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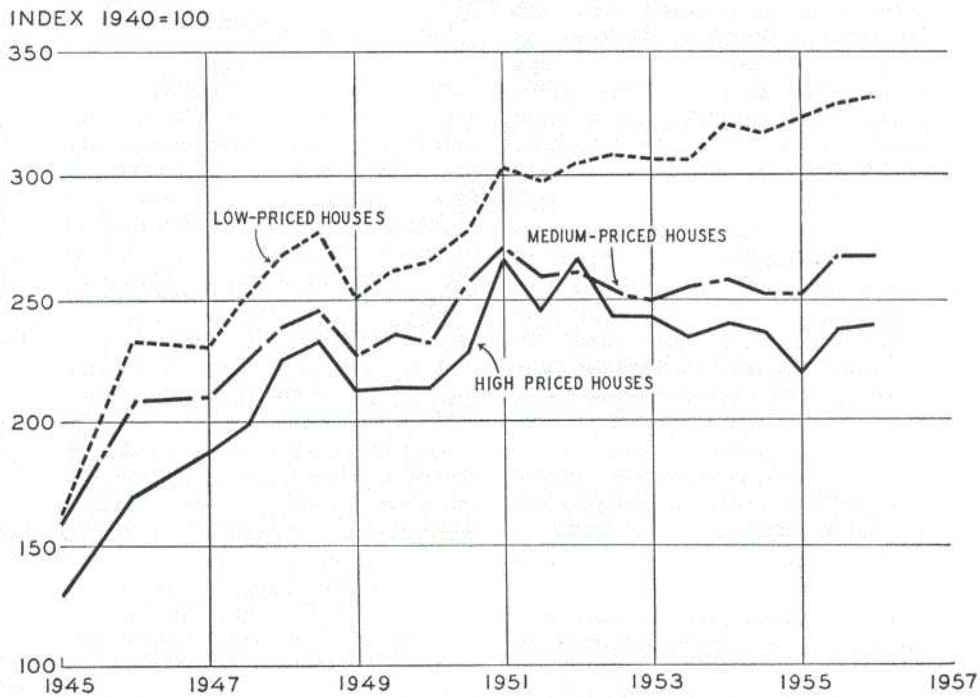
Annual survey of Minneapolis-area housing shows prices moving to a higher level

INDEX OF REAL ESTATE PRICES 1945 THROUGH FIRST HALF 1956



THE TREND of prices on residential properties takes on added significance in a period when builders are cutting back on starts. The number of new houses which have been completed by builders but remain unsold has been larger this summer than a year ago in many of the district's larger metropolitan centers.

Terms on home mortgage financing have become more conservative this year. Some non-bank lenders last year made large commitments for mortgage loans and then temporarily financed some of them at commercial banks (usually referred to as 'mortgage warehousing'). This year lenders have used a part of the funds flowing into their institutions to take over the mortgages held by banks. Furthermore, a record volume of commercial, industrial and public construction has generated a heavy demand for long-term funds. As a result, institutional investors have channeled more of their funds into securities offered by business firms and governmental units; less into home mortgages.

The more conservative home mortgage financing is reflected in the discounts demanded by lenders on government-underwritten mortgages. In August lenders in the Twin Cities required substantial down payments and limited maturities to a maximum of 20 or 25 years on both FHA and VA loans. In addition to a 1 percent discount charged to the buyers of houses, 2 percent was asked of sellers. Other lenders, more liberal on terms, were asking 3 percent discounts from builders of new houses and as much as 4 percent from sellers of old houses. On conventional mortgage loans the typical interest rate in the Twin Cities has been 5 percent, whereas last year it ranged from 4½ percent to 4¾ percent.

Objective information on the prices paid for houses in the Minneapolis area was compiled through the survey conducted in July by the Federal Reserve Bank of Minneapolis in cooperation with the Minneapolis Board of Realtors. As in previous surveys, which have been made annually since 1948, prices were compiled on a large number of houses sold by realtors in Minneapolis and its immediate suburbs.

This year the survey includes 5,158 transactions as compared to 4,741 last year. A sample of this magnitude, including over 50 percent of all transactions made by realtors in the area (with some control exercised over the geographic location of these properties to insure a representative sampling of properties sold in all sections of the metropolitan area) should provide a reliable measure of the trend of prices for all houses sold in this area.

