half-year period.

To be more specific, in this survey 60 per cent of the houses which sold for the lowest prices during each half-year period from July 1, 1951, through June 30, 1952, were classified as low-priced houses; 6 per cent of the houses which sold for the highest prices during each half-year period were classified as high-priced houses; and 34 per cent of the houses which sold for prices in between the two extremes during each half-year period were classified as medium-priced houses.

This survey included data on 2,346 houses sold which proved to be typical transactions in the several real estate districts. Without applying some statistical tests, as was done on the data in previous surveys, an inspection of the distribution of the prices of the houses sold gave convincing evidence that the transactions included in the study were representative of aggregate transactions in the real estate market during the period covered.

SURVEY MEASURED PRICES AND ACTIVITY IN MARKET

The object of the survey was to provide an objective measure of market prices and activity in the residential real estate market. It was not designed to measure prices on identical

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POSITION IN CYCLE IS A KEY FACTOR

Growing Cattle Numbers Causing Price Sag

THE cattle industry is big business in the Ninth district economy. It's big because cash income from the sale of cattle and calves lines farmers' pockets with more dollars than does any other single farm enterprise. Only the dairy and wheat enterprises approach it in importance.

In recent years, one dollar out of every four to five dollars of cash farm income was from the sale of cattle and calves. The proportion has been exceptionally high in recent years, because cattle population has been expanded and because cattle prices have been high in relation to prices of other farm commodities. With the single exception of potatoes, current cattle prices are higher in relation to parity than is true of any other farm commodity.

The importance of cattle in the Ninth district economy is due to the climatical and topographical characteristics of the area. In the wide and open spaces of much of the Dakotas and Montana, land is best adapted to grass and cattle production. Many of the ranches are large, with thousands of acres of deeded land and, in many instances, with additional thousands of acres of public grazing land available for the rancher's use.

Many of these ranching set-ups are as dramatically western today as they were a generation ago. Cowboys with broad-brimmed hats, high-heeled boots, and spurs are common sights in western towns. Cattle roundups and branding operations are still carried on in the same old manner, and the cowboys are at home on the range with their chuckwagons and other colorful paraphernalia.

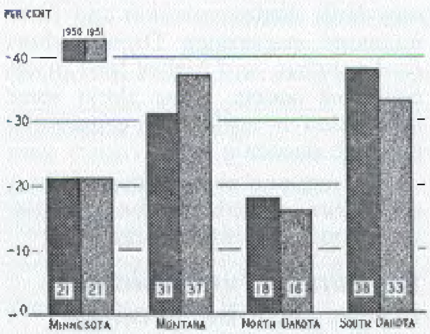
There are some modern innovations, however. The old chuckwagon is now more apt to be motor-powered. The tough little jeep is standard equipment on many ranches. The airplane, too, is not an uncommon sight on the larger ranches. It is considered a part of the productive equipment of the ranch in addition to its value as a pleasure vehicle.

Income From Cattle Varies by States

The proportion of cash farm income derived from the sale of cattle and calves varies from state to state as well as from year to year. (See graph.) For example, income from cattle and calves in South Dakota during 1950 was 38 per cent of total income. In Minnesota it was only 21 per cent.

The western sections of the Dakotas and Montana specialize in the production of calves and yearlings that are usually sold off grass in the fall to feeders, particularly in the corn-growing areas of the Midwest. Southern Minnesota, for example, is an important cattle-feeding area, with feeder cattle purchased from the western ranges.

PROPORTION OF CASH FARM INCOME DERIVED FROM THE SALE OF CATTLE AND CALVES in Four Ninth District States



CASH FARM INCOME from the sale of cattle and calves is of major importance in all district states. It is most important in Montana and South Dakota.

Source: USDA "Farm Income Situation."

▶ *Buildup in herds indicates sharp increase in slaughter.*

▶ *Strong consumer demand bolsters cattle market.*

In the western area of the district, therefore, cattle sales tend to be bunched in the fall as the grass dries up. In the eastern areas, fed cattle are marketed in largest numbers in late winter or early spring.

Bankers Lend Heavily On Cattle

In the current period of high livestock prices it takes a substantial amount of capital to finance cattle production and cattle feeding operations. It is probable that district bankers lend more money to produce and feed cattle than they do for any other single farm enterprise. But bankers like to lend with cattle as security for the reasons that turnover is relatively rapid, it is comparatively easy to appraise and check the collateral, and there is always a ready market.

Of chief concern to the banker, however, are the "ups and downs" of the cattle market. For example, a year ago this fall feeder cattle prices were at record-high levels. Top quality feeder calves were bringing as high as 50 cents a pound on the range. Yearling steers were selling to the cornbelt feeder from 35 to 45 cents a pound. This fall, prices of comparable cattle are selling from 10 to 15 cents a pound less.

