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Residential Mortgage Market Changes: 1955-1957

FHA-INSURED AND VA-GUARANTEED real estate mortgages, with their usually easier than "conventional" mortgage terms, helped the building industry produce and sell more than 10 million dwelling units in the 10-year period since 1947. But the availability of these Federally underwritten loans varies sharply, considerably more than conventional mortgage loans, with changes in market rates of interest. In tight money periods, for example, when discounts appear and FHA and VA money becomes less available, builders' plans are at once affected, and absorption of secondary market discounts leads eventually to higher prices of houses. The experience of the last two years demonstrates the responsiveness of the housing market to changes in the availability of Federally underwritten mortgages.

Since mid-1955 changes in FHA and VA administrative regulations have been minor with the exception of an increase in the maximum allowable rate on FHA-insured mortgages in December 1956. In recent months the most significant Federal influence on the urban residential mortgage market has been the activity of the Federal National Mortgage Association. FNMA has experienced a fairly continuous increase in its secondary market operations since the mortgage market began to tighten early in 1955, and through both over-the-counter purchases of eligible mortgages and issuance of stand-by commitments "Fanny May" has performed a market-stabilizing service in a discount market.

The present temporary abatement of the housing shortage may prove to be short-lived, as rates of household formation and drop-out increase in the 1960's. Even in a period of rising demand for houses and increasing general prosperity, some kind of a mortgage instrument outside the conventional type will probably be made available. Perhaps the Federal Housing Administration can provide such an instrument with a minimum of Federal Government support and at the same time link its program to general monetary policy by making its rates more sensitive to changing market conditions.

Federal Reserve Bank of St. Louis

Residential Mortgage Market Changes: 1955-1957

AT THE END OF WORLD WAR II, returning servicemen were confronted with a housing shortage as severe as the country had ever experienced. The reasons for the deficiency of dwelling units were plain. During the 15 years that spanned the Great Depression and World War II less than five million private homes were put up, and as world conflict ended the American rate of household formation jumped sharply.

How great the shortage was is indicated by the fact that in 1947 close to three million married couples, or almost 9 per cent of the total, were without their own households. Ten years and more than ten million houses later, only one and a quarter million married couples, or just over 3 per cent of the total, are without their own households. The country is a long way from being "overbuilt," as some people have suggested; only 2.3 per cent of the housing supply was vacant and available for rent or sale in the first quarter of 1957. But the urgent shortage has temporarily abated.

The performance of the building industry over the past decade has been creditable indeed. In 1956, for the eighth year in a row, more than one million houses were constructed. In 1950 an all-time high of 1.35 million starts was reached, and 1955 was a close second with just over 1.3 million. It should be remembered, too, that production of this magnitude has been achieved by putting up single-family, sales-type structures as distinguished from rental-type, multi-family buildings.

It has been apparent for some time that construction achievements of this magnitude would have been unlikely without the assistance of Federally underwritten mortgages and the activities of the Federal National Mortgage Association. How the Federal government has stimulated construction of urban residences and owner occupancy of homes has been demonstrated in previous issues of this Monthly Review.[1]

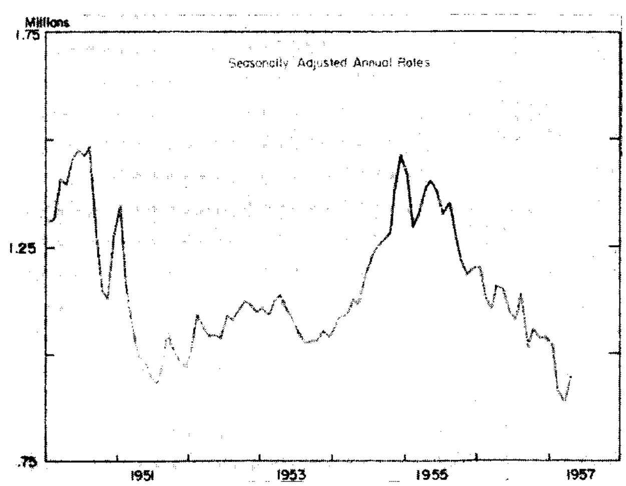
Mortgage Financing and Recent Residential Construction

A large proportion of house buyers can make only modest cash down payments and must fit monthly payments to limited budgets. The "easy terms" of FHA-insured and VA-guaranteed loans offer many families the only means of home ownership.

[1] For detailed historical discussions of Federal influence in the housing market, see the September 1953 and November 1955 issues of the *Monthly Review*, Federal Reserve Bank of St. Louis.

CHART I

NUMBER OF PRIVATELY OWNED PERMANENT NONFARM DWELLING UNITS STARTED



Source: United States Department of Labor.

Interest rates on conventional loans may in some cases be as low as those of FHA and VA loans, but conventionals will usually range from 0.25 to 1.00 percentage point per annum higher. The interest advantage is not as important, however, as the reduction of monthly payments which results from the usually longer amortization periods of Federally underwritten loans. Moreover, the down payment required by conventional lenders is seldom less than 25 per cent and may be as high as 40 per cent or more. Indeed, from the point of view of prospective borrowers, government-underwritten mortgages have only one serious drawback. Their availability decreases considerably more than that of conventional mortgages during periods of "tight money." The reason for the sensitivity of FHA and VA mortgages to changing yields may be briefly summarized.