These annual surveys show that the prices of houses offered and sold in the market have risen to a new high, exceeding by $200 the former peak reached in the first half of 1951.

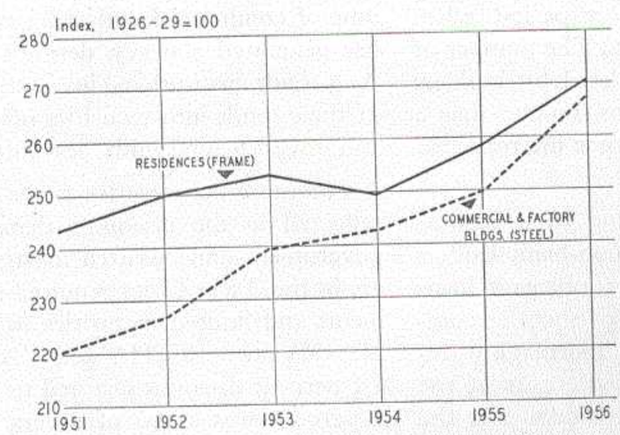
Prices are up . . . moderately

Even with a relatively large number of unsold new houses on the market and with more conservative terms on mortgage financing this year, the prices paid for houses in the Minneapolis area have risen slowly in the 12 months ending June 30, 1955. The average price for houses sold was $14,400, which was an increase of $600 from the average price for houses sold in the preceding 12-month period.

The rise in the average prices for houses sold is traced to higher price tags on new houses, to the willingness of buyers of old houses to pay more than last year, and to the sale of a larger number of houses in the higher-price brackets. This shift in the market accounted for much of the increase in average price on all houses sold between the latter half of 1955 and the first half of 1956.

A brief description of the price distribution of the prices on houses sold in the Minneapolis (and suburban) area adds to a knowledge of recent market values. Although a substantial number of transactions were closed at prices below $9000, two-thirds of them were concentrated in the range from $9000 through $18,000, and one-half of the transactions were within the range of $10,000 and $16,000. Above $18,000 the number of sales tapered off sharply to a small number of transactions in the higher price brackets. In the current sample, sale prices extended up to $59,000.

BUILDING COSTS RESIDENCES AND COMMERCIAL BLDGS.
June 1951 to June 1956
(From E. H. Boeckh and Associates data)



RESIDENTIAL REAL ESTATE PRICES, BY PRICE BRACKET, IN MINNEAPOLIS AND SURROUNDING SUBURBS, FROM 1950 TO JULY 1, 1956

Year	Low-Priced Houses	Medium-Priced Houses	High-Priced Houses	All Houses
1950				
1st Half	$ 9,000	$15,000	$27,100	$12,100
2nd Half	9,400	16,600	28,900	13,000
1951				
1st Half	10,300	17,600	33,700	14,200
2nd Half	10,100	16,800	31,100	13,600
1952				
1st Half	10,400	16,900	33,800	14,000
2nd Half	10,500	16,400	30,800	13,800
1953				
1st Half	10,400	16,200	30,800	13,600
2nd Half	10,400	16,500	29,700	13,600
1954				
1st Half	10,900	16,700	30,300	14,000
2nd Half	10,800	16,300	30,000	13,600
1955				
1st Half	11,000	16,300	27,800	14,000
2nd Half	11,200	17,300	30,100	14,100
1956				
1st Half	11,300	17,300	30,400	14,800

Low-priced house field shows steady price rise

As the housing market in the greater Minneapolis area has a wide price range, extending from about $4000 to $ 59,000, the residential transactions included in the survey were divided, as in previous years, into three brackets according to market price. With the transactions distributed according to sales price, the lowest 60 percent of the total number of transactions included in the survey were classified as low-priced, the next 34 percent as medium-priced, and the top 6 percent as high-priced.

The average price of all houses in the low bracket has risen steadily since the fall of 1954. As may be observed in the table, in the second half of 1954 houses in this bracket sold for an average price of $10,800. By the first half of 1956, the average had risen to $11,300—an increase of $500 in one and one-half years. (The price range in this bracket in the present survey is approximately from $4000 to $14,000.)

