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Monthly Review
OF THE FEDERAL RESERVE BANK OF MINNEAPOLIS

Economy in 'sidewise' movement

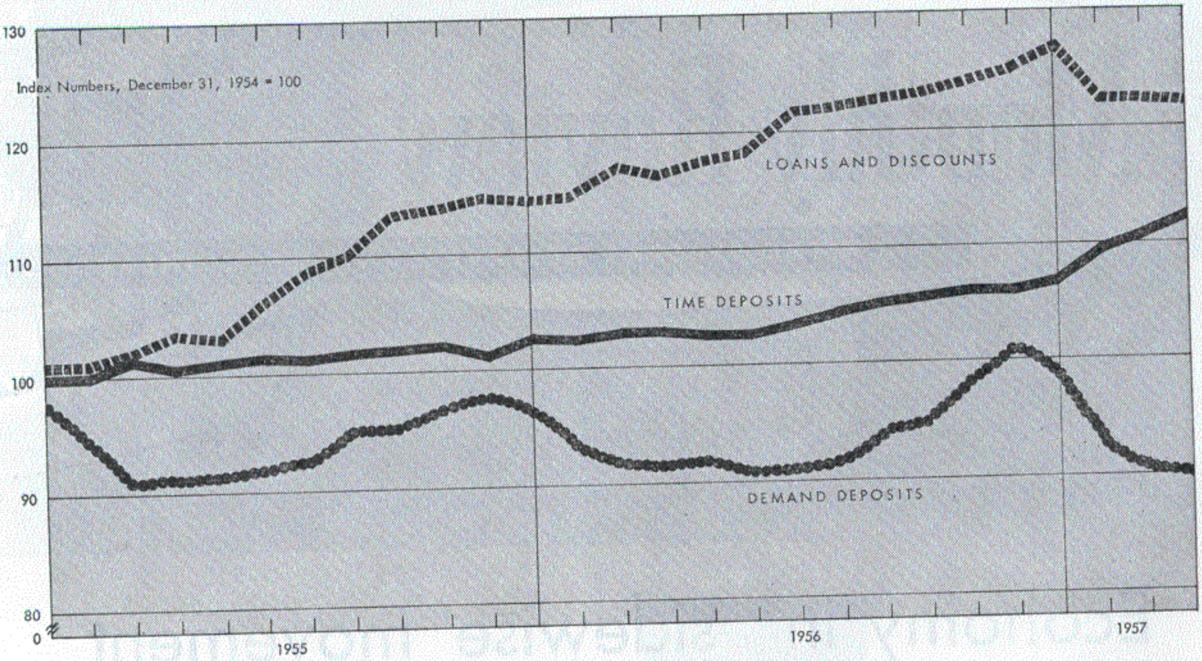
Business activity in the district may be characterized as in a sidewise movement, with offsetting adjustments continuing to take place. The sidewise movement, or rolling adjustment as it is sometimes called, is a more favorable development than many people expected at the turn of the year. As a result, there is less talk now of a recession or a 'hair-curling' depression.

This shift in thinking stems from the good showing made recently by most of the district's business indicators. It's true, however, that some business areas, such as residential construction, inventory accumulation and retail sales, have barely held their own since the first of the year. Other economic measurements show modest gains. These include an increase in nonagricultural employment, rising personal incomes, larger bank debits, higher farm prices, and optimism for a high level of operations in iron ore mining regions. It adds up to a shift in business sentiment to one of cautious optimism.

Nationally, too, there seems to be a good deal of confident 'bounce' in the economy. The gross national product for the first quarter of 1957 is now estimated at an annual rate of $427 billion, up $3 billion from the previous quarter. Most of this increase, however, is a result of higher prices. Total industrial production, for example, has remained about the same.

Contents

LOANS AND DEPOSITS AT NINTH DISTRICT MEMBER BANKS



Government spending for goods and services set a new peacetime record for the first quarter of 1957. Consumers have indicated, via survey, that they are still in a healthy buying mood in spite of rising prices and some further increase of debts. Businessmen, too, are still adding to inventories and new plant and equipment but at a much reduced rate compared with 1956. Business inventories at present are not regarded as either unbalanced or too high.

The basic strength of the combined spending by government, consumers and business should not be underestimated. It gives no validity to expressed fears and hunches that a recession is imminent. Rather, it indicates the current danger remains one of continued pressure on prices. As it has been expressed, there is a tendency for the economy to go too fast too soon, to invest more than is saved, and for people to spend more than they earn. The swelling tide of bank loans and of over-all private debt gives vivid meaning to these views.

It is because of this tendency for wholesale and consumer prices to rise that the monetary authorities for many months have exercised their restrictive powers over the supply of money and credit. It is a major responsibility of the monetary authorities to use the authority vested in them to maintain the purchasing power of the dollar. Obviously, this cannot be accomplished in a period such as this without some restrictions to keep the supply of money and credit in line with sustainable economic growth.

The problem the monetary authorities face is the degree of restraint to be exercised and the methods to be used. There is pressure to ease from some groups whose immediate interests are adversely affected by restricted credit even though inflation of the over-all price level is evident. In general, however, the free market efficiently allocates scarce credit supplies to users. The Federal Reserve uses its powers to control the volume of excess reserves made available in the total banking picture, but not to interfere with allocations within the market.

Of major significance in the Ninth district economy at the moment is the beginning of the 1957 crop season. Spring work has been retarded some by cold weather but early moisture prospects are good-to-excellent in most areas except some of the western part of North Dakota and bordering territory. Irrigation water supplies in the mountain sections of the district are now considered adequate, thanks to heavy snows since mid-January and a cold spring, which has retarded run-off. Wheat acreage will be reduced substantially by soil bank compliance but over-all agricultural production in the western areas will depend principally on the amount of rainfall and when it comes. In general though, farmers are starting out the new crop season with more optimism than in recent years. This is a reflection, at least in part, of the improved price situation for several important agricultural commodities.

