MONTHLY REVIEW

Contents:

FEDERAL RESERVE BANK OF MINNEAPOLIS

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New developments in the residential mortgage market

Marked changes have occurred in mortgage markets, both national and regional, since the beginning of this decade and especially in the current period of mild economic expansion. The supply of mortgage credit has remained large during the present period, while, by contrast, during comparable recovery periods of the late 1940s and 1950s, the supply of funds for such loans had been greatly curtailed. In the Ninth district, small urban centers as well as the large metropolitan areas, with few exceptions, have had an ample supply of credit. As a record volume of mortgage credit has been extended under some relaxation of terms, questions have arisen in regard to the possible decline in the quality of the loans outstanding at financial institutions. An analysis of the relative importance of the characteristics surrounding the mortgage loans that have historically culminated in default and foreclosure, may provide some insight into the factors which affect the quality of a specific loan and, thus, must be considered in developing a sound mortgage loan program.

Mortgage credit during the 1950s

In the decade of the 1950s, the flow of mortgage credit followed a well-defined countercyclical pattern. The supply of credit for mortgage loans was sharply curtailed in periods of economic recovery as the demand for credit in other sectors of the economy expanded. The federal government mortgage underwriting program contributed significantly to the earlier countercyclical behavior of mortgage credit. The interest rate ceiling on FHA insured and VA guaranteed loans made such loans relatively more attractive to financial institutions during recessions but comparatively less attractive during periods of recovery and expansion. In the latter periods, a greater demand for credit and a generally tighter monetary policy restricting the total supply of credit caused interest rates on commercial and industrial loans to rise, while the rates on government underwritten mortgage loans encountered the interest ceiling barrier.

During periods when mortgage credit was in relatively short supply, the large metropolitan centers in this district fared better than the smaller urban centers. Local financial institutions in small communities had a limited supply of funds and the outside sources, usually insurance companies, were restricted and often cut off entirely. The federal government, through the FHA and VA programs, expanded direct lending, but this procedure resulted in the granting of relatively few loans in the smaller communities.

Due to a contraction in the market for new houses during periods of economic recovery and expansion, the pattern of discounts on government underwritten mortgages increased borrowing costs and reduced profit margins for builders. As a result, large expansions in residential building occurred mainly in the late stages of contractions and in early stages of recoveries. Thus, residential building was countercyclical: it increased during recessions and declined during business booms.

Mortgage credit in the early 1960s

The growth in the volume of savings as well as changes in its composition have been important factors in expanding the supply of mortgage credit. The supply of individual savings has been rising along with the steady rise in personal incomes. The U.S. Department of Commerce estimated personal savings in 1960 at $21.7 billion and in 1962 at $29.1 billion. Among business firms, the flow of funds from depreciation and amortization allowances has risen as a result of the heavy spending on plant and equipment in the 1950s coupled with the liberalized federal tax depreciation schedules and investment tax credit provision which became effective in 1962. The savings of corporate nonfinancial businesses rose from $29.7 billion in 1960 to $36.7 billion in 1962.[1]

A portion of private savings have been shifted into financial institutions that are primarily lenders of mortgage credit. Following the sharp decline in common stock prices in the second quarter of 1962, individuals moved a significant share of their savings out of equity securities into time deposits and savings shares. At about the same time, January 1962, the maximum rates of interest that commercial banks were allowed to pay on time accounts under Regulation Q of the Federal Reserve System were raised. A wave of interest increases followed the raising of the maximum rate from 3 to 3½ or 4 percent depending on the length of time savings were left on deposit. As a result, commercial banks received a phenomenal increase in savings and other time deposits, $13.3 billion in 1962 as compared with $7.7 billion in 1961. Savings in savings and loan associations and in mutual savings banks, traditional lenders of mortgage credit, rose by $10.8 billion in 1961 and by $12.5 billion in 1962.