Old houses (by definition those that have been lived in before) rose by the same amount in this period, but from a lower base. In the latter half of 1954 the average price was $10,500, and in the first half of 1956 it had risen to $11,000.

Realtors sell a substantial proportion of the new houses built in the area. Of the 3,096 transactions which fell into the low-priced bracket, 736 or nearly one-fourth were new houses. The average price on new houses has risen faster than on old ones. In the latter half of 1954 the average price was $11,700, and in the first half of 1956, $12,600, an increase of $900 in one and one-half years.

Observation of the new-house market this summer showed stiff competition has induced many builders to install more extras, for example: cook stoves, kitchen fans, improved counters, etc. As a result, buyers move into better equipped houses, so only a part of the higher average price represents a bona fide price increase.

Medium-priced house field shows rise to new price level

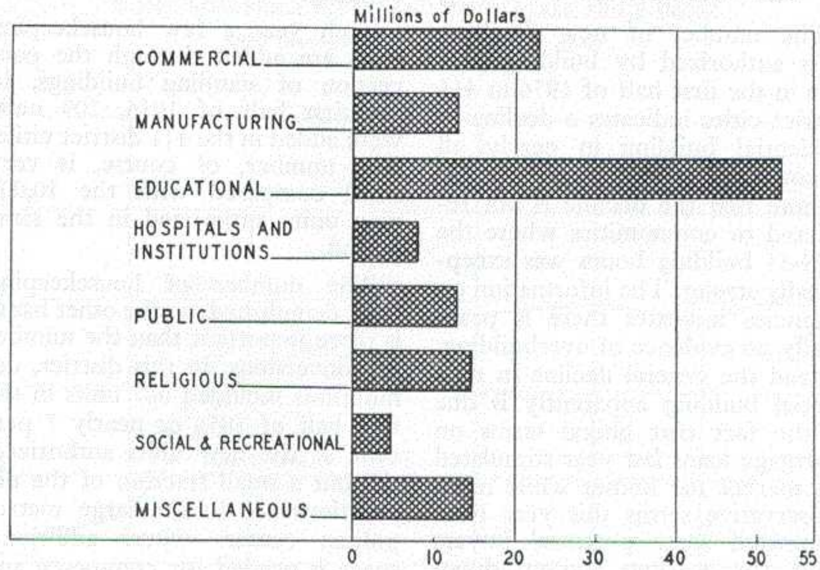
Prices of houses in the medium bracket rose significantly in 1955. In the first half of 1956 they remained at the higher level established last fall. The average price for these houses was $16,300 in the first half of 1955; $1000 higher in the latter half. (The price range of houses in this bracket in the 12 months ending June 30, 1956, extended from $14,000 to $24,000.)

Prices of old houses in the medium-price bracket are more evenly distributed over the entire range than are those for new houses. The great bulk of the new houses are built to sell at the low end of the range (from $14,000 to approximately $18,000). As a result, the average price for old homes is higher than for new ones.

Old houses sold in the first half of 1955 for an average price of $16,600, and in the latter half of the year they were up by $1000. The higher price level, in large

NONRESIDENTIAL BUILDINGS BY TYPE—CONSTRUCTION CONTRACTS AWARDED

Minneapolis Territory, first six months of 1956 (from F. W. Dodge Corp. data)



measure, carried over to the first half of 1956 when the average price for these houses receded by a slight $200.

Out of a total of 1,753 transactions in the medium-priced bracket, 519, or 30 percent, were new houses. On new houses in the medium bracket prices have risen steadily. In the second half of 1954 the average price was $15,300. In the first half of 1956 it had reached $17,000. According to figures on floor area, the trend has been toward building larger houses. Consequently, only a part of the increase in average price reflects a price increase resulting from rising building costs.

High-priced house field shows turn upward

The average price for houses in the high bracket in this year's survey ($24,000 and up) has followed the general upward price trend. In the first half of 1955, the average price declined to a low of $27,800, which was a part of a consistent downward drift from the first half of 1952. In the latter half of 1955 the price trend was reversed, and in the first half of 1956 the average price had risen to $30,400, which was only $400 less than the peak reached in 1953.

