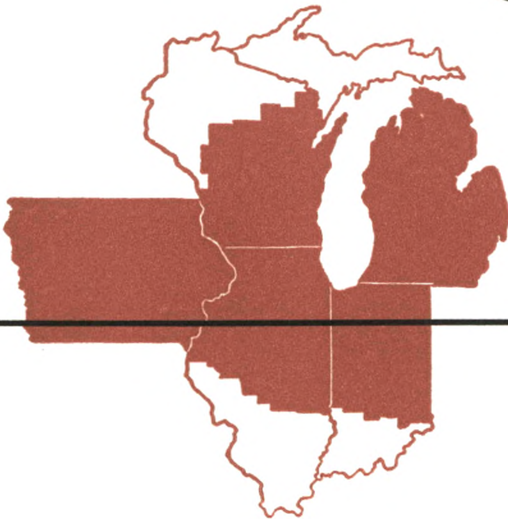
A review by the **Federal Reserve Bank of Chicago**

Business Conditions



1953 September

Contents

Rising inventories—
a storm warning 2

Cattle feeding:
a risk outlet for corn 5

Sales patterns at department stores 10

Home-building pace slackens 11

Loan trends 16

The Trend of Business 8-9

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Rising inventories—a storm warning

Current size of business holdings a real problem if sales falter.

AT MIDYEAR, inventories of manufacturers and trade firms hit a record high of 77.6 billion dollars—up 2.2 billion from March on a seasonally adjusted basis. This rapid growth in stocks, perhaps more than any other single factor, raises a question as to the ability of the economy to maintain second-quarter activity levels through the remainder of the year. More than half of the 10 billion dollar gain in total output from the first to the second quarter was traceable to additions to business inventories.

Whether or not current levels of inventories are "too high" is a moot question. Expectations as to price trends and projected sales; the balance of manufacturers' holdings of raw materials, goods-in-process, and finished goods; and changing merchandising practices all play a part in business judgments. The most usable objective standard is the ratio to current sales. On this basis, inventories do not appear high when compared with past experience. Aggregate stock-sales ratios at midyear remained below year-ago figures and appeared moderate in most cases when compared to the average for the post-World War II period.

Only in such fields as farm machinery, new and used automobiles, household appliances, wood products, and tires have holdings of finished goods become so large as to merit special comment. Nevertheless, inventories are highly adequate in virtually all lines, and a weakening of sales would shortly render existing stock-sales comparisons obsolete. Meanwhile, some businessmen confess themselves to be uncertain concerning the level of inventories which is most desirable now that "normal competitive markets" are at hand. Many manufacturers in particular have been selling on the basis of backlogs in recent years. They are not averse to building stockpiles of finished goods, but they question how far the process should go.

Leaving aside the problems of particular firms and industries, the economy as a whole would be affected by the repercussions arising from an end to the inventory growth of the second quarter. The following table shows the contribution of inventory accumulation to total purchases of goods and services during the past year:

(seasonally adjusted annual rates, in billions)

	Gross National Product	Inventory rise	Final sales
1952			
III quarter	345.3	4.2	341.1
IV quarter	361.1	8.5	352.6
1953			
I quarter	362.0	2.9	359.1
II quarter	372.0	8.8	363.2

Inventories are not expected to continue to expand at the 9 billion annual rate of the second quarter. In fact, there is evidence that third-quarter growth has been much slower. A decline in business buying for stock, not offset by a rise in the purchases of final buyers, would bring a decline in over-all activity. Such a development would result in lowered income and employment and the possibility that the record activity totals of the second quarter of 1953 will stand as the high-water mark of the post-Korean boom.

Manufacturers' durables lead the rise

Almost half of the second-quarter rise in inventories was accounted for by producers of durable goods, particularly makers of machinery, electrical goods, and motor vehicles. Except for the interruption of last year's steel

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strike, manufacturers of hard goods have been building stocks fairly continuously since the start of the Korean war, partly to accommodate military orders. In June 1950, durables amounted to 49 per cent of all manufacturing inventories. By June 1953 this proportion had climbed to 57 per cent.

Almost all of the recent increase in inventories of manufacturers of durable goods has been for civilian purposes. The end of inventory and production controls and the enormous outpouring of steel products has enabled these producers to build stocks to a point considered adequate for efficient production scheduling. In some cases, holdings may have become more than "adequate." Buyers had been egged on by the prospect of shortages resulting from another steel strike and the expectation, since realized, of higher prices.

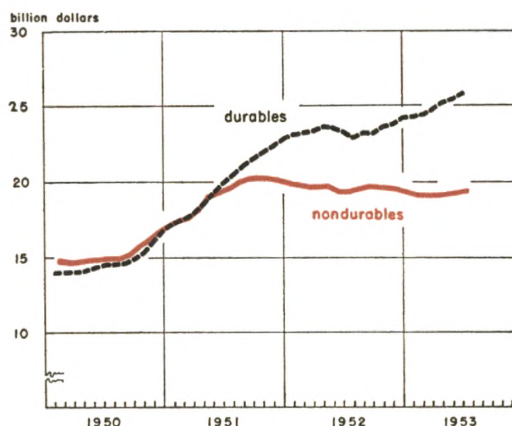
An important part of this year's rise in durable goods manufacturers' inventories came about as a result of higher prices and does not represent a larger physical volume. In the month of June most of the increase came in the "purchased materials" category which has been directly affected by price increases.

Inventories of nondurable manufacturers also rose in the second quarter, but the gain was moderate. In fact, holdings of this group are still about 5 per cent below 1951 peaks, despite the fact that sales have been considerably higher than at that time. This is especially true in the case of processors of foods and textiles. In part, smaller stocks merely represent lower prices, but it is generally conceded that soft goods producers have followed conservative inventory policies.

