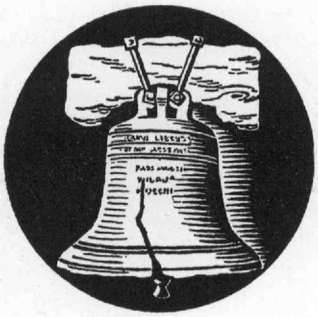
MAY 1949

THE BUSINESS REVIEW

FEDERAL RESERVE BANK OF PHILADELPHIA



CONSTRUCTION AND MORTGAGE FINANCE: A NEW PICTURE

Construction is still at very high levels, yet the tempo of the building boom obviously has slowed. Thus far, greater outlays for public works have offset a decline in private building. Mortgage lending remains active, but the pace is slackening. The housing "shortage," still real to some, is of a different nature than formerly. Prices on most types of real estate are lower in response to weakened demand, and less is heard about the "shortage" of mortgage funds. The main key to the construction, mortgage, and real estate outlook, appears to be the trend of construction costs.

THE MONTH'S STATISTICS

Pay rolls of Pennsylvania factory workers dipped below year-ago levels for the first time since July 1946. Trade is holding up fairly well. Bank lending to business continues down, and Government bond prices are rising.

CONSTRUCTION AND MORTGAGE FINANCE: A NEW PICTURE

The construction industry, a sprawling giant among giants, is both highly praised and roundly condemned—praised, because of its engineering excellence and its great output records; condemned, because in some fields, particularly housing, its production methods are considered archaic, and because its atomistic organization is considered inefficient. Widespread difference of opinion exists as to the merits and deficiencies of the industry, but there is universal agreement on its importance in our economy.

In early 1949 nearly 2 million workers were directly engaged in construction. Probably as many more were producing materials for it. The importance of the industry, in fact, lies not so much in what it can do in the way of production, though this has been the primary concern during the last ten years, as in what its activity means for the economy as a whole. A high level of construction activity during the last two years has undoubtedly been a factor in sustaining the boom. New construction was a $19 billion contribution to gross national product last year. A sharp drop in building now would be a serious blow to hopes of minimizing readjustment difficulties in 1949.

On the basis of past experience there is a strong feeling on the part of many observers, irrespective of the details of the present situation, that a substantial downturn in construction and real estate activity is imminent. It would seem, however, that dependence on cyclical charts for business forecasting—always a questionable business—is even less justifiable at the present time.

Yet the real estate cycle is not a myth. Although not so consistent as to allow accurate prediction, over a period of many years the ups and downs of construction and real estate activity have been fairly regular. The time from peak to peak seems to average about seventeen or eighteen years. But wars and other events have made for interruptions in trend. World War II interrupted an upswing of the cycle, and resumption of heavy building after a war of such length could not be expected exactly to fill in the remainder of the upward movement. Undoubtedly the "rhythm" of the cycle—what rhythm there was—has been upset. Signs of a downturn are present now, but the fatalistic view that this drop must be like 1922 or some other period should not be accepted uncritically. The construction industry is intimately related to other segments of the economy in which many changes have taken place within the last two decades. It cannot be that the so-called real estate cycle will be unaffected by those changes.

IMPORTANCE OF MORTGAGE FINANCE

Just as construction is a vital part of our industrial system, mortgages comprise a significant segment of the credit structure. How important mortgages are depends on one's point of view. To those whose homes are mortgaged—and mortgages constitute the largest single type of personal debt—the important thing is how much they owe and how much they have to pay each month. The ability of mortgage debtors to make these payments is now much greater than before the war, as total mortgage debt is considerably smaller in relation to personal incomes than ten years ago. Yet the big problem of the debtor is in the future—how to keep up payments if his income declines, and whether it is worth the trouble to pay off his debt if he can get a cheaper place to live.

Mortgages are more important to some lenders than to others. Savings and loan associations, for example, have 79 per cent of their assets in the form of mortgages; insurance companies have 18 per cent; commercial banks, on the average, have 6 per cent of their assets in mortgage loans, but the smaller country banks concentrate much more heavily on this type of lending. Past experience has shown that mortgages are not only an important source of earnings to these lending institutions, but also an important source of risks.

From the viewpoint of the economy as a whole, mortgages, like other types of credit, have helped to produce our high standard of living. Buying a home requires saving whether or not credit is used. By means of credit, however, a family can enjoy the use of a home while saving to pay for it. Mortgage credit thus has enabled—indeed, in many cases has forced—individuals to save who otherwise would have spent the funds for consumption goods. Home ownership, moreover, is an important part of our social, economic, and political systems. But like other types of credit, mortgage loans also have added to the instability of business, encouraging booms and aggravating slumps. Excessive lending in the past helped to increase prices, stimulated over-building, and encouraged people to incur excessive debts. In depressions, on the other hand, borrowers had to pay off their debts out of reduced incomes, defaults and foreclosures rose, lenders became unwilling to lend, and building was held back. Experience shows, therefore, that mortgage lending can be a force for good or ill. As long as we heed these lessons of history, mortgage lending can help us to obtain stability at a high level of economic activity.

