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BUILDING, REAL ESTATE, AND MORTGAGES—WHICH WAY?

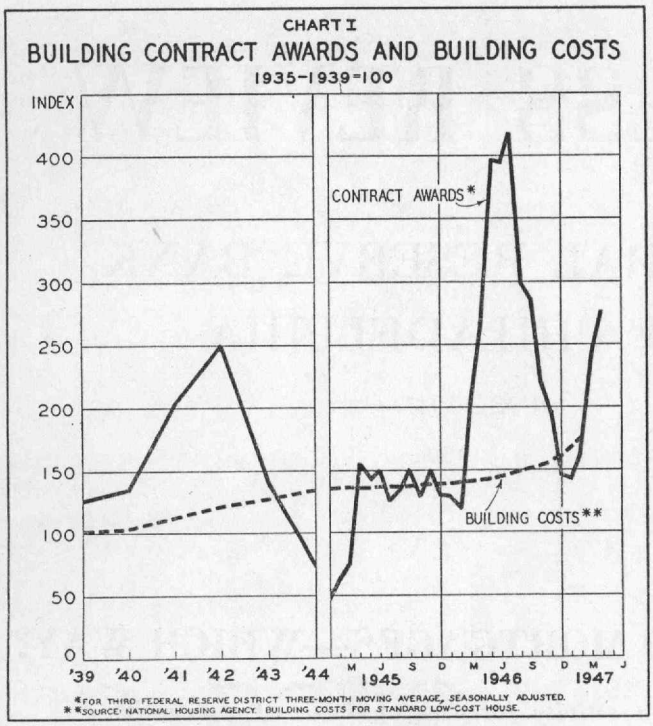
Recent developments in new construction activity force recognition of alternative courses for building, real estate, and mortgage lending. The hopes and fears of our economy that were so often expressed during the war years are now being tested. One of the hopes was that the upswing in construction that had been interrupted by the war would be resumed and expanded, helping to sustain a high level of income and employment. One of the fears was that the construction industry after a brief building spree would again, as in 1920, receive a sharp set-back as the result of high costs, and would contribute to a general slump in business activity. Not only would such an interruption delay vitally needed housing and industrial development, but the bursting of another real-estate bubble might wipe out homeowners' equities and place many mortgage loans in a precarious position.

Real Estate and Construction Since the War

From the viewpoint of market stability and the avoidance of an unfavorable post-war reaction, real-estate price experience during the war years was not encouraging. Virtually all types of real estate participated in a sustained boom. A nation-wide survey by the National Housing Agency showed that a typical home selling for $5,000 in the spring of 1940 sold for about $7,000 by September 1945. Higher family incomes and the desire for roomier living quarters, an increased rate of family formation, migration to war centers, and a sharply increased rate of migration from the farms to the cities were all factors making for an increased demand for homes at a time when supply could not be greatly augmented. The sale of rental dwellings to owner-occupants, prompted in many cases by the existence of rent ceilings, was also a factor.

Commercial properties rose in price as retail sales volume expanded. Farm land prices rose 50 per cent from 1940 to 1945 as a result of rapidly rising farm incomes. In a rising market, accompanied by general credit ease, buyers in most fields were undeterred by high prices, even for buildings which appeared to be above nominal replacement costs. With ceilings on materials and wages and little except war construction going on, however, it was difficult to estimate what actual replacement costs would be when free markets returned.

Building restrictions had been modified somewhat during the early months of 1945 and some projects were begun at that time. With the revocation of Limitation Order L-41 in October, virtually all the direct Government controls on construction were removed. Rent ceiling regulations were retained but wage and materials



price ceilings which remained in force were liberalized. It was believed desirable to give the construction industry maximum stimulus because of a need for homes and industrial facilities to produce "bottleneck" goods, and because it was thought necessary to counteract a large volume of unemployment that was expected to develop. Private construction, estimated at only slightly over $100 million a month at the beginning of 1945, had doubled shortly after the end of the European war. After V-J Day it shot up even more rapidly. Dollar volume of contract awards in the Third Federal Reserve District, shown in Chart I, increased by about 80 per cent during 1945. This index is, of course, an indicator of prospective building rather than a gauge of building activity actually going on in the current month.

With acute shortages of building materials prevalent, and the return of thousands of veterans reenforcing the pressure on housing facilities, it soon became clear that some priorities control would have to be reestablished in order to insure the success of a housing program. Commercial and industrial building had absorbed the lion's share of available supplies during the fourth quarter of 1945, and although the number of new dwelling units started had increased substantially, the total was far from adequate. By February, 1946 the prices of low-cost homes had risen, on the average, 65 per cent over their 1940 level and had registered a rise of over 17 per cent in the preceding five months. And prices were still rising.

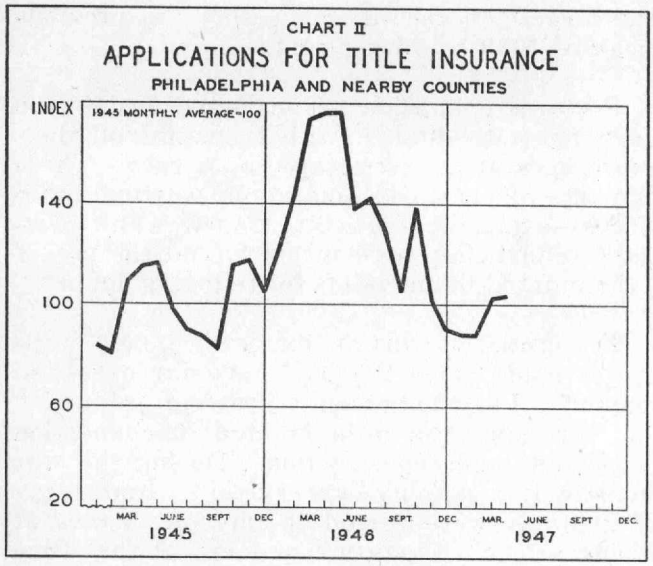
The appointment of a housing expediter with broad powers and the establishment of limitations on nonresidential building spurred the construction of homes in 1946. The Department of Labor estimates that the number of dwelling units started throughout the United States increased from about 30,000 a month at the end of 1945 to over 67,000 a month in May 1946. During the summer the index of building contract awards in this district hit a peak well above that reached in the early months of the war, and for two or three months it exceeded the monthly rate of the late twenties. In the fall, new construction activity throughout the nation rose to over $1 billion a month. The building boom appeared to be on.

ESTIMATED NUMBER OF FAMILY DWELLING UNITS STARTED AND COMPLETED IN NONFARM AREAS OF THE UNITED STATES

	New permanent family dwellings*	
	Started	Completed
1946, total	670,900	453,800
January	36,100	18,700
February	43,100	20,300
March	60,400	22,600
April	66,100	26,400
May	67,600	30,300
June	63,600	34,900
July	64,300	41,000
August	64,400	42,200
September	57,100	49,800
October	58,100	54,500
November	49,700	55,100
December	40,400	58,000
1947		
January	42,100	59,300
February	41,600	59,800
March	53,400	57,100
April	63,500p	53,400p

* Data cover conventional and prefabricated units.
p Preliminary. (Source: Bureau of Labor Statistics.)

The real estate situation in the Philadelphia area seems to have changed somewhat during the summer or fall of 1946. Reports from other parts of the country indicate that the change was probably consistent with a nation-wide trend. Tangible evidence of a shift may be seen in the chart of applications for title insurance in the Philadelphia area. Applications rose until the summer of 1946, then turned downward rather sharply, indicating a slowing down in real estate turnover. Since November 1946 title insurance applications have been below the rate for the previous year. Accompanying this



trend, reports indicate that although the prices of some types of used homes in Philadelphia continued to advance until the spring of 1947, the third and fourth quarters of 1946 saw a definite tendency for prices of older houses to level off and, in some cases, decline slightly. Emergency buying and "forced" sales of rental properties diminished.