Interest or dividends paid on savings represents an important cost item to financial institutions. For instance, the interest paid by Federal Reserve member banks averaged 19.3 percent of operating revenues in 1960 and 23.1 percent in 1962. Commercial banks as well as the intermediary financial institutions receiving the flood of new savings turned aggressively to the lending of credit on mortgage loans as an outlet for the high cost savings. Although the interest rate generally is the last factor to weaken on a mortgage contract, the rate has been forced down during this period of heavy inflow of savings. The yield on FHA insured mortgages on new homes in the U.S. averaged 6.18 percent in 1960, and since that time has declined quite steadily to 5.44 percent in July 1963. The interest rates on conventional mortgages are now the lowest they have been in months. According to the report issued for the first time this year by the Federal Home Loan Bank Board, the average interest rate on conventional first mortgage loans on new home purchases declined from 5.92 percent in January to 5.81 percent in September and on existing home purchases, declined from 6.05 percent to 5.94 percent over the same period.

The aggressive lending of credit on mortgage loans also may be traced, in some measure, to the relatively low demand for credit in other sectors of the economy. The 1955-1957 capital spending boom — which occurred mainly in 1955 for consumers and somewhat later for business firms — represented a final catching-up with capital goods demands, which had been deferred over the long period of the Great Depression, World War II and the early postwar years. Investment since that time has been more for replacement than for expansion — some evidence that the need has been met.

In the consumer field, the sale of new cars rose to a record of 7,170,000 in 1955. In subsequent years, the number was down substantially and not until 1962 did the sale of 6,939,000 cars again approach the record achieved in 1955. The building of new houses also rose to a high in 1955, and this was not exceeded until 1959.

In the business field, capital expenditures have been at a comparatively low level since 1957. In that year, expenditures made by business firms

[1] "Flow of Funds/Savings," **Federal Reserve Bulletin**, September 1963. p. 1318.

for new plant and equipment rose to $37.0 billion. This total was not exceeded until 1962, when expenditures rose to $37.3 billion.

As a result of the large flow of funds into financial institutions and the aggressive lending of credit on mortgage loans, urban mortgage debt in the U.S. rose by $23 billion in 1962, a record one-year increase and an all-time high. In 1959, a record home building year, it rose by only $18 billion.

Mortgage credit in 1963

The flow of savings into financial institutions has apparently slowed in recent months. The phenomenal growth of time and savings accounts in commercial banks, stimulated by the higher rates paid to savers, began to taper off in the spring and early summer of this year. Such deposits rose by $4.7 billion in the first quarter and by only $2.9 billion in the second. When a second increase in the maximum rate under Regulation Q was made in July and some banks followed with further increases in rates paid on time deposits, it led to a temporary rise in the flow of time deposits into banks. By September, there again was a slowdown in the rate of increase as more funds were invested in equity securities. Net inflows to savings and loan associations and to mutual savings banks have remained large, consistently above last year's amount. But most of this greater increase occurred in the early months of the year.

Lenders have shifted from FHA insured loans to the conventional type, and accordingly, the terms and interest rates on the latter have become increasingly important in the mortgage market. In the first three quarters of 1963, 81 percent of the private nonfarm housing starts were either all cash purchases or were financed by conventional loans as compared with about 65 percent in 1958. The average rate on conventional first mortgages made on new houses stabilized at 5.82 percent in May and remained at that rate through August. On existing houses, the average rate declined through June and then stabilized at 5.93 percent in July and August. However, there has been a further liberalization of loan-to-value ratios, maturities for new houses and maturities for existing houses.

The average yield on FHA insured loans held steady at 5.51 percent from April through August, but in September it again declined slightly to 5.49 percent. Although yields may not yet have reached the low point, the decline has slowed down perceptibly.

District home building

Developments in the mortgage market in the early 1960s have had only a slight impact on home building in the Ninth district. For the first time in the post-World War II period of economic recovery, financial institutions in small as well as large urban centers have had, since early 1961, a relative sufficiency of funds to extend mortgage credit as needed in the housing field. Although the ready availability of mortgage credit has contributed to the demand for housing in the current recovery period, other developments such as migration to metropolitan centers, the rate of family formation, obsolescence of old houses and freeway construction have outweighed the effect of an ample supply of credit.