Rates on conventional loans rise and fall with other interest rates; but rates of FHA and VA loans are fixed for long periods, and the attractiveness of these loans to lenders varies with changes in capital-market yields. The FHA Commissioner currently has authority, as market conditions change, to raise the rate charged borrowers as high as 6 per cent, exclusive of the 0.5 per cent fee for insurance, but the present statute places a ceiling of 4.5 per cent on VA loans. In practice both agencies generally have been reluctant to increase the financing charges for housing under their control. Experience suggests that institutional investors require a differential net yield of from 1.25 to 1.50 percentage points between long-term government bonds and mortgages.[2]

The consequence of this relation between Treasury bond yields and required net yields on Federally underwritten mortgages has been clear for some time. As bond yields rise, prices of Federally underwritten mortgages fall, for lenders can assure themselves a sufficient yield on the fixed-interest mortgages only by purchasing them at a discount. Contrariwise, as bond yields fall, prices of FHA and VA mortgages, after a brief time lag, rise. Furthermore, as money becomes tighter, maturities on FHA and VA loans tend to shorten, and down payments on VA loans, which are not determined by a schedule, increase. When money is easy, maturities on FHA and VA mortgages lengthen, and down payments on many VA loans fall to zero or actually become negative.[3]

In tight money periods, when discounts appear and FHA and VA money becomes less available, builders' plans are almost immediately affected. Builder and seller absorption of secondary market discounts, by allowing whatever yields permanent investors demand, prevents a sudden stoppage of the flow of funds to these mortgages. Clearly, though, the increasing cost of money must ultimately be paid by someone, and it is unrealistic to suppose that builders (or sellers) will absorb rising mortgage costs without eventually raising the price of the product. At higher prices fewer houses clear the market and the number of starts falls. Meantime, builders of more expensive homes, customarily financed by conventional loans, find their sales not materially affected by a rise of from 0.5 to 1.0 percentage point in interest charges, other terms remaining about the same.

The experience of the past two years bears out these conclusions. A remarkable upsurge of housing starts during the easy-money year of 1954 culminated in an annual rate of starts of 1.46 million in December of that year. Beginning in January, 1955, just after the initiation of a change in monetary policy, starts began a fairly steady decline which continued through 1955 and 1956 on into 1957. In March of this year starts fell to a seasonally adjusted annual rate of 880,000, rising in April, however, to an annual rate of 940,000.

The value of nonfarm residential construction was at an all-time high of $16.6 billion in 1955. A drop of 8 per cent to $15.3 billion in 1956 was not as great as the percentage decline in number of houses started for two reasons: costs were rising and a larger proportion of more expensive houses were built.

It is too soon to say what this year's construction will be. Predictions as low as 950,000 or even 925,000 starts are not uncommon, and it may be that total outlays on nonfarm residences will not exceed $14 billion by very much.

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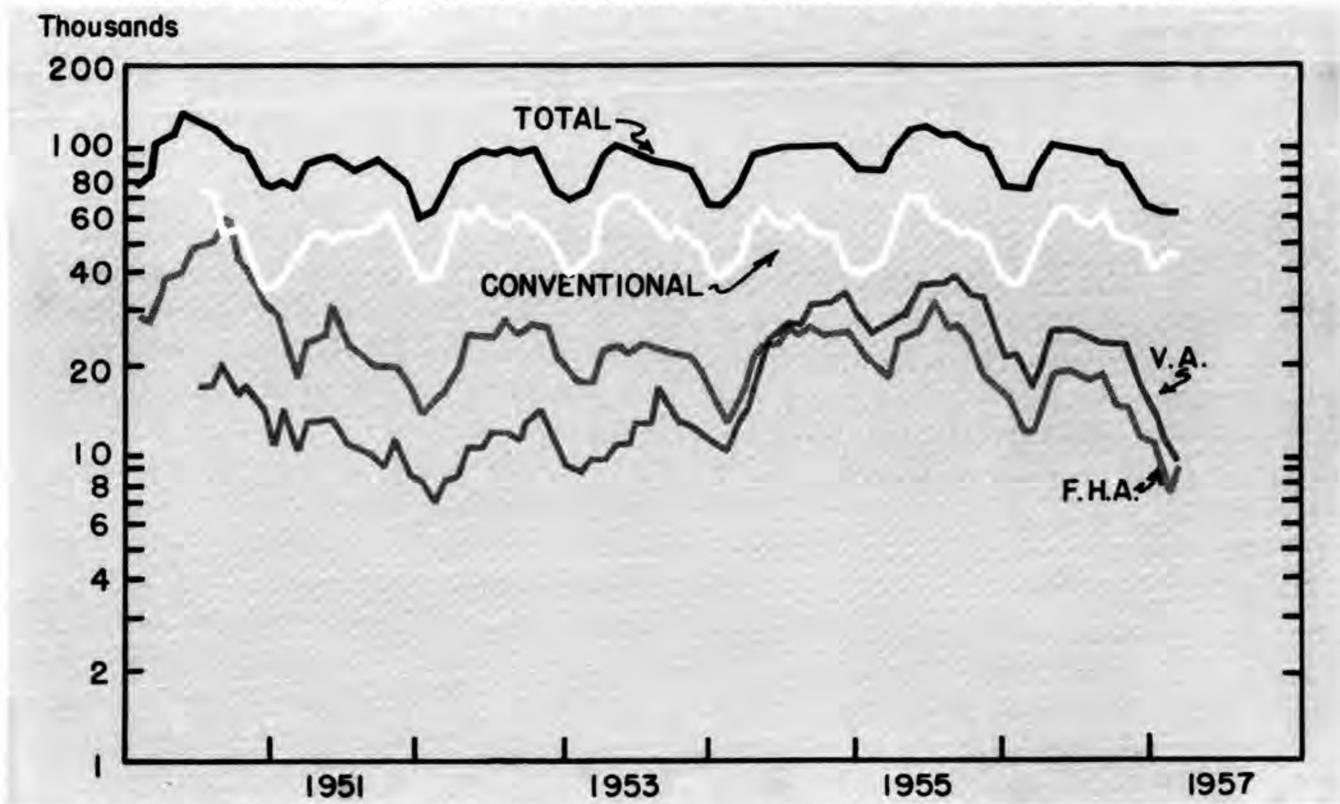
[2] Net yield is the yield after the cost of loan servicing and home-office expenses are deducted.

[3] Down payments have at times been "negative" in the sense that builders have paid all or part of the closing costs or closing costs have been added to the loan. At present, VA regulations require the veteran borrower to pay, in addition to closing costs, a down payment of 2 per cent of the purchase price of his house.

CHART II

NUMBER OF PRIVATELY OWNED PERMANENT NONFARM DWELLING UNITS STARTED, BY TYPE OF AID



Sources: United States Department of Labor, Federal Housing Administration, and Veterans Administration.