The averages in this bracket are computed from only 6 percent of the total transactions included in the survey. Consequently, they are compiled from fewer transactions than those in the other two brackets and the prices of houses extend over a much wider range—in this sample from $24,000 to $59,000. These variables tend to reduce the stability of an average. Nevertheless, the reversal in price trend appears to be of sufficient magnitude to bear some significance.

Building costs reflect strain on resources

The general increase in prices of houses reflects a rise in building costs. Although housing starts have slackened this year, the demand for most building materials continued strong in the first half of this year as was evident by the pressure on prices. In July and August material prices levelled off, and lumber prices in wholesale markets dropped noticeably. Higher material prices and higher labor costs, in part, have been passed on by builders to purchasers of houses. According to E. H. Boeckh and Associates, building costs in the Twin Cities rose by 4 percent in 1955 and by another 4 percent in the first half of this year.

Nature of the decline in residential building

The number of new dwelling units authorized by building permits in the first half of 1956 in 411 district cities indicates a decline in residential building in nearly all communities. It is of special interest to note that the decline is not restricted to communities where the 1954-55 building boom was exceptionally strong. The information on vacancies indicates there is practically no evidence of overbuilding. Instead the general decline in residential building apparently is due to the fact that liberal terms on mortgage loans last year stimulated the market for houses while more conservative terms this year have eliminated some potential buyers from the market. Larger down payments and the shorter maturities on loans that increase monthly payments have eliminated some potential buyers.

The number of new housekeeping units authorized by permits in 411 district cities in the first half of 1956 was down 19 percent—almost one-fifth from the same period in 1955. In the larger metropolitan centers — Minneapolis, St. Paul, Duluth, Superior and Sioux Falls—the number of units authorized was down 20 percent. In the other district centers the number was down 18 percent. A further examination of the number of units authorized by communities indicates a general cutback in home building.

Each year a few housekeeping units are added through the conversion of standing buildings. In the first half of 1956, 209 units were added in the 411 district cities. The number, of course, is very small compared with the 10,004 new units authorized in the same period.

The number of housekeeping units demolished, on the other hand, is more important than the number of conversions. In this district, demolitions included 667 units in the first half of 1956 or nearly 7 percent of the new units authorized. All but a small fraction of the demolitions are in the large metropolitan centers where additional space is needed for commerce and industry and for civic expansion.

In the building of new houses the trend is toward larger units. According to the F. W. Dodge Corporation, the valuation of contracts awarded for residential building was down only 9 percent in the first half of 1956 from a year ago. Moreover, the square feet of floor area in the units were down only 5 percent. Consequently, the downward adjustments in the demand for both materials and labor have been less than that which might be assumed from the decline in the number of new dwelling units authorized.

Nature of the nonresidential boom

While residential building has slackened this year, both publicly- and privately-financed nonresidential building has expanded so that the construction activity as a whole has maintained pressures on supplies of materials, labor and financing.

The type of nonresidential building undertaken in the first half of 1956 in this district is depicted in the accompanying chart by the amount of contracts awarded by buildings classified according to purpose.

The emphasis in the first half of 1956 was on public construction. The amount financed by public funds was 48 percent of the total amount of contracts awarded. A year ago the proportion of the total financed by public funds was only 39 percent. As may be observed on the chart, the amount of contracts awarded for educational and science buildings ranked first among the classification of nonresidential building.

Business investment in new buildings remained high but was down somewhat from the first half of 1955. The amount of contracts awarded for commercial buildings ranked second and for manufacturing, third. The amount of contracts awarded for the latter was down from a year ago but still high by comparison with former periods.

END

Current conditions . . .

Most of the district's economic indicators have remained at or near record levels in recent weeks. Even cash farm income registered an advance for the first half-year compared with 1955, reflecting larger marketings this year and a slightly higher level of prices for some farm products. Only new car sales and home construction have been below year-ago levels and the decline in each case was only moderate.