During the recession extending from July 1957 to April 1958, local financial institutions in small urban centers had an ample supply of funds, and this served to raise the level of construction activity in those centers, eliminating the urgent need for housing. In spite of a sufficient supply of mortgage credit, residential building in these smaller centers has slowed down in contrast to the normal behavior expected in early periods of a recovery. Due to the steady population migration to the standard metropolitan areas, residential building has become increasingly concentrated in these centers. Of the total number of dwelling units authorized in the district in 1962 and again in the first eight months of 1963, 76 percent were in the standard metropolitan areas — Minneapolis-St. Paul, Duluth-Superior, Sioux Falls, Fargo-

Moorhead, Billings, and Great Falls — and only 24 percent in the smaller centers. In 1957 and 1958, these percentages were 58 and 42 respectively.

The Ninth district is not experiencing a residential building boom comparable to the one in progress in some more densely populated areas of the U.S. In small urban centers, where mortgage credit in this recovery period has been readily available, new dwelling units can be built as demanded by the householders. Thus, the supply of new units approximately equals the current demand. In the six standard metropolitan areas, where the supply of mortgage credit was in ample supply during most of the 1950s, the total supply of both single family houses and multi-family structures appears to equal and in some places may exceed the present effective demand for housing.

TABLE 1—TERMS ON MORTGAGE LOANS IN CURRENT PERIOD OF ECONOMIC RECOVERY IN UNITED STATES

I. Downpayment on houses	1960	1962
A. Percent of VA insured loans with no downpayment[1]		
1. New and proposed homes	70.0%	75.0%
2. Existing homes	33.0%	57.0%
B. Loan-value ratio of FHA insured loans[2]	1960	1961
1. New homes	93.5%	94.0%
2. Existing homes	92.6%	93.6%
C. Loan-to-price ratio of conventional first mortgage loans[3]	Jan. 1963	Aug. 1963
1. New homes	72.3%	74.2%
2. Existing homes	69.8%	70.9%
II. Maturity on loans	1960	1962
A. Maturities on VA insured loans ranging from 26 to 30 years[1]		
1. New and proposed homes	95.0%	97.0%
2. Existing homes	26.0%	57.0%
B. Term of contract on FHA insured loans[2]	1960	1961
1. New homes	29.2 years	29.5 years
2. Existing homes	25.8 years	26.7 years
C. Term of contract on conventional first mortgage loans[3]	Jan. 1963	Aug. 1963
1. New homes	23.1 years	24.5 years
2. Existing homes	18.2 years	19.6 years

Sources:
[1] "Housing Statistics," 1963 annual, page 44.
[2] "28th Annual Report of FHA," page 70.
[3] Federal Home Loan Bank Board, "Home Mortgage Interest Rates and Terms," April and July 1963 issues.

Quality of mortgage loans

The terms offered to obtain the pronounced expansion in the volume of mortgage debt outstanding has caused some observers to raise questions about a possible decline in the quality of such loans. In adopting aggressive methods in order to loan out the large inflow of funds, financial institutions have liberalized terms and resorted to a considerable amount of mortgage re-financing which, in fact, has involved making personal loans at mortgage loan rates. An increasing amount of mortgage credit has been granted to borrowers whose annual income probably would have classified them as marginal in former years.

Mortgage portfolios were increased as a consequence of lenders accepting higher loan-to-purchase price ratios in order to reduce downpayments to purchasers of houses. On conventional first mortgage loans made in the Twin Cities, the loan-to-price ratio average rose from 70.2 percent in January 1963 to 71.9 percent in August, and on existing houses from 68.9 percent to 70.6 percent, respectively. These ratios were somewhat lower in this metropolitan area than in the nation as a whole (see table 1). Along with the acceptance of higher loan-to-price ratios, lenders have also accepted longer maturities. The average term of years on conventional first mortgage loans on new houses in the Twin Cities lengthened from 21.9 in January 1963 to 24.1 in August and on existing houses from 17.9 to 20.5 years.

When mortgage lenders offer more liberal terms, they also accept greater risk of default. Small downpayments open the danger of enabling families to buy homes beyond their means. Furthermore, long maturities reduce the installment payments, so for a period of years such payments largely go to cover interest and other carrying charges and little is applied on the principal. Such owners after a period of years acquire only a small equity in their homes. When these families, faced with the increasing maintenance costs of higher taxes and special assessments, also are confronted with financial or marital reverses, some lose interest and others are forced to default on mortgage payments, resulting in foreclosures.