Just as the great impetus to home building during 1954 (and with a lag on into 1955) was associated with more liberal terms to borrowers, so the decline of the past two years has coincided with less favorable terms. As Chart II shows, the decline in nonfarm starts has been in the units financed by Federally underwritten mortgages. An examination of dollar amounts of conventional recordings of $20,000 or less yields corroborating information. In 1954 the amount of FHA home loans insured was just under $2 billion; this figure rose to over $3 billion in 1955 and fell back to $2.6 billion in 1956. The amount of VA home loans partially guaranteed rose from $4.3 billion in 1954 to the unprecedented sum of $7.2 billion in 1955 and declined to $5.9 billion in 1956. Meanwhile, conventional recordings rose from $16.8 billion in 1954 to $18.2 billion in 1955 to $18.6 billion in 1956. Conventional recordings thus actually increased in 1956 while FHA and VA home loans were declining.

Data available for the first four months of 1957 indicate a continued decline in the number and proportion of houses begun with arrangements for Federally underwritten financing. The total number of private housing starts during the first quarter of 1957 was about 20 per cent smaller than in the first quarter of 1956. At the same time starts under conventional financing have been at about the levels of 1955 and 1956. Conventional financing is currently accounting for about 70 per cent of all private nonfarm starts and about the same percentage of purchases of existing houses.

Changes in Federal Housing Regulations

With one exception, changes in FHA and VA administrative regulations have been minor in the last two years. A regulation of the VA published July 30, 1955, placed maturity and down payment limitations on veterans' loans ". . . pending possible changes in economic conditions and until further legal changes (regulatory or statutory)." On any properties for which a request for appraisal was received on or after July 30, 1955, the veteran purchaser was required to make a cash payment of 2 per cent of the selling price in addition to closing costs, and the loan could not have a maturity in excess of 25 years and 32 days. In January 1956, however, the Veterans' Administration restored maximum maturities to the old length of 30 years.

By a regulation of July 30, 1955, terms on FHA insured loans were similarly restricted. As in the case of VA loans, the maximum permissible amortization period was shortened to 25 years and 32 days. The down payment schedule on both existing and new property was changed to require an additional down payment of 2 per cent of the FHA valuation. However, in January, 1956, the maximum maturity of 30 years authorized by the Housing Act of 1954 was restored, and in the latter part of 1956 down payments on certain low-priced houses also were eased. Effective March 29, 1957, down payments were reduced by two percentage points on houses valued at more than $9,000, so that the FHA down payment schedule provided by the Housing Act of 1954 was restored.[4]

In December, 1956, the Federal Housing Administration increased the maximum interest rate on FHA insured mortgages from 4.5 per cent to 5 per cent, exclusive of the 0.5 per cent fee for insurance. Market reaction to this administrative change was not especially favorable; almost immediately there was an increase in the discounts then existing on the old 4.5 per cent mortgages, and the new 5's likewise began to sell at discounts. In recent weeks there has been a slight improvement in some localities in prices paid for the 5's, the FHA reporting a national average of $97.30 for each $100.00 of outstanding mortgage amount on May 1, 1957. Prices range from $96.80 in the western states to $99.00 in the northeastern region.

In recent months the most significant Federal influence on the urban residential mortgage has been the activity of the Federal National Mortgage Association. As reported previously, FNMA was rechartered under the Federal Housing Act of 1954 and began operations in November, 1954, on a new basis. Under the new charter FNMA was reorganized to undertake three separate and distinct functions. The Association was to continue to provide a secondary market for Federally underwritten residential mortgages, it was to furnish special assistance for financing of mortgages originating under regular and special housing programs, and it was to manage and liquidate the portfolios acquired under its previous charter. The Association was directed to maintain separate accountability for each of the three types of operation.

It is the secondary market operations which are of chief interest to home builders and mortgage lenders. As Table 1 shows, there has been a fairly continuous increase in secondary market operations since the mortgage market began to tighten early in 1955. By now there is little question that the new "Fanny May" has performed a market-stabilizing service in a discount market.

The rules, of course, have been changed. FNMA is directed to purchase and sell only such mortgages

[4] For this schedule in detail, see the *Monthly Review*, Federal Reserve Bank of St. Louis, November, 1955, page 126.

TABLE 1

FEDERAL NATIONAL MORTGAGE ASSOCIATION ACTIVITIES

SECONDARY MARKET OPERATIONS

(DOLLAR AMOUNTS IN THOUSANDS)

	Purchases		Liquidation by Repayments only		Liquidation (all types)	
	No.	Amt.	No.	Amt.	No.	Amt.
1954						
Nov.	1	$ 13	....	....	....	....
Dec.	1	11	....	....	....	....
1955						
Jan.	16	142	....	....	....	....
Feb.	14	103	....	....	....	....
March	117	805	....	$ 1	....	$ 1
April	180	1,257	....	3	....	3
May	313	2,537	....	5	....	5
June	533	4,599	....	12	....	12
July	600	5,177	....	17	....	17
Aug.	835	7,338	....	30	....	30
Sept.	877	7,769	....	42	....	42
Oct.	1,385	12,607	....	60	....	60
Nov.	1,625	15,458	1	95	1	95
Dec.	2,987	28,257	....	128	....	128
1956						
Jan.	2,085	20,329	1	163	92	1,008
Feb.	2,702	26,519	....	211	1	216
March	2,528	25,129	....	247	23	489
April	2,270	22,524	....	294	63	905
May	2,364	23,977	....	331	133	1,201
June	3,164	33,867	2	424	64	828
July	3,579	39,538	4	462	21	622
Aug.	3,975	42,541	3	541	46	1,097
Sept.	3,611	39,819	4	618	82	1,597
Oct.	5,981	65,463	7	767	54	1,353
Nov.	11,442	127,266	8	901	12	932
Dec.	9,533	107,566	5	1,195	12	1,255
1957						
Jan.	12,916	144,820	6	1,298	14	1,371
Feb.	11,016	126,693	7	1,663	93	2,258
March	9,913	116,247	14	1,893	26	1,995
April	7,606	89,345	14	2,050	31	2,208
TOTAL	104,169	$1,137,716	76	$13,451	768	$19,728