RECENT TRENDS IN CONSTRUCTION AND REAL ESTATE

The fall of 1948 witnessed a change in the real estate market and in construction generally. This was apparent from the behavior of several indicators—volume of construction, costs, and selling prices. The dollar volume of all construction put in place hit a peak in August 1948. The decline since that time has been partly seasonal, but it is clear that the drop was greater than that of the previous year. Nevertheless building is still at a high level. As the table shows, although April activity was below a year ago, total construction in the first four months of this year was greater than in the same period of 1948. Preliminary reports for May are favorable, but several other indicators now point in a downward direction.

First, privately financed construction in 1949, about three-quarters of the total, is slightly below last year's level. A sharp increase in publicly financed construction has made up the difference. If the largest segment of the industry continues down, it is unlikely that increased public outlays would continue fully to compensate. Second, the value of building contract awards during the first four months of 1949, as reported by the F. W. Dodge Corporation, was somewhat below the 1948 level, and the seasonally adjusted index of the three-month moving average in March was 175 (1923-1925 = 100) compared with 181 last year. This series began to lag behind year-ago levels in October 1948. Third, the Labor Department estimate of the value of building for which permits had been issued early in 1949 was 6 per cent below 1948. While it is not possible to estimate the time lag involved among these series, the issuance of building permits would precede most contract awards; and awards, in turn, precede the actual construction. These figures, therefore, give some idea of what is to come.

In general, Third District trends parallel those of the nation, though the decline in building permits is larger and varies considerably from city to city. Allentown, Lancaster, and Scranton show increases for the first quarter. Most others show decided declines. Seventeen district cities combined experienced a first-quarter drop of 37 per cent in building permits compared with last year.

Residential building has borne the brunt of the decline in private construction activity. The year 1948, with over 931,000 new dwelling units started, was only a fraction of a per cent under the record of 1925, yet a slow-down seems to have begun before the year was over. New starts declined steadily after the seasonal peak of over 100,000 in May and, beginning in September, dropped below the previous year's level. The value of residential construction put in place also began to decline after August. A seasonal upturn in home building which has taken place in 1949 is not as strong as that of last year; 12 per cent fewer homes were begun in the first quarter. Authorizations for multi-family rental buildings seem to have declined more sharply than those for one-family homes—this, despite the fact that multi-family dwellings built since the war have been a much smaller proportion of all home building than during the building boom of the 'twenties.

In general, nonresidential building and other types of engineering construction bettered their 1948 records in the first quarter of this year. The biggest percentage gains came in publicly financed construction, which increased in total over 40 per cent. Highways, schools, hospitals, and churches, as well as warehouses and office buildings, showed important gains. Contract awards and building authorizations for these categories indicate continued high activity for the immediate future.

EXPENDITURES FOR NEW CONSTRUCTION PUT IN PLACE

Type of construction	Expenditures (in millions of dollars)				
	1949	1948	First 4 months of—		Per cent change first 4 months
	April*	April	1949*	1948	
Total, new construction	1,368	1,378	5,033	4,833	+ 4.1
Private construction	987	1,099	3,772	3,949	− 4.5
Residential building (nonfarm)	440	550	1,665	1,950	−14.6
Nonresidential building (nonfarm)	252	263	1,070	1,062	+ .8
Industrial	89	116	399	491	−18.7
Commercial	76	87	315	339	− 7.1
Other nonresidential building	87	60	356	232	+53.4
Farm construction	30	37	70	88	−20.5
Public utilities	265	249	967	849	+13.9
Public construction	381	279	1,261	884	+42.6

* Preliminary.
Source: Bureau of Labor Statistics, U. S. Department of Commerce

Costs are Down. Construction costs for the past year, well over double their 1939 average, are definitely on the way down. In the first quarter of 1949 they were higher than in the corresponding period a year earlier, but there was little doubt as to the direction of the trend. In this case the fall of 1948 can be fairly definitely established as the turning point. The Department of Commerce composite construction cost index reached a peak in September, and by February had come down 2 per cent. Other specific-purpose cost indexes show the same general trend, though some observers report that the actual cost decline in certain types of building has been greater than the indexes show—perhaps a drop of as much as 5 to 10 per cent.

Several factors have combined to lower costs. First, greater labor efficiency. Standard wage rates have continued to inch upward, but overtime work is less frequent, and workers seem to turn out a better job—perhaps not as good as before the war, but a better job than last year. The flow of materials to the job is good; there is little time wasted in waiting. Second, builders' overhead cost has been cut by the shortening of the construction period. In the Philadelphia area, building time for a home is reported at six to eight months in contrast to ten to twelve months two years ago. Third, material prices are lower. By the middle of April the level of wholesale building materials prices had fallen over 2 per cent from the September peak. Stocks of building materials, which had been increasing throughout 1948, began to put pressure on manufacturers in the first quarter of this year. Gypsum products, millwork, and even iron and steel products, among the last of the shortage items, became readily available almost everywhere. Stocks of plumbing and heating equipment, plywood and flooring were two to three times year-ago levels. The response to this situation by materials producers has been some curtailment of production, some lowering of prices.

With materials prices still double the 1926 level, a decline of 2 per cent does not appear large; yet the reversal of the upward trend, however slight, is of great significance. Builders and subcontractors need no longer include in their bids a "margin of safety" in anticipation of increased costs. They are now encouraged, in fact, to shave bids as closely as possible. Smaller margins of profit, therefore, are probably a fourth factor tending to reduce construction costs.

