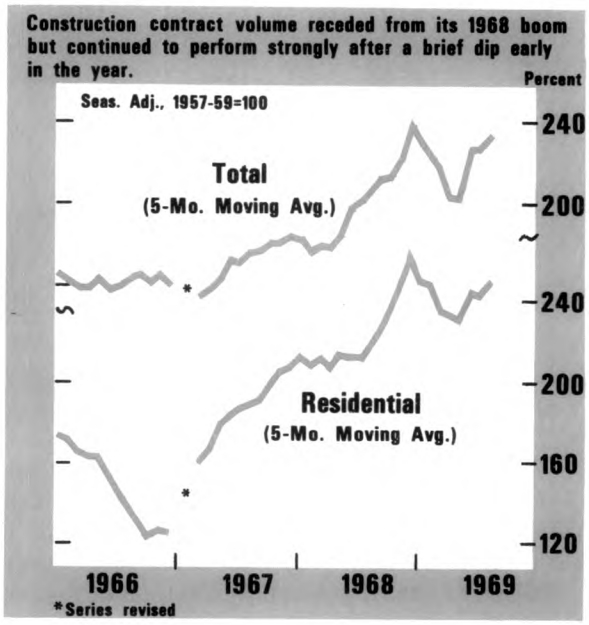
Construction Continues Strong

Rising interest rates and the declining rate of credit expansion contributed to a slowdown in construction during 1969. This slowing was much less, however, than one would ordinarily expect in an area of expenditure as sensitive to credit restriction as construction. Construction activity in dollars and measured by seasonally adjusted construction contracts was 14 percent higher in the first eleven months of 1969 than during the same period in 1968. This exceeded a 9 percent increase in the nation as a whole. Most of these increases are the result of higher prices; yet, the District and the nation showed small increases in the number of units constructed.

Although total construction volume increased in 1969, monthly construction activity, when allowance is made for seasonal change, peaked at the beginning of 1969, after climbing steeply in late 1968. It dipped early in the year, then ascended in late Spring to a high plateau. It remained on this plateau through October but decreased slightly in November.

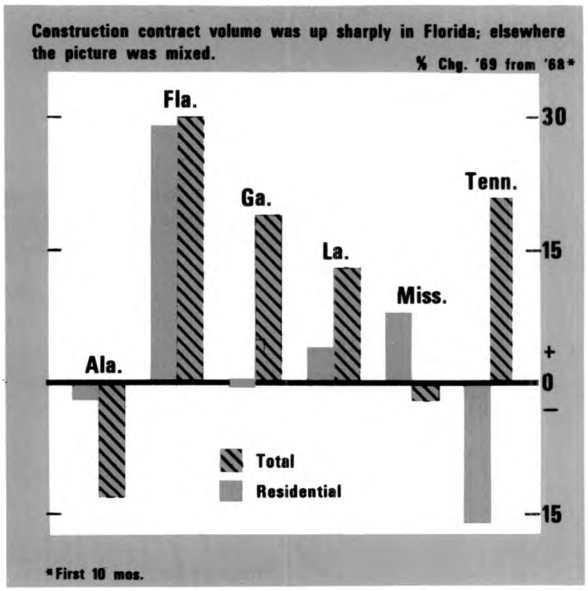
When compared with changes in construction activity during the tight money period of 1966, the region's 1969 construction performance appeared quite strong. This is particularly true for the residential sector of the industry. The 1969 decline in activity in this sector was considerably smaller than it was in 1966. This decline reflects weakness in construction of one-to-four unit structures. On the other hand, building of five-or-more unit structures increased and kept total residential construction activity from a decline of considerably greater proportions.



Nonresidential construction took up some of the slack left by declining residential construction. Part of this was accounted for by continued strength in private capital spending. Increases in public projects, such as roads, water and sewer systems, electric generating facilities, schools, and hospitals, also added to nonresidential expenditures. The largest of this latter group was a $300-

million electric generating facility in Hamilton County, Tennessee. It accounted for more than 30 percent of the dollar value of nonresidential construction contracts in that state in the first eleven months of 1969. When nonresidential construction was added to residential activity, construction remained strong—with consistently larger gains during the first eleven months of 1969 than in 1966.

The strength of total construction in 1969 was not evenly distributed among Southeastern states or areas within these states. Of all District states, Florida achieved the greatest growth in nonresidential and residential construction. Its strength offset weak performances by other states, particularly in residential construction.