Source: Federal National Mortgage Association.

as are of a quality to meet the purchase standards required by private investors. Over-the-counter purchases of eligible mortgages are at prices which vary according to area and market terms and are set in accordance with continuing price surveys to reflect average market prices.[5]

In order to prevent excessive use of FNMA's facilities, a purchase and marketing fee of 0.5 per cent of the unpaid principal balance is charged in connection with the purchase of a readily marketable mortgage; a fee of 1.0 per cent is charged in connection with the purchase of mortgages of lesser marketability. Finally, sellers of mortgages to FNMA are required to subscribe to common stock of the Association in an amount which can never be less than 1.0 per cent of the unpaid principal amount of the mortgages sold. A 2 per cent stock subscription is presently required.[6]

It will be apparent that FNMA thus provides a minimum price floor for lenders on eligible mortgages but no longer furnishes a par market for any paper that a lender happens to have. Moreover, FNMA's common stock has up to now sold considerably below its issuing price of 100. At one point in late spring it traded at approximately $.65 on the dollar; a seller disposing of his stock at such a price would be paying an additional two-thirds of a point for the privilege of selling to FNMA.

Fanny May is of maximum assistance to the market when it can make some kind of advance commitment, for with assurance of a specified price for the permanent mortgage builders can more readily obtain construction financing. The FNMA Charter Act of 1954 originally authorized the Association's board of directors to reinstitute its one-for-one purchase-and-sale program, but this was never done. By a bill approved August 7, 1956, FNMA was authorized to issue advance commitments in its secondary market operations ". . . only at prices which are sufficient to facilitate advance planning of home construction, but which are sufficiently below the prices then offered by the Association for immediate purchase to prevent excessive sales to the Association pursuant to such commitments."[7]

The trade refers to these commitments as "stand-by" commitments. Contracts are for twelve-month periods and are presently made upon payment of a fee of 1.5 per cent of the amount of the commitment, of which 0.5 per cent is for the purchase of FNMA stock. If subsequently the mortgages are sold, the seller must buy additional stock equal to 1.5 per cent of the amount of the sale.[8] In its stand-by commitment procedure the Association had outstanding at the end of April 1957, commitments involving 11,448 mortgages, totaling $140,353,000. FNMA legislation does not prescribe any limitation on the amount of its stand-by commitments, but when added to immediate-purchase obligations they may not exceed the Association's over-all authority. In practice when the Association executes a stand-by commitment, available funds are obligated to that extent, and funds available for the purchase of mortgages on immediate-purchase basis are decreased accordingly.

As of February 20, 1957, FNMA had a purchasing authority for the secondary market operation of $1,138 million, most of which had been used. On that date approximately $90 million was available for additional contracts, both on an immediate-purchase and a stand-by basis. At mid-March this amount was practically exhausted.

At the last moment, however, legislation was passed and approved which increased FNMA's borrowing authority. By the act FNMA's authority to sell preferred stock to the Secretary of the Treasury was increased by $50 million. Because FNMA can borrow funds for its secondary market activity by selling obligations to private investors in an amount equal to ten times its capital and surplus, the Association can now sell an additional $500 million in debentures for money to purchase qualified mortgages. These borrowings plus the $50 million received from the sale of preferred stock to the Treasury gave the Association an additional $550 million for immediate-purchase and stand-by commitments. FNMA's total borrowing authority at the end of April, 1957, was $1,690,557,120, of which an estimated $558,922,000 was available for additional purchases.

No one expected the March legislation to do more than tide Fanny May over an uncomfortable interim, and various proposals to increase purchasing authority in the secondary market operations have been forthcoming. In H.R. 6659 (the "Edmondson Bill") the House recently approved the issuance of additional

[5] In the last purchase price schedule of the Chicago agency, which includes ten midwestern states, current prices were as follows:
FHA 5's
10 per cent or more equity: 98½
Less than 10 per cent equity: 98
VA and FHA 4½'s
10 per cent or more equity: 94½
Less than 10 per cent equity: 94
Prices in Michigan were ½ point less for each category.

[6] Between August 2, 1954, and August 7, 1956, the stock subsciption requirement was set at 3 per cent. On August 9, 1956, the stock subscription was changed to 2 per cent, and on September 21, 1956, it was further reduced to the legal minimum of 1 per cent. Effective January 5, 1957, it was raised to the present level.

[7] *Background and History of the Federal National Mortgage Association, op. cit.,* page 19.

[8] Current prices of stand-by commitments at the Chicgo agency are 90 for the 4½'s and 94 for the 5's. FNMA recently expanded its stand-by commitment procedure to include stand-by commitments for the purchase of multi-family housing mortgages (FHA sections 207 and 213) at a price of 93 and a term of two years.

preferred stock totaling $125 million, which would increase FNMA's borrowing power by $1.25 billion. Other suggested amounts range up to the $4.5 billion which a representative of the National Association of Home Builders has recently asked Congress to provide. A sum of the latter magnitude would be sufficient to restore Fanny May's activity to the old free-wheeling days of 1948-1950, when FNMA support of Federally underwritten mortgages at 100 prevented the appearance of a discount market.

Rapidly Growing Housing Demand and the Federal Agencies

Temporary abatement of the housing shortage in the mid-1950's was made easier by a drop in the rate of household formation consequent upon the low birth rates of the early and middle '30's. The respite has proved short-lived, however. Indeed, in only one year, 1954, did household formation fall as low as the 600,000 annual rate expected for several years. In 1955 and 1956 the rate was apparently in excess of 800,000, and for the current year it is estimated to be 900,000 or a little more.

Estimates of demolition, dilapidation, and other withdrawal of houses from the nation's inventory are difficult to obtain. During the 1940's something like 50,000 dwelling units a year were destroyed by catastrophies, and drop-out on account of obsolescence and dilapidation probably averaged about 250,000 units a year. Demolition of houses has increased during the 1950's on account of highway and freeway construction, and there is little question that rising incomes will cause Americans to insist upon a higher future rate of drop-out because of obsolescence. Moreover, provision must be made for replacement of substandard dwelling units, conservatively estimated at around six million.

