MONTHLY Review

FEDERAL RESERVE BANK OF MINNEAPOLIS

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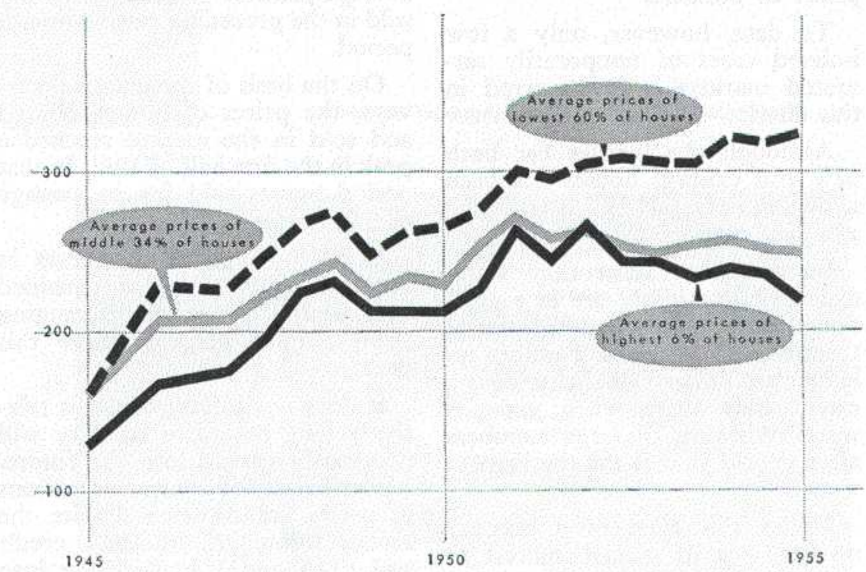
Annual Survey of Minneapolis-Area Housing Prices . . . .

Housing Market Remains Buoyant



Prices of houses included in annual survey of Minneapolis area are shown here as index numbers, 1940 = 100.*

*1955 based on 6-month average.

THE BOOM in residential building has contributed greatly to our prevailing economic prosperity. Almost insatiable, the demand for new houses has exceeded most expectations at the beginning of the year. It now appears that the number of new dwelling units being built this year in the Ninth district, as well as in the nation, may be close to the record established in 1950.

The present level of construction activity in this district is indicated by the $152-million total of residential contracts awarded during the first six months of 1955 as compared to $108 million for the like period last year. This represents a 40 percent increase in residential building contracts—somewhat greater than the 29 percent rise for non-residential construction contracts.

Examination of building permit valuations for the Twin Cities area reveals a similar picture. For the first six months they totaled 40 percent above a year ago. The respective dollar amounts were $105 million and $75 million. Included in this year's figures are several multiple-unit projects which involve 50 to 250 homes.

The magnitude of the national construction boom is reflected in numerous local reports of building materials shortages. In the Twin Cities area some projects have been delayed or work schedules rearranged because of local shortages of rock lath and cement, but the situation had eased by the latter part of August.

Demand for New Houses Continues

Traditionally, the construction industry has been considered a "boom and bust" enterprise. As a result, the unprecedented rate of new home building has caused concern that the market may become "saturated"—that is, there might be an insufficient number of buyers to purchase all the completed houses at prices which allow a margin of profit to builders.

To date, however, only a few isolated cases of temporarily saturated markets have occurred in this district—these in small towns.

Although the market for both new and existing houses has been strong, it, nevertheless, has remained a buyers' market.

Buyers know what they want, and they apparently are in a position to wait until they find houses that meet their needs. Families no longer are in need of shelter to the extent they were when veterans were returning in large numbers after World War II and the Korean war.

Under this type of a housing market, it is of special interest to note the trend of prices on existing houses. Should the market for new houses become saturated, the prices on existing houses may be the first to weaken.

Survey of Housing Prices

The annual survey of prices paid for houses in the Minneapolis area was conducted in July by the Federal Reserve Bank of Minneapolis in cooperation with the Minneapolis Board of Realtors. As in previous surveys (made annually since 1948), information was compiled on a substantial number of houses sold by realtors in Minneapolis and its immediate suburbs.