The continuing boom in large apartment and condominium building in South Florida pushed the dollar value of residential construction in Florida from slightly over one-third in the years 1963-68 to almost one-half of the total of the volume of residential construction in the Sixth District states. Leading this boom were the Miami area, where residential construction during the first eleven months of 1969 was almost two-thirds above its volume in the same period in 1968, and the Tampa-St. Petersburg area, where the increase was one-third. Outside Florida, residential construction strength was found in the Savannah, Georgia, and Mobile, Alabama, metropolitan areas, both of which approximately doubled residential construction volume for the first eleven months of 1969 as compared with the same period in 1968. The performance of most other areas outside Florida was weak, however. Knoxville, Tennessee, and Birmingham, Alabama, showed the greatest declines. Residential construction was off about one-third in each.

Bases of Construction Strength

In spite of restricted credit, there has been continued strength in the construction sector of this region's economy. This reflects a combination of strong demand and changes in the institutions and methods by which construction is financed. The stock of residential units and the capacity of manufacturers' capital were put under pressure in 1969. Operating in many cases at near plant capacity, manufacturers were under pressure to expand plants or build new ones. At the same time, higher incomes, growing population, and vacancy rates which were down from low 1968 levels, intensified demand for additional units of housing.

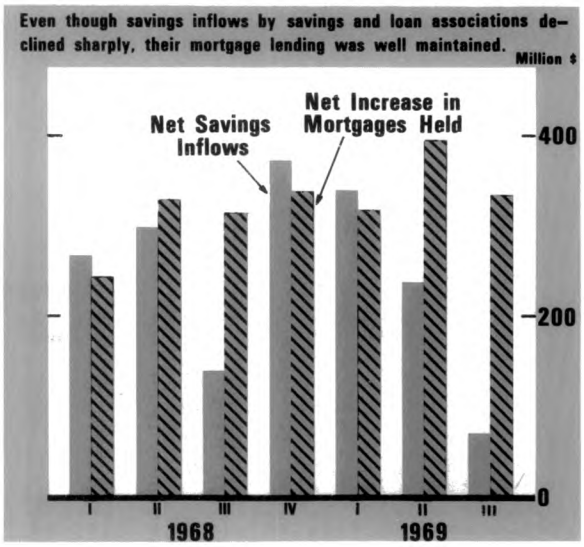
Demand was further intensified by expectations of rising construction costs. Because of these expectations, purchasers of houses and other construction were motivated to accelerate their purchases in an attempt to beat the gun on the next round of cost increases.

Within the region, Florida presented a special demand factor. The state has experienced continuing migration from other areas and increased income for its residents. The Florida population has thus gained a large number of people whose age, income, and asset levels make them prime customers for housing. Nonresidents' demand for second homes in Florida has also been an important factor in its housing market. These developments strengthened Florida housing demand which, as noted earlier, has become a dominant force in the Southeast.

Prospective buyers in the construction sector found financing more expensive and more difficult to obtain during 1969. Modified institutions and financing methods, however, prevented declines in availability of credit for construction from being as abrupt as in the past. Builders of multi-unit dwellings and of other rental buildings, such as shopping centers, managed to compete more effectively for funds through agreements which provide lenders with a share of the rental earnings of the project, as well as providing them with the usual interest payments. Mortgage investment trusts allowed increased channeling of funds through equity capital markets into construction financing.

Deposit flows into commercial banks and savings and loan associations, cash flows to life insur-

ance companies, and loan commitments to mortgage bankers were significantly slowed in this region, as elsewhere, when yields on securities of the U.S. Government, Federal agencies, states and municipalities, and corporations rose to record highs. The difficulties which faced these important mortgage lenders were reduced, however, by active mortgage market support from the Federal Home Loan Banks and the Federal National Mortgage Association. The activity of both of these organizations was an important factor in keeping residential construction expenditures on the one-to-four unit structures from paralleling its precipitous 1966 decline. The Federal Home Loan Banks, by reducing liquidity requirements and providing advances to savings and loan associations, have allowed these important residential lenders to maintain lending levels even in the face of decreased savings flows. At the same time, the Federal National Mortgage Association substantially increased its commitments to buy FHA and VA mortgages. The total value of commitments in the nation rose from about $800 million in the third quarter of 1968 to $2.1 billion in the third quarter of 1969. These commitments provide private mortgage lenders with a sure method of disposal of new mortgages when necessary; thus, they have aided in securing private funds for residential construction. Regional residential mortgage lenders took advantage of this support to make up some of the difference between their declining private savings flows and strong demand for mortgage and construction loans. Yet, as 1970 began, they were faced with large potential losses of lending capacity and were doubtful of their ability to sustain last year's lending volume.



BOYD F. KING

ANNOUNCEMENT

The Federal Reserve System paid the U. S. Treasury $3,019,000,000 during 1969. Under a policy adopted by the Board of Governors at the end of 1964, the Federal Reserve Banks' net earnings (after statutory dividends to member banks and additions to surplus) are turned over to the U. S. Treasury as interest on Federal Reserve notes. The Reserve Banks' net earnings in 1969 amounted to $3,097 million; dividends $39 million; and additions to surplus, $39 million.