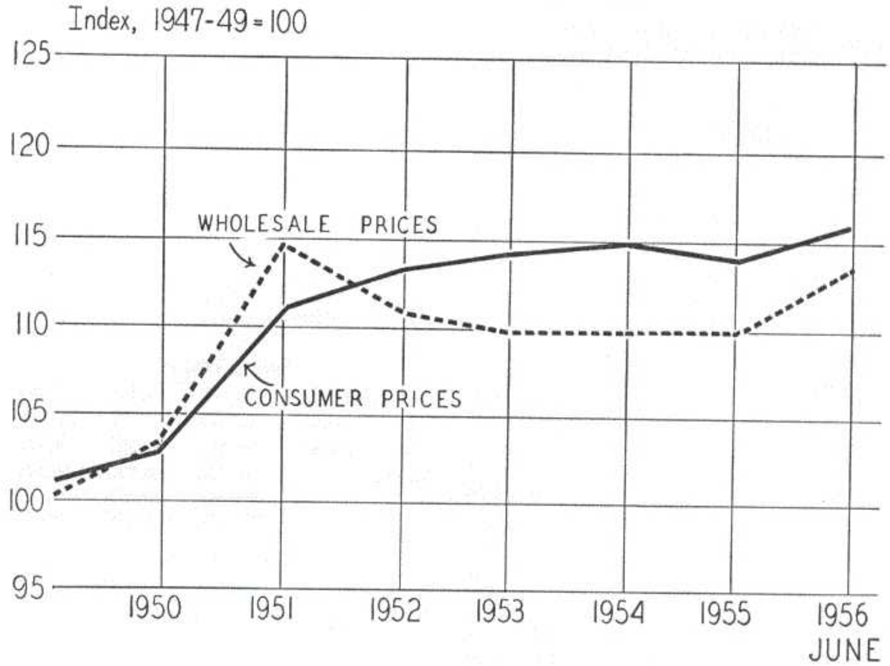
Preliminary economic information since July 1 indicates that strength in the district's economy is carrying through into the third quarter in spite of the July steel strike. July bank debits registered a big 14 percent increase from July of last year. Employment and average weekly earnings reached new record levels. Department store sales leveled off at the record high established in June in spite of some reduction in buying in the strike-bound areas. The dampening of economic ardor caused by the steel strike in the district was not too pronounced. The strike was not prolonged, and in many instances the strikers received vacation pay as well as unemployment allowances from some labor union treasuries.

Increases in wages, which have become fairly general, may result in higher price tags for some goods unless productivity is increased proportionately within a reasonable time. Certainly, higher incomes for wage earners give a base for more consumer credit and mortgage debt expansion.

Wholesale prices have exhibited a noticeable upward trend since the settlement of the strike, reflecting the 7 percent increase in steel prices and price advances in a number of metal products. Pig iron, aluminum, magnesium, scrap metals, brick and rubber also have advanced in price since early August. Some consumer goods were also carrying higher price tags in early August.

District farm prices, although up slightly over-all from year-ago levels, apparently have leveled off. Part of this is a reflection of seasonally-lower prices of grain, poultry and eggs as 1956 crop production starts to market.

CONSUMER PRICE INDEX AND WHOLESALE PRICE INDEX
1950 through 1956 (first half year only)



The consumer price index in July (latest available information) stood at a record 117.0 (1947-49 = 100). The advance in this index in recent months has been sparked by food prices (an important part of this index) which have risen about 2 percent since the first of the year, more than any other segment of the cost of living index.

A most significant development affecting the Ninth district economy over the next 12-month period will be the 1956 crop. Total 1956 crop production may be reduced as much as 15 percent from last year's bumper crops and, if this estimate is correct, it would be the smallest crop in 10 years, disregarding 1949. Wheat, the district's most important cash crop, is estimated as 26 percent below that of last year. This is a reflection of nearly disastrous drouth conditions in early June in the western areas of the district as well as further reduction in wheat acreage under the wheat allotment program. Only corn, flax and soybean production in the district will be larger than last year if August crop estimates prove reasonably correct.

Following are summaries that highlight the current economic scene in the Ninth district:

Further rise in district employment

THE EFFECT OF the labor-management dispute in the steel industry in this district was restricted primarily to the iron ore workers and to railroad and dock workers who handle the ore. In some cities, where iron ore mining or shipping is the principal industry, the effect of the strike did spread to other industries. For example, in Duluth employment in manufacturing during July declined by about 2,900 due to the laying off of workers in metal-fabricating industries.