In contrast, the prices of the new homes that were being completed continued to rise. Good business kept prices of mercantile properties firm, although a much slower turnover and a generally cautious market is indicated by a survey of this area. Prices of farm properties continued to move ahead in response to higher farm incomes. From November 1946 to March of this year, farm land in the Third District rose an additional 2 per cent. At 92 per cent above its pre-war average, the price of farm land throughout the nation is causing no little concern. President Truman has recently called for a conference of farmers and farm mortgage holders to discuss the problems it raises.

During this same period—beginning in the summer of 1946—something happened to the building boom. The index of contract awards in the Third District declined steadily from August to February 1947. Housing starts throughout the nation fell off. In part this may have been due to exceptionally bad weather conditions in many parts of the country, but the recovery during the first quarter of 1947 has been disappointing and confirms a slowing up of activity. New construction in the first quarter was 12 per cent below the previous expectations of the Department of Commerce, based upon the availability of labor and materials and a strong demand. Contract awards in the district—only 20 per cent above the previous year—represented a physical volume of prospective construction that was probably no larger than that of 1946. Although completions of new homes had almost tripled, the number of new dwellings started was below last year. Despite the rise in starts during April, the total is falling further behind last year's activity.

In the Third District the index of contract awards rose substantially in April and is still above the 1946 level. This index, however, is a three-month moving average. Under ordinary circumstances it properly eliminates the effects of insignificant fluctuations, but in this case developments in the month of April alone appear to be revealing. As shown in the following table, total contract awards for the month were actually below the same month last year. The cumulative total for the first four months of 1947 is still slightly higher than for the same period last year, owing largely to public works and utilities construction, but most types of building, including family houses, show a decline.

BUILDING CONTRACTS
Philadelphia Federal Reserve District

	April 1947 (000's omitted)	Per cent change		
		From month ago	From year ago	1947 from 4 mos. 1946
Residential	$12,508	− 44	− 62	− 5
Apartments and hotels	1,507	− 87	+ 76	+336
Family houses	11,001	− 1	− 66	− 25
Nonresidential	15,727	+ 68	+ 35	− 6
Commercial	2,789	− 33	− 19	− 34
Factories	10,089	+223	+ 65	+ 21
Eeucational	813	+ 82	+ 68	− 35
All other	2,036	+ 26	+ 31	− 3
Total buildings	$28,235	− 11	− 36	− 5
Public works and utilities	10,716	+ 65	+316	+106
Grand total	$38,951	+ 2	− 17	+ 5

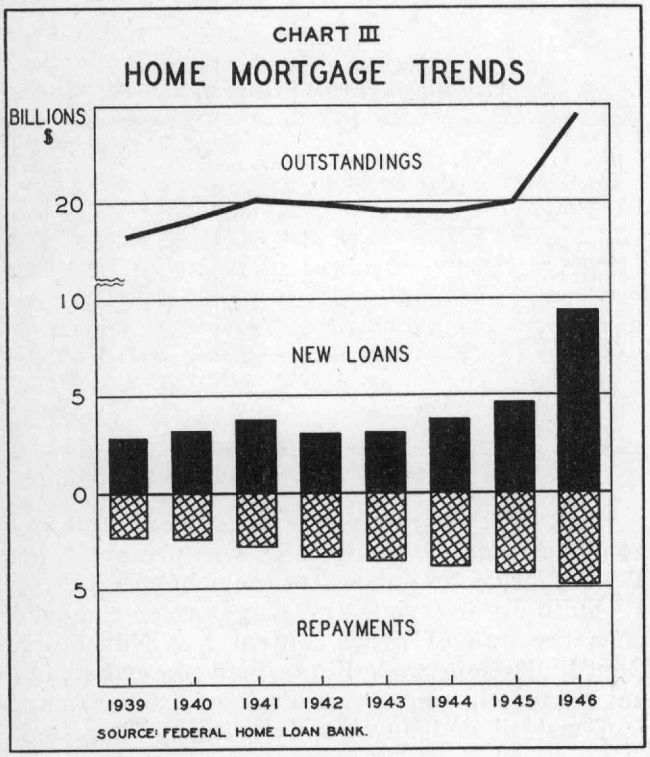
(Source of data: F. W. Dodge Corporation.)

Little of the system of Government building controls remains in effect at the present time. Ceiling price limitations on new homes and on all building materials and wages were removed with the end of price control last November. Rent limitations were liberalized somewhat, but not removed, and a size limit of 1,500 square feet was placed on new dwellings. This limit

has now been increased to 2,000 square feet under certain conditions. Priorities for construction were discontinued after December 23, 1946. As building materials increased in volume and residential construction lagged, the limit on approvals of nonresidential construction was raised to $35 million a week and later to $50 million. A further increase in this allowance is being delayed pending the further progress of the housing program. An allowance of $75 million would probably take care of all applications. Veterans' preference in most aspects of the construction program has been reduced. Government agencies still extend limited aid to certain building materials and housing producers, but as far as restrictive regulation is concerned, the building industry has come a long way toward restoration of its pre-war status. It does not appear that the falling off of construction activity can be mainly the result of direct restrictions imposed by legislation.

Mortgage Lending Since the War

The volume of mortgage lending reflects the course of real-estate and building activity. Nonfarm home-mortgage debt has grown by about $6.5 billion, or over one-fourth, since the war. At the end of 1946 the volume outstanding was the largest on record, surpassing the previous peak of 1930 by 15 per cent.



Post-war expansion has occurred despite the fact that individuals have been paying off their mortgages at an extremely rapid rate. These pay-offs reflect a continuation of wartime influences—extensive real-estate transfers and mortgage refinancing, high incomes, and the use of accumulated liquid assets for reducing debts.

In contrast to wartime experience, new mortgages made since the war have far exceeded pay-offs. For one reason, a growing proportion of mortgages has been created in connection with new home construction. During the war construction activity was curtailed and many individuals were forced to buy old homes at rising prices. Expansion of loans at that time reflected principally changing hands of old homes. The post-war rise in construction, however, has added new mortgages which did not exist previously. Another factor stimulating the volume of new mortgages has been the inflation in real-estate prices. The average size of mortgages recorded in 1946 was almost one-fourth larger than in 1945. Finally, a substantial proportion of the new mortgages has been G.I. loans, many of which are on a 100 per cent basis.

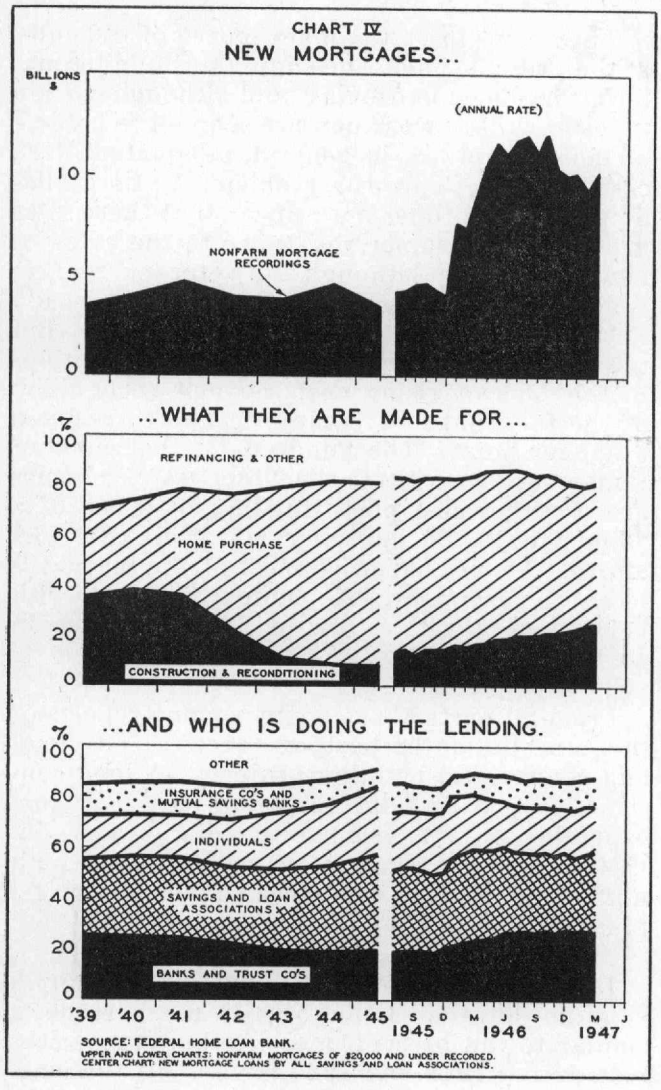
Commercial banks have supplied the funds for almost one-fourth of the new mortgages, thereby expanding their business in this field more rapidly than any other group of lenders. In the Third Federal Reserve District most of the mortgage lending by member banks has been carried on by country banks, institutions in Philadelphia being more disposed to supply interim funds for builders than long-term financing for home owners.