This year 4,741 transactions were included in the sample as compared to 3,646 last year. A tabulation of this magnitude, including at least 50 percent of all transactions made by realtors in the area, would seem to be indicative of price trends for all houses sold in the area.

Prices Hold Firm

Despite higher vacancy rates and a wider choice of old and new houses available to buyers, prices of houses have remained firm during the past spring and early summer. The average price for houses sold during the twelve-month period ended June 30, 1955, was $13,800. This figure is identical with the average price of $13,800 for houses sold in the preceding twelve-month period.

On the basis of these annual surveys, the prices of houses offered and sold in the market reached a peak in the first half of 1951. In that period houses sold for an average of $14,200.

Since then, prices of houses in the Minneapolis area have remained quite stable but at prices ranging from 2 to 4 percent below this peak.

It does not follow that this relatively long period of stability will necessarily extend into the future. Nevertheless, no sharp fluctuations in prices are foreseen despite the recent tightening of bank credit and FHA and VA mortgage loan terms.

The distribution of sale prices of houses in the Minneapolis area is shown graphically on page 3. Although a substantial number of transactions were closed at prices below $9,000, most of them were concentrated in the range from $9,000 to $15,000. Above $15,000 the number of sales decreased rather quickly although ranging to prices above $50,000.

In 1955 nearly 35 percent of the transactions were concentrated in the $12,000-to-$15,000 price interval, while in 1951 only 21 percent fell into this interval. In 1951 the heaviest concentration (32 percent) occurred in the $9,000 to $12,000 range. These comparisons are made in the upper chart.

Low-Priced Houses Reach a New High

As in previous surveys, houses included in the survey were divided into three brackets according to market price. The lowest 60 percent of the total number of houses sold by realtors whose transactions were included in the survey were classified as low-priced, the next 34 percent as medium-priced, and the top 6 percent as high-priced.

In the first half of 1954, old and new houses in the low-priced bracket sold for an average price of $10,800. This continued to be the average price in the second half of 1954. During the first half of this year, however, prices for houses in this bracket rose to a new high of $11,000. (The price range in this bracket is $3,500 to $13,500.)

It is difficult to evaluate such a modest increase in price, because there is no way of knowing whether it represents a bona fide price increase or improved houses that provide more comforts and services to the inhabitants.

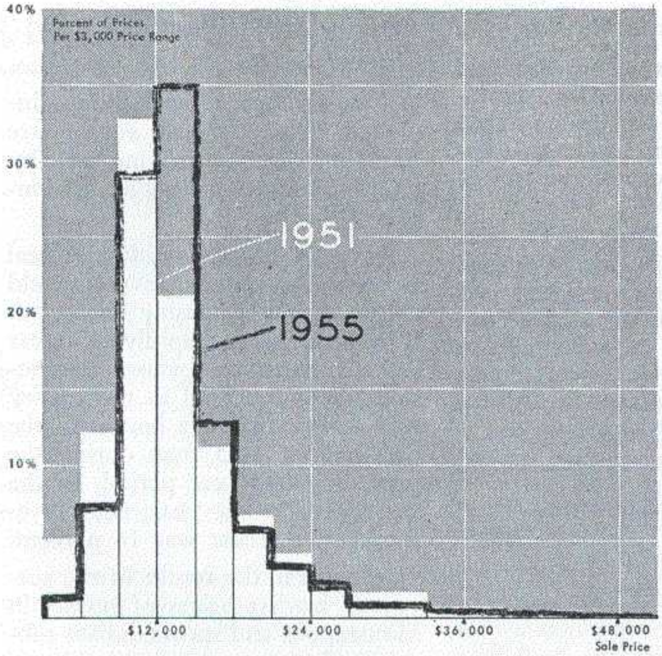
Caution must be exercised especially in the interpretation of the price trend on new houses. In the case of new houses (as is true for many consumer durables) it may be that increases in productivity and stiffer competition are reflected not in price declines but in improved houses.

To the extent that qualitative improvements exceed in value price increases, buyers are securing better houses for the prices paid.

Nevertheless, it must be pointed out that the large demand for houses during the first half of 1955 was conducive to price rises, and that the increase of $200 applied to old as well as new houses.