Retailers remember '51

Merchants also built inventories in the second quarter, almost as rapidly as manufacturers. Nevertheless, as in the case of nondurable producers, total retail holdings remained below the highs of 1951, despite substantially larger sales. In the spring and summer of the earlier year many retailers sweated

Growth in manufacturers' hard goods inventories continues



out heavy deliveries of goods which had been ordered during the buying fever of prior months.

In the 12 months ending June 30, retailers added 1.5 billion dollars, over 7 per cent, to their holdings. More than half of this rise was accounted for by automobile dealers. Potential dealer stocks on August 1 were 13.2 per dealer according to "Automotive News." A year before, the number was only 3.9. Stocks at most other retailing categories were higher than a year or even a few months earlier, but the process for the most part has been selective and geared to strong consumer demand.

Fears of higher prices and shortages had little or no place in retailers' recent deliberations on buying policies. High production and the extent of manufacturers' holdings of finished goods have assured dealers that additional stock could be had on short notice. In addition, many businessmen have been skeptical of the continuance of recent sales volume. Under these circumstances, it is doubtful that much of the recent moderate rise in retail holdings has been involuntary in nature.

Most departments of Seventh District department stores showed considerably higher

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stocks at the end of June than a year earlier —the total was up 10 per cent. Except foı women's apparel and homefurnishings, however, sales appeared to have kept step with larger stocks. Men's apparel sales have been especially good, and stocks are expected to rise further to accommodate fall business.

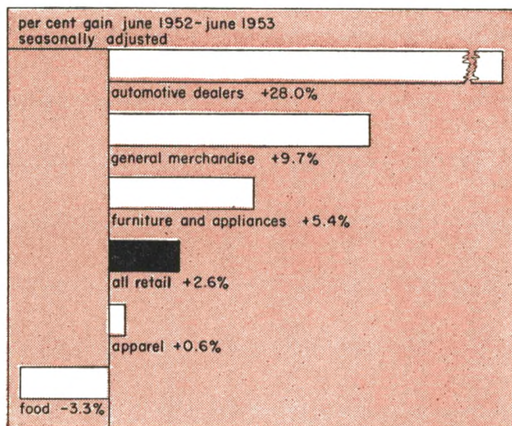
1949—an inventory recession

The part played by inventory movements in initiating and amplifying business fluctuations perhaps is appreciated more fully today than in the past. The moderate business slide which began in the fall of 1948 can be considered to have been almost entirely an inventory phenomenon.

Total output of goods and services (the gross national product) fell about 10 billion dollars on an annual rate basis between the fourth quarter of 1948 and the fourth quarter of 1949. During the same period, inventory investment changed from an annual rate of growth of 7.2 billion to attrition at the rate of 5.4 billion—more than enough to account for the entire change in total output.

In 1949 a drastic change in the rate of inventory investment was offset by expansionary forces. Automobile output, home building, and Federal outlays all expanded rapidly in that year. A reduction in business stocks of large proportions in the months ahead could set up a downhill movement in over-all activity. Potential offsets of importance are difficult to spot at the present time.

Growth in retail inventories concentrated in autos



Inventory trends lag sales

Over a period of years, movements in stocks and sales parallel one another rather closely. But for a number of reasons, including the fact that ordering of most goods must be done well in advance of delivery, a turn from accumulation to decline usually has lagged three to four months behind a similar change in sales.

In a period of declining sales, stock-sales ratios rise not only because of the fall in sales, but because inventories themselves are rising. Thus, a fall in inventories usually does not show up before a recession is well under way. Nevertheless, the initial steps to reduce stocks may have been taken long before.

At the present time, there are indications that business has already moved to cut back in lines which have shown the greatest accumulations. As a result, inventory increases in the third quarter may turn out to have been moderate. Appliance makers and farm machinery firms cut output earlier this year. In July and August several auto manufacturers idled their plants to avoid a further pile-up of new cars, and the General Motors fire will also slow any further build-up before new models are introduced. Steel production has been running below capacity for the first time since the steel strike of last year.

Whatever cutbacks may now be under way, it is evident that the movement is being conducted in an orderly fashion. Although activity could be affected by the mere end of the inventory accumulation of the second quarter, this danger is minor compared to the problems that would be involved in an attempt at mass liquidation based upon a sudden adverse turn in expectations.

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Cattle feeding: a risk outlet for corn

A TIMELY BALANCE of sunshine and rain has brought the nation's 1953 corn crop along rapidly. It now appears that a near-record harvest will be hauled from the fields this fall. Usually, years of big corn harvests are years of high activity in cattle feeding.

Although beef cattle consume only about 10 per cent of the nation's corn crop (dairy cattle an additional 9 per cent), they are much more important as an outlet for corn in many Midwest areas. Corn Belt cattle-fattening is centered in northern Illinois and Iowa, an area well adapted to the production of the golden grain which accounts for nearly three-fourths of the total output of feed grains. But the area's soils and climate dictate that much grass and hay be grown along with the major crop—corn. It is because of this combination of roughages and grain that the feeding of purchased feeder cattle fits in well with farmers' production programs.

An abundant supply of beef is indicated for the next several years. In this setting, there is little reason to expect higher beef and cattle prices, except possibly for brief periods. On the other hand, consumers have eaten nearly enough beef in recent months to halt the build-up in number of cattle on farms. Thus, further substantial price declines are probable only if there should be liquidation of herds or a drop in demand. In the absence of either of these, carefully bought feeder cattle that are handled skillfully probably will return some profit to Corn Belt farmers in the season ahead.

With a big corn harvest practically at the front door, estimated at 3.3 billion bushels, farmers could normally be expected to have a keen interest in the purchase of feeder cattle. This fall, however, most cattle feeders are scanning the record of tumbling cattle prices over the past year and a half, a period of decline that "cost" many farmers the feed and labor invested in cattle purchased in 1951 and 1952. In extreme cases fattened cattle grossed fewer dollars than had been paid for the feeder animals. Such losses put mortgages on a number of Corn Belt farms in the past two years. This experience will cause many farmers to "take it easy" on purchases of feeder cattle this fall.