The Real Estate Market. Few statistical measurements of real estate prices and market conditions are available. Reports and surveys from the field must be sifted and pieced together. These began to indicate some softening in narrow segments of the market toward the end of 1947. At that time the prices of older homes in the higher-price range began to sag. During 1948 the decline was extended to the medium-price range and, by the end of the year, to some new homes. A new development, late in 1948, was the appearance of increasing numbers of unsold new homes as the result of more rapid completions and slower sales. Reports of the size of the new home "overhang" are contradictory and difficult to verify, but in some areas it is large enough to have brought about substantial reductions in prices. In this area the bulk of the unsold homes appears to be in the middle-price range —$10,000 to $15,000. Good low-price homes still sell quickly—though not from the blueprints, as before.

The main brunt of consumer resistance in the middle-price range is being felt by the poorly located "operation" house, or by the $15,000 home in an $8,500 neighborhood; yet in some areas vacancies are sufficiently widespread to induce builders to hold off on new building until the market has been tested further. The opinion is gaining that, for the time being at least, the middle-price market is saturated.

There is no mistaking the strong demand for very low-cost housing. It is reflected in the price trend for used homes as well as in the speed with which most new homes in the $6,500 class are snapped up. In the Philadelphia area and elsewhere, homes in $3,500 neighborhoods are still moving up in price.

Although Third District farm real estate prices have continued to rise slowly, the Department of Agriculture reports that for the nation as a whole the first post-war decline in farm values took place between the beginning of November last year and the first of March. Falling farm commodity prices have undoubtedly begun to affect the farm real estate situation.

In still another field, industrial real estate, a recent change is evident. A survey by the Society of Industrial Realtors reveals a market situation which appears to be much firmer than that prevailing in the residential field, but which now shows definite signs of leveling off. Multistory industrial buildings—the older type of manufacturing facilities—show a downward price trend, and although the demand for small- and medium-sized buildings is still strong, the larger buildings have begun to show some weakness. Vacant industrial land—scarce in many large cities, including Philadelphia—is reported "steady."

Still a Shortage? Do these changes in construction activity, costs, and market conditions mean that the shortage of housing and commercial space is over? Those who say yes point to declining home prices, luxury-apartment rent troubles, increasing office and commercial vacancies. More than a few observers feel that a supply-demand balance is imminent, if not here. Those who insist that demand is unsatisfied, particularly for housing, point to rising rents and overcrowding as evidence. They concede that the hundreds of thousands of dwelling units built and renovated since the war have helped; but they point out, too, as does the Philadelphia Housing Authority, that new building has been too high priced. The typical rent of apartments put under permit during the second half of 1947 in the city of Philadelphia was close to $100 a month. Not many families can afford such rentals. The shortage persists.

There are elements of truth in both views. However, the antagonists in the argument frequently fail to see the other side because they are thinking in different terms. It may well be that the demand for homes *at existing prices* has been satisfied. In this sense the "shortage" is disappearing. But it is undoubtedly true, that in terms of a minimum standard, the *need* for housing has not been met. In this sense the "shortage" is very much with us. It is often forgotten, too, that the real estate and construction markets are highly segmented. Each segment is intimately related to the others, but at any given time conditions within each one may vary from the average. This is a stumbling block to a clear-cut decision on the state of *the* market. Concentration on low-cost housing alone, for instance, may give rise to a somewhat distorted picture. And strict adherence to past patterns of construction may obscure real opportunities.

RECENT TRENDS IN MORTGAGE LENDING

The volume of mortgage lending has continued at a high level, and total mortgage indebtedness has been increasing. Yet the pace of lending activity, like that of construction and real estate transactions, has been slowing down. This tendency has been particularly noticeable in the number of mortgages made; the dollar volume of mortgage lending reflects price trends.

A growing proportion of mortgages made since the war has been for new construction and reconditioning, and a declining proportion has been for the purchase of existing homes. This trend has reflected the rapid construction of new homes, and the slackening of strong pressures for immediate occupancy.

The tendency for commercial banks to do a larger share of mortgage lending, a trend in evidence for a year and a half after the war, has been reversed. Banks accounted for 27 per cent of the volume of mortgage recordings in early 1947, but are responsible for only 21 per cent now. Insurance companies and savings banks, on the other hand, have been making an increasing share of the loans ever since early 1946. Large amounts of savings have come into those institutions from the public and additional funds have been supplied by the retirement or sale of Government securities. Using these funds, insurance companies and mutual savings banks refinanced existing mortgages and bought heavily on a national scale. In contrast, some commercial banks, either because of legal restrictions or internal policy, were "loaned up" as early as 1947. Banks, moreover, have been more directly affected by the restraining actions taken by the monetary authorities.