The number of mortgage loans passing through the three stages of delinquency, default and foreclosure has risen at an increasing rate. However, the number of such loans in relation to the total outstanding still is small, in fact, almost insignificant. The concern over the quality of credit stems from the fact that the number of loans in difficulty is rising steadily.

From the first quarter of 1960 through the second quarter of 1963 in the U.S., FHA insured loans classified as delinquent with installment payments overdue by 30 days or more, increased by 63 percent, VA guaranteed loans by 27 percent and conventional by 21 percent. Even so, the number of delinquent loans as a percent of the total number outstanding in the second quarter of 1963 was still low, by historical standards, slightly over 3 percent (see table 2).

The number of government underwritten mortgage loans in default — three or more monthly installment payments past due — has risen at a slower rate than the number delinquent. From 1960 to 1962 inclusive, FHA insured loans in default rose by 53 percent and VA guaranteed loans by 13 percent. The number of loans in default in 1962 were still less than 1.5 percent of the total outstanding (see table 3).

TABLE 2—MORTGAGE DELINQUENCIES AS PERCENT OF TOTAL LOANS, UNITED STATES

		VA loans	FHA loans	Conventional	All loans
1960	First quarter	2.76	2.01	1.48	2.21
	Second quarter	2.73	2.07	1.54	2.23
	Third quarter	2.94	2.32	1.51	2.41
	Fourth quarter	3.45	2.71	1.67	2.81
1961	First quarter	3.31	2.68	1.67	2.73
	Second quarter	3.19	2.65	1.62	2.66
	Third quarter	3.61	3.08	1.78	3.02
	Fourth quarter	3.74	3.08	1.85	3.10
1962	First quarter	3.08	2.72	1.73	2.68
	Second quarter	3.04	2.73	1.75	2.67
	Third quarter	3.29	3.01	1.72	2.88
	Fourth quarter	3.53	3.17	1.76	3.04
1963	First quarter	3.45	3.21	1.75	3.03
	Second quarter	3.51	3.26	1.79	3.09

Source: Mortgage Bankers Association Quarterly Delinquency Survey Reports.

Nonfarm real estate foreclosures have risen sharply on a percentage basis during the current economic recovery period. From 1960 to 1962 inclusively, foreclosures on FHA insured loans have

TABLE 3—HOME LOAN DEFAULTS

	FEDERAL HOUSING ADMINISTRATION			VETERANS ADMINISTRATION		
		Mortgages in default			Guaranteed loans in default	
Year	Insured mortgages in force	Number insured	As percent of mortgages in force	Loans outstanding	Number	As percent of loans outstanding
1960	3,093,034	26,850	.87	3,829,107	48,984	1.28
1961	3,297,421	40,713	1.23	3,766,481	55,217	1.47
1962	3,476,596	46,186	1.33	3,714,574	53,826	1.45

Sources: Housing and Home Finance Agency, Federal Housing Administration, and Veterans Administration.

TABLE 4—NONFARM REAL ESTATE FORECLOSURES, 1-TO-4 FAMILY HOMES

	GOVERNMENT UNDERWRITTEN MORTGAGES								
	Federal Housing Administration			Veterans Administration			CONVENTIONAL MORTGAGES		
Year	Number of mortgaged homes (000)	Foreclosures total number	Rate per 1,000 mortgaged homes	Number of mortgaged homes (000)	Foreclosures total number	Rate per 1,000 mortgaged homes	Number of mortgaged homes (000)	Foreclosures total number	Rate per 1,000 mortgaged homes
1960	3,093	9,332	3.02	3,829	11,052	2.89	6,922	30,971	2.48
1961	3,297	20,724	6.29	3,800	16,060	4.23	7,097	36,290	2.77
1962	3,477	32,248	9.27	3,715	21,860	5.88	7,192	32,332	2.34

Sources: Adopted from tables A-40 and A-41 in Housing Statistics, 1963 Annual Report, p. 32.

risen by as much as 204 percent; on VA guaranteed loans, by 104 percent; and on conventional by only 4.4 percent. For the aggregate of nonfarm mortgage loans, the increase was 56 percent. In spite of these percentage increases, foreclosures as a rate per 1,000 of mortgaged homes was still low in 1962 from an historical point of view (see table 4).

