November 21, 1947

Chairman Eccles — Inflationary aspects of

Ramsay Wood — residential building and mortgage lending

In accordance with your request, transmitted through Mr. Thomas, I have prepared the attached memorandum and tables on inflationary aspects of residential building and mortgage lending. I hope to have some additional material on Monday.

I am also attaching a copy of a statement sent to Dr. Jack Levin for the use of Senator Flanders' Subcommittee on Cost Factors and Cost Reduction in Housing.

RW

Attachments

RW:elh

INFLATIONARY ASPECTS OF RESIDENTIAL BUILDING AND MORTGAGE LENDING

Summary

The current housing shortage can be alleviated only in part by production of housing. The demand for housing at current prices is so far in excess of the supply of houses available plus what can be built quickly, that, if corrective measures are not taken, inflationary pressures will persist in this part of the economy until prices have been pushed up to the point at which few families can afford to buy.

The volume of residential building is already in excess of capacity at stable costs, and costs have risen. The recent stabilizing of costs is attributable in large part to a better flow of materials during the summer, and a consequent improvement in efficiency on the job. Shortages are again appearing, however, and prices of materials and wage rates have continued to advance.

The demand for housing is being supported by the large volume of readily available credit. Over half of the mortgage credit being extended is sponsored in some fashion by the Federal Government, and an additional portion is amenable to some Federal control. It seems desirable that steps be taken to curtail as much as possible the availability of credit, especially that underwritten by the Federal Government.

The volume of building

Residential building has increased markedly in the past two years, as Tables 1 and 1-A show. The predominant feeling, both in Federal housing agencies and in trade circles, is that the housing shortage will be cured only by continuing, or increasing, the current rate of building, and that any attempt to restrict mortgage credit will reduce building, make the housing shortage worse, and add to inflationary pressures.

Actually, it would probably be better to reduce somewhat the current rate of residential building, if, at the same time, measures were adopted to reduce the demand for housing in the market. We are now probably building beyond our capacity. The argument that we are building fewer houses in 1947 than in 1925 overlooks the fact that the rise in the early 1920's was more gradual than in the last three years, and that, in the earlier period, the whole economy had time to adjust to the higher level of building. It also overlooks the fact that many of the worst houses built in the 1920's were built in 1925 and 1926, and the fact that the 1925 rate was not sustained.

Evidence that we are trying to build too much is to be found in the fact that, as Table 1-A shows, the number of unfinished houses has been increasing almost without interruption. The widespread complaints of shortages of nails, cast iron pipe, sheet steel, mill-work, and similar items, and the "grey market" for nails, steel, and lumber (some of which are mentioned in the attached Notes on Building Materials Supplies) are further evidence that supplying industries cannot, at present, support the current level of building. The quality of building is also declining, and the Veterans Administration has had to institute an inspection procedure for new houses built with guaranteed or insured loans.

Mortgage lending

Probably the largest single factor responsible for the present inflationary boom, aside from the inadequacy of the housing supply, is the availability of easy credit. A great many families are encouraged to believe that they can improve their housing conditions because they can borrow on easy terms, and while the number of potential buyers remains large, builders have little incentive to hold their costs down. The volume of mortgage lending has been increasing, and the great bulk of this lending is on old houses.

Lending sponsored by the Federal Government has been increasing, both in amount, and in proportion to the total, as Table 2 shows. There is some duplication in the table, since the loans of insured savings and loan associations include loans insured by the Federal Housing Administration and insured or guaranteed by the Veterans Administration. It is not clear, however, that, if FHA and VA guarantees were not available the total of loans made by insured associations would have been substantially less.

A general reduction of the availability of mortgage credit would reduce the demand for housing -- both old and new -- and, if it were ~~not~~ too severe, would hold demand to a level which would permit the largest volume of building consistent with reasonable stability of costs and prices. If credit is not curtailed, there is a serious danger that housing will be "priced out of the market." It seems wiser to curtail building slightly in the next few months, if necessary, and make possible more stable building for a longer period, than to encourage a higher level of building at increasing costs, which will result in a cessation of building before the housing supply has been increased appreciably.