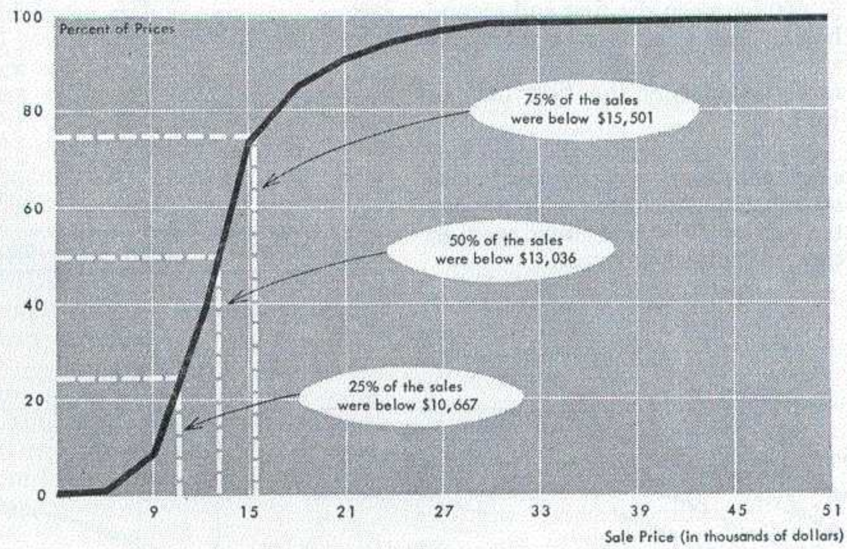
Realtors are continuing to sell an increasing number of new houses. Of the 2,844 houses tallied in the low-price bracket, 676 or almost one-fourth were new*. Average price for new houses in this bracket during the survey period was $11,800 as contrasted to $10,600 for old houses.

*Realtors sold a sufficient number of new houses this year to warrant separate tabulations of new and old houses for the first time in this survey.



Percentage distribution of residential housing prices, Minneapolis area, 1951 and 1955, shows the relative number of house sales falling in each 3,000-dollar interval of the over-all price range. This year, 34 percent of the transactions fell in the $12,000-$15,000 interval, but in 1951 the greatest concentration (33 percent) occurred in the lower interval ($9,000-$12,000). It may be seen that the prices ranging from $9,000 to $12,000 are more common in 1951's sales than in 1955. One reason for this is the fact that a larger proportion of new houses are included in the most recent survey, the prices of which are heavily concentrated between $12,000 and $15,000.

*Extreme value of $57,500 excluded in both charts.



Cumulative percentage distribution of residential housing prices, Minneapolis area, year ended June 30, 1955. The heavy curved line shows what percent of the houses sold below a given price . . . for example, 25 percent of the houses in the sample commanded a price of less than $10,667. Only one out of ten houses sold for more than $20,000. Although the individual prices tallied in the survey ranged from $3,500 to $57,500*, half of them are found in the "narrow" interval between $10,667 and $15,501.

The $1,200 differential may be attributed largely to the number of old houses sold for considerably less than $9,000, which pulled down the average price.

Houses in Medium Bracket Decline in Price

Prices of houses in the "medium" bracket declined slightly in the latter half of 1954 and remained at that level during the first half of this year, in contrast to the firming of prices of low-bracket houses during the first half of 1955. (The price range of houses in this bracket in the recent survey extended from $13,500 to $22,900.)

Average price for these houses was $16,700 in the first half of 1954 and declined to $16,300 in the second half of 1954 and held at that figure for the first half of this year.

In the medium bracket, buyers have been paying higher prices for old houses than for new ones.

Old houses in this bracket sold for an average price of $16,600, which was $1,100 above the average price for new houses.

Lower average prices for new houses can be traced to the fact that within the medium price bracket ($13,500 to $22,900) the great bulk of houses are built to sell at the low end of the range (say $13,500 to $15,000). Old houses in the medium price bracket are more widely distributed over the entire price range.

Prices of Houses in High Bracket Recede Slowly

Average prices of houses in the high bracket (in this year's survey, $23,000 and up) have continued to ebb slowly from the peak of $33,800 reached in 1952. The average price was $27,800 in the first half of 1955, which was $2,200 less than in the last half of 1954 and $2,500 less than in the first half of that year.

