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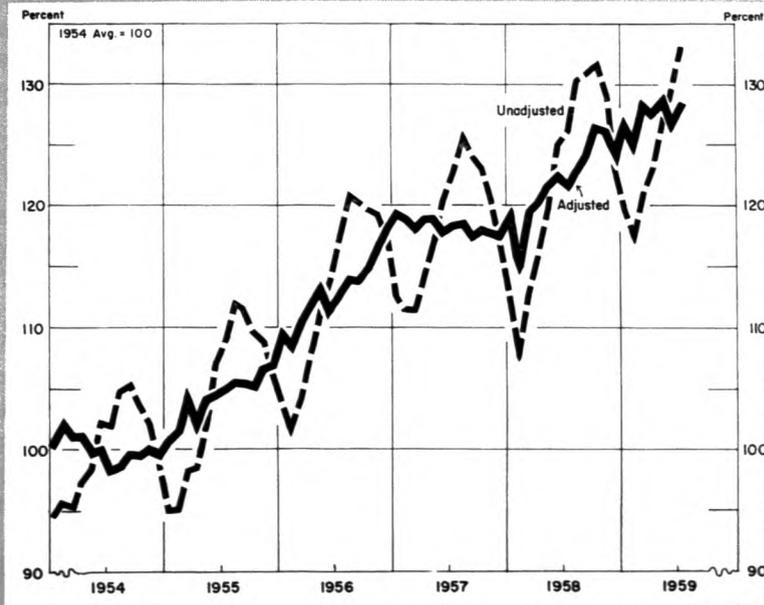
Construction Trends: *Letup After a Pickup?*

CONSTRUCTION ACTIVITY in the Sixth Federal Reserve District may be taking at least a temporary breather following an upturn that contributed substantially to general economic recovery in this region. If this is the case, it is in contrast to what many observers expected—that a downturn would have started by this time. Instead of acting as a drag on general business conditions, therefore, the construction industry in this District has continued to support a high level of business activity in recent months. Whether or not it will continue to play such a salutary role is, of course, open to question. Straws in the wind suggest that offsetting trends among the various types of construction activity may be developing to give at least a period of little change for the District as a whole. As yet, there is no clear evidence of the downturn many have been expecting.

Stability After Rise

The accompanying chart on construction employment in Sixth District states—Alabama, Florida, Georgia, Louisiana, Mississippi, and Tennessee—gives the best available indication of recent trends of construction activity in this region. Because the wide seasonal swings tend to obscure more basic changes, the actual employment figures, shown by

Construction Employment
Sixth District States, 1954-59



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the dashed line, have been adjusted to eliminate the average seasonal changes. As the resulting seasonally adjusted line shows, construction activity reached a record high in May of this year. After a slight decline in June, activity recovered somewhat in July, giving a picture of high-level stability for the last five months. A gradual rise had been under way since the first quarter of 1958. As a result of this expansion in activity, construction employment in the five months ending with July 1959 averaged about 9 percent higher than during the first quarter of 1958.

The recent high in construction activity, following an advance during 1958 and early 1959, it should be emphasized, is a general picture of developments in the six states. As an old saying goes, however, "All generalizations are false, including this one," the essential truth of which is suggested by considerable variation from state to state. The general picture perhaps comes closest to describing developments in Florida, Georgia, and Mississippi, where construction activity, as measured by employment, has been at a record or near-record after a period of sharp advance. Florida's upward trend, however, continued through the first seven months of this year, while activity in Georgia has been fairly stable at an advanced level for about a year, and in Mississippi there has been a slackening after an unprecedented rise in the first half of last year. The scene in Tennessee has been similar to the composite picture in that the growth continued through 1958 and has stabilized since then; the principal difference is that employment in Tennessee is still well below the record set in 1954. Alabama and Louisiana show the greatest variation from the composite picture. In those states, construction employment has shown no firm evidence of advancing in the last year and a half or two years, remaining well below earlier peaks.

Increase Nicely Timed

The fortunate timing of the growth in District construction activity is apparent when one considers that general economic activity in this region had been declining during the last half of 1957 and early 1958. Starting upward in early 1958, construction undoubtedly was a major factor in reversing the downward direction of business and in contributing to the economic recovery since about April last year. Even during the recession, construction employment held up well, providing support when it was needed.

Much of the credit for the construction industry's beneficial role over the last two years must go to homebuilding, the most important component of the construction industry. In this District, homebuilding began to pick up over two years ago, in the second quarter of 1957, and rose almost continually until it reached a record in the third quarter of 1958. Since that time, homebuilding has held at an advanced level.

During the 1957-58 recession, most observers expected a rise in homebuilding to follow easing of general credit demands and the increased availability of money. The sharpness of the rise, however, was probably greater than was expected. This, together with the expectation that increasing credit demands associated with economic recovery would draw investment funds away from mort-

gages, led to the belief that homebuilding could not be long sustained at the levels reached in late 1958. However, advance commitments, made in large volume when credit was relatively easy to finance homes built in more recent months, helped sustain homebuilding. Also helping were increases in yields on home mortgages and a continued large flow of savings into institutions specializing in home financing. These developments explain in large part why construction has not turned down.

True, homebuilding has been a major support in District construction, but it may yet be a source of uncertainty in the near-term outlook. The reasons leading to the expectation of a decline in homebuilding were, after all, valid ones. The realization simply may have been delayed. This possibility is suggested by housing starts for the nation which declined in May, and after a month of no change, again in July. In the meantime, mortgage funds have become somewhat less readily available than earlier in the year, and since national financial markets are an important source of funds for home financing in this District, this might have a depressing effect. Nevertheless, building permit data indicate the recent national decline in homebuilding has not yet been mirrored in this District.

Offsetting Trends Developing?

Although District homebuilding may well be lower in the coming months, developments in other types of construction also have to be reckoned with in assessing the overall industry. Detailed data on contract awards indicate that the increase during 1958 and early 1959 was due not only to greater homebuilding, but also to a sharp rise in commercial construction and in projects for building public works and utilities. Contracts for commercial construction have shown signs of leveling off recently, but unusually large projects for constructing public works and utilities promise to sustain District activity for some time. Another important development is that awards for industrial building, which were a serious drag on overall activity last year, have been up substantially this year. In general, these happenings are in accord with the findings of national surveys made earlier this year that businessmen plan to spend more for new plant and equipment this year than they did last year. If homebuilding eases off in the coming months, its role of sustaining economic activity may be taken over to an increasing extent by other types of construction activity.

That we are perhaps in for a period of watchful waiting is suggested by the index of construction contract awards included in the chart on the last page of this *Review*. A slight decline from the record volume set in March has occurred in recent months. Because the extraordinarily high volume reflected an unusual bunching of large projects which normally take a long time to complete, however, construction activity is likely to be sustained for a longer period than usual. Nevertheless, before a resumption of the upward movement in overall District construction activity can reasonably be expected, total contract awards will probably have to improve more than they did in July.

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