Contrary to the trend during most of the post-war period, a larger proportion of mortgages being made now are not guaranteed or insured. Mortgages guaranteed by the Veterans Administration, which at one time constituted one-third of mortgage recordings, now comprise only about one-tenth. The decline in VA activity has been going on since early 1947. It was in this area that the most urgent demands for occupancy were concentrated, and as this condition subsided activity has declined. Despite the guarantee, lenders have become increasingly cautious largely because the market for small houses is probably the most inflated segment of the housing market. Lenders have required increasingly strict terms on VA loans, asking for larger down payments and shorter maturities. Other explanations often given for the decline in veterans' activity have been the uncertainties of the secondary market and the unattractiveness of the 4 per cent rate.

Mortgages insured by the FHA, on the other hand, have constituted an increasing share of total mortgage recordings for over two years. In the early post-war period, few FHA loans were made, principally because the legal provisions resulted in less liberal appraisals. In the latter part of 1946, however, activity started upward rapidly, accounted for principally by Title VI loans, which are granted under more liberal provisions than Title II loans. In the spring of 1948, FHA loans became somewhat tighter as a result of Congressional action, and for a short time the FHA had no authority to make Title VI loans. In the summer of 1948, however, Congress took steps to ease mortgage credit once more, liberalizing terms for Section 608 loans and Title II loans. Authority to guarantee loans under Section 603, however, was not restored. Loans insured by the FHA have continued to rise, comprising an increasing share of total mortgage recordings.

Trends in farm mortgages have been similar in many respects to those in urban mortgages. Although farm mortgage debt is still rising, the volume of new lending activity has been declining. Commercial banks, which increased their share of the farm mortgage business in the early post-war years have been declining in importance for many of the same reasons as their decline in the urban mortgage field.

A Shortage of Mortgage Money? As in the case of housing, the so-called "shortage" of mortgage money is largely a problem of semantics. In the first place a scarcity is not absolute; it must be considered in relation to demand. And while needs for housing are practically unlimited, demand is comprised of need *plus* ability to pay. The same type of analysis applies on the supply side. There is a plentiful supply of funds available for lending. Some banks, it is true, have reached their legal lending limit, but funds are still coming into savings institutions in large volume and most institutions hold a considerable quantity of Government securities which they can liquidate to make loans. Effective supply, however, comprises ability to lend *plus* willingness to lend. The "shortage" of mortgage funds is often the result of a comparison of housing *needs* with *willingness* to lend. The reluctance to lend is reflected in rationing of funds by increasingly strict mortgage terms—higher down payments, shorter maturities, higher interest rates, and more conservative appraisals.

There is no question but that the "shortage" of mortgage funds prevented some prospective borrowers unable to meet the terms lenders asked from acquiring a home. But it is unlikely that it has hindered total construction activity since the war. Inasmuch as resources were being practically fully utilized, easier credit would have encouraged higher building prices instead of increasing output. Indeed, from the point of view of economic stability, credit *should* be difficult to obtain in periods of inflation and easier to obtain in recession.

Recent developments have suggested that the "shortage" of mortgage money may be diminishing. On the demand side, needs are still great but the public is now thinking more about price and less about need. Although their terms have not eased, with the possible exception of somewhat lower rates, lending institutions are beginning to be a little more anxious to get mortgages now that commercial loans and other outlets for funds are shrinking.

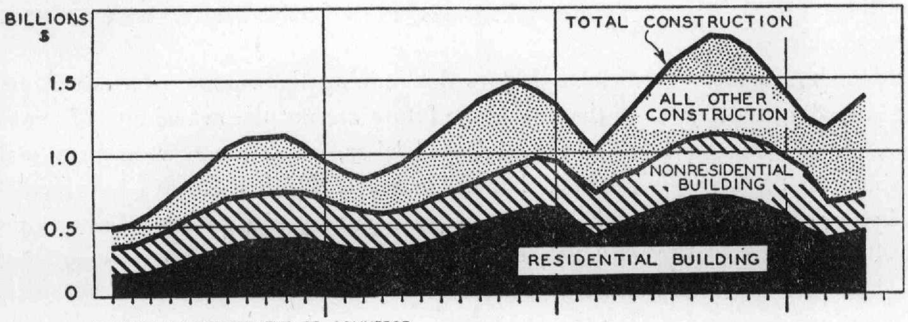
THE OUTLOOK FOR CONSTRUCTION

Critical factors determining the volume of construction in the immediate future are not the availability of credit or of materials and labor, which are now adequate and growing, but the prices at which these will be supplied and the kind of package they will go into. Unless construction costs come down further and unless building takes the form that consumers will buy, it is possible that for the immediate future, at least, private construction activity will continue to slacken. At the beginning of 1949 it was expected that public works of all kinds would increase sufficiently to more than make up for any drop in private building during the year. So far, this expectation has been fulfilled, but the possibility of a substantial decline in private construction outlays now clouds the picture. The extent of such a decline depends on many factors.

For one, a lessening of sales and production in many lines during the last six months has probably caused some contraction of industrial and commercial construction plans. But many plans which have been held in abeyance would be taken off the shelf if and when construction costs decline sufficiently. In the commercial field especially, but also in industry, keener competition may force some modernization of plant or stores despite high cost. Many recent air-conditioning and display-window expenditures have been of this nature. A much larger volume of construction would be undertaken, however, if the nonresidential construction dollar would take on a closer resemblance to its pre-war appearance. In the meantime the expectation of lower prices may be a deterrent to immediate building.