Nevertheless, there is an abundance of feeds, and the next three months are expected to bring large numbers of feeder animals to market. Nearly half of the year's total marketings occur in September-November with October by far the month of peak movement. At some level of prices, farmers will make substantial purchases of cattle for feeding. Thus, the big question is "how much to pay for feeder stock?"

Last year, for example, farmers were in a mood similar to the one they are in today. After paying peak prices for cattle in 1951 and generally realizing no profit on the feeding operation, they decided they wouldn't "give away" their 1952 corn crop—they wouldn't buy cattle unless they could get them $7-$8 cheaper than the year before. At this level it appeared that some profit could be realized from feeding. Feeder prices dropped; a record number of cattle were put on feed.

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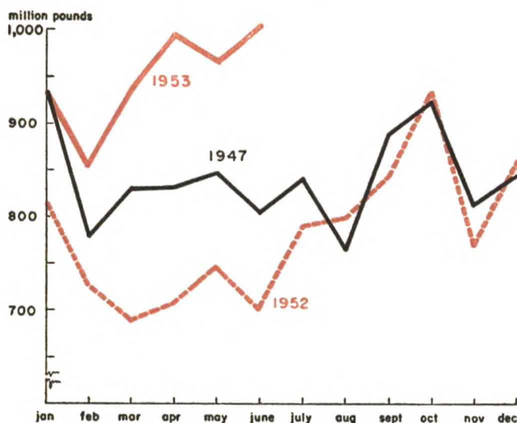
But this was followed by a sharp decline in slaughter cattle prices. Losses were substantial in many instances. The abrupt decline in prices of fed cattle had not been foreseen.

Bankers, as well as farmers, have a keen interest in the cattle situation. A large volume of credit is extended to finance feeding programs. Following the experience of the past two years, both borrowers and lenders will check the situation carefully this fall before incurring the financial risks involved. Nevertheless, most Midwest bankers report that they will make loans on the usual basis to experienced farmers who are in a position to assume the risk inherent in cattle feeding.

Profit prospects

The situation this fall includes all the usual uncertainties. In addition, feed prices are high relative to cattle prices even though there are abundant feed supplies available. Price supports are partially effective in holding up prices of corn and other feed grains. The loan programs provide alternative outlets for grains where storage is available. But storing grain doesn't provide an outlet for hay and pasture.

Beef production equaled previous record in last-half 1952, is setting new high this year



Neither does it provide productive employment in the slack winter months. Thus, while many farmers will move slowly in purchasing cattle, most of those who customarily feed may be expected to enter the market eventually.

The first step in evaluating the prospects for profit from cattle feeding is to arrive at some judgment of the probable selling price of the cattle at the end of the feeding period. The major factors to consider are the indicated supply and demand situation for beef at the time the cattle would be ready for sale.

Looking first at the supply situation, it is clear that there will be large over-all supplies of beef for the next several years. The cattle population is at a record level. Since 1949 farmers and ranchers have expanded herds rapidly by marketing only a part of their annual production. This year, however, the rate of increase in the nation's herd was slowed sharply, if not halted. With increased marketing of cows, heifers, and calves, slaughter has been stepped up. In the year ahead it is expected to approximate the natural increase from the herd and to slightly exceed the 1953 slaughter. Supplies of medium and low grades of beef will be especially large.

It is reasonable to expect that feeder cattle prices will settle to a level at which a large number of animals will be put on feed this fall, although possibly less than the record number a year ago. This would assure an abundant supply of the top grades of beef next year.

A related factor is the supply of competing meats, pork being the most important. Fortunately for beef producers, farmers are further reducing the number of hogs raised this fall and winter. The supply of pork this year is about 13 per cent below 1952 and is expected to decline somewhat further before it again turns upward. Substantial increases in pork supplies cannot occur before the fourth quarter of 1954, too late to interfere seriously with the marketing of cattle put on feed this fall. This is a favorable factor in the picture. Other types of meat are of minor importance in that they are

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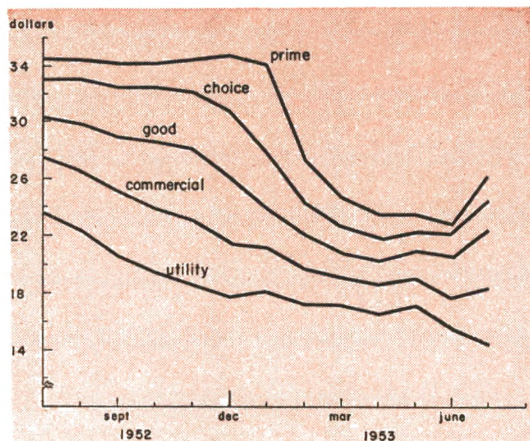
Slaughter steer prices show some recovery of sharp spring decline



produced in much smaller volume than either beef or pork. Relatively large changes in their production make only small changes in the total meat supply.

The demand side of the picture is much more difficult to sketch. At the present time most business analysts hold the view that the current business boom is growing old and that lower levels of activity are likely to characterize the next 12 months. There is less concern, however, that a decline from current high levels of production and employment will be either sharp or of sizable proportions in 1954. Should these expectations be realized, the demand for beef through the period in which most of the cattle put on feed this fall are marketed would be strong, although possibly not quite so strong as in 1953.

Stable prices for fat cattle?

On this basis, some market analysts have concluded that prices for slaughter animals next spring are likely to be about the same as those which prevailed last May or slightly higher. The May average at Chicago was $23.51 for prime, $22.36 for choice, and $20.95 for good slaughter steers.

Using these prices as a starting point, it is possible to estimate the maximum prices that farmers could afford to pay for feeder steers this fall. For example, the value of a choice 1,000-pound steer next May would be $223.60. The amount of feed required by experienced farmers to bring a yearling feeder steer of 650 pounds to this weight in about seven months is indicated in the accompanying table. Feed requirements vary, of course, for different groups of animals and with the skill of the farmer.