It seems likely that a current annual rate of starts of 1,200,000 would just about offset current drop-out and net household formation. This figure will grow as the rate of household formation rises sharply in the early and middle '60's. A decade from now the United States may well require an annual rate of construction of dwelling units substantially above the size of the average for the 1950's.

Thus, demand conditions as well as the economic climate in coming years are likely to be altogether different from what they were in the 1930's, when the old-line housing agencies were established. The

TABLE II

NUMBER OF MORTGAGES OFFERED TO FEDERAL NATIONAL MORTGAGE ASSOCIATION FOR PURCHASE, BY MONTHS

	Month	Number		Month	Number
1954	November	2	1956	January	3,000
	December	35		February	2,450
				March	2,390
				April	2,966
1955	January	46		May	4,432
	February	226		June	4,523
	March	315		July	4,392
	April	427		August	5,762
	May	569		September	9,659
	June	1,096		October	16,405
	July	899		November	14,977
	August	1,495		December	10,371
	September	2,008			
	October	3,236	1957	January	10,981
	November	3,182		February	8,473
	December	3,002		March	7,005
				April	6,121
				Total	130,445

Source: Federal National Mortgage Association.

question to be faced in the years ahead is this: In view of a rapidly increasing demand for housing during a period of prosperity, what kind of Federal assistance will be required by the private housing market?

The historical record shows that the FHA was created in a period of low interest rates and depression to bring about recovery in the stricken construction industry. FNMA was originally created in 1938 to furnish a market for FHA loans. After World War II, FNMA was raised to major status primarily to furnish a market for VA loans as money for those loans threatened to dry up in 1948. And, of course, guarantee of mortgage loans by the Veterans' Administration was established in order to facilitate the return of servicemen to civilian life.

The old device of Federally underwritten mortgages, combined with FNMA purchase of these mortgages when their fixed interest rates fell below market rates, has frequently required a Government-supported market. Funds for this purpose have been raised indirectly through the sale of FNMA debentures rather than through the purchase of mortgages by established lenders in the secondary market.

Future demands for housing credit will probably be accommodated in part with a mortgage loan outside the conventional type. Perhaps the Federal Housing Administration could supply this nonconventional type of mortgage loan and still operate with a minimum of Federal Government support by exercising its statutory right to make the rate on FHA loans flexible. By making rates on Federally underwritten mortgages more sensitive to changing market conditions, Federal assistance to housing could be linked to general monetary policy.

Ross M. Robertson

Federal Reserve Board Reprints

The reprints listed below may be obtained upon request to the Division of Administrative Services, Board of Governors of the Federal Reserve System, Washington 25, D. C.

(From Federal Reserve Bulletin unless preceded by an asterisk)

The History of Reserve Requirements for Banks in the United States. November 1938. 20 pages.

Historical Review of Objectives of Federal Reserve Policy. April 1940. 11 pages.

Measurement of Production. September 1940. 16 pages.

Federal Reserve Bank Lending Power not Dependent on Member Bank Reserve Balances. February 1941. 2 pages.

Adjustment for Seasonal Variation. Description of method used by Board in adjusting economic data for seasonal variation. June 1941. 11 pages.

Estimates of Gross National Product, 1919-28. September 1945. 2 pages.

Values and Limitations of Consumer Financial Surveys for Economic Research. March 1947. 9 pages.

Banking Assets and the Money Supply Since 1929. January 1948. 9 pages.

Sales Finance Company Operations in 1947. July 1948. 6 pages.

The Philippine Central Bank Act and Text of the Act. In part a reprint from the August 1948 Bulletin. 36 pages.

New Statistics of Interest Rates on Business Loans. March 1949. 10 pages.

Notes on Foreign Currency Adjustments. November 1949. 14 pages.

Measurement of Consumer Credit. November 1950. 9 pages.

*The Treasury–Central Bank Relationship in Foreign Countries–Procedures and Techniques. November 1950. April 1951. 19 pages.

House Purchases in the Five Months Following the Introduction of Real Estate Credit Regulation. July 1951. 23 pages.

Revised Indexes of Department Store Sales and Stocks. December 1951. 53 pages.

Revised Weekly Index of Department Store Sales. April 1952. 4 pages.

Real Estate Loans of Registrants under Regulation X. June 1952. 18 pages.

Revised Series on Department Store Sales, Stocks, and Orders. October 1952. 5 pages.

Recent Central Banking Developments in Southeast Asia. December 1952. 9 pages.

The Monetary System of the United States. February 1953. 16 pages.

Influence of Credit and Monetary Measures on Economic Stability. March 1953. 16 pages.

Federal Financial Measures for Economic Stability. May 1953. 7 pages.

*Detailed Description of Sources and Methods Used in Revision of Short- and Intermediate- Term Consumer Credit Statistics. April 1953. 25 pages.

Federal Reserve Bank Responsibilities. May 1953. 5 pages.

United States Postwar Investment in Latin America. May 1953. 6 pages.

Department Store Sales and Stocks, by Major Departments (Revised Indexes). November 1953. 65 pages.

Federal Reserve Monthly Index of Industrial Production, 1953 Revision. December 1953. 96 pages.

Extensions and Repayments of Consumer Instalment Credit. January 1954. 14 pages.

New Indexes of Output of Consumer Durable Goods. May 1954. 15 pages.

The Private Demand for Gold, 1931-53. September 1954. 10 pages.

Recent Financial Changes in Western Germany. October 1954. 10 pages.

World Trade and Production in 1953-54. October 1954. 10 pages.

Use of Monetary Instruments since Mid-1952. December 1954. 8 pages.

Directly Placed Finance Company Paper. December 1954. 8 pages.

Seasonal Adjustment Factors for Demand Deposits adjusted and Currency Outside Banks. March 1955. 4 pages.