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

MARCH BANKING DEVELOPMENTS

Notable among district banking developments in March was a substantial addition to loans at member banks. This development was notable not only because of its magnitude but also because it contrasted with a liquidation of loans previously this year and in the same month last year. After falling by $64 million in January and February, bank loans registered an increase of $41 million during March. Not since September of 1955 have district member banks added so much to loans in a single month.

City banks accounted for $34 million of the additional loans in March. This was the largest monthly increase at such banks since November of 1954. The increase was shared by loans to commercial and industrial firms ($25 million), loans to banks ($6 million) and others.

Total deposits at city banks rose a million dollars during March in contrast to a decline of the same amount in March last year. Country banks reported a deposit loss of $7 million and $22 million for the same months, respectively.

Time deposits at district member banks continued to grow in March at a much more rapid pace than a year earlier. The increase in time balances was eight times larger than the $2 million gain reported in March last year.

The average amount of borrowing at the Minneapolis Federal Reserve Bank in January, February and March was $18 million, $32 million and $51 million, respectively. The March borrowing, which represented 13 percent of required reserves for district member banks, compared with a national average borrowing which amounted to approximately 4.3 percent of required reserves.

SPRING 'TUNE-UP'

Widespread snows and rain over most of South Dakota as well as over other areas of the district significantly improved the spring moisture situation during April. While subsoil moisture was still rated as deficient in many areas following the extremely dry fall and winter, recent precipitation seemed to insure satisfactory planting conditions and gave hopes of a more favorable early crop season. This was in contrast to other recent years, when extreme dryness has plagued early seedings in many Dakota areas.

While this early optimism would have to be reinforced by further moisture as the season progressed, it has nevertheless improved the crop outlook in many areas which suffered from moisture shortages last year.

The welcome moisture in this district, and to an even greater extent in the plains areas further south, sparked renewed interest in replacement cattle. This, coupled with price improvement in slaughter cattle prices and with the normal spring demand for cattle to go on grass, caused a resurgence in replacement cattle prices.

Although most cattle raisers in the drouth-touched areas of the Dakotas and Montana had gone into the winter with only limited hay supplies, the mild, open winter was favorable and many ranchers still had hay on hand this spring. Beef cattle numbers for the district were nevertheless down slightly from last year on January 1—with beef cow numbers down 3 percent in the four states. Heifers under two years old and beef calves were down by substantially larger percentages. Steer numbers were about even with the previous year.

Dairy cow numbers were up slightly in Minnesota and Wisconsin, but down in the western states—as milk production in the more concentrated dairy areas continued to increase in the early months of 1957.

Hog producers in the Ninth district planned to increase their farrowings moderately during the spring and summer, according to the USDA's survey of farmers' March 1 intentions. This was about in line with the national increase.

Participation in the Soil Bank appeared to be quite varied throughout the district according to the nature and quality of farming in each area. Substantial acreages in the western areas are reported going into the conservation reserve.

District winter wheat production—largely in Montana—is estimated at about two-thirds larger than last year, with roughly the same planted acreage as in 1956. Farmers intentions to plant spring wheat, on the other hand, were down sharply from last year as of March 1. Subsequent liberalization of durum acreage restrictions may result in some increases in spring wheat acreage, however.

PRICES OF HOUSES LESS DURING WINTER

Prices paid by home buyers in Minneapolis and in immediate suburbs averaged less during the winter than during last fall, according to a survey conducted by this bank. More specifically, prices of houses in the medium and higher-price brackets receded, while those in the lower-price bracket held firm.

The price paid for houses in the lower bracket (defined here as under $14,000) averaged $11,500 in the first quarter of this year, the same as in the fourth quarter of 1956. In the medium-price bracket ($14,000 to $24,000) the average price declined from $18,600 in the fourth quarter to $17,800 in the first quarter. In the high-price bracket (over $24,000) the average price declined from $34,300 to $31,000 in the same period.

GRAIN STOCKS ON FARMS

For the district, stocks of corn, soybeans and flax on farms were substantially larger than a year ago on April 1. Wheat stocks were down markedly in South Dakota and Montana and up slightly in Minnesota and North Dakota, amounting to an over-all reduction for the district. Farmers had substantially fewer bushels of oats stored on farms in all district states, and there was also a net reduction of barley for the district although Minnesota farmers increased their stocks moderately.

AUTO SALES LAG

In general, retail sales continue above the year-ago volume, yet some lag is occurring in automobile sales. The seasonal rise in automobile sales in the latter part of March and in April has been disappointing.

The sale of new cars in the four district states in January and February was 9 percent above a year ago. More recent figures on registrations are available for the Twin Cities metropolitan area which, of course, may or may not be indicative of the trend in the district. In the four counties which cover this area, the registrations, compared with the corresponding period of a year ago, in January were up 2 percent; in February were equal; in March were down 2 percent; and in the first 13 business days of April were down 17 percent.

EASTER SALES UP 19% AT DEPARTMENT STORES

District department store sales in the first quarter of this year on a seasonally adjusted basis were 4 percent above a year ago. March sales were up 5 percent, adjusted for the changing date of Easter and number of trading days.

In April it was anticipated that sales would be substantially above those of a year ago due to the late Easter—three weeks later than last year. In early April sales in two large metropolitan centers—St. Paul-Minneapolis, Duluth-Superior—had not exceeded much the post-Easter volume in 1956. In the week ending April 13 they were up 1 percent. However, in the week ending April 20 they were up 19 percent to average 6 percent for the 4-week period.