The amounts shown in the table are averages for a group of Illinois farmers in six recent years. For a given set of prices the feed cost would be as follows:

Item	Price	Cost
44 bu. corn	@ $1.40 bu.	—$61.60
180 lb. soybean oil meal	@ 4.50 cwt.	— 8.10
1400 lb. alfalfa hay	@ 20.00 T.	— 14.00
35 da. pasture	@ 0.20 da.	— 7.00
Total feed		$90.70

Marketing costs for this kind of cattle—feeder animal purchased at Kansas City and fed steer sold at Chicago—have averaged about $11.00 per head. Charges for labor, interest, veterinary fees, and death losses may be added, and value of manure and gain in weight of hogs that follow the cattle may be credited. Assuming that a farmer estimates the net of these to be a charge of $20.00 per head, his costs would be $121.70 ($90.70 + $11.00 + $20.00). He could afford to pay $101.90 for the feeder steer

—continued on page 15

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THE Trend OF BUSINESS

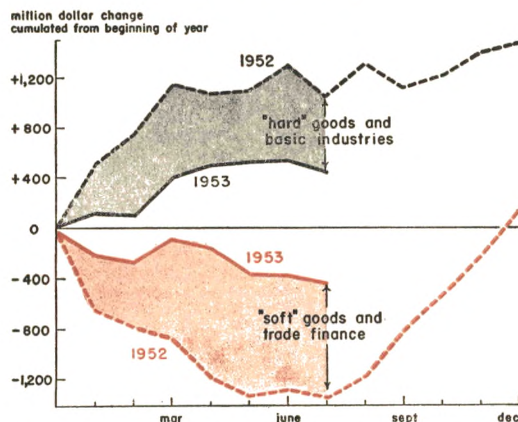
THE LONG-AWAITED TRUCE IN KOREA became a reality without producing the expected hitch in the pace of the nation's business. At one time there had been concern that the end of hostilities would trigger a business downturn, but the lengthiness of final negotiations dulled the impact of settlement. By the date of signing, most businessmen and consumers had long since made the mental reconversion to "peacetime" attitudes and expectations.

In the immediate post-armistice weeks, the chief announcement of expected economic ramifications came from the U. S. Government: the end of hostilities was expected to save about 1 billion dollars over the current fiscal year. The meagreness of the projected saving, however, will do little to change the dimensions of the money-raising task which faces the Treasury this fall.

Actually, that task will not be as difficult as seemed probable only three months ago. The bite of this spring's money market tightness was eased by Federal Reserve action which released upwards of 2 billion dollars of bank reserves via Treasury bill purchases in May and June and a reduction in reserve requirements in July.

Taking advantage of these developments, the Treasury floated a massive midsummer issue of 5.9 billion in eight-month tax anticipation certificates—enough to cover two-thirds of the expected second-half Federal cash deficit. By running down its cash balances, the Treasury may be able to hold further borrowing to amounts which will not puncture the "debt ceiling." Some 18.5 billion in refundings other than bills (more if the Savings Bond program runs at a deficit) must still be faced between

In business loans: hard goods lines show slower rise . . . soft goods a smaller seasonal decline



NOTE: "Hard" goods and basic industries include metals, metal products, petroleum, coal, chemicals, and rubber manufacturers and public utilities. "Soft" goods and trade finance include food, liquor, tobacco, textiles, apparel, and leather manufacturers; wholesale and retail trade; and sales finance companies.

now and year-end. If the reception accorded the Treasury's latest exchange offer is any guide, however, adroit setting of maturities and coupon rates on the refunding issues should elicit a satisfactory total of subscriptions.

The changed temper of the financial markets also bears on the outlook for private credit trends. Interest yields on longer-term private debt instruments have moved down from their early June peaks in sympathy with the change in the Government securities market. Money is still by no means "easy," but earlier preoccupations with the supply side of credit have given way to a more balanced view. With the traditional fall loan expansion opening, observers

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are attempting to appraise the magnitude of credit requests that may be generated by the still uncertain level of business operations. Some indications of future developments may be gleaned from recent trends in two key types of private credit outstanding.

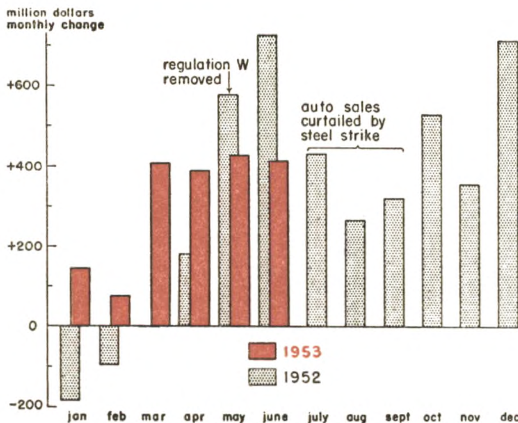
Business loans at the nation's leading banks are beginning the usual climb from their mid-summer lows. Aside from a temporary bulge in corporate borrowings to meet June 15 tax payments, the totals had hovered near the 22.6 billion mark for two months. As a point of departure for the fall upswing, however, this figure was 2 billion higher than mid-1952 levels —a reflection of the substantial last-half rise of a year ago plus a less-than-seasonal contraction of 3.4 per cent this spring.

Borrowers in basic industries, the backbone of the loan rise over the past three years, have been taking a significantly smaller volume of new credit in recent months. In soft goods lines, however, exactly the opposite has been true. Food processors, the largest private seasonal borrowers, effected a smaller than usual pay-down in credits in the first half. Trade firms and producers in textiles and allied lines have boosted their loans by some 380 million over the past seven months, in contrast to a 190 million net repayment in the same period a year ago.