The sharp rise in defaults and in foreclosures on FHA insured loans has been traced, in part, to the relatively easy terms granted during the 1958-1959 housing boom. In response to the concern over rising foreclosures, FHA in the spring of 1962 adopted a more stringent policy for screening potential borrowers. Conventional loans during the present economic recovery period, however, have been made under relatively easy terms. Hence, there rises the possibility that difficulties may develop (sooner or later) with an increasing number of these loans.

FHA experience with mortgage mortality

The Federal Housing Administration in a special study[2] has sought to identify and evaluate the factors affecting its experience with defaults and foreclosures. The study was limited to single dwelling units and is based on a reprocessing of the applications required for the original underwriting for a sample of one-fifth of the properties acquired through foreclosure between July 1, 1961 and March 31, 1962. New credit reports were secured on borrowers at the time of foreclosure and compared with earlier ones.

No new or hitherto unknown characteristics of mortgages that tend to default were discovered, but the study does set forth the relative importance of the characteristics of the general and local economy, of the houses, of the borrowers, and of the mortgage terms of the borrowers that affected the mortality of these loans.

Nationally, the periodic recessions of short duration in business cycles from 1948 through 1960 raised the level of home mortgage defaults, but did not significantly increase mortgage foreclosures and property acquisitions. However, certain local economic conditions contributed significantly to mortgage mortalities. The local factors were grouped under four categories: urban centers subject to sharp economic fluctuations such as the industrial centers of steel, automobile and aircraft production, those affected by reduction in defense and military employment or by the deactivation of military bases, those experiencing extremely high growth rates which were suddenly interrupted, and areas subject to chronic unemployment such as the mining regions. The latter category was the least significant in mortgage

[2] Federal Housing Administration, **FHA Experience with Mortgage Foreclosures and Property Acquisitions**, January 1963.

mortality, as the people residing in these areas have had more time to adjust to the unfavorable economic climate than in the other types of area dislocations.

Apart from the general and local economic fluctuations, changing conditions in the market for houses has been a major factor in the rise of mortgage foreclosures and property acquisitions experienced by FHA since 1958. In prior years, the backlog of demand for housing and the steady rise in prices enabled a mortgagor in difficulty to sell his house, repay the mortgage and frequently even realize a profit. Consequently, mortgage foreclosures and property acquisitions were abnormally low. When the pent-up demand for housing was satisfied, this situation changed resulting in stabilized prices; in some places prices even fell. Consequently, the mortgagor in difficulty could no longer bail himself out of the mortgage obligation by selling his house.

Certain characteristics of houses also have a bearing on the likelihood of mortgage mortality. Houses of low value, with a price range from $11,000 to $15,000, had a far higher acquisition rate than those ranging in price from $15,000 to $19,000. According to FHA experience, the probability of foreclosure for a new house appraised at $10,000 was up 4½ times that of a house valued at $18,000 and 12 times that of one valued between $20,000 and $22,000. In fact, the conclusion drawn from the study was that defaults and property acquisitions are in (directly) inverse relationship to property values.

The stage of construction of a house when approved for insurance was also found to be a factor in later mortgage foreclosure. The highest proportion of property acquisitions was on those approved prior to the start of construction. The risk of mortality is greater with speculative construction than with custom building, since approximately seven-eighths of new construction commitments are issued to builders rather than to private individuals. The lowest rate was on new houses completed but still unoccupied when approved. It was even lower than on previously occupied houses.

The borrower's income was no clear indication of the probability of mortgage foreclosure. Almost no relationship was found between the income bracket of borrower and mortgage mortality. Personal factors such as marital difficulties, illness or death did have a direct bearing on the probability of foreclosure, but this occurs to borrowers in all income brackets.

The risk rating factors of individuals whose properties had been acquired by FHA were compared with those of all mortgagors whose properties had been insured in 1954. The comparison suggests that the characteristics of the borrowers were considerably more important than the characteristics of the property and local economic conditions in contributing to mortgage mortality.

The terms of the mortgage — the loan-to-value ratio and the years to maturity — has a significant bearing on the probability of foreclosure. There was a much higher acquisition rate for mortgages with low than with high downpayments. A close direct relationship was found between the foreclosure rate and the length of maturity. The study showed only about two-thirds the likelihood of property acquisitions for 25-year as for 30-year mortgages upon both new and existing houses.