WHICH BANKS ARE MAKING REAL ESTATE LOANS?

Member banks Third Federal Reserve District	Distribution of increase in mortgages—June 1945 to December 1946			
	Residential	Farm	Other	Total
Area				
Philadelphia	12%	1%	11%	11%
Outside Philadelphia	88	99	89	89
Third Federal Reserve District	100%	100%	100%	100%
Size of bank				
Banks with total deposits of—				
$100 million or more	13%	2%	3%	10%
$ 10 million to $100 million	34	22	61	40
$ 2 million to $10 million	44	58	32	42
Under $2 million	9	18	4	8
Third Federal Reserve District	100%	100%	100%	100%

What are the indications that mortgage lending has paralleled the recent decline in real estate and building activity? Chart IV shows that the post-war peak for recordings of nonfarm home mortgages was reached in October 1946 and that declines were registered in succeeding months. Seasonal factors, no doubt, have exerted a strong influence, but the available evidence, supplemented by interviews with men active in the mortgage field, suggests a change in trend.

Home-purchase mortgages made by savings and loan institutions reached their peak as early as May 1946. The turnover of properties has been declining since about mid-1946. Much of the urgent buying apparently has been completed and construction of new homes probably has taken the edge off the used-home market. Similarly, mortgages made in connection with new construction have reflected the current level of building activity; for four months they remained below their peak of October 1946, a level not exceeded until March of this year.



While the volume of new loans has declined, repayments apparently have continued at a rapid rate. Although the turnover on old properties is lower, pay-offs have been sustained by continued high levels of income and employment, and the inability of individuals to obtain many of the goods for which they have been saving.

One explanation of the recent trend in the mortgage situation is to be found in a decline in demand for mortgage loans. Many individuals are unable to assume a heavy mortgage burden, and others are unwilling to incur long-term debts under present conditions.

Prices and Costs

Costs of home building, shown in Chart I, were 45 per cent above pre-war levels in June 1946, before price controls were relaxed. During the remainder of the year, and particularly at the beginning of 1947, they shot up rapidly. In March they were about 80 per cent above the 1935-1939 average. Some estimates, including other types of building, have placed the increase at over 100 per cent. To build at current costs is out of the reach of many individuals and businesses.

There are several factors involved in the cost increase. One is the rise in prices of building materials. The National Housing Agency estimates that the increase in the cost of materials between the first quarter of 1946 and the first quarter of 1947 has been about 30 per cent. This is part of the rise in the general level of prices, of course. But the Bureau of Labor Statistics' index of wholesale prices shows that building materials prices have risen faster than all wholesale prices since 1945.

According to the NHA, labor costs have not increased so greatly as materials, but recently, builders indicate, labor has replaced materials as the number one problem. Wage rates have risen by 15 to 20 per cent since the end of the war. It is not basic wage rates alone, however,

that determine labor costs. Low efficiency, overtime, and over-scale rates have raised unit costs in excess of the stated boost in wage rates.

To some extent, higher labor costs may arise out of an uneven flow of materials and the consequent increase in building time. Workers must be paid while they are waiting for a load of bricks to arrive as well as while they are putting up a wall. A contractor who is held up by shortages of key supplies must nevertheless keep his organization together if he wants to remain in business.

When controls were released it was fairly easy to *start* building, and many people, including inexperienced builders, were eager to begin. Foundation materials were available. As the construction program progressed, however, it became obvious that there was not enough of certain materials to go around. Building time lengthened and costs rose. In part, the boom is a victim of its own impatience.

Building time for small homes is still far above normal. In most cases, houses are now being completed in six months; but many units under construction in the Philadelphia area still require from nine to fourteen months for full completion. Overhead costs, including interest, are burdensome under these conditions.

All these factors add up to a big headache for the construction industry, and there are doubtless some instances in which builders and contractors are subject to a tight squeeze. That many experienced builders are now reluctant to start new operations is evidence that the squeeze may be growing tighter. On the other hand, it is also probable that in many cases builders' and contractors' margins, as well as manufacturers' mark-ups, padded to allow leeway for unforeseen contingencies, have been larger than usual.

Prices are not determined by cost factors alone. With demand at a high level, with the conditions of a sellers' market present, it was entirely natural that the prices for building, from blueprints to window-latches, should advance to a point that is close to what the traffic will bear. One man's prices are another man's costs, hence it appears to the seller that his sale price is the irreducible resultant of the prices of materials and labor that he has to buy—and so it is. The seller must remember, however, that the "costs" of the goods he buys are partly a consequence of his—and others'—demands for them. A reduction in effective demand would tend to force prices down along the entire chain of supply.

The high prices of existing dwellings and buildings are closely related to the cost of new construction. Large scarcity premiums on the former make it worthwhile for the buyer to pay a high price for a new building. High reproduction costs, in turn, sustain the market for used buildings. The most urgent buyers are soon satisfied, however, and as prices rise a point is reached where, despite the great need for housing and the great desire for industrial expansion, potential buyers are "priced out of the market."

This seems to be the main source of difficulty at the present time. The supply of building materials has been improving, and although certain types of skilled workmen are scarce the volume of labor supply is, in general, adequate. High costs and prices are the problem. In the Philadelphia area it does not appear that there is as yet serious consumer resistance to the price of new dwellings. Although the veterans' market is noticeably weaker, there are still many ready buyers waiting for completion of homes. But the fact that builders have curtailed operations in the face of rising costs is tacit recognition of the fact that new home prices have reached a danger point. The hundreds of thousands of families who constitute the "demand" for homes are, for the most part, thinking in terms of a $6,000 to $8,000 house, which is all they can afford. Above that price most of the market is likely to disappear. No builder wants to risk being caught with a row of $10,000 houses in an $8,000 market.

From all parts of the country come reports of the cancellation or postponement of industrial and commercial building projects. A long construction period, during which original cost estimates are far surpassed, discourages investors who are wary of being burdened with high fixed charges for construction whose replacement costs, they feel sure, will fall.

Immediately after the first world war a situation developed that was in many respects similar to the present one. As building prices rose during 1919 and 1920 buyers left the mar-

ket, and the construction industry experienced a severe slump. It was not until 1921, when construction costs and real-estate prices had declined substantially from their post-war highs, that the industry recovered and started on a period of sustained activity. Materials and labor prices did not fall back to pre-war levels after the first world war, but they declined sufficiently to come into reasonable conformance with the general price level and so permit a rise in building activity. Today's situation differs in many respects from that of 1920, but there is sufficient parallel with the events of that period to serve as a warning of possible trouble ahead. All evidence points to the conclusion that high building costs and inflated real-estate prices are again threatening — at least temporarily—to choke off a sustained building boom.

Prices and Risk

Inflated real-estate prices raise problems which are just as serious for mortgage lenders as for home buyers. Because of their long-term nature, real-estate loans involve exceptional risk in periods of inflation. Although current incomes of home buyers may appear to justify loans at existing high prices, reduced incomes or even unemployment in the future may mean eventual foreclosure and loss. Moreover, home values may actually fall below the amount of the outstanding mortgage.

How are lenders attempting to solve these problems? Has lenders' resistance combined with buyers' resistance to bring the boom to an end? As early as last fall the secondary market for G.I. mortgages began to reflect a more cautious attitude on the part of mortgage buyers. Since that time, investors have been coming back into the market, but on a much more selective basis.