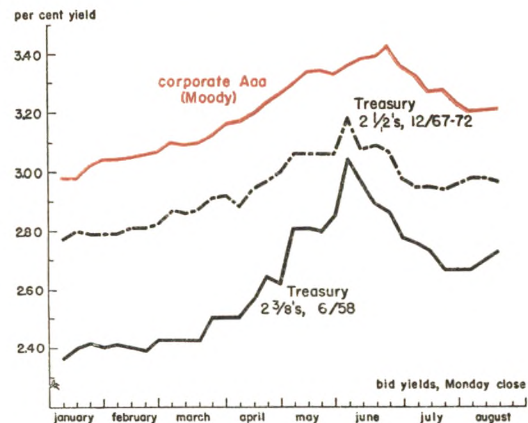
Consumer instalment credit, although still expanding rapidly, is showing signs of less vigor. Increases from April through June were surprisingly stable, during a period when ordinarily there is a seasonal rise in the rate of growth. More eye-catching was the fact that in May and June additions dropped below year-ago figures for the first time in 16 months. Year-ago comparisons, however, can be misleading. Extensions in the late spring of 1952 were swollen by the initial response to removal of Regulation W, and in midsummer they were curtailed as the steel strike cut auto output.

At mid-1953, the total of consumer instalment credit stood well above 20 billion dollars, up 39 per cent in 14 months. Loans to finance household furnishings and repairs contributed part of this growth, but the bulk of the rise centered in automobile credit. By June 1953 such credit outstanding was approaching the 10 billion mark, and grantings were carrying the major portion of all automobile sales.

Monthly increases in consumer instalment credit continue large but below peak of year ago



Longer-term bond yields—private and public—recede from June peaks



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Sales patterns at department stores

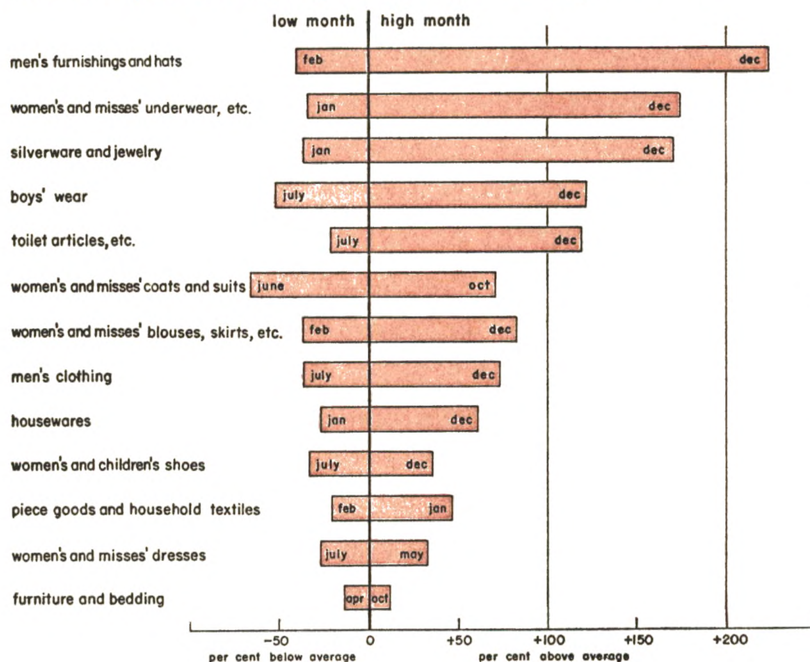
Individual lines show diversity in response to holiday and other seasonal influences.

IN TERMS OF TOTAL SALES, the leading month of the department store year is December. That one month in 1952—in many respects a "typical" year—accounted for almost 15 per cent of all the business done by Seventh District stores during the year. Poorest month was February, with sales volume only a little more than 40 per cent as great as in December. A minor peak appeared in May, under the impetus of the usual springtime buying of household furnishings and piece goods. But the first three quarters of the year, as is characteristically the case, produced substantially less than three-fourths of annual departmental volume.

January-March	20%
April-June	24
July-September	22
October-December	34

One of the most significant characteristics of department store merchandising is the variation and complexity in the seasonal trade patterns experienced by individual merchandising departments within the stores. Scarcely a month in the year fails to see one or more of these attaining its seasonal high while others dip to their annual lows.

Highs and lows in sale of apparel and household goods—best and poorest selling months for 13 departments



Most departmental records in 1952 were made in the last quarter, but some of the other months, particularly in the spring, also accounted for sizable shares of the year's volume.

The swings from high to low are a good deal more pronounced in some lines than in others. Certain of the departments display considerable stability month to month, while others show extreme responsiveness to holiday buying habits and other purely seasonal influences upon consumers' demand.

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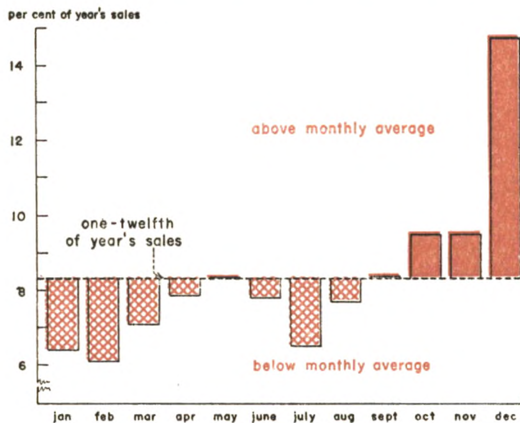
Undoubtedly a factor in the success of departmentalization in retail merchandising is the extent to which seasonal patterns in sales activity, to some extent at least, tend to dovetail. There are times during the year when durables move slowly, but textiles sell briskly; when men's and boys' wear sales languish, while women's and misses' apparel moves in good volume. To the extent that store personnel, display space, and stockroom accommodations may be shifted from one use to another, economies are possible that cannot be readily duplicated by competitive outlets specializing in highly seasonal merchandising lines.