Nevertheless, the effect of the steel strike outside of the iron ore mining and shipping regions was negligible. For instance, many industrial firms closed down for vacations in July, which conserved steel inventories. In Minnesota employment in such principal industries as manufacturing, retail and wholesale trade, construction and finance, insurance and real estate continued to advance.

According to preliminary information available on the labor markets in the other district states, employment in July apparently continued to advance as it has in the industries in Minnesota not affected by the steel strike.

Borrowings in sharp decline at Federal Reserve

GOVERNMENT and other securities were liquidated by both city and country banks in July. Deposits continued slightly less than a year earlier. The lessened rate of loan expansion, together with a noticeable decline in the volume of borrowing at the Federal Reserve Bank of Minneapolis, present a distinct contrast with earlier months when loans at member banks were rising fast and when borrowing at the Federal Reserve was high.

Although district member bank loans continued to increase in July, the $4 million gain was much less than in the previous month ($35 million) or in July last year ($34 million). A decline in loans at country banks of $1 million was offset by an increase of $5 million at the city banks in July 1956. A year earlier, loans rose by $14 million at country banks and $20 million at city banks.

Department store sales leveled off

DISTRICT department store sales in July leveled off near the June volume. The index, seasonally adjusted, was down 1 percent. The leveling off in sales is also reflected in the percent change from a year ago. In the first half of this year monthly sales ranged from 4 percent to 11 percent above those for the corresponding months of 1955. In July district sales were only 2 percent above a year ago.

Drouth cuts wheat yield

IN THE WESTERN areas of the district early season drouth and acreage restrictions combined to cut estimated wheat production, other than durum, by a third compared with 1955. Winter wheat production is down 60 percent from last year with most of the decline occurring in Montana. Spring wheat production was estimated on August 1 as 25 percent less compared with last year, with the greatest percentage decline occurring in South Dakota.

	Average 1945-1954	1955	1956
	In thousand bushels		
Winter Wheat			
Minnesota	1,464	858	796
North Dakota	....	....	....
South Dakota	4,964	5,652	4,226
Montana	30,049	54,729	19,862
	36,477	61,239	24,884
Spring Wheat			
Minnesota	16,469	10,925	12,559
North Dakota	95,495	99,712	78,611
South Dakota	34,521	21,063	9,372
Montana	50,730	48,930	34,801
	197,215	180,630	135,343
Durum Wheat			
Minnesota	646	430	833
North Dakota	27,495	13,230	18,894
South Dakota	2,803	746	948
Montana	189	5,691	14,123
	31,133	20,070	34,798

Durum wheat crop above average

Almost all of the durum wheat grains in the U. S. are produced in the Ninth Federal Reserve district. This year a big crop of nearly 35 million bushels is forecast. This compares with only 20 million bushels last year and 31 million for a recent 10-year average. In 1954 only 5 million bushels were produced because of damage by the severe rust epidemic. Plant breeders have been working hard to produce several new varieties resistant to Race 15-B stem rust. Four successful new varieties used extensively this year are Langdon, Yuma, Ramsey and Towner.

Assuming a carryover of 5 million bushels, supplies of durum wheat for 1956-57 will total 40 million bushels. This compares with 22 million for 1955-56. Prices for No. 2 Hard Amber durum averaged $2.61 per bushel in Minneapolis during July.

Farm loans show further increase

NON-REAL-ESTATE farm loans in member banks as of the June 30 call date registered at 6.1 percent gain from that of a year earlier in the Ninth Federal Reserve district. This compares with a 5.3 percent gain for the U. S.

Farm real estate loans at district member banks gained almost 8 percent in dollar volume for the year ending June 30 compared with a 7.4 percent gain for the country as a whole.

Offsetting to some extent the rising debt trend is a slight increase in district cash farm income thus far in 1956 compared with the first part of 1955. Farm income has held up better in the Ninth district in 1956 than for the country as a whole.