Although these averages are compiled from fewer transactions than in the other two brackets and the prices of houses have a larger range—in this sample from $23,000 to $57,500—which tends to reduce the stability of an average, these averages, nevertheless, show a consistent downward trend since the first half of 1952.

Popularity of Income Properties Wanes

The demand for income properties began to weaken in the fall of 1954. For example, the average price on duplexes dropped by $1,600 between the first and second half of that year. Furthermore, the average price remained at the lower figure during the first half of 1955.

In the same period the prices of single dwelling units remained quite stable, declining slightly in the latter half of 1954, but rising again in the first half of this year.

Area-wide Trends Similar

Transactions tabulated by real estate districts revealed no significant differences in price trends among the several residential districts of the Minneapolis metropolitan area.

In about two-thirds of the districts the average price of houses sold increased from the latter half of 1954 to the first half of this year. In districts where the average price declined the decreases were small, reflecting no significant divergence from the general trend.

NUMBER OF TRANSACTIONS TALLIED IN 1955 REAL ESTATE PRICE SURVEY
(By month of sale)

Month	Number	Percent
July 1954	556	11.7%
Aug. "	496	10.5
Sept. "	412	8.7
Oct. "	341	7.2
Nov. "	285	6.0
Dec. "	198	4.2
Jan. 1955	372	7.8
Feb. "	305	6.4
Mar. "	410	8.6
April "	435	9.2
May "	454	9.6
June "	477	10.1
Total	4,741	100.0%

Activity in Residential Market is Up

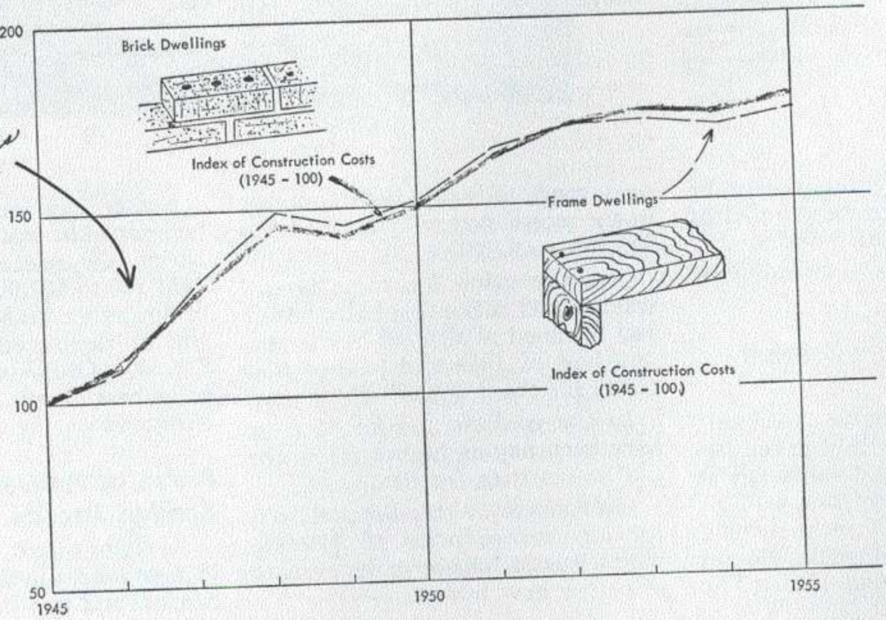
The number of transactions included in the recent survey are listed in the accompanying table by months, and a percentage distribution is shown.

Activity in the residential real estate market has risen, as one would expect during a housing boom, but it has not risen as rapidly as a year ago. The realtors whose transactions were included in the survey sold 7 percent more houses in the first half of 1955 than during the preceding half-year period. In the survey made last year, the corresponding increase was 16 percent.

In general, the results of the survey of market prices of houses in Minneapolis and its immediate suburbs reflect a noticeable degree of price stability.

Average prices of houses in the low bracket have risen by a small amount, and those in the medium and high brackets have receded slightly. Even so, these slight movements in housing prices have been relatively unimportant to most purchasers of houses. END

Here's what's happened to residential building costs in Minneapolis since 1945



Source: E. H. Boeckh & Associates

High employment, farm output favor district economic trend

BUSTLING business activity and a prospective large farm output, but with continued weakness in farm prices and income, formed the mosiac of the Ninth district economic picture during the month of August.