Notice that each of the first three weeks in April is compared with an after-Easter week a year ago. Effective post-Easter sales staged by merchants last year were primarily responsible for the low increases shown during these earlier pre-Easter weeks of 1957.

CONSUMER INSTALMENT CREDIT—new System study now available

Copies of the five volumes of the report thus far released may be ordered from the Superintendent of Documents, U. S. Government Printing Office, Washington 25, D. C. A separate announcement will appear in the **Federal Reserve Bulletin** when Part IV becomes available.

Prices of the completed volumes are as follows:

Part I	Federal Reserve staff studies	Volume 1	$1.25
		Volume 2	1.00
Part II	Conference on Regulation	Volume 1	1.75
		Volume 2	.60
Part III	Views on Regulation		1.00
Part IV	Financing new car purchases	(Not yet completed. Price undetermined)	

Member bank operating ratios, 1956

Comparing the experience of an individual bank with that of other banks in a like category can be worthwhile. On the opposite page we give 37 ratios which show the Ninth district banking picture from one date to another. The ratios have been computed by the Fed from figures submitted by district member banks on their condition statements and earnings statements. We present the ratios in the hope that each individual bank will find them a useful tool for assessing its position in the district banking scheme.

All 37 ratios are computed for each member bank. The ratios listed on the opposite page are averages of the values computed for individual banks. A somewhat more detailed report including ratios by size group of bank is available to the public on request.

The gross earnings of district member banks continued to grow in 1956 as they have in other recent years. Last year, what might be called an 'aggregate bank' reported gross earnings which amounted to 3.86 percent of total assets (ratio #5), up from 3.54 percent in 1955. An explanation of the jump in this ratio can be found in the behavior of other ratios.

Thus, ratios number 23, 24 and 26 show that loans and securities held by the banks yielded a higher rate of return in 1956 than in 1955. This alone would explain a higher ratio of earnings to total assets last year. But the same ratios indicate that loans yielded a rate of return well over twice that of securities so that a substitution of loans for securities has the same effect on total revenue as rising yields. Such a substitution was in fact made in 1956; this is indicated by ratios 28, 29 and 30. The chart makes clear the fact that the replacement of securities with loans last year represented the continuation of a trend which has persisted throughout the postwar period.

That the fraction of bank earnings going for expense has been relatively stable in recent years is demonstrated by ratio number 17. The stability of this ratio tells us that expenses have tended to vary by the same proportion that revenues have. In this connection it is important to bear in mind that the net earnings of a bank are increased by an increase in gross earnings even though expenses rise by the same proportion as gross earnings do. Ratio number 6 relates earnings after expense to total assets; it rose in every postwar year.

Ratios 14 through 16 indicate the proportion of total earnings which is absorbed by salaries, interest on time deposits and other expenses. Salaries and interest constitute the largest single items of bank expense.

The amount of money paid out to the owners of time deposits, of course, depends upon the amount of such deposits and the rate of interest paid on them. Ratio 36 indicates that the amount of time deposits grew relative to total deposits last year and ratio 37 indicates that higher interest rates than previously were paid last year. Indeed, ratio 37 jumped by more in 1956 than in any other postwar year. An increase in the share of earnings going for interest expense was accompanied by a decrease in the share going for salaries, with the result that total expense amounted to a slightly lesser share of total earnings in 1956 than in 1955.