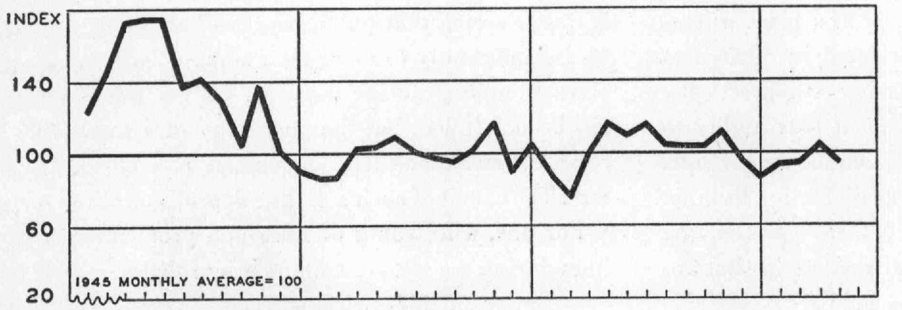
Expectation of lower prices is probably a stronger deterrent to the purchase of new homes than to erection of industrial facilities. The home buyer rarely weighs the return on his acquisition against its cost, and if he is aware that prices are receding, he feels that he might just as well wait for still greater reductions. This may be one reason why home-sellers usually prefer to present a firm price to the public even though price reductions may be made privately. "Consumer resistance" of this type is highly contagious.

CONSTRUCTION, REAL ESTATE . . .



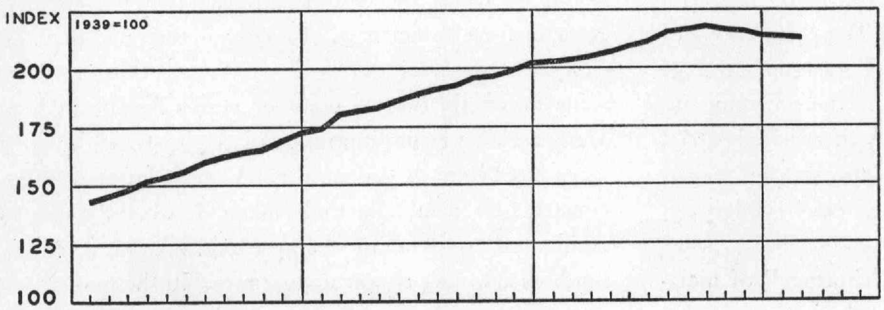
SOURCE: U.S. DEPARTMENT OF COMMERCE

CONSTRUCTION PUT IN PLACE is slightly higher so far this year than last, despite a lag in residential building.



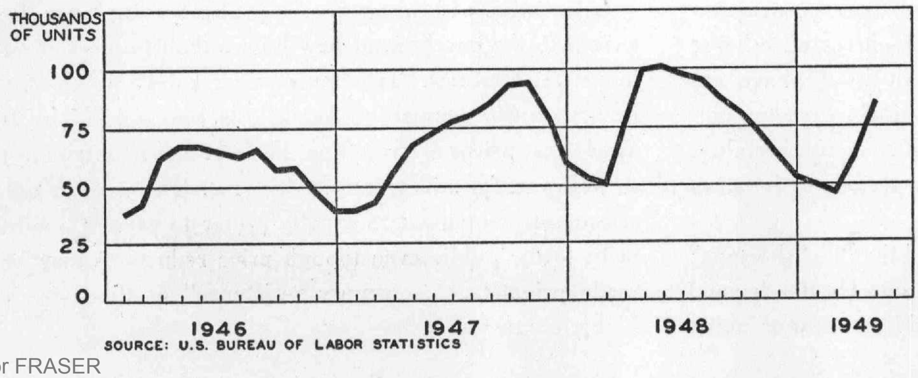
SOURCE: FEDERAL RESERVE BANK OF PHILADELPHIA

REAL ESTATE ACTIVITY in the Philadelphia area, as reflected in title insurance applications, remains at the high level of the last two years.



SOURCE: U.S. DEPARTMENT OF COMMERCE

CONSTRUCTION COSTS reached a peak in the fall of 1948 and have declined slowly but steadily.