The first few years of a mortgage are the most critical in regard to mortality. FHA experience showed that a very high proportion of the home properties were acquired within the first three years. The critical period may be somewhat longer on the FHA insured loans now written with higher loan-to-value ratios and maturities of 30 and 35 years because of a slower accumulation of equity by the owners.

The type of institution originally extending the credit was found to have a bearing on the percentage of sound loans. The acquisition ratio on FHA insured loans originated by mortgage companies for both new and existing houses was higher than for those originated by commercial and savings banks and insurance companies. In fact, mortgages originated by savings banks had the lowest acquisition ratio, followed by national banks and then by state banks.

Some geographical concentration was observed in the foreclosures. In terms of percentage of property acquisitions, states showing the highest percentages in descending order were Alaska, South Carolina, Georgia, Louisiana, Kansas, Alabama, Connecticut and Texas. The states in the Ninth district had a favorable record.

Summary

The large inflow of funds into financial institutions has provided an ample supply of mortgage credit to small as well as large urban centers in the district. The volume of residential building in recent years has depended mainly on demand factors unrelated to the availability of credit. In view of the growing amount of mortgage debt outstanding, the soundness of these loans is important to financial institutions and to the economy generally. The FHA study shows that foreclosures and property acquisitions prior to 1958 were abnormally low and, thus, some increase could have been expected. Under these circumstances, the management of mortgage portfolios again assumes more risks and must be more selective in accepting loan applications.

— Oscar F. Litterer

Current conditions . . .

During September the trend of economic activity in the district, as in the nation, continued to be one of mild expansion; moreover, this trend continued at about the rate established in the first eight months of 1963. This aggregate increase of activity in both the district and the nation cloaks a diversity of movements of the major economic series. It should, however, be specifically noted that the changes which have taken place do not, in terms of a preponderance of the series moving in any one direction or in the magnitude of the movements, suggest any significant change in the trend of economic activity in the near future. In fact, the consensus seems to be that the economy, both national and district, will continue to expand during the final quarter of 1963 at a rate quite comparable to that experienced in the first three quarters of the year.

Total crop production, although of near record proportions, will be smaller than that achieved by district farmers last year; at the same time farm prices are generally below last year's levels. These price-quantity movements are likely to result in a somewhat lower cash farm receipts figure for the balance of this year as contrasted to the comparable period of 1962.

On the financial side of the economic picture there is some evidence of perhaps a quickening in the tempo of economic activity. Bank credit, both within the district and the U. S., increased by amounts which exceeded seasonal expectations. This view of a stronger economic situation is further reinforced by the fact that the bulk of the credit expansion, on a seasonally adjusted basis, seems to have been concentrated in loans. During September, total deposits at district member banks increased by an amount about equal to seasonal expectations. The relative movements of bank credit and deposits during September resulted in a very slight rise in the loan-deposit ratio for district banks. Again, though, this aggregate rise of the ratio cloaks the fact that the loan-deposit ratio fell in non-weekly reporting banks within the district and rose in weekly reporting banks. District banks became relatively large net purchasers of federal funds as a reflection of this decline in liquidity.

The following selected topics describe particular aspects of the district's current economic scene:

BANK CREDIT EXPANDS

Developments in September indicate that commercial banks responded to the usual fall upturn in economic activity by extending additional credit to meet the expanded seasonal needs of both consumers and business. From the last Wednesday in August to the last in September, outstanding credit at member banks in the Ninth district rose $80 million as the result of a $43 million expansion in loans and a $37 million increase in security holdings. Information for the early weeks of October indicate a continuation of this trend.

Most of the September credit expansion occurred at country member banks, the smaller but more numerous banks in the district; loans rose $24 million while security holdings advanced $35 million for a total credit gain of $59 million. These changes brought the total credit expansion at country banks for the first nine months of the year to $162 million, a record for any comparable period in the past seven years (see table). The substantial gain in credit for the first part of the year was the result of a $154 million increase in time deposits, an increase that reflected both higher income and saving in the district and more attractive rates paid by banks to depositors.