"Operating Ratios" of Member Banks

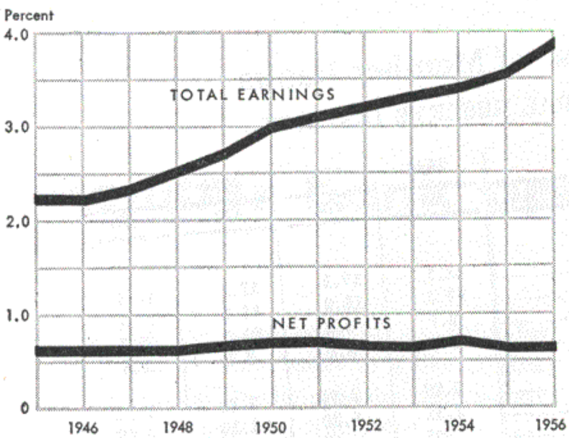
MINNEAPOLIS FEDERAL RESERVE DISTRICT

	1956	1955	1954	1953
Number of Banks	469	471	470	470
SUMMARY RATIOS				
Percentage of total capital accounts				
1. Net current earnings before income taxes	18.1	17.3	17.2	17.3
2. Profits made before income taxes	13.2	15.0	16.1	15.5
3. Net profits	8.7	9.2	10.5	9.7
4. Cash dividends declared	4.0	3.8	3.7	3.4
Percentage of total assets				
5. Total earnings	3.86	3.54	3.41	3.31
6. Net current earnings before income taxes	1.31	1.20	1.16	1.15
7. Net profits	.65	.66	.72	.65
SOURCES AND DISPOSITION OF EARNINGS				
Percentage of total earnings				
8. Interest on U. S. Government securities	24.5	24.7	25.0	26.1
9. Interest and dividends on other securities	5.9	5.3	5.1	4.9
10. Earnings on loans§	54.9	54.7	54.1	53.1
11. Other current earnings	14.7	15.3	15.8	15.9
Total earnings	100.0	100.0	100.0	100.0
12. *Service charges on deposit accounts (Included in item 11)*	*6.4*	*6.4*	*6.4*	*6.3*
13. *Trust department earnings (Included in item 11)**	*2.5*	*2.5*	*2.5*	*2.3*
14. Salaries and wages	30.6	31.1	31.1	31.0
15. Interest on time deposits	14.1	13.8	13.8	13.1
16. Other current expenses	21.1	21.1	21.0	21.3
17. Total expenses	65.8	66.0	65.9	65.4
18. Net current earnings before income taxes	34.2	34.0	34.1	34.6
19. Net losses, or recoveries and profits (− or +)‡	−5.8	−2.2	− .5	−3.0
20. Net increase, or decrease, in valuation reserves (− or +)	−2.8	−2.1	−1.4	− .4
21. Taxes on net income	8.6	11.1	11.0	11.3
22. Net profits	17.0	18.6	21.2	19.9
RATES OF RETURN ON SECURITIES AND LOANS				
Return on securities:				
23. Interest on U. S. Government securities	2.63	2.23	2.15	2.09
24. Interest and dividends on other securities	2.46	2.26	2.32	2.28
25. Net losses, or recoveries and profits on total securities (− or +)‡	− .34	− .05	+ .12	− .09
Return on loans:				
26. Earnings on loans§	5.89	5.76	5.70	5.74
27. Net losses, or recoveries on loans (− or +)‡	− .13	− .10	− .15	− .16
DISTRIBUTION OF ASSETS				
Percentage of total assets				
28. U. S. Government securities	35.0	37.5	38.1	39.6
29. Other securities	9.3	8.4	7.6	7.5
30. Loans	36.5	34.2	32.9	31.3
31. Cash assets	18.2	19.0	20.6	20.8
32. Real estate assets	.8	.7	.6	.6
OTHER RATIOS—In Percentages				
33. Capital accounts to total assets	7.7	7.4	7.1	6.9
34. Capital accounts to total assets less government securities and cash assets	17.5	18.2	18.3	19.0
35. Capital accounts to total deposits	8.4	8.0	7.7	7.5
36. Time to total deposits	38.4	38.0	37.5	36.8
37. *Interest to time deposits**	*1.55*	*1.38*	*1.34*	*1.25*

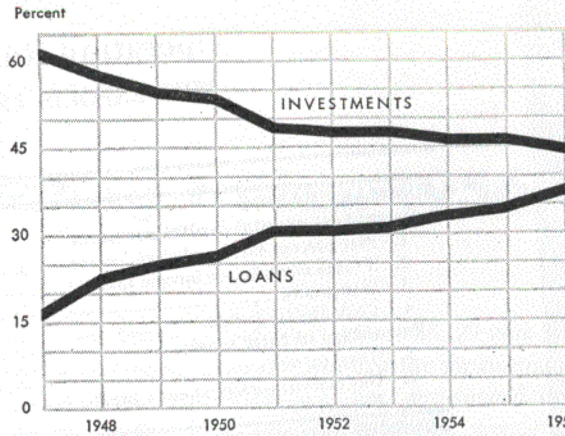
§ Includes service charges and other fees on loans.

‡ Excludes transfers from and to valuation reserves.

* Banks reporting zero amounts were excluded in computing this average



Gross earnings and net profits of district member banks moved in opposite directions last year. Shown above as a percent of total assets.



Loans and investments as a proportion of total assets continued the postwar trend last year. Shown for 1947 to 1956.

Ratios 6 and 7 tell us that while net current earnings as a percent of total assets went up last year, net profits went down. In other words, the sum of the items which constitute the difference between net current earnings and net profits went up last year. These include losses on loans and securities, additions to valuation reserves and income taxes. The failure of profits to reflect the improvement of net current earnings resulted from an increase in losses on the sale of securities.

To make additional loans, many banks sold securities last year at a lower price than book value, owing to the depressed condition of the bond market. Losses on such transactions were charged to earnings and thus reduced profits.

Despite lower net profits, our 'aggregate bank' paid out more in dividends in 1956 than in 1955. Dividend payments rose from 3.8 percent to 5 percent of total capital accounts according to ratio 4. Ratios 33 and 35 indicate that bank capital itself was increased, relative to total assets and total deposits.

When the operating ratios are presented for five separate size groups of banks, some interesting patterns appear. For example, the rate of return on loans is highest for the smallest banks; it becomes smaller for successively larger banks. The same is true of the rate of return on government securities. Although the rates of return for loans and securities increased at all size groups last year, the pattern of higher rates at smaller banks was not disturbed.

The ratio of capital to total deposits and total assets formed a similar pattern. The smaller the size-group of bank considered, the higher the ratio. On the other hand, the larger the size-group of bank considered, the larger the ratio of dividends to capital. The ratio of time deposits to total deposits was between 37 percent and 40.2 percent at all size groups except the largest. Here it was 20.1 percent. Perhaps this reflects the fact that the largest banks are located in cities, where other financial institutions offer keen competition for the saver's dollar.

Deposit growth is constantly pushing banks out of the smaller and into the larger size classifications. Last year the number of banks with deposits of less than $2 million was reduced by eight while one bank was added to those with deposits over $25 million.

Residential construction outlook

The 'national market' for houses is a statistical sum, a set of figures on paper. It is an aggregate of local markets, where the real buying and selling of houses take place. As a result, even on a district basis, over-all statistics and trends can often be unrealistic in terms of what is happening in a specific community. However, statistics and trends are the tools we have to work with, and they do give us a general picture well worth looking at.

Home building in the Ninth district has followed closely the national trend. The number of privately-financed houses started—plotted by months on a seasonally adjusted annual rate—reveals the nature of countrywide building activity. With the seasonal movements eliminated, the number of housing starts rose sharply in 1954, reaching a peak in December. Although 1955 was the outstanding year of the building boom, the number of starts, when seasonally adjusted, declined in most months of 1955, as well as in 1956. At the end of 1956 housing starts had receded to the level from which the boom had started in early 1954. In the first quarter of this year the starts have continued to drop; in March they were at the lowest rate since 1949.