Much of the 1951 corn crop was soft and it had to be used during the winter or else spoil. This resulted in a heavy demand for feeder cattle last fall — which boomed feeder cattle prices in relation to slaughter cattle values. As a result, feeding margins were narrow and profits from cattle feeding operations were generally on the slim side. It developed that some of the loans made to finance cattle feeding operations in the fall of 1951 were not fully self-liquidating. In some cases the loans had to be extended for a longer period.

This situation points up the fact that the country banker needs to be a student of the cattle market, not only for his own protection but also to be able to advise his customers concerning the over-all cattle situation and prospects.

Cash Farm Income for Ninth District — January-June*

(Thousands of Dollars)

State	1935-39 Average	1951	1952	1952 in Per Cent of 1951
Minnesota	$ 154,557	$ 608,071	$ 587,964	97%
North Dakota	37,444	164,236	190,637	116
South Dakota	45,700	238,754	243,999	102
Montana	26,447	120,548	112,805	94
Ninth District [1]	301,082	1,273,902	1,272,493	100
United States	3,416,392	12,753,060	13,263,707	104

* Source: USDA — "Farm Income Situation" — June-July 1952

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

Caution Signals Concern Cattlemen

There are several important factors that are likely to have an adverse effect on cattle prices generally in the months ahead. These are:

1) The number of beef cattle on farms in the Ninth district and for the United States is at an all-time high. Barring serious drouth in the next few years, cattle numbers may reach a peak of around 100 million head by 1955 — nearly 15 million more compared with the previous peak of 85 million in 1945.

The South is now in the cattle business in a big way. A new system of grassland agriculture and diversification in this area means greater competition to Northwest beef producers. Louisiana now has more cattle than Wyoming and there are more cattle in Florida than there are in New Mexico.

2) Cattle numbers run in great 10- to 15-year cycles. We are now in the fourth year of the upturn. In this early up-phase of the cycles, producers tend to hold back large numbers of breeding stock from the market. As a result, cattle marketings have been relatively light. But from here on more cattle may be marketed.

When farmers quit adding to their herds and the cattle cycle turns down, slaughter may be increased substantially. A larger cattle slaughter will bring pressure on beef prices in much the same manner that the tremendous marketings of hogs in 1951 and early 1952 deflated the hog market.

3) On September 1, for the first time since 1946, the border was opened for the importation of Mexican cattle. Perhaps as many as a half million head of stocker and feeder cattle will come in annually. This will further increase beef supplies, as Canadian cattle imports will also when the current foot and mouth ban is lifted.

4) The hide and tallow market collapse in recent months has had a weakening effect on cattle prices. With more cattle coming to market in the months ahead, leather supplies will become larger rather than smaller.

5) Beef may face somewhat less competition from pork, but broiler and turkey production is breaking new highs. The poultry industry would like to capture a larger share of the consumer's meat dollar.

6) Pasture and feed conditions may limit cattle expansion and force increased marketings. Drouth, short feed supplies, and higher feed prices could, of course, bring about some liquidation of cattle, with consequent pressure on cattle prices.

Any one or a combination of these six factors might bring about further weakness in the cattle market.

Consumer Purchasing Power May be Stronger

Offsetting to some extent the price-depressing influences of an expected increase in beef supplies is a probable increase in peoples' disposable income. There are more people working than ever before and wage levels generally appear to be slanted upward. This is important, because any increase in purchasing power is reflected in the demand for meat.

The defense program and heavy expenditures for residential construction and for new plants and equipment will likely maintain purchasing power for some time.

But these stimulants to demand won't last forever. Sooner or later they will taper off and consumer purchasing power will decline unless some other stimulus is found to keep the economy going at its present rate and at current prices.

Cattlemen Should Play it Safe

In view of the current supply and demand relationships affecting cattle prices it is probably sound advice to the farmer to avoid heavy debt involvement, particularly heavy long-term indebtedness on cattle operations.

This may be a good time to shape up the ages of the cow herd, to sell off older and surplus stocks, and to give particular attention to cost-reducing practices. Such a program may be desirable in order to weather successfully the economic consequences of the coming peak in the cattle-numbers cycle. END

HOUSING SURVEY

Continued from Page 327

houses sold in each successive half-year period; rather, it was to measure prices on a representative sample of houses offered and sold in the real estate market in each period. Activity in the market was measured by the number of houses sold.