United States Banks and Foreign Trade Financing. April 1955. 11 pages.

Bankers' Acceptance Financing in the United States. May 1955. 13 pages.

Selected Liquid Asset Holdings of Individuals and Businesses. July 1955. 2 pages.

A Flow-of-Funds System of National Accounts, Annual Estimates, 1939-54. October 1955. 40 pages.

Banking and Monetary Statistics, 1955. (Selected series of banking and monetary statistics for 1955 only.) February and May 1956. 12 pages. (Similar reprint of 1954 data, February and May 1955 Bulletins.)

The 1957 Budget. February 1956. 11 pages.

International Gold and Dollar Flows. March 1956. 11 pages.

1956 Survey of Consumer Finances. Preliminary Findings. March 1956. 3 pages. The Financial Position of Consumers. June 1956. 14 pages. Consumer Indebtedness. July 1956. 17 pages. Durable Goods and Housing. August 1956. 17 pages. Similar Surveys are available for earlier years from 1952, 1953, 1954, and 1955 Bulletins.

Survey of Bank Loans for Commercial and Industrial Purposes. Business Loans of Member Banks. April 1956. 14 pages. Credit Lines and Minimum Balance Requirements. June 1956. 7 pages. (Other articles on this Survey will appear in later issues of the Bulletin.) Reprints on a similar Survey are available from March, May, June, July, and August 1947 Bulletins.

Financing of Large Corporations, 1951-55. June 1956. 9 pages. (Also, similar reprint from June 1955 Bulletin.)

Bank Credit and Money. July 1956. 7 pages. (Also, similar reprint from February 1956 Bulletin.)

Survey of Common Trust Funds. August 1956. 6 pages.

World Trade and Payments in 1955-56. October 1956. 8 pages.

Revision of Consumer Credit Statistics. October 1956. 24 pages. (Also, similar reprint from April 1953 Bulletin.)

Index of Electricity and Gas Output. October 1956. 15 pages.

Farm Loans at Commercial Banks. November 1956. 16 pages.

United States Banking Organization Abroad. December 1956. 16 pages.

Survey OF CURRENT CONDITIONS

Released for publication June 2

BUSINESS ACTIVITY in the Eighth Federal Reserve District declined slightly during May. Industrial production and total loans by large district banks eased more than the usual amount and construction contracts awarded in April were less than a year earlier. Nevertheless, business activity has been fairly stable so far this year as seen by the small change in employment in the district's major areas. Department store sales were also unchanged on a seasonally adjusted basis in the first four months of the year and in May were about equal to a year ago. The steadiness in business activity in this district and the nation was further demonstrated by the small change in average wholesale prices. Consumer prices, however, continued to rise in April and were expected to climb further.

With activity leveling out in recent months, business sentiment remained cautious, as indicated by the slower rate of inventory building. Yet, confidence was also widespread, as seen in the recent rise in stock prices and substantial plans for plant expansion. Sentiment was also buoyed by the increase in first quarter profits over a year ago.

Industry

Production of several important commodities declined in the Eighth District in May. Manufacturing of household appliances slowed somewhat in May and further cutbacks were scheduled in June, reflecting the slow rate of sales in recent months. Steel mills in the St. Louis area operated at an average rate of about 85 per cent of their rated capacity through four weeks of May, as compared to an average rate of 95 per cent in April. Southern pine production in the first three weeks of May was down a little from the April rate and was about 8 per cent smaller than in the same weeks of last year. Partially offsetting these declines in durable goods production was the addition at mid-month of a second shift at an auto assembly plant in Louisville which is expected to increase output of the plant by 75 per cent.

Livestock slaughter in the St. Louis area during May was at about the April rate and was slightly higher than last year. Numbers of cattle and calves slaughtered were running below last year, while hogs and sheep numbers were well above those of a year ago.

District crude oil production in the first two weeks of May, after declining slightly in April, returned to the high rate held through the first quarter of the year, and was 4 per cent higher than a year ago.

Construction

The value of both residential and nonresidential construction contracts awarded in the district in April was less than a year earlier. The decline in residential awards was a continuation of the downtrend which has persisted for some time in private home building. For the first four months of the year, however, the value of residential awards was greater than a year ago because of a substantial rise in publicly owned housing awards in February which more than offset the lag in private awards.

The decline in nonresidential construction awards in April was a reversal of the trend established in the first quarter of the year.

The largest gains in new construction undertaken have been in public works and utilities. In the first three months of the year awards were about 60 per cent greater than a year ago.

Labor Markets

Labor market conditions in the district's major metropolitan areas improved less than usual in the first four months of the year. Total employment in nonagricultural establishments changed little from January to April, in contrast to an increase of about one per cent in the same period last year. In the past year total employment has declined slightly in four metropolitan areas. Only Evansville and Springfield experienced increases. In May, however, claims for unemployment insurance decreased more than a year ago. For the week ended May 18, claims in Louisville were still more than double the number last year, in St. Louis they were slightly greater, but in Memphis and Evansville they were less.

Trade

Retail sales in recent weeks have been well maintained but at less than record levels. Department store sales in April, after allowance for seasonal factors and the difference in trading days, continued at the same level as in the first quarter of the year, 125 per cent of the 1947-49 average, compared with an average index of 129 in the last half of 1956. In the first four weeks of May and for the year to date district department store sales about equaled year earlier volumes.

Shifts in the pattern of consumption in the past year could be seen in the reports from retail stores. Demand for durable goods in recent months has been weaker than a year ago. Sales at furniture stores and of house furnishings at department stores in the district in the February-April period declined in comparison with the like 1956 period. New automobile sales also continued to lag in April and May. The demand for clothing this spring, however, has been better. Sales of clothing at apparel stores and department stores in the district were slightly greater in the three months ending in April than a year earlier.

With total sales about on a par and stocks greater than a year ago, district department stores reduced outstanding orders in the early part of the year. Thus, by the end of April stocks were lowered to about the same level as a year ago. However, store managers were apparently expecting some improvement in sales, since outstanding orders at the end of April were 3 per cent larger than a year ago.