Across the nation, the gathered momentum of business and industrial activity continued to surpass previous economic records with a vigor that scattered many of them into seeming oblivion.

Yet, business was beginning to feel the tightening reins of economic restraints—expressed in higher interest rates, higher yields on Government securities, and including higher discount rates at each of the nation's twelve Federal Reserve Banks.

Concern over the extent of home mortgage lending resulted in new restraints on the terms of mortgage loans under the FHA and VA programs. The rising volume of instalment credit was also receiving more concentrated attention.

Within this setting, economic activity in the Ninth Federal Reserve district continued to move along at favorable levels, though at a somewhat more moderate pace than in some other sectors of the nation.

By late August liberal first-of-the-month crop forecasts issued by the USDA's crop reporting service seemed largely verified, with possible exceptions in corn and soybeans. The result—a large output of cash crops and feed grains to fill the district's marketing and processing pipelines to overflowing, and to assure a continued large output of livestock and livestock products during the ensuing year.

At the same time, large supplies of cattle and hogs continued to have a depressing effect on livestock prices—with the added help of prolonged mid-summer heat waves that wilted consumer appetites and demand for meat.

Throughout the district, economic activity seemed to be responding to two divergent forces—the moderate level of farm prices and income continued as a damper on retail spending, while rising employment and overtime payments in the large cities and industrial centers of the district added further to incomes and boosted sales in those particular areas. As a result, July retail sales in large cities showed substantial gains over last year, but were partly offset by decreases in the outlying towns where spending is more directly dependent on farm prices and income.

Employment in most areas of the district continued its upward trend. In Minnesota, employment in June was reported the second highest on record, with overtime payments representing approximately 10 percent of the gross payroll during that month.

New car registrations, construction activity, and other measures of district economic activity continued at high levels.

Retail Sales Strong in Large Cities

July retail sales in large cities in the Ninth district more than offset decreases in small cities and thereby continued the rise in District department and general store sales.

The gap between the 1955 and 1954 volume has widened steadily. District sales in July were 8 percent above those for the same month of last year compared with a 4-percent increase for the first six months.

In the four large cities—Minneapolis, St. Paul, Duluth, and Superior—July sales were up 10 percent from a year ago.

In only two district states, Minnesota and Montana, did total July sales exceed the year-ago total. In other states total sales were down 2 percent to 3 percent.

Discount Rate is Raised

In early August, with the approval of the Board of Governors, the discount rate was increased from 1¾ percent to 2 percent at the Minneapolis Federal Reserve Bank and at all other Federal Reserve Banks except Cleveland where it was raised to 2¼ percent.

This action was largely anticipated, since recent trends in the money market had indicated that an adjustment of the discount rate would be necessary. The higher rate reflects the active demand for loan funds throughout the economy. It follows rather than precedes the rise of yields on Government securities, the prime commercial loan rate, and other indicators of the rising cost of credit.

The following excerpt from the *National Summary of Business Conditions* prepared by the Board of Governors, August 15, summarizes recent money market developments:

> Yields on Government Securities advanced sharply from mid-July to early August, reaching the highest levels since September 1953. The average rate on three-month treasury bills rose to around 1⅞ percent, close to the new discount rate. Around mid-July the Treasury gave holders of maturing August

1⅛ percent certificates the option of exchanging into 2 percent June 1956 tax anticipation certificates or the 2 percent August 1956 notes, which were reopened. Of the 2.7 billion dollars of maturing certificates held outside the Federal Reserve System, only 150 million were redeemed for cash.

Yields on corporate and state bonds rose moderately after mid-July and private short-term money rates increased further. In early August, the prime commercial loan rate was raised to 3¼ percent from 3 percent. Common stock prices reached record levels late in July but declined during early August.

Home Mortgage Terms Tightened

In late July the Federal government tightened mortgage credit terms on houses purchased under government guarantee and insured programs. The restrictions came in the form of shorter loan maturities and higher down payments. Interest rates were left unchanged—currently 4½ percent for V.A. guaranteed loans and F.H.A. insured loans. In the latter case the effective interest rate to the borrower is 5 percent, since he pays an additional ½ percent for FHA insurance premiums.