As home builders offer a better quality of house, the typical, or average, house sold will improve in quality. It is the prevailing market price of houses sold as well as the long-term value of real estate that is of concern to financial institutions extending real estate credit, to firms dealing in residential real estate, to builders who offer houses for sale, and to prospective sellers and buyers of houses. END

CURRENT BUSINESS DEVELOPMENTS

PRODUCTION AND TRADE WERE UP, FOLLOWING STEEL STRIKE

A MODERATE rise in business activity took place in the Ninth district in the third quarter despite the work stoppage caused by the steel strike.

In addition to the back-to-work movement in steel and allied industries, employment has continued to rise in industries not affected by the strike.

Construction activity increased during both July and August, and retail sales were above the volume which prevailed in the first half of this year. Moreover, merchants are optimistic about the outlook for sales in the fourth quarter.

Iron Ore and Steel — The steel strike did affect business in this district, both directly and indirectly. Iron ore miners and steel workers were away from their jobs for a period of 57 days, from June 2 through July 28. Due to a shortage of finished steel, employment in a number of firms had not returned to the pre-strike level by the latter part of August. Some firms were able to use substitute steel when it was not available at the suppliers in the right shapes and forms, thus minimizing indirect effects of the strike.

The work stoppage in steel curtailed production less than was thought would be the case at the time of the strike. The shortage of finished steel did not reach serious proportions among fabricators in this district.

The explanation is found primarily in the fact that firms in this region held large inventories at the time production was halted. Since the first of the year these firms have been holding an increasing number of prime defense contracts and, especially, subcontracts, which gave them a priority rating to draw on the large inventories held by steel companies.

The favorable business outlook also prompted management to prepare for full scale production when steel again became available. Firms forced to close down used the idle period to take inventory, to repair and modernize their equipment, and to give their workers their annual vacations.

When a settlement was reached in the steel industry, both management and labor were poised to make up for lost time. Mining companies turned to the mining of higher grades of iron ore to expand their output. Railroads were prepared to haul an increase of three million tons of ore from mines directly to steel mills over the tonnage they had hauled last year.

As a result of stepped-up activity in August, substantial increases in employment took place in the primary industries — namely, mining, manufacture of primary metals, and transportation.

Construction — Activity in this field has not equaled the 1951 level, but it was up in July and August from former months by at least the usual seasonal amount in all states of this district. The larger volume of construction work was not so concentrated in any particular type of building.

The number of houses started rose in July and August, as did the starts in public building — especially new schools and additions to old ones. Some state employment services have mentioned in their bulletins the larger number of workers employed on the construction of highways, streets, bridges, federal dams, and power transmission lines.

Department Store Sales — Labor out on strike or temporarily unem-

Ninth District Business Indexes

(Adjusted for Seasonal Variation—1947-49=100)

	Aug. '52	July '52	Aug. '51	Aug. '50
Bank Debits — 93 Cities	122	124r	116	113
Bank Debits—Farming Centers	124	119r	117	117
Ninth District Dept. Store Sales	115p	104	109	117
City Department Store Sales	116	108r	112r	124
Country Department Store Sales	114p	98	105	106
Ninth District Dept. Store Stocks	109p	108	122	101
City Department Store Stocks	111p	107	126	103
Country Department Store Stocks	106p	109	118	99
Lumber Sales at Retail Yards (Bd. Ft.)	87	91	96	127
Miscellaneous Carloadings	110	91	106	109
Total Carloadings (excl. Misc.)	106	47	101	99
Farm Prices (Minn. unadj.)	108	103	101	93

p preliminary
r revised

ployed due to the strike did not reduce its purchases of merchandise drastically. Some workers drew on their savings, while others bought on credit. As a result, no noticeable slump in sales developed out of the work stoppage in the mining areas.

District sales in July and August were up 3 per cent and 4 per cent respectively from the corresponding 1951 receipts. These percentages were computed on a daily average receipt basis which adjusts for the different number of trading days between the two years. In contrast to this trend, sales for the first six months were down 2 per cent from the first half of last year.

Preliminary figures for September indicate that the upward trend in sales may have weakened. In the first week of September, department store sales in the four large cities were up 7 per cent from a year ago, and in the second week they were down 8 per cent. A similar downward trend was observed for most of the other Federal Reserve districts.

Furniture Store Sales — These sales also reflected an upward trend during the summer. District sales in July were up 8 per cent from last year's receipts, while in the first six months they were down 3 per cent. In comparison with 1951 receipts, sales began to rise in May from a noticeable slump in former months.

August sales in this district again were below 1951 receipts by 3 per cent on a daily average receipt basis, which corrects for one less trading day this year.