The seasons still are a headache to management. They complicate inventory policy, raising problems of financing and warehousing stocks. They pose especially irksome problems of staffing; recruitment of seasonally needed store help in today's tight labor markets has become increasingly difficult. But seasonality undoubtedly is a factor that retailers will have to live with, so long as consumers continue to react as they do to the weather and a host of other factors that merchants can't control and, also, concentrate their buying at holiday times.

December sales more than a seventh of the year's total and 2.4 times the February volume



Home-building pace slackens

New housing starts show more than seasonal decline, but still likely to exceed a million units for the year.

WIDESPREAD EXPECTATIONS voiced last winter that 1953 would be the fifth successive million-plus year for housing starts have been amply supported by the pace of construction activity to date. Private housing starts in the first seven months totaled 647 thousand units, 4 per cent more than in the same period of 1952. In addition, work was begun on 28,600 public housing units—a sharp reduction from the 45,600 units started through July of last year.

There has been a decided tendency for the level of building activity to decline as the year has progressed, however. At a seasonally adjusted annual rate of 1.2 million in February, private housing starts have fallen gradually to a rate of 1 million in July, the first month in which they were significantly lower than in 1952. To some extent, the decline reflects an unusually high rate of activity early in the year stemming from the open winter experienced over most of the nation. In addition, however, some easing in housing demand is indicated. Potential buyers in many areas appear to be both fewer and increasingly selective, and mortgage money on liberal terms has become generally more difficult to obtain in recent months. Nevertheless, something in excess of one million starts for the year now seems assured. To miss the million mark would require that starts drop 30 per cent below the 1952 level during the next five months.

District does better

Home-building activity in many District centers has been considerably stronger than in

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1952 so far this year. Of 15 leading metropolitan areas, 11 have shown year-to-year gains ranging from 4 to 42 per cent in the number of residential building permits issued (see chart). Moreover, the increases in ten of these centers have been substantially larger than for private housing starts in the nation as a whole.

The pace of residential construction in the important Chicago and Detroit metropolitan areas has been especially rapid as compared with last year. Increases in the number of private dwellings for which permits were issued in the first half amounted to 18 per cent in the Chicago area and 28 per cent in the Detroit area.

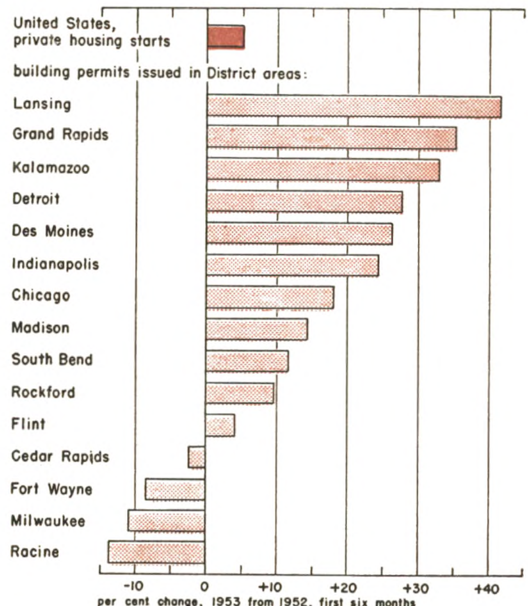
The larger gain experienced in Detroit tends to be misleading, however. By the early months of 1952, building activity had fallen off significantly more in that city than in Chicago or the nation generally (see chart). In comparison with the 1950 peak, private housing starts in the Detroit area during the first half of this year had dropped 30 per cent, as contrasted with a decline of only 10 per cent in the Chicago area. Moreover, housing demand in the Detroit region appeared to be weakening at midyear. The number of permits issued in June was only 11 per cent higher than in June 1952, as compared with a year-to-year gain of 30 per cent during the first quarter. In the Chicago area, on the other hand, the volume of permits issued in June was one-third larger than in the same month last year, as against an increase of only 10 per cent in the first quarter.

Most available evidence suggests that the level of home building is likely to remain considerably higher in Chicago than in the Detroit area for some time to come. Building activity in the Detroit area has received its impetus from the large influx of workers which has continued for more than a decade. In recent years, rising levels of automobile output and defense production have been primarily responsible for this expansion in job opportunities. In the Chicago region, in-migration of workers has been a less important source of housing demand; moreover, the ending of rent controls in July is likely to prove a continuing stimulus to home purchases in an area where nearly three-fifths of the families presently rent.

Equally important are the differences in population and character of the housing inventories between the two areas. Not only is the population of the Chicago area much larger, but the stock of existing housing is considerably older. Although the Detroit region has only about half the number of dwellings, roughly 310,000 units have been constructed since 1939 as against 300,000 in the Chicago area. In large part, this reflects the fact that the increase in population since 1940 has been about the same in the two regions.

Nevertheless, the effect of a relatively higher level of building has been to give Detroit a much more modern housing inventory than

Home-building activity varies widely, but most District centers show gains over last year



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Chicago. One-third of the dwellings in the Detroit area have been built since 1939, as compared with less than one-fifth of those in the Chicago area. Moreover, the population of the Detroit area in 1950 was five times that of 1910, while the population of the Chicago region had only doubled in the same period. This suggests that much of the housing in Chicago is relatively old and may be approaching the end of its economic life. Under these circumstances, it seems probable that a larger proportion of Chicago area families feel a more pressing need to move to better housing accommodations when they are able to do so.

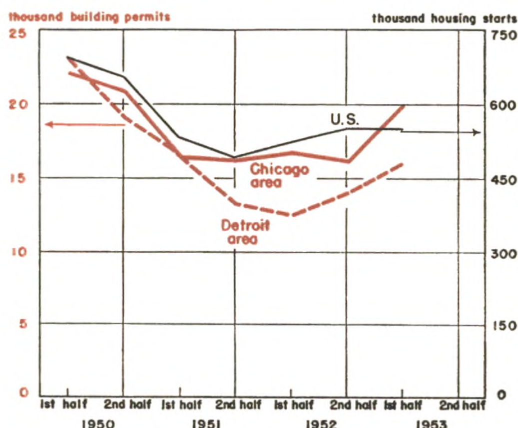
Scarcity of mortgage money?