District home building

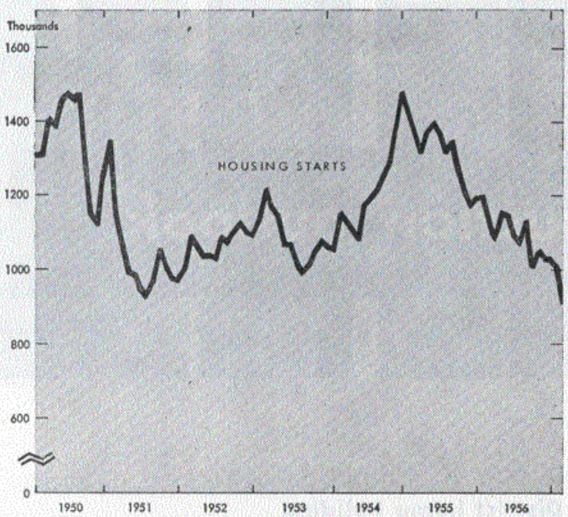
During the past winter a much smaller number of houses were under construction in this district than in recent years. The number of new dwelling units authorized by permits in the first quarter of 1957 was down 36 percent in January and February from the corresponding period of last year. There was a greater-than-usual seasonal decline in employment, due almost entirely to cutbacks in residential building. In Minnesota during the first quarter of 1957 employment in building construction (not counting highway and heavy construction) was down 11 percent. In the other district states a similar drop occurred in this type of employment during the winter.

District downs—and ups

In this district, as well as nationwide, 1955 was the peak year of the home building boom. As the year progressed, however, builders began to place fewer houses under construction in an adjustment to a lower effective demand. As may be observed on chart 1, the number of new dwelling units authorized by permits rose to a peak in April of

CHART 1—PRIVATE NONFARM U.S. HOUSING STARTS

Seasonally adjusted at annual rates



1955. The number authorized in subsequent months declined in all but one month during the building season.

As for the year 1956, it was a year of steady decline in home building from the boom of the preceding year. The number of new dwelling units authorized by permits was down in each month of 1956 from the corresponding period of 1955. For the entire year the number of new units authorized was down by nearly one-fifth from 1955.

The seasonal contraction in district home building was unusually large for the first quarter of 1957. With a larger number of unsold new houses overhanging the market in most cities, home builders limited their activity almost exclusively to building under contract for owners.

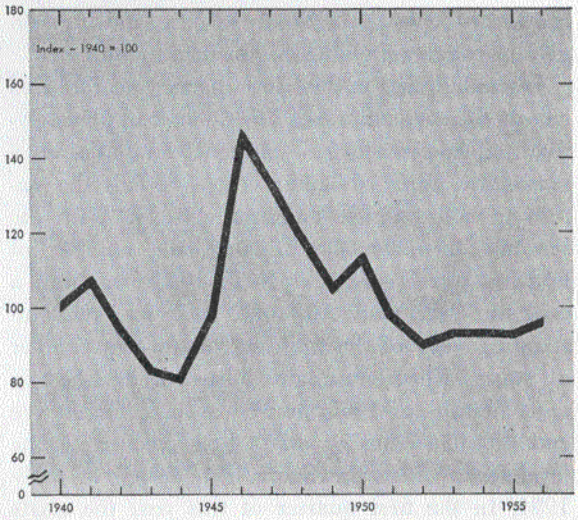
In contrast—where there have been growing opportunities for employment in Ninth district cities, the demand for new houses has remained strong. In Minot, North Dakota, and in Rochester, Minnesota, the number of new dwelling units authorized by permits in 1956 was 55 percent for Minot and 44 percent for Rochester above the 1955 figures. Furthermore, the rise in the new units authorized in Rochester came in the latter half of the year and is expected to continue into 1957. In Grand Forks, North Dakota, and Great Falls, Montana, the increase in 1956 was smaller —15 percent and 5 percent respectively.

At the opposite extreme stands Sioux Falls, South Dakota, where the number of new dwelling units authorized in 1956 was only one-half of the number authorized in the preceding year. When local demand slackened, a few builders, and especially building tradesmen, have moved to other cities and towns where the demand for housing had remained stronger.

The metropolitan areas of Minnesota illustrate the variety that can be found in different segments of the housing picture. In the Twin Cities area the number of dwelling units authorized by permits was off by 19 percent in 1956 from the preceding year. On the other hand, in the Duluth-

CHART 2—ANNUAL NUMBER OF DISTRICT MARRIAGES

Four full states, from 1940 to 1956



Source of data for above chart is U. S. Dept. of Health, Education and Welfare.

Superior area, the number of units authorized was down by only 2 percent.

More house for more money

There has been an upward trend in the market for larger and more expensive houses. Since 1950 builders have constructed more houses for upper-income groups and fewer units for lower-income groups. Even during the period of ready availability of mortgage credit, in 1954 and the early months of 1955, builders experienced a decline in the demand for houses among families with low incomes.

This turning to the construction of larger and more expensive houses is attributable to several things: an increasing proportion of families with higher incomes in the market; the rising costs of building materials, labor and, in particular, land; more recently, to the tightening of mortgage credit.

Who's buying houses now?