Banking

The demand for credit eased somewhat at the larger banks in the district during May. Total loans (except interbank) at district weekly reporting banks declined $37 million or more than 2 per cent during the five weeks ended May 22, somewhat more than usual for this period. All major loan categories showed net reductions except "other", largely consumer loans. At banks reporting information on the industry of borrowers, manufacturers of textiles, apparel and leather and public utilities made larger than average net repayments for this time of year. On the other hand sales finance companies and trade concerns added to their outstanding indebtedness.

Total investment holdings were reduced $20 million at weekly reporting banks in the district. The reduction centered in Treasury notes, probably reflecting the maturing of a major issue on May 15. However, the decline in Treasury notes was offset in part by some net purchases of Treasury certificates of indebtedness and other securities.

Total deposits at the weekly reporting district banks also declined somewhat more than usual in the five weeks ended May 22. Most of the deposit withdrawals were in demand accounts of individuals, businesses and other banks. Reflecting the outflow of funds, these banks reduced their cash assets and increased their borrowings.

Agriculture

Excessive rainfall continued to delay farming operations in a large part of the district during May. For example, by May 21 only about 5 per cent of the soybean crop and less than 20 per cent of the corn crop had been planted in Illinois. At the same date last year 75 per cent of the corn and 53 per cent of the soybean crops had been planted. Cotton planting, although nearly completed by May 20, was two or three weeks later than usual. However, at the same time, soybean planting in the Mid-South was almost finished.

The spring rains have had a favorable effect on small grains and grazing crops in the district. Winter wheat was generally in fair to good condition, although it will need some warm, sunny weather for proper development. Pastures made excellent progress from a slow early spring start and were considered good to excellent over most of the district in May.

Nationally, prices received by farmers rose 2 per cent during the month ending April 15 and were 3 per cent above a year ago. Prices paid by farmers rose 1 per cent, establishing a new high for the month. The mid-April parity ratio of prices received to prices paid increased 1 per cent from that of the previous month but was 2 per cent lower than a year ago.

Reflecting generally higher average prices, district cash farm income for the first quarter of 1957 was 7 per cent above that of 1956. All district states except Arkansas shared in the gains. The greatest increases in income occurred in the Corn Belt states primarily as a result of substantially higher prices received for cattle and hogs.

VARIOUS INDICATORS OF INDUSTRIAL ACTIVITY

	Apr. 1957	Apr. 1957* compared with Mar. 1957	Apr. 1957* compared with Apr. 1956
Industrial Use of Electric Power (Thousands of KWH per working day, selected industrial firms in 6 district cities)	n.a.	n.a.	n.a.
Steel Ingot Rate, St. Louis area (Operating rate, per cent of capacity)	95	— 3%	— 2%
Coal Production Index—8th Dist. (Seasonally adjusted, 1947-49=100)	96.1 p	+ 7	— 8
Crude Oil Production—8th Dist. (Daily average in thousands of bbls.)	390.2	— 1	+ 2
Freight Interchanges at RRs—St. Louis. (Thousands of cars—25 railroads—Terminal R. R. Assn.)	98.2	—11	— 8
Livestock Slaughter—St. Louis area. (Thousands of head—weekly average)	115.0	— 9	— 3
Lumber Production—S. Pine (Average weekly production—thousands of bd. ft.)	207.5	+ 3	— 6
Lumber Production—S. Hardwoods. (Operating rate, per cent of capacity)	73	—10	—17

* Percentage change is shown in each case. Figures for the steel ingot rate, Southern hardwood rate, and the coal production index, show the relative percentage change in production, not the drop in index points or in percents of capacity.

p Preliminary. n.a. Not available.

BANK DEBITS[1]

	April 1957 (In millions)	April, 1957 compared with March 1957	April, 1957 compared with April 1956
Six Largest Centers:			
East St. Louis—National Stock Yards, Ill.	$ 152.4	+ 7%	+ 9%
Evansville, Ind.	187.6	— 1	+17
Little Rock, Ark.	198.8	+ 2	-0-
Louisville, Ky.	858.5	+ 1	+ 2
Memphis, Tenn.	788.4	+ 2	+15
St. Louis, Mo.	2,457.1	— 3	+ 6
Total—Six Largest Centers	$4,642.8	— 1%	+ 7%
Other Reporting Centers:			
Alton, Ill.	$ 39.5	+ 1%	+ 3%
Cape Girardeau, Mo.	17.1	— 3	+12
El Dorado, Ark.	32.0	+ 3	+ 9
Fort Smith, Ark.	61.1	+12	+ 9
Greenville, Miss.	26.2	— 3	+ 6
Hannibal, Mo.	11.2	-0-	+ 9
Helena, Ark.	8.5	+ 5	— 2
Jackson, Tenn.	27.1	+ 5	— 5
Jefferson City, Mo.	106.4	+39	+18
Owensboro, Ky.	47.4	+ 3	+ 9
Paducah, Ky.	28.2	— 2	+ 6
Pine Bluff, Ark.	38.9	— 4	+ 4
Quincy, Ill.	42.7	+ 6	+10
Sedalia, Mo.	21.3	+37	+43
Springfield, Mo.	94.4	+ 5	+ 5
Texarkana, Ark.	19.3	-0-	— 9
Total—Other Centers	$ 621.3	+ 9%	+ 8%
Total—22 Centers	$5,264.1	-0-%	+ 7%

INDEX OF BANK DEBITS—22 Centers
Seasonally Adjusted (1947-1949=100)

1957 April	1957 March	1956 April
179.4	165.5[2]	167.9[2]

[1] Debits to demand deposit accounts of individuals, partnerships and corporations and states and political subdivisions.

[2] Seasonal adjustment factors revised.