Prices — Dollar sales comparable to those of a year ago tend to reflect a larger volume of merchandise sold. In the past 12 months, wholesale prices have declined by 3½ per cent. Retail prices of merchandise sold in department stores have declined by 2 per cent as measured by the Fairchild Publications retail price index.

The rise in the consumer price index received much publicity in August. The index reached a new peak of 191.1 per cent in August (1935-39=100). The former peak occurred last December and January when the index stood at 189.1 per cent.

The gradual rise in the consumer price index was caused mainly by an increase in the prices of food and in rents and services.

The increase in the prices of food was limited primarily to fresh fruits and vegetables. In the 12-month period ending July 15, 1952, they increased by 28 per cent.

The price of eggs declined last fall and increased again this spring. By July, they had almost reached the level of a year ago. Dairy product prices were 3 per cent above a year ago. END

RECORD LOANS, DEPOSITS REPORTED

Continued from Page 326

drawal of correspondent balances by country bankers, there is no evidence of a consistent lag at city banks.

Seasonal Factors Less Obvious in Loans

In contrast to the distinct regularity of deposit movements at Ninth district member banks, no such regularity appears in the movement of the loan totals at either city or country banks. Although the rapid, continuous increase in loans since 1947 makes the isolation of a seasonal factor more difficult, it would appear that seasonal considerations are much less important in the case of loan movements than in deposit movements.

Doubtless the impressive improvement in the liquidity of farmers has diminished the importance of seasonal changes in the demand for farm credit. Since 1940, farmers have multiplied their holdings of deposits and currency by almost four times.* Many farmers in need of cash to finance production can now withdraw deposits rather than incur bank debt.

Loans at country banks since 1947 have expanded more rapidly than loans at the city banks, but in 1947 there was more room for expansion at the country banks. At the end of 1947, loans represented only 18 per cent of deposits at the country banks, while the proportion at city banks was 28 per cent.

The spread has since been diminished and now, although they hold a larger dollar amount of loans, country banks still have a lesser proportion of their deposits invested in loans than do city banks.

Altogether, Ninth district member banks have increased their loans by \$500 million in the last five years. Most of the new credit went for commercial, industrial, agricultural, and real estate loans, the latter increasing more than any other type of credit.

THE STATISTICS discussed in this article are made up of data submitted by member banks in all parts of the district. Consequently, the statistics relate to banks which serve diverse economic groups and for that reason are not as valuable to bankers in a particular locality as statistics would be which related only to that locality. For this reason subsequent articles will treat loans, investments, and deposits of member banks in each state within the district separately.

Investment Decline Reversed Last Year

Part of the loan expansion was permitted by higher deposits, but most of it was financed by the liquidation of investments.

From a level of more than \$2 billion in 1947, investments of Ninth district member banks declined to less than \$1.6 billion last year. Since that time investments have been rising and are now more than \$200 million higher than last year's low. Higher yields and lower prices have undoubtedly discouraged further liquidation and have induced banks to enlarge portfolios.

Unlike the loan totals, investment holdings tend to vary seasonally with deposits; this tendency is less obvious, however, because the seasonal fluctuations have been superimposed on a declining trend in four of the last five years.

The ability of banks to adjust security holdings to changes in the level of deposits is one favorable aspect of the great increase in security holdings since 1940 and speaks well of the accommodation afforded by the securities markets. END

* Comparative balance sheet of agriculture, Federal Reserve Bulletin, July 1952.

Assets and Liabilities of Member Banks in the Ninth Federal Reserve District

(In Millions of Dollars)

ITEM	All Member Banks Aug. 27, 1952	All Member Banks Change Since July 30, 1952	City Banks (weekly reporting) Aug. 27, 1952	City Banks (weekly reporting) Change Since July 30, 1952	Country Banks (non-weekly reporting) Aug. 27, 1952	Country Banks (non-weekly reporting) Change Since July 30, 1952
Loans and discounts	\$1,269	+ 20	\$ 622	+ 16	\$ 647	+ 4
U. S. Government obligations	1,470	— 17	571	— 27	899	+ 10
Other securities	303	+ 7	152	+ 7	151	....
Cash and due from banks	960	+ 47	494	+ 22	466	+ 25
Other assets	37	....	18	....	19	....
Total assets	\$4,039	+ 57	\$1,857	+ 18	\$2,182	+ 39
Due to banks	\$ 403	+ 44	\$ 355	+ 41	\$ 48	+ 3
Other demand deposits	2,386	+ 26	1,108	— 9	1,278	+ 35
Total demand deposits	\$2,789	+ 70	\$1,463	+ 32	\$1,326	+ 38
Time deposits	962	+ 3	250	+ 1	712	+ 2
Total deposits	\$3,751	+ 73	\$1,713	+ 33	\$2,038	+ 40
Borrowings from F.R.B.	9	— 17	6	— 18	3	+ 1
Other liabilities	35	+ 1	25	+ 2	10	— 1
Capital funds	244	....	113	+ 1	131	— 1
Total liabilities and capital accounts	\$4,039	+ 57	\$1,857	+ 18	\$2,182	+ 39

Reporting bank data are from balance sheets submitted weekly. Non-reporting bank data are 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 in the process of collection, 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 required reserves.