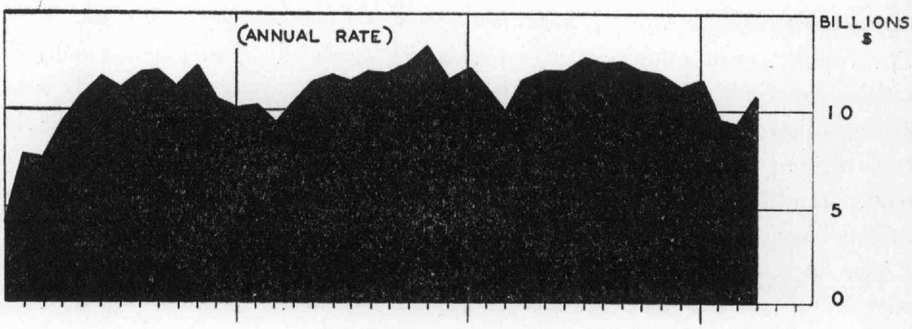


SOURCE: U.S. BUREAU OF LABOR STATISTICS

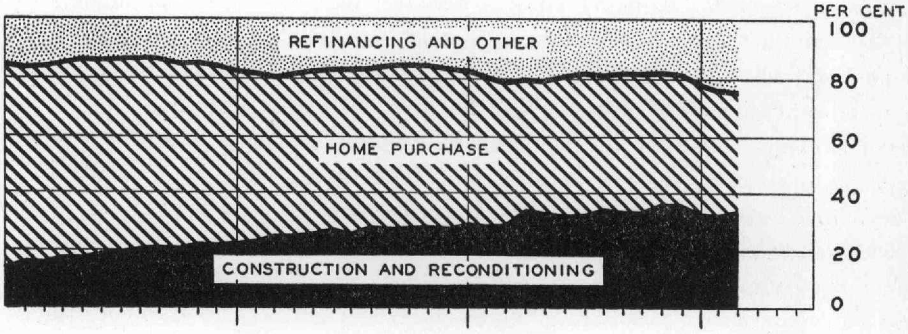
HOUSING STARTS throughout the nation are considerably fewer than in 1948 but are making a good seasonal recovery.

. . . AND MORTGAGE FINANCING

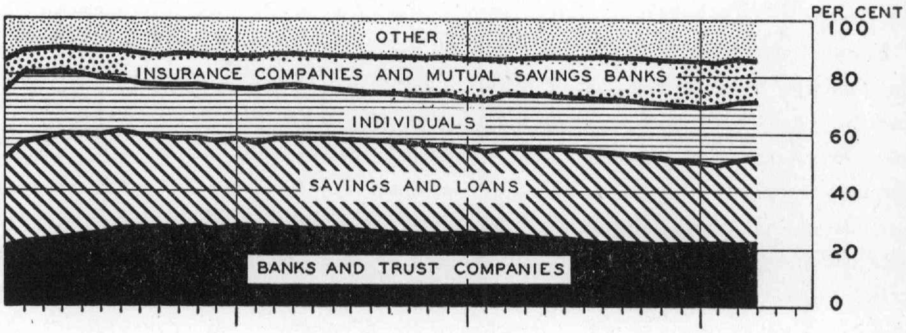
NON-FARM MORTGAGE RECORDINGS are still at a high level, but slowing down.



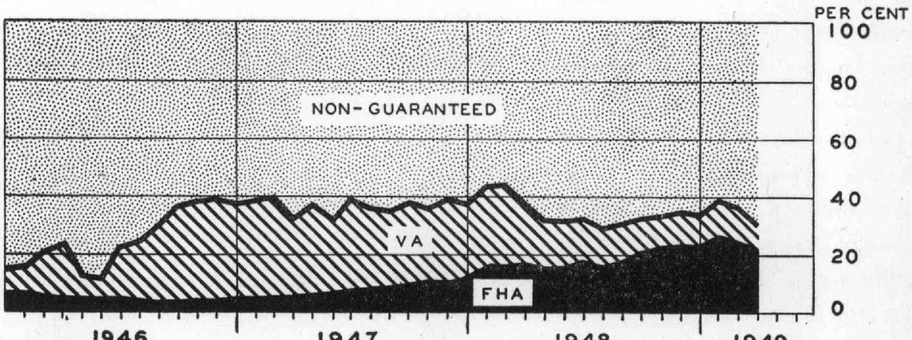
LOANS MADE (by savings and loan associations) are more for new construction and repair, less for the purchase of old homes.



DISTRIBUTION OF MORTGAGE RECORDINGS shows commercial banks declining, insurance companies and mutual savings banks still increasing.



GUARANTEED LOANS are now a smaller proportion of mortgage recordings because of the decline in G.I. mortgage activity.



SOURCE: HOME LOAN BANK BOARD, VA AND FHA

In the longer run, of course, lower costs would be favorable for residential construction. Of the million families who had planned to buy new homes in 1948, half could afford to pay over $7,500; only one-seventh could pay over $12,500. The bulk of new housing has not been priced to meet the bulk of the demand. The average price tag on homes bought with VA loans last year was $8,300. The average construction cost of a one-family dwelling, exclusive of land, sales profit and other non-construction expenses, is estimated by the Bureau of Labor Statistics to have been $7,900 at the end of 1948. A substantial reduction will be required before a large portion—perhaps the largest portion—of the market can be reached.

The Economy House. In an effort to find a way to offer a low-cost unit for sale, certain trade groups and Government agencies have been encouraging the construction of a so-called "economy house," and meetings of builders and mortgage bankers have been held throughout the nation to discuss an economy housing program. Economy house designs vary considerably but they all have small size and simplicity in common. Single units are typically one-story, cellarless construction. Labor-saving "dry" wall board is used. The frills are cut out of the kitchen, and the bathroom is not tile. The use of standard plumbing equipment and "modular co-ordination"—the use of standard-size construction units—is encouraged. Depending on its size and location, such a home might now be built for $4,000 to $6,500.

There is rather sharp disagreement over the merits of the economy house as the answer to the housing problem and the cure for sagging residential building. One argument raises the question of an obstacle which has hindered prefabricated housing—consumer acceptance. Opponents of "economy" doubt that the American housewife will be satisfied without a "dream kitchen" and tile bath. Supporters urge that she be given a chance to choose. Another obstacle is the question of the adequacy of space provided—to which the answer might be that even 600 square feet of space is better than none and that the economy house might be kept "expansible" for later additions.