There are indications also that original lenders are becoming more conservative in some respects. Appraisals are the crux of the situation. Appraised value should reflect the flow of benefits of a property over its lifetime. Present market prices reflect current scarcities rather than enduring values, and appraisals based on replacement cost under present conditions would likewise result in values that may not be sustained. Appraisers must take into consideration long-run values that will prevail after current abnormal conditions have run their course.

Many lenders as well as Government agencies are offering increasing resistance to current high real-estate prices. Beginning this year, the Veterans Administration returned to the practice of specifically designating the appraisers to pass on the "reasonable value" of properties on which G. I. loan applications are filed. This eliminated the use of a panel of designated appraisers, which in some cases made possible unduly high appraisals. The Federal Housing Administration has also attempted to resist inflationary tendencies. In a sense these appraisals have come to represent a sort of ceiling price which some consider unrealistic and a deterrent to new construction. But inasmuch as home buyers and investors both rely heavily on VA and FHA appraisals, these agencies are charged with heavy responsibilities for maintaining sound mortgage and real-estate conditions.

Requirement of substantial cash down payments does not obviate the need for careful appraisals, but can contribute to the solution of mortgage lending problems. Sizable down payments may enable borrowers to pay off their mortgages over a shorter period of time, lessening somewhat the risks inherent in long-term loans. They reduce the total amount of interest which borrowers must pay and establish better equity from the outset, thereby providing an incentive for keeping up payments when conditions become less favorable. Some mortgage lenders indicate that larger down payments are being required than heretofore. Despite the fact that Veterans Administration guarantees were designed to take the place of down payments, many lenders have ceased making 100 per cent G.I. loans and now ask 10 per cent cash payment.

Amortization of mortgages, now almost a universal practice, may also help to prevent difficulties in the future. But again, amortization should not be relied upon to compensate for inflated appraisals. Ideally, amortization schedules today should call for heavy early payments, while incomes are high. Apparently, however, such schedules are not in widespread use. Alternatively, shorter-term loans could be made with provision for renegotiation later if the borrower is unable to meet the heavy charges. But there is no general evidence that maturities are becoming shorter. In fact, in some cases they actually have been lengthening—perhaps partly

because many of the G.I. loans now being made are to veterans with lower incomes, necessitating smaller payments over a longer period, and perhaps also because of the greater prevalence of down payments. Pay-offs might be even greater than they have been except for the fact that many mortgages place a limit on prepayments. In their search for sustained sources of income, lenders may be doing themselves as well as the economy a disfavor if they place undue restrictions on prepayments while incomes are high.

Interest rates on mortgages apparently have shown no general tendency to rise. An increase in rates might be expected to choke off some of the demand for mortgage credit and help compensate for some of the greater risks of lending. However, rates on G.I. and FHA loans are governed by law, and the pressure of investable funds apparently is still too great to permit other rates to increase.

The Construction Industry in the Economy

In April of this year over 1.6 million workers were employed directly in the construction industry—a total equal to 4 per cent of all nonagricultural employment. In "good years" of the pre-war period this proportion often reached 6 per cent, with at least an additional 6 per cent employed in industries supplying building materials and services. It is estimated that almost 20 per cent of all revenue freight in 1929 consisted of construction materials. Last year private construction was valued at $8 billion—25 per cent of the total private investment in new capital goods. Clearly, the level of construction activity has an important bearing on the welfare of the nation's economy.

Building activity has shown wide fluctuations over the years, but the building cycle—from a period of high activity through recession and recovery to another high—does not correspond in time with the more common "trade cycle," or "business cycle" of three to four years' duration. The building cycle, an upswing of which was interrupted by the war, appears to have a length of about seventeen or eighteen years. This does not mean that there is no connection between the construction industry and the level of general business activity. The ups and downs of the business cycle cause minor fluctuations in building; but, most important, new building, because it stimulates many sectors of the economy, exerts an influence on the business cycle which is greater than its dollar volume would indicate. When construction is expanding, business booms are accentuated and depressions are made less severe. In its downward phase, the building cycle has a dampening effect on the booms and aggravates depressions.

These long-run tendencies have important implications for the present business situation. As production of consumers' goods increases and the flow of supplies becomes sufficient in one line after another, readjustments in prices and employment will take place. Once inventories are restocked, unless consumption increases to an unexpected degree, workers who were formerly producing goods for inventories will have to seek other jobs. Such developments are already apparent in some of the "soft goods" lines. Between March and April nonagricultural employment throughout the nation fell off by 140,000. Almost all of the decline took place in the textile, apparel, and other soft goods industries, reflecting, in some cases, a reestablishment of seasonal trends. But this need not be the forerunner of large-scale unemployment. If price and employment readjustments take place gradually and smoothly, the "bump" which the economy might feel could be very slight.

It was hoped that a sustained expansion of construction activity would cushion the shock of any recession that might develop. This could not be done by putting garment workers to laying bricks, of course; but the multiple shifts in employment and the new incomes generated in the process of building homes and factories could be an important factor in taking up the readjustment "slack." Thus far this spring, the seasonal increase in construction employment has been disappointing. As we have seen, the building boom has hit a snag. Postponements of industrial construction, moreover, may mean cutbacks in orders for equipment as well. Without a rising trend in construction, the prospects for smooth readjustment are considerably less favorable.

Mortgages and Finance

Just as construction plays a strategic role in business activity, mortgage lending exerts an important influence on financial conditions. Mortgages constitute a substantial segment of

private debt. Expansion during periods of inflation runs the risk of burdening debtors with long-term obligations which they may be unable to discharge. Commercial bank lending on mortgages has an added significance in that the resulting creation of deposits tends to augment inflationary pressures, particularly if the funds facilitate speculation in the real-estate market rather than new construction. To the extent that the recent mortgage situation reflects a more cautious attitude toward inflated prices, therefore, the economy will benefit.

The boom in mortgage lending also has profound implications for lenders. The rate of return on mortgages is higher than that on investments and many other types of loans. But expenses are high, particularly because of servicing operations as loans are amortized. The net return on mortgages becomes even smaller when losses, which have been severe in the past, are taken into account. Provision for future losses can be made now by setting aside reserves. While insurance and guarantees may solve the individual lender's problem, these safeguards cannot eliminate the over-all risks in mortgage lending. Undue reliance on guarantees and unsound lending which would call for Government agencies to make good a large amount of their guarantees might eventually jeopardize the position of private lending institutions.

These various elements of cost and risk impinge more heavily on some banks than on others. As the following table indicates, mortgage lending in this district is of particular importance to country banks and institutions of relatively small size.

HOW IMPORTANT ARE MORTGAGES TO BANKS?

Member Banks Third Federal Reserve District	Percent of total loans—December 1946			
	Residential	Farm	Other	Total
Area				
Philadelphia	3%	*	2%	6%
Outside Philadelphia	34	3%	10	48
Third Federal Reserve District	19%	2%	6%	27%
Size of bank				
Banks with total deposits of—				
$100 million or more	3%	*	2%	5%
$ 10 million to $100 million	27	1%	13	41
$ 2 million to $10 million	39	5	9	53
Under $2 million	42	10	5	57
Third Federal Reserve District	19%	2%	6%	27%

* Less than .05 per cent.

Which Way?

Real estate and construction prospects in the near future will depend to a large extent on general business conditions. Both are strongly influenced by the incomes of individuals and businesses. No analysis of the factors bearing upon construction alone can hope, therefore, to be a firm prediction of what will happen to the building boom. But setting down what we know about the construction situation may throw some light on future developments.

As long as individual incomes and business activity remain at their present levels, hope for recovery from the slump in new construction depends on the possibilities of lower costs. There are three main cost factors: labor costs, materials costs, and materials flow. The first of these—labor costs—appears at first glance to be unfavorable. Philadelphia homebuilders, in line with a national trend, signed a contract last month with building trades workers calling for pay boosts averaging 20c an hour. Applying these raises to hours worked on typical homes, it has been estimated that they will raise the cost from $200 to $400. Without disparaging the upward pressure on costs which wage increases will undoubtedly create, it must be pointed out that there are some offsetting factors. The present contract strictly prohibits over-scale pay and unnecessary overtime work. To the extent that these are now eliminated, the new wage rates are perhaps not so much in excess of the old scale that was actually paid as the contract terms indicate. Furthermore, if the new contract will eliminate labor pirating and excessive labor turnover and, through stabilizing the market, promote increased efficiency, the increase in unit labor costs will be minimized. This also applies to other areas in some measure, although the specific contract clauses may not exist. The labor supply situation should improve in the coming months. The adequacy of apprentice training programs is subject to question, but training is going on and new men are coming into the industry.