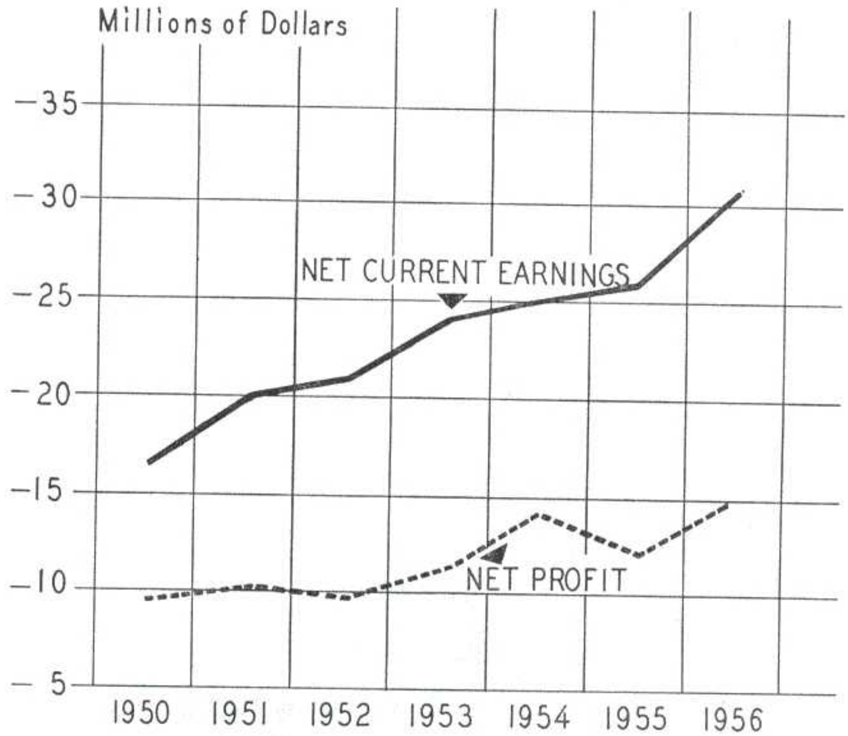
1957 Soil Bank deadline set for wheat sign-up

DISTRICT WINTER WHEAT farmers must sign up before September 21 of this year for soil bank payments during 1957. The sign-up date for spring wheat, corn and other eligible crops will be announced later.

It is not expected that the 1957 program will allow payments to farmers for plowing under wheat or other crops damaged by weather, insects or other hazards as was the case this year. However, the plan now contemplated is that farmers can plant as they wish initially. They must, however, reduce their acreage to contract levels by specified deadlines to qualify for soil bank payments.

The soil bank payment on wheat for 1957 is set at $1.20 a bushel, the same as this year. This basic rate multiplied by the normal yield for a farmer's acreage is what the individual will receive, an amount expected to offset the net income loss of the reduced acreage. END

NET CURRENT EARNINGS AND NET PROFITS NINTH DISTRICT MEMBER BANKS
1950 through 1956 (first half year only)



First half year earnings of member banks

THAT DISTRICT member banks enjoyed a prosperous first half year is shown by just-completed tabulations of earnings statements for that period. Net current earnings (gross revenue minus current expense) were up 18.5 percent from the year-earlier period; net profits (gross revenue minus current expense and taxes and minus the excess of losses over recoveries) were up 22 percent.

Far and away the largest boost to earnings originated with loan revenues which jumped almost 19 percent. There were two reasons—more loans and higher interest rates. On their mid-year condition statements for 1956 district member banks reported loans of $1.867 billion; this compares with reported loans of $1.632 billion at mid-1955.

Income derived from securities held by the banks was also higher this year than last—despite the liquidation of securities which has occurred in the period. A higher yield rate on securities held explains the modest (4.6 percent) addition to investment revenue at a time when holdings declined.

DISTRICT MEMBER BANKS EARNINGS—FIRST HALF YEAR

(millions of dollars)

	1955	1956	Change
Interest on loans	$38.6	$45.9	$+7.3
Interest on investments	19.5	20.4	+ .9
Other revenue	11.7	13.0	+1.3
Gross current earnings	69.8	79.3	+9.5
Wages and salaries	21.2	23.0	+1.8
Interest on time deposits	7.6	8.1	+ .5
Other expense	15.0	17.3	+2.3
Total current expense	43.8	48.4	+4.6
NET CURRENT EARNINGS	26.0	30.9	+4.9
Losses minus recoveries	1.1	2.6	+1.5
Income taxes	12.7	13.3	+ .6
NET PROFIT	12.2	15.0	+2.8