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

NATIONAL SUMMARY OF BUSINESS CONDITIONS

COMPILED BY THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM, SEPT. 30, 1952

■ INDUSTRIAL production recovered sharply in August and rose further in September to its previous postwar high. In September, seasonally adjusted sales at department stores are estimated to have declined following a marked rise in August, while expanded output has permitted some recovery in automobile sales. Wholesale prices declined somewhat after mid-August, reflecting largely heavy marketings of livestock. Consumers' prices continued at record levels.

Industrial Production — The Board's index of industrial production increased to 215 in August from 193 per cent of the 1935-39 average in July, reflecting mainly the rapid return to full-scale operations at steel mills and a marked gain in nondurable goods output. According to preliminary estimates, industrial production has risen further in September to 223.

Steel production rose in August to 92 per cent of rated capacity and by late September was scheduled at a new record rate of 104 per cent. Activity in machinery and transportation equipment industries showed only a limited recovery in August but has apparently increased substantially in September.

Passenger auto assemblies this month are estimated to have totaled about 445,000 units, the largest monthly output since June 1951.

A substantial pick-up in production of television sets and major household appliances in August and September reflected earlier large inventory declines and increased consumer buying.

Expansion in nondurable goods output in August reflected principally greater than seasonal increases at textile and paperboard mills. There was also a sharp recovery in coke output, and petroleum refining, which was already close to earlier peak rates in August, rose further in September.

Total meat production since mid-August has averaged 8 per cent above a year ago, with production of beef and veal up by about a fourth and pork down considerably.

Minerals output has increased sharply in August and September with resumption of iron ore mining and marked gains in output of crude petroleum and coal.

Construction — Value of construction contract awards declined slightly in August as awards for public nonresidential work dropped sharply following three months of steady increases. Value of new construction put in place was the same as in July, after allowance for seasonal influences.

The number of housing units started in August declined more than seasonally to 99,000 from 104,000 in July, but was 11 per cent larger than in August 1951.

Employment—Employment in nonagricultural establishments, after allowance for seasonal changes, rose in August to 46.8 million, an all-time high. In steel-consuming industries the number employed and employee working time increased but remained below the pre-strike levels.

Average hourly earnings of factory workers were up about 1 per cent from July to \$1.66—the level of other recent months.

Unemployment declined in August to 1.6 million, reflecting in part the end of the steel strike and in part seasonal factors.

Distribution — Sales at department stores, which had shown a greater than seasonal rise in August, increased less than seasonally in the first three weeks of September but remained close to year-ago levels. Reflecting in part the rise in sales, seasonally adjusted stocks at department stores are estimated to have declined somewhat in August.

Sales of new passenger cars have risen from the sharply reduced August rate and, with output considerably expanded, dealers' stocks are being replenished.

Commodity Prices — The general level of wholesale commodity prices declined somewhat from mid-August to the third week of September. The major decreases were in livestock and products, owing partly to a considerable expansion in marketings of cattle. Prices of industrial commodities generally showed little change.

The consumers' price index rose further by .2 per cent in August. Average prices of foods again advanced and rents and fuel prices increased, while prices of apparel declined slightly further.

Bank Credit—Total bank credit outstanding at weekly reporting banks showed little change between mid-August and mid-September. All major types of loans increased, but holdings of U. S. government securities declined.

Business loans increased about three-quarters of a billion dollars, reflecting largely credit for marketing crops as well as some borrowing in connection with tax payments in mid-September.

Bank reserve positions continued tight until mid-September and borrowings from the Federal Reserve generally exceeded excess reserves. Thereafter, borrowings were reduced as banks obtained reserve funds as a result of a decline in Treasury balances at the Reserve banks and System purchases of U. S. government securities in connection with the October 1 certificate refinancing.

Security Markets—Yields on Treasury bills declined during the first three weeks of September, while yields on long-term Treasury bonds rose somewhat. The Treasury offered $2\frac{1}{8}$ per cent 14-month notes in exchange for the \$10.9 billion of certificates maturing October 1, 1952, and has also announced an offering of \$2.5 billion of 161-day tax anticipation bills to be dated October 8 and to mature March 18, 1953.