Under the new terms veterans may no longer purchase homes without any down payment. Instead they must now pay a minimum of 2 percent down plus closing charges. On F.H.A. loans the down payment was increased from 5 percent to 7 percent on the first $9,000 of appraised value and from 25 percent to 27 percent of appraised value above $9,000.

The maximum loan maturity under the new rules was reduced from 30 to 25 years. This means that a larger monthly payment will be required to service a loan of given size.

Feed Stocks Large

Stocks of feed grains in the Ninth district were substantially higher on July 1 than a year ago, the U. S. Department of Agriculture reports. All of the increase came in the "off-farm" positions, however. The total of corn, oats, barley, and rye in storage in off-farm facilities on that date was 170 million bushels, compared with just 81 million a year ago. Feed grains stored on farms were down slightly from a year ago — although large — 270 million bushels compared with 284 million on July 1, 1954.

District wheat stocks were lower in total, as a substantial reduction in farm-stored wheat more than offset a moderate increase in off-farm quantities. Farm-stored wheat totaled 16 million bushels on July 1 as compared with 53 million a year ago. Off-farm wheat totaled 119 million bushels compared with 108 million a year ago.

Thus, the greater portion of grain feeds are being stored on the farm; wheat, on the other hand, is stored mainly off the farm.

August Crop Forecast Indicates Big District Harvest

Total crop production in the Ninth district as well as for the nation may be second only to the record 1948 harvest, according to the August 1 crop estimate of the USDA's crop reporting service. District output of all major crops was estimated to be higher than last year, with individual states sharing in the increase in almost every case.

On the basis of August 1 forecasts, total district crop output is estimated at 1,344 million bushels, compared with an actual output of 1,194 million last year. Almost all estimates improved during July. Despite hot weather, rust damage to wheat and other small grains has been substantially less than last year. Hay and pasture crops have done well, although hay tonnage for the district is estimated at slightly lower than last year.

The district's output of soybeans (which was boosted 57 percent in 1954) increased another 12 percent in 1955, according to the August 1 estimate. This year's soybean estimate expects 52.6 million bushels compared with an actual 46.5 million last year. Flax is also higher.

Durum wheat output in the three main durum raising states—the Dakotas and Minnesota—is currently estimated at some 14.3 million bushels compared with a record low of 5.6 million last year. All of this increase represents higher yields, reflecting less severe rust damage this year.

Loans to Farmers Maintain Above-Year-Ago Volume

The volume of production loans to farmers at member banks was roughly 12 percent higher on June 30 than last year. This was indicated by information supplied by district member banks responding to the June 30 call report, for which the listing, "Other loans to farmers," largely represents non-real-estate loans to finance production expenses on farms.

Call report figures over the past year indicate that a definite rise in the volume of such loans to farmers took place last fall. A year ago (June, 1954) the volume of such loans outstanding showed no change from the previous year (1953). The same was true of the autumn call report.

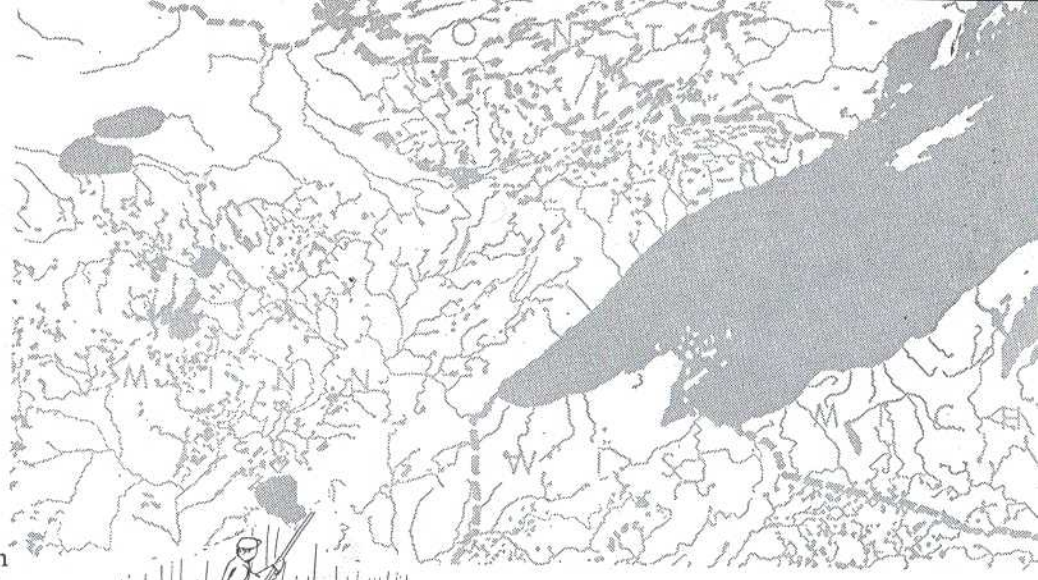
Then, the December 31 (1954) call report showed an 11-percent rise in "Other loans to farmers" compared with December, 1953. A similar increase—at 12 percent above the 1954 volume—was reported in April, 1955.