Many observers have pointed out that while economy homes may meet a widespread need at the present time, they would soon be occupied only by the lowest income groups and would increase the danger of creating new slum areas. This is a serious problem. There is, unfortunately, ample precedent for such a slum-breeding process. It would seem, however, that good building plus adequate community planning could avoid the evil. Builders and realtors are becoming increasingly aware of the need for undertaking preventive measures on a community-wide basis. In any case, plans for large-scale economy house construction are being made.

Apartment house development is severely handicapped by high costs. Many projects have been built and others are planned under FHA Section 608 requirements. But the point is rapidly being reached at which it will be impossible to build and profitably operate at the rentals now obtainable.

Construction costs were among the worst actors during the 1946-1948 inflation. They will have to fall considerably more than other prices in order to reach their pre-war relationship to the general price level. Proper price adjustments, if they are made, and continued efforts on the part of builders to find new cost-saving techniques will minimize the danger of a significant decline in construction activity and will contribute to general business prosperity.

OUTLOOK FOR MORTGAGES

The demand for mortgages will depend basically on the trend of construction. As has been pointed out, although construction activity is picking up seasonally, expansionary forces are not as strong as previously. The demand for mortgage funds, therefore, is likely to decline gradually but still remain at a relatively high level.

The housing bill now pending in Congress authorizes local housing authorities to issue securities guaranteed, in effect, by the Federal Government to run for 40 years. These bonds will have practically the same investment status as Governments and municipals, and are expected to be an attractive investment for commercial banks and other institutions. Nevertheless, they are likely to be more of a supplement to than a substitute for mortgage money.

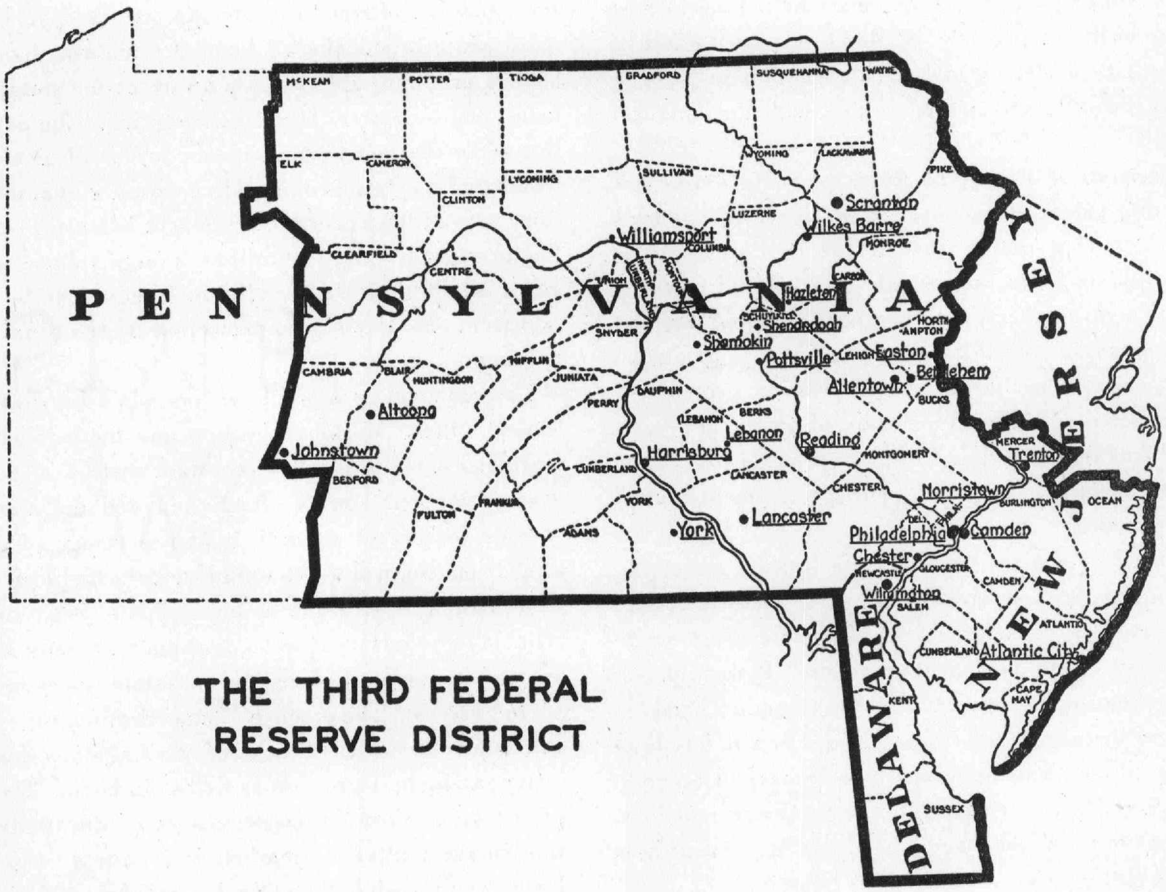
Funds will continue to be available for mortgage lending. Personal saving is likely to stay high, particularly if the distribution of income shifts to the upper income groups. And so long as the market for Government securities is supported, any holder of Governments can obtain funds readily by selling. Policies of the monetary authorities, therefore, will be important in determining the availability of funds. Depending on the business outlook, action to ease or to tighten credit may be expected as changing circumstances require. Whether lenders will be *willing* to supply mortgage funds, however, will depend to a considerable extent on the attractiveness of alternative outlets. The recent declines in yields of Government securities favor mortgages, especially those with Veterans Administration and FHA guarantees. Willingness to lend will depend also on the relationships of earnings and risks. It is frequently argued that a higher rate paid on guaranteed loans would make lenders more willing to extend funds. Even if this is so, for a change in the rate to stimulate construction, borrowers must be willing to borrow more at the higher rate. Probably the most effective inducement to lenders would be a reduction in housing prices to a level more nearly in line with the long-run trend.