A major complaint of builder groups in recent months has been that mortgage money is becoming increasingly difficult to obtain in the amounts and at the terms desired. The market is reported to be especially tight for VA and FHA insured loans, with investors in such mortgages much harder to find since the turn of the year. Interest rates were raised ¼ per cent on most FHA and ½ per cent on new VA loans early in May, but this apparently has had little effect in attracting additional funds to date, primarily because all long-term interest rates have advanced this year.

That insured mortgages have become less attractive to lenders is suggested by the abrupt decline in the proportion of private housing starts financed by such mortgages during the first half of this year (see chart). FHA financed starts dropped from 28 per cent of the total in December to 21 per cent in May, while VA starts dropped from 15 to 12 per cent in the same period. In contrast, the proportion of new dwellings financed with both types of mortgages had increased gradually through most of 1952.

Restricted availability of funds for insured mortgages tends to affect large project builders more adversely than others. Such projects generally involve medium- or low-priced housing and depend upon the more liberal VA and

Private housing starts still well below peak, but stronger in Chicago and Detroit this year



FHA credit terms for the bulk of their sales volume. Many project builders have also reported greater difficulty in obtaining firm commitments from lenders on building programs which are now in the planning stage. This reflects not only the less favorable yield position of insured mortgages, but also a partial withdrawal of many national lenders from the insured mortgage market.

Funds for conventional noninsured mortgages have continued available in generally adequate supply. Interest rates are higher than on insured mortgages, of course, and in many cases have advanced by ¼-½ per cent in the past year. An even more important distinction to home buyers and merchant builders, however, is that down payment requirements are generally higher and mortgage maturities shorter than on insured loans. Furthermore, many institutions apparently have tended to be more conservative in their appraisals in recent months and virtually all have become more selective in choosing credit risks. Obviously, more rigorous requirements tend to squeeze some prospective buyers out of the market.

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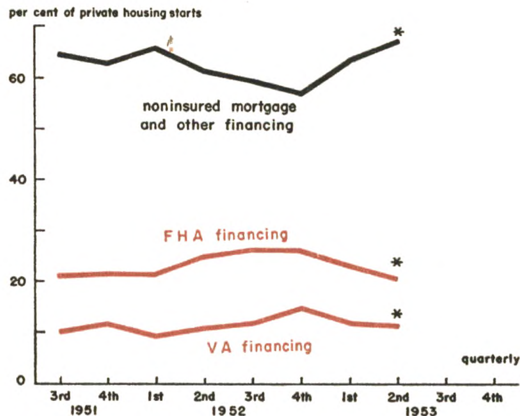
The proportion of VA and FHA financed housing starts has declined in recent months



*Partly estimated.

In the aggregate, the supply of mortgage funds seems to be relatively ample considering the heavy demand for long-term funds from all sources. In Cook County, Illinois, for example, mortgage recordings of $20,000 or less (primarily on single-family homes) in the January-June period totaled 355 million dollars, 26 per cent more than in the first half of 1952. Rather, the difficulty lies in the fact that two major changes have taken place in most mortgage markets: (1) a reduction in the proportion of homes financed with insured loans, especially since the 1949-50 peak in activity, and (2) a shift away from national lenders to local institutions as sources of mortgage financing. Changes in the proportion of mortgage recordings originated by the major types of lenders clearly indicate this latter development:

	1950	First-half 1952
Savings and loan......	31.3%	37.0%
Commercial banks	20.8	19.1
Mutual savings banks...	6.6	6.3
Individuals	14.2	14.7
Insurance companies and other mortgagees	27.1	23.0

In large part, the increased importance of savings and loan associations in home mortgage lending reflects the growing inflow of savings capital enjoyed by these institutions in recent years. Associations are limited by law to the investment of their resources in Government securities and mortgages, mostly in and around the community in which they are located. At the same time, the large and more diversified lending institutions—especially insurance companies and metropolitan banks—have diverted a larger share of their funds into meeting currently heavy demands of business.

Combating a downturn

There is a good possibility that the easing in home-building activity witnessed in the past few months is the forerunner of a general downturn in housing demand. New family formations, the principal source of net additions to housing demand, have declined sharply since the immediate postwar years (see *Business Conditions,* April 1953). New housing starts have outrun family formation since the beginning of 1950, and in the first half of this year the margin of difference was at an annual rate of 300-400 thousand units.

Recognizing that housing demand could ease suddenly, Congress recently gave the President stand-by authority to liberalize the FHA loan terms on new single-family houses. At his discretion, the President may at any time reduce minimum down payment requirements to 5 per cent (of the appraised value) and extend mortgage maturities to 30 years on loans not exceeding $12,000 in principal amount. At present, such terms are available from the FHA only on houses appraised at $7,000 or less. Maximum maturities are 25 years, and down payments range up to 20 per cent on houses valued above this amount. Although many lenders might be reluctant to go along with such terms so long as the demand for mortgage funds remains strong, even a moderate downturn in new building would soon result in substantial easing in the mortgage market.

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Cattle feeding *continued from page 7*

($223.60 − $121.70) or $15.66 per hundredweight for a good 650-pound yearling.

$15-$16 feeder cattle!

A similar computation can be made for other kinds of cattle and feeding programs. Assuming a May 1954 price of $20.00 for choice, 1,000-pound slaughter steers and the same feed prices as above, the price for feeder steers would be about $12.25. Even with support loans available, corn may sell in many communities this fall well below the $1.40 used in the above illustrations. If corn is valued at $1.00, alfalfa hay at $15.00, and slaughter steers at $20.00, the paying price indicated for good yearling feeder steers is about $15.80.

For each 10-cent a bushel change in price of corn the price that can be paid for feeder cattle would change in the opposite direction about $1.00 for calves and $1.20 for yearlings. For each $1.00 change in the selling price of the fed steer the maximum purchase price for feeders would change in the same direction about $2.25 for calves and $1.50 for yearlings.