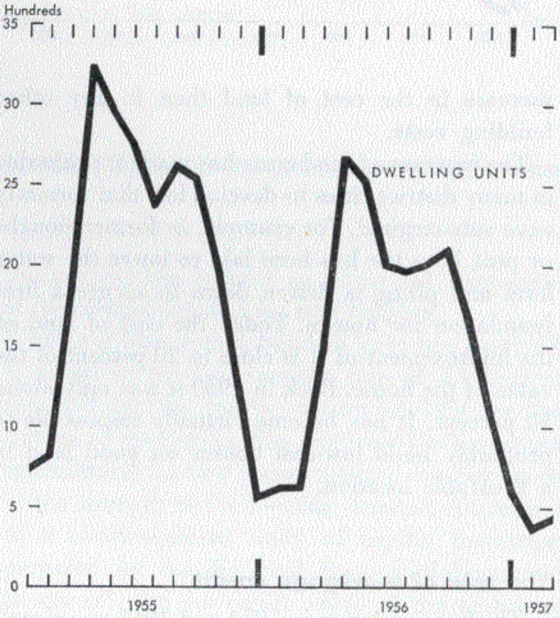
Although a large number of households are established by single individuals, widowed or separated persons, etc., most households are formed as a result of marriage. The number of marriages in this district, as may be observed on chart 2, declined annually from 1946 through 1949. More couples married in 1950, with the outbreak of the Korean War, but thereafter, in 1951 and 1952, the magnitude of the marriage decline was even greater than from the 1946-49 period.

Since then the number has remained at about the 1952 figure. For the period from 1950 to 1956 inclusive, the annual number of marriages in the Ninth district averaged 10,000 less than in the period from 1945 to 1949 inclusive.

With this decline in marriages fewer young couples with relatively low incomes have been looking for new houses. Hence, more families with medium or high incomes have been in the market.

Couples with growing families have created the major demand for larger houses. In the Ninth district, the average floor area has increased from 1,176 square feet in 1950 to 1,259 square feet in 1956. The most fundamental change in the use of space has been toward more bedrooms. Instead of two-bedroom houses those with three bedrooms predominate and houses are frequently provided with expansion space for a fourth bedroom. With TV having become a part of family life, a TV room or second living room has become part of the typical design of houses in the higher-price bracket.

CHART 3—NEW DWELLING UNITS IN DISTRICT

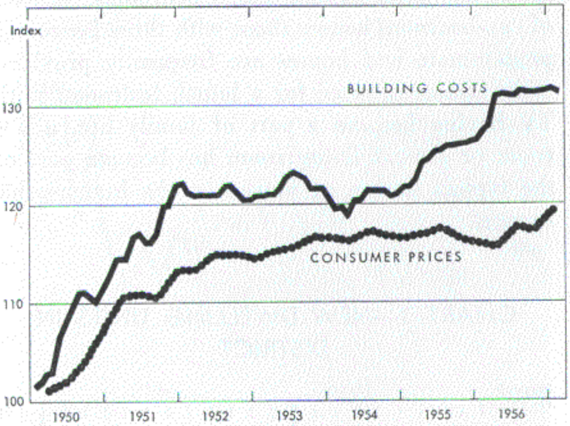


The rise in costs

Building costs have risen much faster than prices in general. From April 1954 to August 1956 in the Twin Cities metropolitan area, the cost of labor, materials and overhead of builders (E. H. Boeckh & Associates index of building costs) rose by 7 percent; the index of consumer prices rose by 2 percent. In addition there has been a sharper

CHART 4—BUILDING COSTS AND CONSUMER PRICES

Index numbers, 1947-49 = 100



increase in the cost of land than in any other building costs.

The increase of land costs has made it profitable in many district cities to develop lots that formerly were submarginal. For example, in former sloughs or peat bogs tile has been laid to lower the water level and piling is driven down to secure a firm foundation for houses. Today the cost of land or the improvement of it is close to 20 percent of the value of the house. Back in 1950 it was only about 10 percent. It has become virtually impossible to profitably build low-cost houses on good land in a favorable location.

The role of mortgage credit

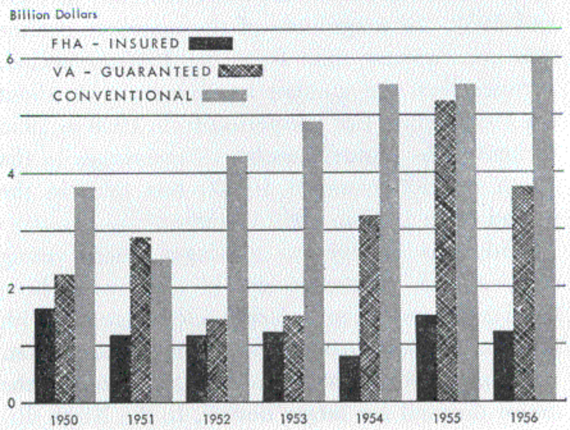
The housing boom in 1954 and 1955 was closely associated with the amount of credit directed into federally-underwritten mortgage loans. In the latter half of 1954 competition for home mortgage loans increased among lenders as the demand for funds receded in other sectors of the economy. As a result, large commitments were made to builders for VA-guaranteed and, to a lesser extent, FHA-insured loans at very attractive terms. Then, starting in early 1956, as the demand for funds rose in other sectors of the economy, commitments for both VA and FHA loans were cut back sharply.

This development in the home mortgage market is clearly revealed in the annual increase of mortgage debt outstanding by type of loan. In 1955, FHA and VA mortgage debt increased $2.8 million more than in 1954, while conventional debt rose by the same amount. In 1956 the increase in the amount of VA and FHA loans outstanding was more moderate, but conventional loans increased $600 million more than in the previous year.

In a period when lenders are cutting back on the amount of credit extended on mortgage loans, builders and realtors have expressed the view that the cutback is sharper in small cities and towns than in large metropolitan centers. This does not appear to be the case, however, since housing starts in metropolitan areas of 50,000 or more inhabitants have accounted for almost all of the decline since the spring of 1955.