Now, the June volume of loans outstanding shows a continuing 12-percent increase over a year ago.

Thus, the June increase over last year represents a continuation of the expansion in farm loan volume at banks that actually took place during the last quarter of 1954.

Farm real estate loans up, too. Loans secured by farm real estate at District member banks were also higher in June—up 8 percent from the June 30, 1954 volume. It should be noted, however, that banks are not the major source of real estate credit, whereas they do constitute the major source of non-real-estate loans to farmers.

Million Dollar WILD RICE Crop



WILD RICE, an annual grass grown from seed each year, is a million dollar crop in the northern lake country. It is harvested commercially almost exclusively in northern Minnesota, northwestern Wisconsin, and in Canada just north of the border.

An estimated 30,000 acres of wild rice grow in Minnesota, but only about half this area is accounted for by stands of 5 acres or more. About 150 stands are open for harvesting each year according to one estimate.

Wild rice grows in the shallow parts of lakes at 1- to 3-foot depths. The water must be cool and neither stagnant nor swift. It requires a relatively stable water level, and it will not grow in lakes with too much alkali or sulphate salts.

One important way in which wild rice differs from cultivated grains is that its heads do not ripen uniformly. Kernels of wild rice ripen from the top of the head downward over a period of approximately 10 days.

Since the grain tends to shatter when ripe, it is necessary to harvest the same area several times during the ripening period. Furthermore, it ripens at various times from the middle of August to about mid-September, depending on the strain (of which there are many).

The best commercial rice is reported to be grown in Nett Lake in St. Louis County, and White Oak Lake, Itasca County, Minnesota.

The lakes subject to rice harvest in Minnesota are designated each year by the state's Department of Conservation. It's illegal to harvest

the crop in other lakes. The Conservation Department also regulates the harvest period (usually 30 days or less), the size and number of boats per lake and even the length and weight of the wooden flails used in the harvesting process.

No other, more efficient, harvesting tools and methods are permitted.

Less than one-third of the grain can possibly be harvested by such primitive methods; some say only 10 percent. The rest shatters out in the wind or falls over the side of the boat.

Harvesting is planned this way to insure plenty of grain for reseeding.

Also, wild rice is a staple item in the diet of thousands of wild ducks which fly southward each autumn from their northern summer breeding grounds. Rice is important for duck survival, hence of interest to sportsmen in their wild life conservation programs.

This year's harvest is expected to produce about two million pounds of green rice, worth in excess of a million dollars. Approximately three pounds of raw grain is required to yield one pound of finished or edible grain.

Last year was the best season since 1940—about 3 million pounds of raw rice was produced. Usually a crop failure occurs about one year in four.

Price to the harvester last fall varied from 25c to 35c a pound.

Each fall from 1500 to 3000 persons participate in the rice harvest after payment of $1 for a license. One source estimates that about three-fourths of the harvesting is done by Indians — mostly the Chippewas.

It's an age-old industry with the Indians. They frequently work in couples—the man and his squaw.

Essential equipment consists of a narrow boat, a long 10- to 12-foot pole with a fork or metal duck-mouth at the end, and two round, wooden 18-inch flails or "knockers." An Indian "poles" the boat through the field, while his partner uses one flail to bend the rice over the boat's side and the other flail to beat out the ripe rice.

A good day's work is 150 to 300 pounds of "raw" wild rice. An exceptionally good (and hard) day's work is 400 pounds. It takes a thick stand as well as a strong "poler" and "beater" to do that much.