CHANGE IN CREDIT AND DEPOSITS AT COUNTRY MEMBER BANKS, NINTH DISTRICT, FIRST NINE MONTHS, 1957-1963

(millions of dollars)

Period First nine months of . . .	Loans and Investments Total	Loans	Investments	Deposits Total	Demand	Time
1963	$162	$137	$ 25	$149	$— 5	$154
1962	144	99	45	111	—41	152
1961	82	7	75	63	10	53
1960	—44	61	—105	—57	—63	6
1959	40	112	— 72	8	—46	54
1958	144	61	83	128	32	96
1957	89	63	26	67	—31	98

Note: Data are for all banks in district except reserve city banks and other member banks that report weekly.

CATTLE AND CALVES ON FEED

The number of cattle and calves on feed in the Ninth district on October 1 totaled 701 thousand head, according to a U. S. Department of Agriculture report. This figure represents a 17 percent increase over the October 1, 1962 total. As shown in table 1, almost one-half of the total were in Minnesota feedlots with just over 30 percent of the total being located in South Dakota. The greatest relative increase over last year occurred in North Dakota where the October inventory showed an increase of 68 percent over last October 1. The reporting date increase of 10 percent in Minnesota equaled the over-all increase shown by the nation's 28 major cattle feeding states.

The placement of feeder cattle on district feedlots during the July-September period of this year amounted to 212 thousand head, down 5 percent from the same period of 1962. A sharp decrease in feeder placement in Minnesota, 92 thousand head as compared to the July-September placement of 120 thousand head last year, more than offset increases that occurred in the other district states. Total placement in the 28 states amounted to 3,645 thousand head, a 1 percent increase over last year.

TABLE 1—TOTAL NUMBER OF CATTLE AND CALVES ON FEED

(thousands of head)

	Oct. 1, 1962	Oct. 1, 1963
Minnesota	318	350
Montana	27	37
North Dakota	56	94
South Dakota	198	220
Four states	599	701
28 major feeding states	6,143	6,739

Not only were district placements off from the July-September period of last year, but marketings of fed cattle from the district were down 2 percent for the same period. Thus, district feeders shipped 328 thousand head to slaughter markets over the period as compared to 336 thousand head last year. All of this reduction, however, is accounted for by reduced marketings in North Dakota and Montana. There was no change in South Dakota marketings, and Minnesota feeders marketed 159 thousand head over the period, reflecting a 3 percent increase for the state. Total marketings of fed cattle during the third quarter from the major feeding states were up 4 percent from last year.

A substantial increase in fed cattle marketings relative to last year is expected during the fourth quarter of 1963. Estimates indicate that 401 thousand head will be shipped to slaughter markets from district feedlots over the October-to-December period, up 31 percent from the 305 thousand head marketed during that period in 1962. A breakdown of the estimate by states shows that 196 thousand head will be marketed by Minnesota feeders, 120 thousand head from South Dakota, and 65 thousand head and 20 thousand head from North Dakota and Montana, respectively. The 401 thousand head represent 57 percent of the cattle and calves on feed on October 1. Total fed cattle marketings from the 28 major feeding states is expected to number 3,866 thousand head during the fourth quarter, an increase of 15 percent over last year.

TABLE 2—RELATIVE CHANGES IN CATTLE MARKETINGS

	Cattle and calves on feed % change Oct. 1 1962 to 1963	Feeder cattle placement % change July-Sept. 1962 to 1963	Fed cattle marketings % change July-Sept. 1962 to 1963	Expected fed cattle marketings % change Oct.-Dec. 1962 to 1963
Minnesota	+10	—23	+ 3	+ 31
Montana	+37	+28	—13	+ 33
North Dakota	+68	+ 4	—17	+141
South Dakota	+11	+17	0	+ 6
Four states	+17	— 5	— 2	+ 31
28 major feeding states	+10	+ 1	+ 4	+ 15

DISTRICT EMPLOYMENT FAVORABLE

Major economic trends in the district this year have paralleled those in the U.S. as a whole. Of course, the volume of business transacted in a single region fluctuates more than the aggregate for the nation; and the fluctuations are even greater from community to community, where economic activity depends primarily on one or two basic industries.