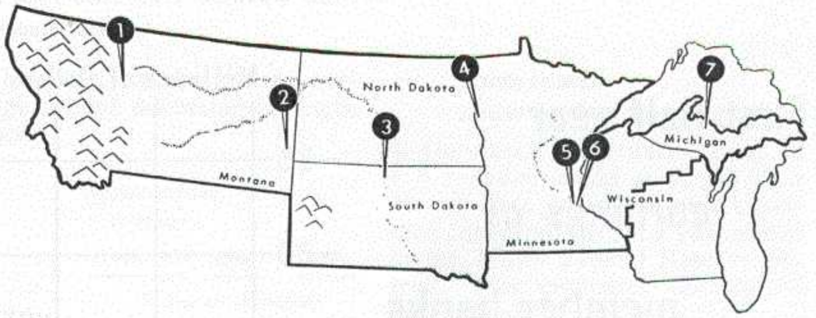
The most important items of expense also rose together with the important revenue items; half the increase in total current expense was produced by salaries (+$1.8 million) and by interest on time deposits (+$.5 million). But total current expense rose by $4.9 million less than total current earnings, causing net current earnings in the first half of 1956 to be that much larger than a year earlier.

Not all of the addition to net current earnings was reflected in the profit column. Higher income taxes together with a decline in profits on securities and greater provision for losses on loans were largely responsible for the smaller increase in profits ($2.8 million) compared with the increase in net current earnings ($4.9 million).

END

ECONOMIC *Briefs*

SIGNIFICANT HAPPENINGS IN THE NINTH DISTRICT



1 - Modernizing Montana refinery

Phillips Petroleum Co. plans to build a catalytic cracking unit to process high octane gasoline at its Great Falls, Montana refinery. Described as representing another step in its modernization program at the refinery, the cost of the new unit is unofficially estimated at $1 million.

Foundation work is expected to be completed before winter, and the cracking unit to be ready for operation by the summer of 1957.

2 - Gas plant at Baker, Montana

Texas Natural Gasoline Corporation will construct a natural gasoline plant north of Baker, Montana. The plant, with an initial capacity of 50,000 gallons per day, will produce propane, butanes and natural gasoline. The 'dry' gas residue will be sold to Montana-Dakota Utilities Company.

The new operation is planned to be underway about November 1. Cost of construction has not been announced.

3 - New packing plant in S. D.

The Hill Packing Company of Topeka, Kansas has selected a site in Mobridge, South Dakota for the construction of a dog food packing plant. The 10,000-square-foot plant proper will cost an estimated $100,000. An outlay of $140,000 for specialized factory equipment will be needed for the plant operation.

The Mobridge site selected by the packing firm will eventually front on the Oahe reservoir.

4 - Co-op to build soybean plant

At Halstead, Minnesota, construction began in August on a $200,000 soybean-processing plant with a capacity of from 400,000 to 500,000 bushels of soybeans a year. The Halstead Elevator Company, a cooperative, is building the facility. Present plans are to have the operation underway by the end of the year.

5 - Bonds of T. C. suburb draw 1 bid

The council of Richfield, Minnesota (Minneapolis suburb) voted unanimously on August 14 to accept the solitary 3.98 percent bid received for the $62,000 issue of five-year park-improvement bonds the voters of the suburb had approved. This is the highest rate of interest that Richfield has paid since 1951.

Both the single offer of purchase and the high interest rate reflect the present tightness of the borrowing market.

6 - New $3 million Honeywell plant

Minneapolis-Honeywell Regulator Company will build a $3 million, 263,000-square-foot warehouse and manufacturing plant in the Minneapolis suburb of Golden Valley. Of the total space, 50,000 square feet will be for manufacturing to house the expected 375 employees in manufacturing. The total new-plant payroll will be for 750.

Construction, begun in September, is planned to be completed by late spring of 1957.

7 - U. P. needlecraft firm closes

On August 31 Negaunee Needlecraft, the only small industry of Negaunee, Michigan, shut down on what at the moment is termed a temporary basis. The firm, which manufactures women's lingerie, gave a decline in market demand as the reason for suspending factory operations.

Equipment will be left in the plant for possible reopening at a later date. At the closing date the work force was 86 employees, with an average payroll of about $2,500 a week.