A hard day's work pays off, however, when the price is 30c a pound. Unfortunately, the harvest season is short (from August 25 to September 25 last year) and there are a number of harvesting hazards which frequently reduce the take, including poor stands, wind, rain, and high water.

Processing Wild Rice

In contrast to the primitive harvesting methods, processing wild rice has been modernized. The grain is dried, parched in metal furnaces over birchwood fires, threshed to separate chaff from grain, and then cleaned prior to packaging.

Grand Rapids, Orr, and Aitkin are three important centers for wild rice processing in Minnesota.

After the grain is sacked, it is sent to wild rice wholesalers at places such as Grand Rapids and Onamia, Minnesota, where it is packaged in different sizes and types of containers and distributed to retailers all over the country.

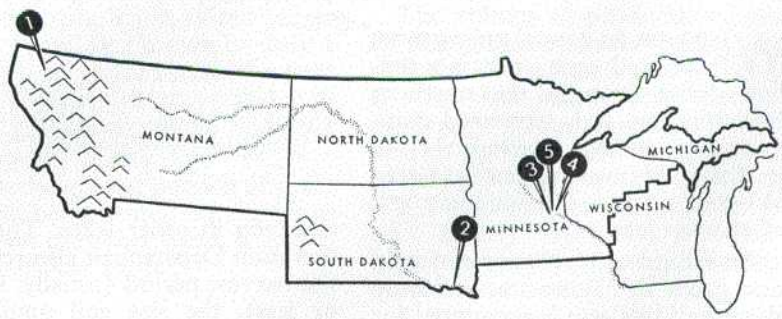
The consumer may pay as much as $2.50 a pound for a neat, one-pound package. However, wild rice is considered a really superb table delicacy—especially as a side dish with wild duck or venison.

In years of small crops there just hasn't been enough wild rice to meet the ever-growing demand.

END

ECONOMIC *Briefs*

SIGNIFICANT HAPPENINGS IN THE NINTH DISTRICT



1-Aluminum plant starts

Dedication ceremonies were held August 15 at the $65-million primary aluminum plant of the Anaconda Aluminum Company at Columbia Falls, Montana. Production was underway earlier in the month and is expected to reach planned capacity of 60,000 tons of aluminum annually by the end of the year. About 450 persons will be employed in the plant which covers the equivalent of twelve city blocks.

Chemically refined Jamaica bauxite will be shipped by rail from processing plants near the Gulf of Mexico to Columbia Falls, where power from Hungry Horse Dam is available. More than 2,000 box cars per year will be needed. Other supplies such as petroleum coke, cryollite, and other chemicals will also be used in the process.

2-Gavin's Point dam closure

The Gavin's Point dam near Yankton, South Dakota, became the fourth of the six main stem dams in the Missouri Basin development program to undergo closure at ceremonies held July 31. The dam is the farthest downstream of the big Missouri River projects and controls the Missouri's flow for 850 river miles southward.

Construction of the $60-million government project began in May, 1952, and is expected to reach 86 percent completion by the end of the current fiscal year.

3-Court building planned

A new federal courts building will be constructed in the lower loop section of Minneapolis at a cost of $5.8 million. Go-ahead was given when Congress last month appropriated $15 million for the start of a federal courthouse building program in some 26 cities.

General Services Administration estimates it will take 6 to 9 months to complete plans for the building after the architect has been selected. Present scheduling of the Minneapolis project would have the building ready for occupancy in May of 1958.

4-St. Paul parking ramp

The Golden Rule department store in St. Paul began construction this month of an $800,000, four-level parking ramp. The ramp, which is being built across the street from the Golden Rule building, will accommodate 600 cars when completed. Bridges will connect the second and third floors of the ramp with the store.

5-Shopping project announced

Plans for a $10-million shopping center in the suburb of Brooklyn Center, north of Minneapolis, were announced in June by Daytons, Minneapolis department store. The "Northdale" site is a 90-acre tract just west of the proposed $30-million housing project, "Garden City."

Construction of the center probably will not begin for several years, since part of the planning will include studies of the store's "Southdale" shopping center, presently under construction, and which will not be completed until October, 1956.