Table 1.

Non-farm Dwelling Units Started
in the United States
(Thousands)

Year	Total
1922	716
1923	871
1924	893
1925	937
1926	849
1927	810
1930	330
1933	93
1936	319
1939	515
1941	715
1942	497
1944	169
1945	225
1946	776
1947	860 e/

e/ Estimated.

Table 1-A

Permanent New Nonfarm Family Dwelling Units
(In thousands)

Period	Started	Completed	Under construction (end of period)
Monthly			
1946			
January	38	16	160
February	42	17	185
March	62	19	228
April	67	21	274
May	67	25	316
June	64	31	349
July	63	37	375
August	65	43	397
September	58	50	405
October	58	56	407
November	48	61	394
December	39	63	370
1947			
January	40	63	347
February	44	60	331
March	58	58	332
April	69	60	341
May	73	60	354
June	77	63	368
July	80	66	382
August	86	70	398
September	92	77	413
October p/	92	82	423

Note:--Data from Department of Labor. Only new permanent family dwelling units built in nonfarm areas are represented, including units financed with public funds and with private funds, and units built by conventional methods and with varying amounts of prefabrication. Single person accommodations, conversions, trailers, and all temporary structures are excluded.

p/ Preliminary

Table 2

New Mortgage Loans Made Under Federal Sponsorship
1-to-4 Family Houses
(Amounts in millions of dollars)

	All loans made	Loans made under Federal sponsorship				
		Total	Percent of all loans made	Associations Ins. by Fed. Savings and Loan Ins. Corporation	Ins. by Federal Housing Adm.	Ins. or guaranteed by Vet. Adm.
1939	2,873	1,250	44	581	669	-
1941	3,810	1,773	47	883	890	-
1945	4,701	2,023	43	1,449	474	100
1946	9,453	5,523	58	2,799	422	2,302
1947 e/	11,000	7,054	64	2,922	830	3,302

e/ Estimated by Federal Reserve

Note:--Loans made by associations insured by the Federal Savings and Loan Insurance Corporation include some loans insured by the Federal Housing Administration and insured or guaranteed by the Veterans Administration. In 1947 such loans may have amounted to about one billion dollars. If such duplication could be eliminated, the proportion of all loans made under Federal sponsorship, might be about 50 per cent in 1946 and 55 per cent in 1947.

NOTES ON BUILDING MATERIALS SUPPLIES

Statements have appeared in the press and trade journals recently, indicating that the current demand for building materials is pressing hard upon available supplies. The National Association of Real Estate Boards reported in a survey of some 300 cities that "New construction is using up building materials as fast as present factory capacity can produce them." Specific materials reported in short supply in from one-half to two-thirds of the cities were cast iron soil pipe, hardwood flooring, plumbing equipment, rock lath, mineral wall board, and mill-work.

Further indication of the pressure of demand for building materials on supply is given by the Plumbing and Heating Industries Bureau, spokesman for the combined industries, which revealed that although production of plumbing equipment this year will probably be the highest on record, demand is conthuing so strong that supplies are still inadequate.

Local building materials dealers in the Washington area report that nails, rock lath, lumber, brick, mortar, and cement are the items in shortest supply. The local shortages of cement and lumber reflect not only strong demands of the construction industry but also the freight car shortage.

The building material shortage has revived the "black or 'premium' market." A local dealer has reported receiving offers of several thousand kegs of nails at from $12 to $15 a keg when the "legitimate market price" was $8.95 a keg. Lumber prices have risen to new high levels with dealers willing to pay premium prices for quick delivery. As one West Coast lumerman reported, "Prices are determined these days by adding something to the last rumored price of a competitor. Buyers seem to be willing to pay any price." This falling is reflected, for example, in the price of two by fours at West Coast mills, now selling for $72.50 per thousand board feet, double the last OPA ceiling price and compared with $40 last May and $60 in August.