Little hope is expressed that building materials prices will decline substantially in the immediate future. The index of all building material prices has leveled off, but with the exception of some grades of lumber and a few other items there have been no actual declines.

With building at a lower level than expected, however, it is probable that materials will be more plentiful than had been anticipated and that stocks will be built up more quickly. The effect that this will have upon prices is, of course, not determinable, though it is possible that by late summer it may induce a considerable downturn; but it is certain that it will contribute to a much smoother flow of materials to the building site. This, in turn, will shorten building time and improve efficiency all around.

The probability of a smoother flow of materials is the most favorable factor in the cost situation. Unfortunately, it will not be fully effective for some months. Unless some factor operates to bring real estate and new construction prices down, it is probable that this summer will see consumer resistance make itself felt through fewer property transfers and a lower level of construction activity. When a readjustment does come, a relatively slight decline in prices will probably uncover a large market. If incomes have fallen off in the interim, however, a considerably larger readjustment will be necessary. And the longer construction remains at a low level, the more danger there is that the national income will decline.

Prospects for mortgage lending depend primarily on the outlook for construction. Reduction of building costs would bring prices of homes nearer to levels which buyers could afford to pay. If prices remain high, not only will many individuals be prevented from buying new homes but others will postpone home purchases in anticipation of lower prices.

According to the Federal Home Loan Bank Review, home mortgage debt may increase during 1947 by $3 billion to $4 billion, as compared to $4.5 billion in 1946. Reports from several mortgage lenders in Philadelphia suggest that the volume of new loans is expected to be less than in 1946. Pay-offs are apt to slacken, however. Incomes may decline; and even if they are sustained, individuals may want to spend a larger part for long-awaited durable goods. Despite slower repayments, fewer new loans may make for less rapid expansion of mortgage portfolios.

From the longer-run point of view, there should be ample opportunity for lenders to expand their mortgage holdings. Industrial and public construction are planned in large volume. The need for housing seems almost unlimited. It must be pointed out, however, that need is not equivalent to economic demand. For the great majority of those who want and need homes, the ability to buy them or rent them requires that they be low-cost dwellings. In this connection it is well to recall the experience during the decade of the twenties when high costs priced a large portion of the "needs" out of the market. There is every reason to believe that once the period of readjustment is out of the way the construction industry can look forward to a period of unprecedented activity. But to realize the full potentialities of the market, building costs, especially housing costs, will have to be lower.

There are in readiness new materials, new tools, and new methods, including prefabrication and site fabrication. If adopted, they will help to reduce costs. By mitigating the discontinuity of building operations they may also help to combat the "spread-the-work" doctrine which seems to be common throughout the industry. That doctrine has given rise to restrictive measures on the part of small groups within the industry, designed to protect the share of work done by each. In the past it has tended to perpetuate existing practices and relationships after they have become outmoded by technological progress.

The adoption of new methods and materials has been made difficult not only by these restrictions but also by consumer prejudice against new designs and by antiquated building codes which exist in many communities. The predominantly local organization of the building industry, the large number of small specialized units, and the ease with which new firms can enter (or leave), while giving rise to healthy competition, have also minimized the possibilities of building research and over-all planning, both of which are important for the use of modern management techniques. Much depends on how well the construction industry, including both management and labor, can overcome these obstacles. The challenge of construction needs is great. To a significant degree, the manner in which it is met will determine future standards of living.

BUSINESS AT RETAIL CREDIT STORES IN 1946

Production of goods and services was maintained at an unusually high level in 1946 while our economy was undergoing major readjustments from a war to a peace-time basis of operation. Some fears had been expressed that business activity would encounter a severe jolt upon the curtailment of Government expenditures for war purposes, but the initial adjustments were made with comparative ease. A decline in Government expenditures from $84 billion in 1945 to $35 billion in 1946 scarcely affected business activity because individuals and industries quickly seized the opportunity to buy goods that were coming on the market in rapidly growing volume.

The transition was facilitated by a reduction of income taxes on individuals and by a downward adjustment of savings by individuals. As a result, consumer expenditures expanded more than $20 billion between 1945 and 1946. This rise in consumer spending and accompanying changes in spending habits are reflected in the findings of the 1946 retail credit survey of this district which is conducted annually throughout the country by the Federal Reserve System.

Spending increased sharply at retail credit stores in the Third Federal Reserve District and sales in 1946 surpassed all previous records. Compared with the year before, people increased their expenditures primarily in the purchase of those items which they had been denied during the war. The eagerness with which they bought goods in 1946 is likewise reflected in the notable shift from cash to credit buying.

The record volume of business was not accomplished without affecting the resources of stores. At the end of the year current liabilities were larger than at the outset and although current assets were also greater they showed substantial change. Cash and Government securities declined and inventories and receivables increased.

Sales

Sales in 1946 were higher than in the preceding year in all nine classes of credit-granting stores. Increases ranged from 18 per cent to 173 per cent, as shown in the accompanying table. The greatest gains were made by automobile dealers and household appliance stores, which is not unexpected in view of the fact that the public had encountered the greatest war-time famine in these items.

Apparel stores made the smallest gains in sales. Production of clothing was a civilian essential that had not been curtailed seriously during the war, though, of course, quality was not up to standard and consumer choice was of necessity limited. Gains in sales at men's apparel stores were greater than those at women's apparel stores, owing largely to heavy demands on the part of veterans demobilized last year.

RETAIL SALES BY TYPE OF TRANSACTION

Type of Business	Percentage Change 1945 to 1946			
	Total Sales	Cash Sales	Charge Account Sales	Installment Sales
Automobile dealers	+173	+243	+ 26	+199
Automobile tire and accessory stores	+ 42	+ 34	+ 44	+ 68
Department stores	+ 24	+ 14	+ 36	+ 34
Furniture stores	+ 48	+ 58	+ 69	+ 43
Hardware stores	+ 61	+ 50	+ 71	+ 69
Household appliance stores	+138	+ 99	+159	+182
Jewelry stores	+ 27	+ 24	+ 21	+ 32
Men's clothing stores	+ 24	+ 18	+ 37	+ 22
Women's apparel stores	+ 18	+ 13	+ 27	− 3

Growth in Credit Buying

The large dollar volume of sales was sustained in part by a shift from cash to credit buying. At all major classes of stores except furniture stores and automobile dealers, increases last year were greater in credit sales than in cash sales. In this respect the buying habits of people showed the beginning of a return to the pre-war pattern. However, automobile dealers and furniture stores did not experience the same shift from cash to credit buying which occurred in the other seven types of stores. Because of unusual difficulties encountered last year, automobile production fell far behind schedule and as a consequence dealers had to allot the few cars available. The abundance of customers with cash in hand may explain, in part, why cash transactions accounted for 76 per cent of automobile sales in contrast to only 42 per cent in pre-war years.

CURRENT ASSETS AND CURRENT LIABILITIES
Percentage Changes—1945 to 1946

Type of Business	Current Assets				Current Liabilities			
	Cash, Bank Dep. and Govt. Sec.	Total Receivables	Inventories	Total Current Assets	Notes Payable to Banks	Trade Payables	Other Current Liabilities	Total Current Liabilities
Automobile dealers	+ 47	+ 66	+111	+ 67	+ 109	+150	+141	+144
Automobile tire and accessory stores	− 9	+ 37	+ 93	+ 22	+ 25	+187	+164	+174
Department stores	− 17	+ 46	+ 47	+ 17	+ 41	+ 10	+ 4	+ 5
Furniture stores	− 14	+ 29	+ 64	+ 21	+ 95	+169	+ 14	+ 48
Hardware stores	− 1	+ 52	+ 41	+ 23	+ 44	+ 88	+ 60	+ 71
Household appliance	− 3	+104	+ 89	+ 28	+ 37	+237	+153	+117
Jewelry stores	− 21	+ 39	+ 79	+ 27	+ 353	+ 88	+ 37	+ 83
Men's clothing	− 27	+ 56	+101	+ 15	+1067	+ 38	+ 38	+ 44
Women's apparel	− 26	+ 21	+ 51	+ 11	+ 53	+ 34	+ 4	+ 28

In any event, it is quite apparent that purchases of automobiles and furniture took prior claim on the cash resources of buyers. It is only reasonable to expect increased installment buying of these items as production catches up with demand.