Employment is one of the basic economic indicators, and its growth in the district and in the nation was compared from 1960 to date. On the accompanying chart, employment in non-agricultural establishments was plotted in terms of indexes, seasonally adjusted, with the base period from 1957-1959 equal to 100 percent. District employment, as may be observed, continued to rise for several months after the mild recession in 1960 had set in. When it began to decline in October of that year, it fell less than in the nation as a whole. In the current recovery it has risen at a slower rate, indicating that the growth has been less than in the U.S.

The total of workers on farms — including the farmer and his family—has declined over many years. This employment for the district and the nation was also plotted in terms of indexes seasonally adjusted, with 1958 equal to 100 percent. The eco-

Chart 1—Total non-agricultural employment (seasonally adjusted)

Chart 2—Total farm workers (seasonally adjusted)

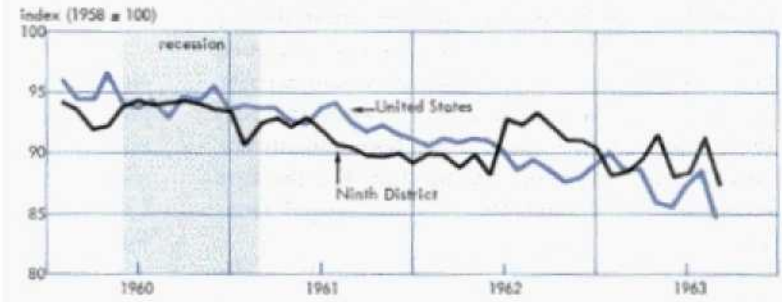


Chart 3—Total unemployment rate (seasonally adjusted)

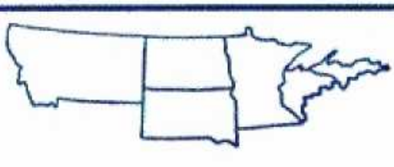
nomic recession in 1960-1961 obviously had little influence on farm employment. In this district, it has declined at a slightly faster rate than in the U.S. The harvesting of better than average farm crops in 1962 and 1963 temporarily increased the number of workers. Even so, the downward secular trend remained pronounced during this period.

How extensively the labor force is utilized in this district is revealed by the number of individuals seeking work. Of course, there continues to be a net migration of workers to other regions during prosperous periods. The seasonally adjusted rate of unemployment — the percent of the civilian labor force unemployed — was plotted on the accompanying chart for the district and for the nation from 1960 to date. The rate for the district has been quite consistently below that for the U. S. It rose for both the district and the nation during the recession of 1960 and 1961, and it continued to rise for a few months after economic activity had turned up. Since May 1961, when the rate again began to turn down, it has been consistently lower in the district than in the U.S. For the first seven months of 1963, the rate has ranged from 5.0 to 5.5.

Although the Ninth district as a whole in the current recovery period has had a relatively low unemployment rate, it also has had numerous areas of chronic unemployment. In September, the district had 52 areas or communities where unemployment was substantial; that is, job seekers were substantially in excess of job openings. The Duluth-Superior area in the last report was reclassified into the 6-to-8.9 percent unemployment category from the 9-to-11.9 percent group; the opening of a new manufacturing plant had created new job openings. Nevertheless, unemployment still remains substantial. Fortunately, these areas are not extensive and comprise a small proportion of the district total labor force. They are concentrated in the timber and mining regions of Upper Michigan, northern Wisconsin, northeastern Minnesota and western Montana. A few communities in other parts of the district also have appeared in the substantial unemployment classification, frequently due to the temporary or permanent closing of a manufacturing firm plant with a large labor force.

Total nonagricultural employment in the U. S. from January to September rose by about 1.2 million on a seasonally adjusted basis — an increase of 2.7 percent. The growth, as in recent years, has been primarily in state and local government and in trade, services and finance.

Employment in the current year has grown enough to reduce somewhat the number unemployed. The rate — the percent unemployed of the civilian labor force (seasonally adjusted) — declined from 6.1 in February to 5.6 in September. Unemployment was much lower for certain groups than indicated by the aggregate rate. For adult men the jobless rate in mid-September was down to 4.1 from the 4.6 level of a year earlier. The rate for married adult males was 2.9, the lowest since early 1957. On the other hand, unemployment was much higher for some groups not adequately trained to meet modern job requirements or at a disadvantage in labor markets for other reasons. Evidence such as this suggests the importance of training and retraining as a solution to much of the unemployment problem.



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