Calves lose advantage

The price advantage which feeder calves have enjoyed over heavier animals for several years is in little evidence this fall as a result of shifts in feed and cattle prices. In most recent years the value of feed required for a pound gain in weight was well below the selling price of the fattened animal. In these circumstances, there was a keen demand for the young, lightweight feeder cattle. More weight could be added to such animals before they were ready for slaughter, and there was profit in each pound gained while on feed. Also, since the purchased weight was a relatively small part of the final weight, they were considered to be less risky cattle to own even though their feeding period was longer than for the heavier animals. But now conditions have changed.

The cost of adding a pound gain in weight to a young animal is nearly equal to the indicated selling price. In this situation the advantage of young, light cattle disappears. For older, heavier cattle the cost of adding a pound gain in weight exceeds the indicated selling price. But since any margin between purchase and selling prices applies to a larger purchased weight, the price for this kind of feeder cattle is equal to or above the price for calves. Successful feeding this year will depend more on price margins than for some time.

A longer-term factor of some importance is the indicated consumer preference for beef from lightweight cattle with a good but not long-fed finish. This suggests feeding programs which use considerable roughage along with grain. Some industry specialists believe that the rapid increase in self-service meat counters is stepping up the demand for this type of beef.

Feed requirements vary with type of cattle and feeding program

Feeding program	Feeders purchased	Sold for slaughter	Feeder grade	Feeder weight	Gain in weight	Feed consumed per animal			
						Corn (bu.)[1]	Soybean meal (lb.)	Alfalfa hay (lb.)	Pasture (da.)
Calves, long-fed	October	September	Good and choice	420	520	48	210	2,000	70
Yearlings, long-fed	October	August	Good and choice	650	450	54	190	1,800	75
Yearlings, short-fed	October	May	Good	650	350	44	180	1,400	35
Heavy steers, short-fed	October	April	Good	850	300	47	170	1,000	30

[1]Includes allowance for corn silage.

SOURCE: Adapted from *Livestock and Meat Situation*, November-December 1952, Bureau of Agricultural Economics, U.S.D.A.

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Loan trends

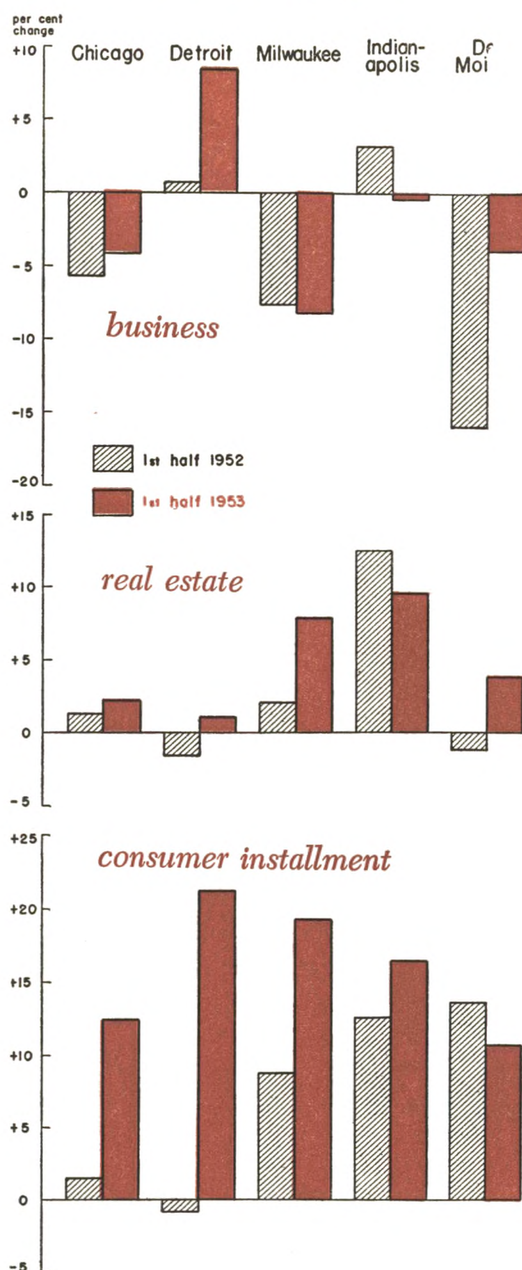
FOR THE SECOND SUCCESSIVE YEAR, total loans outstanding at Seventh District member banks remained stable over the first six months. In view of the uptrend in economic activity in the first half of 1953, the lack of change from the 7.3 billion dollar loan total at the beginning of the year may appear surprising. Larger use of bank credit, however, was somewhat restrained by greater pressure on bank reserve positions during the spring of this year.

Behind the apparent stability in total loans in the two periods lay somewhat divergent trends among District localities and types of loans. Greatest variations in major cities appeared in business loans, which usually contract seasonally each spring. As a result of a substantially higher level of business activity, particularly in the automotive industry, business loans in Detroit member banks rose about 8 per cent over the first six months of 1953. In contrast, business loans in Milwaukee banks declined 8 per cent, roughly the same percentage decrease as last year. In Chicago, the 4 per cent decline in business loans, although substantial, represented a smaller percentage drop than in the comparable period last year.

Real estate loans, reflecting a continuing high level of construction activity, were up in each of the five large cities in the District over the six months ending June 30. Increases, however, ranged from 9 per cent in Indianapolis to 1 per cent in Detroit.

Each of the large cities participated in the upward trend of consumer instalment loans in first-half 1953. The six months' gains were, for the most part, in marked contrast to the increases of last year, when Regulation W was in effect for four of the six months of the year. In Des Moines banks, however, this year's rise was somewhat smaller than that of first-half 1952. The most striking increase again was in Detroit, where consumer instalment loans rose 21 per cent.

Detroit topped other major citi loan growth in first half; consum credit showed greatest gain



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