Changes in the Current Position of Retail Credit Stores

The large volume of business transacted by the stores last year was accompanied by changes both in the size and composition of their current assets and current liabilities. Throughout the year, current liabilities increased more than current assets, so that by the end of the year their current ratios were generally lower. In all classes of stores there were increases in notes payable to banks as well as in trade payables and other current liabilities.

Cash, bank deposits, and U. S. Government securities decreased in all types of stores with the notable exception of automobile dealers. The relatively greater proportion of cash sales enabled them to improve their cash position while other stores experienced declines.

Inventories and accounts payable were higher at all classes of stores without exception. Increases in inventories, as shown in the accompanying table, range from 40 per cent at hardware stores to 100 per cent and over at automobile dealer establishments and men's clothing stores. Changes in the inventory position of automobile dealers are not particularly significant, since inventories at the beginning of last year were extremely low. At men's clothing stores, inventories had been drained by veterans demobilized after V-J Day and it should be noted that despite substantially higher inventories by the end of 1946 buyers were still confronted with a limited choice of items. Sportswear and tweeds are in greater abundance, but stocks of worsted suits are still inadequate.

The huge volume of trade in 1946 was based upon a high level of income. People saved less and spent their money more freely for goods that flowed into retail markets in ever-growing volume and at higher prices than those prevailing the year before.

BUSINESS STATISTICS

Production
Philadelphia Federal Reserve District

Indexes: 1923-5 =100	Adjusted for seasonal variation						Not adjusted		
				Per cent change					
	Apr. 1947	Mar. 1947	Apr. 1946	April 1947 from Mo. ago	April 1947 from Year ago	1947 from 4 mos. 1946	Apr. 1947	Mar. 1947	Apr. 1946
INDUSTRIAL PRODUCTION	105p	106	103	− 1	+ 2	+ 6	103p	106	102
MANUFACTURING	107p	108	104r	− 1	+ 3	+ 7	105p	107	103
Durable goods	114p	113	110r	+ 2	+ 4	+ 7	.....	.....	.....
Consumers' goods	98p	100	99	− 2	− 1	+ 6	.....	.....	.....
Metal products	144	137r	103r	+ 5	+ 40	+ 54	139	137r	102r
Textile products	67p	71	72r	− 6	− 7	+ 3	68p	73	70r
Transportation equipment	110p	112	198	− 2	− 45	− 45	118p	119	208
Food products	124p	123r	120	+ 1	+ 4	+ 4	118p	118	113
Tobacco and products	109	119	128	− 8	− 15	+ 1	99	110	116
Building materials	46p	52	43	−10	+ 8	+ 18	46p	45	43
Chemicals and products	140p	147	133r	− 4	+ 5	+ 9	142p	148	135r
Leather and products	89p	87	84	+ 2	+ 6	+ 4	88p	89	83
Paper and printing	118	117r	115	+ 1	+ 3	+ 2	120	119r	119
Individual lines									
Pig iron	93	87r	81r	+ 7	+ 15	+ 26	105	100r	91r
Steel	108	100r	98r	+ 8	+ 11	+ 39	114	107r	103r
Iron castings	97	85	81	+15	+ 20	+ 18	101	89	84
Steel castings	106	98	110	+ 8	− 4	+ 31	108	110	113
Electrical apparatus	233	228r	120	+ 2	+ 95	+ 80	203	212r	104
Motor vehicles	39	45	35	−13	+ 11	+ 17	49	49	44
Automobile parts and bodies	123	122	96	+ 1	+ 29	+ 46	134	133	104
Locomotives and cars	52	59r	57	−12	− 9	+ 32	56	64r	61
Shipbuilding	.....	.....	.....	+ 1	− 70	− 71	.....	.....	.....
Silk manufactures	84	85	87	− 1	− 4	+ 3	82	87r	86
Woolen and worsteds	72p	75	75r	− 4	− 4	+ 3	66p	73r	69r
Cotton products	43	45	48	− 4	− 10	0	45	48	50
Carpets and rugs	91p	87	69r	+ 4	+ 32	+ 28	87p	87	66r
Hosiery	69	74	75	− 7	− 8	+ 3	69	77	75
Underwear	132	127	143	+ 4	− 8	− 1	129	138	140
Cement	68p	84	60	−19	+ 14	+ 28	67p	65	59
Brick	54	58	52	− 7	+ 6	+ 11	57	57	54
Lumber and products	29	29	29	+ 2	+ 2	+ 7	28	27	27
Bread and bakery products	.....	.....	.....	− 2*	− 7*	− 8*	112	115	120
Slaughtering, meat packing	112	105	114	+ 7	− 2	− 6	109	99	110
Sugar refining	94	64	34	+47	+180	+ 33	122	98	44
Canning and preserving	191p	196	172	− 2	+ 11	+ 20	161p	174	145
Cigars	109	120	129	− 9	− 15	0	99	110	117
Paper and wood pulp	91	91	82	0	+ 12	+ 2	92	93	93
Printing and publishing	124	122r	122	+ 1	+ 1	+ 2	126	124r	124
Shoes	96p	90	112	+ 6	− 14	− 13	96r	96r	112
Leather, goat and kid	82p	84	58	− 2	+ 42	+ 33	80p	83	56
Explosives	45	77	69	−42	− 35	+ 7	45	77	70
Paints and varnishes	104	107	88	− 3	+ 18	+ 15	109	109	92
Petroleum products	187p	191	189r	− 2	− 1	+ 2	186p	189	188r
Coke, by-product	169p	162	114	+ 4	+ 48	+ 45	175p	169	119
COAL MINING	67	74	68	−10	− 1	− 4	66	75r	68
Anthracite	64	71	76	−10	− 16	− 9	64	71	76
Bituminous	92	101r	2	− 9	**	+ 29	84	103r	2
CRUDE OIL	283	273	303r	+ 4	− 7	− 5	292	279	313r
ELEC. POWER—OUTPUT	446	450	426r	− 1	+ 5	+ 10	437	459	417r
Sales, total	450	460	412	− 2	+ 9	+ 11	463	455	424
Sales to industries	318	343	290	− 7	+ 10	+ 12	322	326	293
BUILDING CONTRACTS									
TOTAL AWARDS†	145	128	138	+13	+ 5	+ 15	139	111	133
Residential†	142	157	162	− 9	− 12	+ 47	132	119	151
Nonresidential†	137	107	128	+27	+ 7	− 14	139	107	131
Public works and utilities†	166	101	85	+64	+ 96	+ 59	153	92	78

* Unadjusted for seasonal variation.
† 3-month moving daily average centered at 3rd month.;
** Increase of 1000% or more from the low level.
p—Preliminary.
r—Revised.