CHART 5—ANNUAL NATIONAL INCREASE IN MORTGAGE DEBT

Nonfarm, one-to-four family properties.



Sources of data for above chart are: E. H. Boeckh & Associates index of building costs of frame residences in Minneapolis and St. Paul area. Bureau of Labor Statistics, all items for Minneapolis.

The number of VA loans closed in four district states and in the whole nation is compiled in the table. Although the decrease in the four-state region as a whole differs little from the national one, by states there is considerable variation in the 1956 decrease compared with 1955 figures. But this variation cannot be associated entirely with size of cities. For example, the number of VA loans closed in North Dakota was up nearly 9 percent from the preceding year; in South Dakota it was down by 26 percent.

For Minnesota the number of loans accepted for FHA insurance was down by 23 percent in 1956 from the 1955 figure. For Montana it was down 22 percent in the same period. Although the figures are not available for other district states, other mortgage data suggest that a similar decrease has taken place.

The decrease in the number of conventional mortgage loans closed during 1956 from the preceding year in the district was approximately equal to the countrywide decrease. The number of nonfarm mortgages recorded, for instance, was down 10 percent in the district and 8 percent nationally.

DECLINE IN VA LOANS CLOSED FOUR DISTRICT STATES AND U.S.

Change from a Year Ago

States	1956	1957
Minnesota	—26.0	—17.2[1]
Montana	—13.9	—12.2[2]
North Dakota	+ 8.6	+14.8[2]
South Dakota	—25.9	—36.3[2]
Four States	—23.4	—13.8[2]
United States	—21.9	—15.5[2]

[1] For the first quarter

[2] For January and February

Have we overbuilt?

Even though the rate of household formation has tapered off, the demand for new houses in most district communities has held up well, for several reasons. One is that the stock of existing houses in this district is relatively old.

According to the 1950 Census of Housing, more than half the district houses had been built in 1919 or earlier. In Minnesota, North and South Dakota and Wisconsin, from 53 percent to 56 percent of the houses were built prior to 1919. In Montana, however, less than half (48 percent) are of that vintage.

In the country as a whole only 45 percent of the houses had been built in 1919 or earlier, giving indication of a more modern stock of houses in other parts of the nation. So that in recent years, replacement has become an important component of the district demand for new housing.

Some evidence that builders have not overbuilt is found in the low vacancy rate of 2.1 percent reported for the fourth quarter of 1956 by the Bureau of the Census. The relatively low per capita expenditures for new houses are also some evidence of the strength of the housing demand. According to a comprehensive study of capital formation prepared by the National Bureau of Economic Research*, the per capita value of the additions made to residential real estate (in constant prices) has declined for several decades through 1952. Apparently, housing was downgraded substantially in the consumer's scale of preferences, and if this trend has continued it must be taken into account in any estimate of present and future housing needs.

*Grebler, Leo, Blank, David M., and Winnich, Louis, **Capital Formation in Residential Real Estate, Trends and Prospects**, Princeton University Press, 1956.

Summary

Residential building has dropped to a lower level during the past winter than it has been for several years. Nevertheless, the demand for new housing remains strong in many of the district's communities. In general, the number of vacant dwelling units still is a small percent of all units in the region. The number of federally-underwritten mortgage loans closed in this district has not been cut back significantly more than has the national figure during this period of tight credit.

Nonresidential construction shows continuing strength

In spite of the sharp cutback in residential building, the total construction picture is anything but weak. In terms of numbers of people at work and dollar value of construction, the building industry has been amply buoyed by activity in other-than-residential fields.

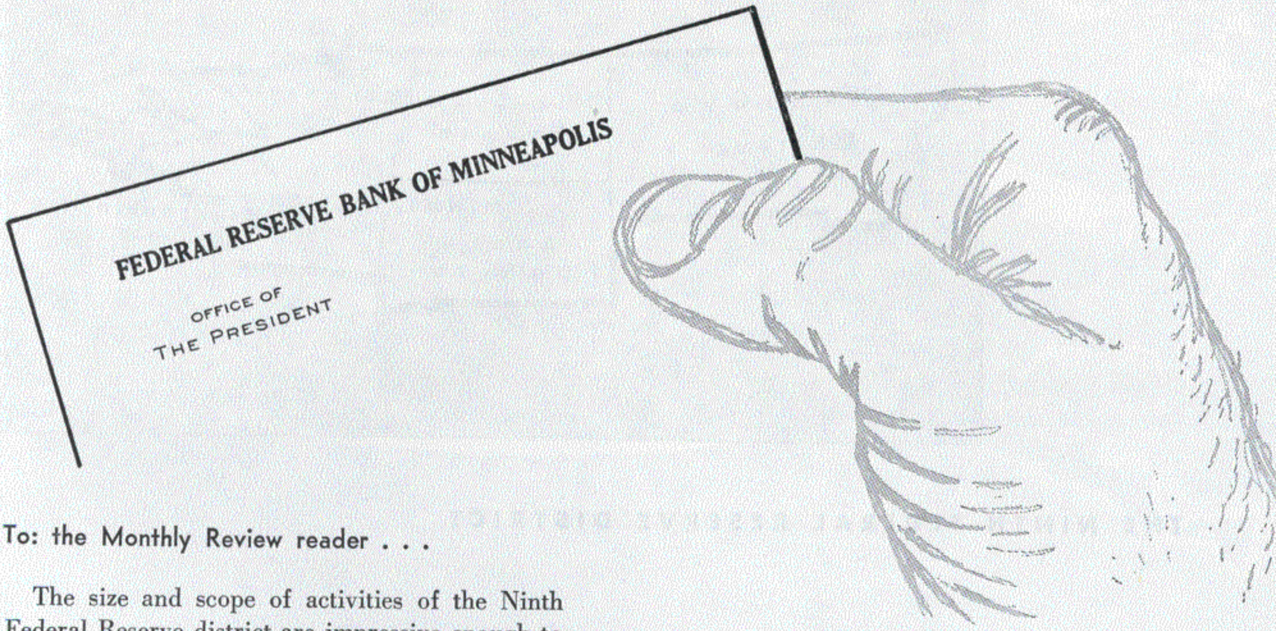
Employment in construction has been higher than a year ago in all Ninth district states except Minnesota and Wisconsin. The western half of the district—Montana, North Dakota and South Dakota—experienced a 17 percent greater level of employment in the fourth quarter of 1956 and in the first quarter of 1957. The eastern half of the district—Minnesota, northwestern Wisconsin and Upper Michigan—experienced a decline in employment comparable to that of a year ago. In Minnesota, employment in these two quarters was down 7 percent. In the entire state of Wisconsin, it was down 4 percent, which, of course, may or may not reflect the level of activity in the Ninth district portion of the state. Upper Michigan construction employment was up 1 percent.