Agriculture

CASH FARM INCOME

(In thousands of dollars)	Mar. 1957	Percentage Change: Mar. '57 from Mar. '56	Jan. thru Mar. 1957 compared with 1956	Jan. thru Mar. 1957 compared with 1955
Arkansas	$ 18,377	—37%	— 2%	+25%
Illinois	162,050	+19	+21	+35
Indiana	79,055	+ 8	+11	+12
Kentucky	22,418	+45	+15	—22
Mississippi	21,710	+19	+10	+19
Missouri	65,032	+22	+ 3	+11
Tennessee	21,533	+12	+ 6	+14
7 States	390,175	+13	+12	+17
8th District	[1]148,104	+ 8	+ 7	+13

Source: State data from USDA preliminary estimates unless otherwise indicated.

[1] Estimates for Eighth District revised based on 1954 Census of Agriculture.

Construction

CONSTRUCTION CONTRACTS AWARDED IN EIGHTH FEDERAL RESERVE DISTRICT *

(Value of contracts in thousands of dollars)

	March 1957	Feb. 1957	March 1956
Total	$134,068	$130,255	$121,102
Residential	44,496	65,349	50,497
Nonresidential	53,811	26,315	52,831
Public Works and Utilities	35,761	38,591	17,774

* Based upon reports by F. W. Dodge Corporation.

ASSETS AND LIABILITIES OF EIGHTH DISTRICT MEMBER BANKS

(In Millions of Dollars)	Weekly Reporting Banks: May 22, 1957	Weekly Reporting Banks: Change from Apr. 17, 1957	All Member Banks: Apr. 24, 1957	All Member Banks: Change from Mar. 27, 1957
Assets				
Loans [1]	$1,594	$— 37	$2,635	$— 1
Business and Agricultural	819	— 40		
Security	49	— 3		
Real Estate	279	-0-		
Other (largely consumer)	473	+ 6		
U. S. Government Securities	840	— 26	1,872	+78
Other Securities	227	+ 7	493	+ 2
Loans to Banks	18	— 7		
Cash Assets	864	— 57	1,427	—13
Other Assets	41	— 2	75	+ 1
Total Assets	$3,584	$—122	$6,502	$ + 67
Liabilities and Capital				
Demand Deposits of Banks	$ 627	$— 71	$ 708	$—14
Other Demand Deposits	1,997	— 77	3,864	+73
Time Deposits	596	+ 1	1,335	+ 6
Borrowings and Other Liabilities	76	+ 23	83	— 1
Total Capital Accounts	288	+ 2	512	+ 3
Total Liabilities and Capital	$3,584	$—122	$6,502	$ + 67

[1] For weekly reporting banks, loans are adjusted to exclude loans to banks; the total is reported net; breakdowns are reported gross. For all member banks, loans are reported net and include loans to banks; breakdown of these loans is not available

DEPARTMENT STORES

	Net Sales: April, 1957 compared with Mar. '57	Net Sales: April, 1957 compared with Apr. '56	Net Sales: 4 mos. '57 to same period '56	Stocks on Hand	Stocks-Sales Ratio	Percentage of Accounts and Notes Receivable Outstanding Apr. 1, '57, collected during March: Instal. Accounts	Excl. Instalment Accounts
8th F.R. District Total	+14%	+12%	-0-%			16	46
Fort Smith Area, Ark. [1]	+18	+13	— 2			—	40
Little Rock Area, Ark.	+25	+ 8	— 3			14	43
Quincy, Ill.	+28	+ 9	— 7	Monthly stocks and stocks-sales ratio data not available in time for publication in the *Monthly Review*. Data will be supplied upon request.		—	—
Evansville Area, Ind.	+15	+ 8	+ 2			—	—
Louisville Area, Ky., Ind.	+26	+11	— 1			16	40
Louisville (City)	+24	+ 3	— 6			—	—
Paducah, Ky. [1]	+25	+26	+ 7			—	—
St. Louis Area, Mo., Ill.	+10	+15	+ 1			16	56
St. Louis (City)	+ 7	+ 9	— 3			—	—
Springfield Area, Mo.	+ 6	+ 3	+ 2			—	—
Memphis Area, Tenn.	+11	+13	+ 1			17	31
All Other Cities [2]	+27	+ 4	— 1			—	—

[1] In order to permit publication of figures for this city (or area), a special sample has been constructed which is not confined exclusively to department stores. Figures for any such nondepartment stores, however, are not used in computing the district percentage changes or in computing department store indexes.

[2] Fayetteville, Pine Bluff, Arkansas; Harrisburg, Mt. Vernon, Illinois; Vincennes, Indiana; Danville, Hopkinsville, Mayfield, Owensboro, Kentucky; Chillicothe, Missouri; Greenville, Mississippi; and Jackson, Tennessee.

Outstanding orders of reporting stores at the end of April, 1957, were 3 per cent larger than on the corresponding date a year ago.

INDEXES OF SALES AND STOCKS—8TH DISTRICT

	Apr. 1957	Mar. 1957	Feb. 1957	Apr. 1956
Sales (daily average), unadjusted [3]	123	107	98	115
Sales (daily average), seasonally adjusted [3]	125	125	125	123
Stocks, unadjusted [4]	n.a.	141	134	144
Stocks, seasonally adjusted [4]	n.a.	133	141	137

[3] Daily average 1947-49=100

[4] End of Month average 1947-49=100

n.a. Not available.

RETAIL FURNITURE STORES

	Net Sales: April, 1957 compared with Mar. '57	Net Sales: April, 1957 compared with Apr. '56
8th Dist. Total [1]	+ 4%	-0-%
St. Louis Area	+ 1	+ 1
Louisville Area	+17	— 8
Memphis Area	+ 8	—16
Little Rock Area	+ 5	—14
Springfield Area	—25	+ 5

* Not shown separately due to insufficient coverage, but included in Eighth District totals.

[1] In addition to the following cities shown separately in the table, the total includes stores in Blytheville, Fort Smith, Pine Bluff, Arkansas; Owensboro, Kentucky; Greenwood, Mississippi; Evansville, Indiana, and Cape Girardeau, Missouri.

Note: Figures shown are preliminary and subject to revision.

PERCENTAGE DISTRIBUTION OF FURNITURE SALES

	Apr.'57	Mar.'57	Apr.'56
Cash Sales	15%	14%	13%
Credit Sales	85	86	87
Total Sales	100%	100%	100%