Local Business Conditions*

Percentage change—April 1947 from month and ..year ago..	Employment		Payrolls		Building permits value		Retail sales		Debits	
	Mar. 1947	April 1946	Mar. 1947	April 1946	Mar. 1947	April 1946	Mar. 1947	April 1946	Mar. 1947	April 1946
Allentown	+ 1	+11	+ 6	+25	+ 83	+174	− 7	+ 5	− 1	+18
Altoona	− 1	− 3	+ 1	+ 9	**	**	−11	+ 3	+ 3	+16
Harrisburg	0	+ 6	+ 3	+16	− 37	− 58	− 8	+ 6	−17	+14
Johnstown	+ 2	+ 4	+ 7	+15	+178	+200	+ 6	+14	+ 3	+22
Lancaster	− 1	+ 6	− 1	+24	+ 17	+477	− 7	+14	− 6	+25
Philadelphia	− 1	+ 4	− 3	+ 9	+118	− 66	− 4	+ 6	− 3	− 4
Reading	− 2	+ 7	− 2	+21	+ 72	− 21	+ 1	+13	− 1	+21
Scranton	− 2	+10	− 4	+20	− 55	+ 29	−12	+ 4	− 3	+17
Trenton	.....	.....	.....	.....	+ 42	+ 60	− 3	− 1	+13	+ 5
Wilkes-Barre	− 2	+13	− 7	+22	+221	+483	− 7	+14	− 4	+21
Williamsport	− 7	+ 1	− 6	+ 8	+240	+193	.....	.....	+ 2	+24
Wilmington	0	+ 1	− 3	+10	+ 23	− 57	− 3	+ 3	− 5	− 9
York	− 4	+ 3	− 3	+10	+ 44	+ 38	− 7	+ 7	− 5	+21

* Area not restricted to the corporate limits of cities given here.
** Increase of 1000% or more from the low level.

Production Workers in Pennsylvania Factories
Summary Estimates--April 1947

	Employment	Weekly Payrolls	Weekly Man-Hours Worked
All manufacturing	1,110,400	$49,183,000	43,475,000
Durable goods industries	635,800	30,673,000	25,054,000
Nondurable goods industries	474,700	18,510,000	18,422,000

Changes in Major Industry Groups

Indexes (1939 average=100)	Employment			Payrolls		
	Apr. 1947 Index	Per cent change from Mar. 1947	Per cent change from Apr. 1946	Apr. 1947 Index	Per cent change from Mar. 1947	Per cent change from Apr. 1946
All manufacturing	129	0	+ 9	256	+ 1	+ 19
Durable goods industries	157	+1	+14	292	+ 3	+ 23
Nondurable goods industries	105	−1	+ 3	212	− 2	+ 14
Food	124	0	+ 2	216	+ 3	+ 13
Tobacco	96	−5	+ 7	198	− 9	+ 20
Textiles	83	−2	+ 1	175	− 7	+ 9
Apparel	93	−1	+ 9	208	− 6	+ 17
Lumber	93	+2	+ 9	169	+ 3	+ 22
Furniture & lumber products	102	−1	+18	212	− 2	+ 38
Paper	118	−2	+ 3	230	0	+ 15
Printing and publishing	136	0	+ 2	258	+ 3	+ 21
Chemicals	121	−1	+ 1	228	− 1	+ 13
Petroleum and coal prods.	141	0	+ 4	234	− 3	+ 14
Rubber	173	−8	+ 3	360	− 4	+ 6
Leather	96	−1	− 2	189	− 1	+ 7
Stone, clay and glass	139	+3	+12	265	+ 4	+ 22
Iron and steel	141	+2	+ 6	259	+ 7	+ 14
Nonferrous metals	168	0	+12	308	+ 1	+ 19
Machinery (excl. electrical)	197	−1	+21	365	− 1	+ 33
Electrical machinery	230	−2	+84	422	− 4	+138
Transportation equip. (excl. auto)	225	−6	−14	347	−11	− 27
Automobiles and equipment	193	+2	+22	365	+ 2	+ 32
Other manufacturing	149	+2	+12	274	0	+ 27

Average Earnings and Working Time

April 1947 per cent change from year ago	Weekly Earnings		Hourly Earnings		Weekly Hours	
	Average	Ch'ge	Average	Ch'ge	Average	Ch'ge
All manufacturing	$44.29	+ 9	$1.131	+11	39.2	− 2
Durable goods indus.	48.25	+ 8	1.224	+ 8	39.4	0
Nondurable goods industries	39.00	+10	1.005	+14	38.8	− 3
Food	38.97	+11	.947	+14	41.2	− 2
Tobacco	27.06	+12	.743	+18	36.4	− 5
Textiles	37.62	+ 8	1.010	+16	37.3	− 7
Apparel	31.50	+ 7	.857	+13	36.8	− 5
Lumber	34.05	+13	.877	+20	38.8	− 6
Furniture & lumber products	38.63	+17	.918	+16	42.1	0
Paper	42.16	+12	.967	+14	43.6	− 2
Printing & publishing	53.83	+19	1.353	+20	39.8	− 1
Chemicals	44.65	+12	1.103	+14	40.5	− 2
Petrol. & coal prods.	50.42	+10	1.281	+ 5	39.4	+ 5
Rubber	51.72	+ 3	1.239	+ 6	41.7	− 3
Leather	33.54	+ 9	.879	+10	38.1	− 1
Stone, clay and glass	43.77	+ 9	1.083	+11	40.4	− 2
Iron and steel	49.57	+ 7	1.266	+ 5	39.1	+ 2
Nonferrous metals	47.66	+ 6	1.179	+ 4	40.4	+ 1
Machinery (excl. elec.)	47.06	+10	1.180	+11	39.9	− 1
Electrical machinery	51.23	+30	1.319	+27	38.8	+ 2
Transportation equip. (excl. auto)	47.02	−14	1.349	+ 2	34.9	−16
Automobiles & equip.	52.07	+ 9	1.233	+10	42.2	− 2
Other manufacturing	38.56	+13	.998	+15	38.6	− 1

Wholesale trade Unadjusted for seasonal variation	Per cent change: April 1947 from Month ago	April 1947 from Year ago	1947 from 4 mos. 1946
Sales			
Total of all lines	− 1	+ 3	+10
Boots and shoes	−10	−29	.....
Drugs	− 1	+ 8	+ 7
Dry goods	+ 4	+ 4	+13
Groceries	− 6	− 8	− 1
Hardware	+22	+12	+16
Jewelry	+ 4	− 7	− 9
Paper	− 3	+27	+34
Inventories			
Total of all lines	+ 1	+49	.....
Dry goods	+ 4	+66	.....
Groceries	0	+52	.....
Hardware	+ 6	+64	.....
Jewelry	+ 4	+65	.....
Paper	− 5	+ 3	.....

Source: U. S. Department of Commerce.

Prices	Apr. 1947	Per cent change from: Month ago	Year ago	Aug. 1939
Basic commodities (Aug. 1939=100)	320	− 4	+68	+220
Wholesale (1926=100)	148	− 1	+34	+ 97
Farm	177	− 3	+31	+190
Food	162	− 3	+47	+142
Other	132	0	+28	+ 65
Living costs (1935-1939=100)				
United States	156	0	+19	+ 58
Philadelphia	155	− 1	+19	+ 58
Food	182	− 2	+30	+ 96
Clothing	181	0	+19	+ 82
Fuels	125	0	+ 9	+ 30
Housefurnishings	180	0	+17	+ 79
Other	138	+ 3	+11	+ 37

Source: U. S. Bureau of Labor Statistics.

Indexes: 1935-1939=100	Adjusted for seasonal variation: Apr. 1947	Mar. 1947	Apr. 1946	Per cent change: April 1947 from Month ago	April 1947 from Year ago	1947 from 4 1946	Not adjusted: Apr. 1947	Mar. 1947	Apr. 1946
RETAIL TRADE									
Sales									
Department stores—District	249	243	219r	+ 3	+ 14	+ 13	247	255	228
Philadelphia	232	226	205r	+ 3	+ 13	+ 13	228	235	211
Women's apparel	228	265	226	−14	+ 1	− 2	249	282	262
Men's apparel	261	318	263	−18	− 1	+ 12	232	279	252
Shoe	193p	245	203	−21	− 5	0	222p	250	248
Furniture	.....	.....	.....	+ 2*	+ 2*	.....	.....	.....	.....
Inventories									
Department stores—District	219p	223	171	− 2	+ 28	.....	223p	223	175r
Philadelphia	210p	207	170r	+ 2	+ 23	.....	212p	209	172r
Women's apparel	222	221	210	+ 1	+ 6	.....	222	242	209
Shoe	125p	112	53	+12	+138	.....	139p	125	59
Furniture	.....	.....	.....	+ 6*	+ 43*	.....	.....	.....	.....
FREIGHT-CAR LOADINGS									
Total	145	143	104	+ 1	+ 40	+ 19	138	135	98
Merchandise and miscellaneous	137	137	126	− 1	+ 8	+ 17	135	132	125
Merchandise—l.c.l.	96	95	101	+ 1	− 5	+ 1	96	95	101
Coal	178	145	43	+23	+317	+ 18	143	150	34
Ore	301	159	117	+89	+157	+ 97	156	70	61
Coke	211	200	85	+ 6	+148	+ 55	171	188	69
Forest products	97	95	113	+ 2	− 14	− 6	82	83	95
Grain and products	136	147	107	− 8	+ 27	+ 9	127	140	100
Livestock	104	91	142	+14	− 27	− 19	95	84	130
MISCELLANEOUS									
Life insurance sales	207	194	255	+ 7	− 19	− 5	207	201	255
Business liquidations									
Number	.....	.....	.....	−24*	+697*	+350*	24	31	3
Amount of liabilities	.....	.....	.....	−58*	**	+ 83	20	47	1
Check payments	224	220	226	+ 2	− 1	+ 7	219	217	221