The dollar amount of building permits authorized in the district during the fall and winter was well above the total amount issued one year previously. In the fourth quarter of 1956 the valuation of permits issued for all types of building except residential was 11.5 percent above the total for the corresponding period of 1955. In the first quarter of this year the amount of these permits issued continued to exceed the total of a year ago by 42 percent.

Contract awards also reveal a strong picture. The value of contracts awarded in the fourth quarter aggregated 64 percent more than in the corresponding quarter of 1955. In the first two months of this year the amount was up 19 percent. Educational facilities ranked first among types of building during the fourth quarter, while awards made for commercial building were a close second. Hospital, manufacturing and religious building ranked third, fourth and fifth respectively.

The volume of public construction has been growing, largely as a result of the construction of educational facilities. In the fourth quarter of 1956 it was 38 percent of all construction, compared with 32 percent in the same quarter of 1955.

All these factors give an aggregate picture of strength in the construction industry, with the nonresidential building taking up much of the slack in building materials and employment left by the cutback in home building.



To: the Monthly Review reader . . .

The size and scope of activities of the Ninth Federal Reserve district are impressive enough to long-time residents of this area; to a newcomer they are even more imposing. The 412,000 square miles stretching from the 'Soo' to the western border of Montana comprise a tremendous area with a broad natural resource base. Upon this base, a relatively sparse population has built the Ninth district economy. Even to a newcomer the importance of agriculture in the regional economy is immediately apparent, and this district naturally is classed as an agricultural district. But the mining, petroleum and lumber activities also are of key importance to the area and they, with the city concentrations of manufacturing, trade and transportation, share with agriculture the credit for the pattern and level of the district income structure. Future economic growth in this region naturally will depend upon how well we utilize our resource base and how well the people of the Central Northwest can work to develop new and expanding economic endeavor.

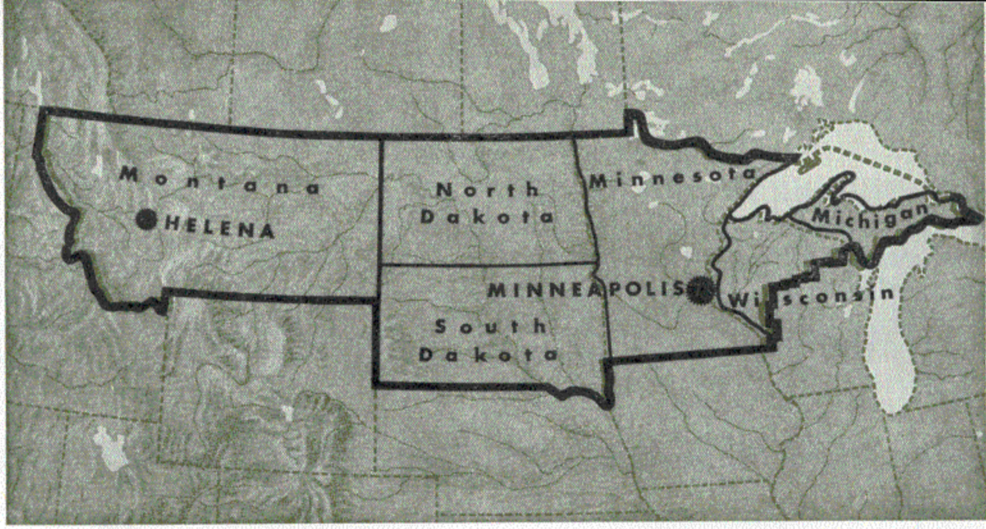
The Federal Reserve Bank of Minneapolis is one of the twelve regional reserve banks and as such shares with the other banks and the Board of Governors responsibility for formulation and implementation of Federal Reserve credit policy. One of the great strengths of the Federal Reserve is its regional organization, which permits the evolution of a national credit policy framed with appreciation of regional differences. Success of such credit policy depends not only upon wise formulation and implementation, however, but upon understanding of the reasons for and the workings of credit policy by the banking community and by the public at large.

This Review is published partly to aid in that understanding by detailing district economic developments and their implications as well as dealing with certain aspects of national economic and credit developments.

Frederick L. Deming

President

► *Mr. Deming became president of the Minneapolis Fed on April 1, coming here from the St. Louis Federal Reserve Bank where he was First Vice President.*



THE NINTH FEDERAL RESERVE DISTRICT

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Copies of the Monthly Review are available upon request to the Research Department, Federal Reserve Bank, Minneapolis, Minnesota.