* Computed from unadjusted data. p—Preliminary. r—Revised.
** Increase of 1000% or more from the low level.

BANKING STATISTICS

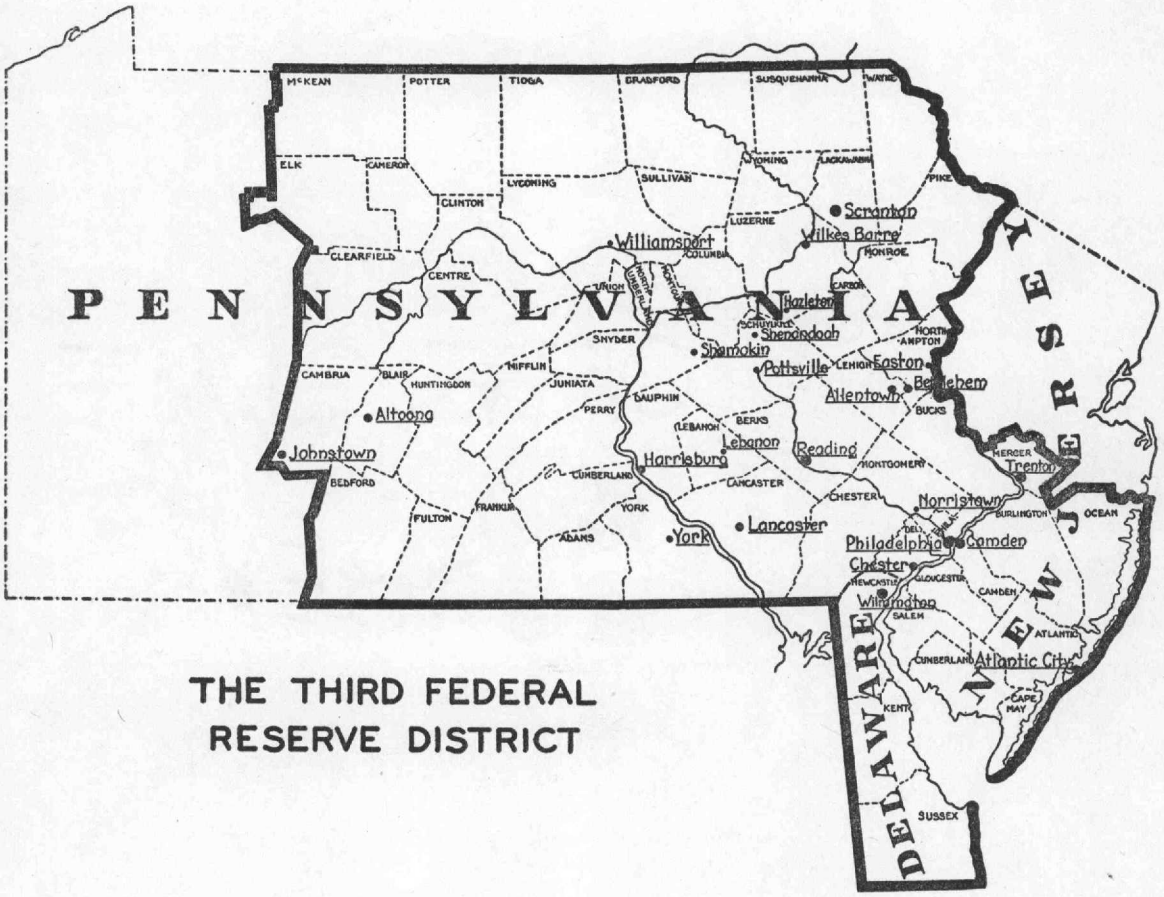
Reporting member banks (Millions $)	May 21, 1947	Changes in—: Four weeks	One year
Assets			
Commercial loans	$ 413	−$ 8	+$138
Loans to brokers, etc.	18	− 1	− 24
Other loans to carry secur.	20	+ 2	− 42
Loans on real estate	53	+ 1	+ 12
Loans to banks	2	− 2	+ 1
Other loans	186	+ 4	+ 32
Total loans	$ 692	−$ 4	+$117
Government securities	$1308	−$15	−$532
Other securities	207	− 3	+ 15
Total investments	$1515	−$18	−$517
Total loans & investments	$2207	−$22	−$400
Reserve with F. R. Bank	$420	− $5	+ $3
Cash in vault	33	.....	.....
Balances with other banks	84	+ 1	− 1
Other assets—net	47	.....	− 2
Liabilities			
Demand deposits, adjusted	$1822	−$ 8	+$ 47
Time deposits	309	.....	+ 68
U. S. Government deposits	53	− 18	− 472
Interbank deposits	316	+ 1	− 45
Borrowings	4	− 1	− 1
Other liabilities	24	− 2	.....
Capital account	263	+ 2	+ 3

MEMBER BANK RESERVES AND RELATED FACTORS

Third Federal Reserve District (Millions of dollars)	Changes in weeks ended—: April 30	May 7	May 14	May 21	Changes in four weeks
Sources of funds:					
Reserve Bank credit extended in district	+12	− 8	+20	−15	+ 9
Commercial transfers (chiefly interdistrict)	+ 7	+23	+15	+10	+55
Treasury operations	−19	−23	−21	− 1	−64
Total	.....	− 8	+14	− 6	.....
Uses of funds:					
Currency demand	.....	+ 4	+ 3	− 3	+ 4
Member bank reserve deposits	+ 1	−12	+11	− 3	− 3
"Other deposits" at Reserve Bank	.....	.....	.....	.....	.....
Other Federal Reserve accounts	− 1	.....	.....	.....	− 1
Total	.....	− 8	+14	− 6	.....

Member bank reserves (Daily averages; dollar figures in millions)	Held	Required	Excess	Ratio of excess to required
Phila. banks				
1946: May 1-15	$412	$400	$12	3%
1947: Apr. 1-15	410	404	6	2
Apr. 16-30	414	406	8	2
May 1-15	414	408	6	1
Country banks				
1946: May 1-15	$372	$313	59	19
1947: Apr. 1-15	379	330	49	15
Apr. 16-30	371	330	41	12
May 1-15	377	332	45	13

Federal Reserve Bank of Phila. (Dollar figures in millions)	May 21, 1947	Changes in: Four weeks	One year
Discounts and advances	$ 9.6	−$ 3.4	+$ 2.2
Industrial loans	1.6	+ 0.6	+ 0.3
U. S. securities	1626.6	+ 18.1	+ 32.5
Total	$1637.8	+$15.3	+$35.0
Fed. Res. notes	1635.6	− 1.8	+ 28.5
Member bk. deposits	785.5	− 3.6	+ 18.3
U.S. general account	35.5	+ 5.8	− 6.0
Foreign deposits	38.1	− 6.2	− 13.1
Other deposits	2.1	.....	− 0.9
Gold certificate res.	877.5	− 20.3	+ 5.1
Reserve ratio	35.1%	− 0.8%	− 0.2%



THE THIRD FEDERAL
RESERVE DISTRICT