Implications of a Price Decline. A reduction in new construction prices would mean a decline in the market prices of existing real estate. If the decline went far enough, some debtors might find that it would cost less to buy or rent another property than to pay off the rest of the mortgage. For this to happen on any significant scale, however, a decline of real depression proportions would be necessary. But in the event of a general depression, debtors would be faced by a more acute problem—how to meet fixed interest and principal payments out of smaller incomes.

It is true, of course, that we have learned something from unfortunate experiences in the past. The widespread use of amortization is often cited as the biggest single improvement in our mortgage procedure. Lower interest rates also help to ease the burden. On the other hand, as prices and the size of mortgages have risen it has been necessary to lengthen the terms of mortgages in order to keep the monthly payment within manageable proportions. This is apt to mean that the average mortgagor will be a long time getting a good stake in his home.

Creditors, of course, would be affected by most of the adverse factors troubling debtors in case of a price decline. In the past, mortgage difficulties have sometimes proved disastrous to financial institutions, bringing on heavy losses and failures. A repetition to the same extent is not to be expected, in view of the much stronger financial position of lending institutions and the existence of Governmental agencies set up to prevent such an event. Another source of strength in the mortgage market is the small number of second mortgages made today. Furthermore, since practically all loans are amortized monthly, lenders are more able to keep aware of the status of the loans, and borrowers find it easier to make the payments. But while the fact that about one-fourth of all nonfarm residential mortgages outstanding are now guaranteed by some arm of the Federal Government is a source of comfort to many lending institutions, a large volume of mortgages is still uninsured; and though there may be protection from loss, there is no protection from adverse public opinion.

The economy as a whole suffers when borrowers and lenders suffer. Mortgage lending and the liquidation of mortgage debt have been important factors in the past, aggravating our spirals of inflation and deflation. The various sources of strength in the mortgage picture, as already shown, will act to minimize the deflationary effect of a price decline. But it is impossible to determine how reliable these factors may be, inasmuch as many were developed in a period of rising real estate prices and have yet to be tested. The practice of amortization, for example, will have the disadvantage of necessitating continued heavy saving in depression as well as in boom. The surest protection against the consequences of disorderly deflation in the real estate market, is always a conservative lending policy while the outlook is still favorable.



THE THIRD FEDERAL
RESERVE DISTRICT

THE MONTH'S STATISTICS

Employment and pay rolls in Pennsylvania manufacturing industries declined again in March. Both average hourly earnings and weekly earnings remained above 1948 levels, but the number of production workers employed had fallen so far that for the first time since July 1946 total pay rolls were below those of the previous year. The statistics for April, which will appear in the June *Business Review,* will show an even greater decline. This is contrary to the expected seasonal trend, though a slight drop also occurred between March and April last year. Hardest hit are textiles, furniture and lumber products, rubber, and the automotive and auto equipment industries.

Year-ago comparisons for March department store sales are distorted by 1949's late Easter. Weekly figures indicate that for the 17 weeks ended April 30, district department store sales were only about 4 per cent behind 1948. The ratio of stocks to sales in Philadelphia stores at the end of April was lower than last year. The stores have been buying cautiously, and inventories are generally "light." Major household appliance sales continue in the doldrums.

By the middle of May the decline in business loans outstanding at weekly reporting banks in the United States had entered its seventeenth consecutive week. As business lending slackened, banks bought Government securities and helped bring about a rise in bond prices. Required reserves of member banks were reduced by about $1.2 billion by the lowering of reserve requirements early in May. The strong market demand for Government securities resulted in substantial net sales by the Federal Reserve System.

SUMMARY	Third Federal Reserve District — Per cent change: Mar. 1949 from mo. ago	Mar. 1949 from year ago	3 mos. 1949 from year ago	United States — Per cent change: Mar. 1949 from mo. ago	Mar. 1949 from year ago	3 mos. 1949 from year ago
OUTPUT						
Manufacturing production	− 2*	− 7*	− 5*	− 2	− 4	− 2
Construction contracts	−19	−13	+ 6	+20	− 4	− 7
Coal mining	−33	−48	−33	−34	−14	−13
EMPLOYMENT AND INCOME						
Factory employment	− 1*	− 6*	− 4*	− 2	− 6	− 4
Factory wage income	− 2*	− 1*	+ 1*	.....	.....	.....
TRADE**						
Department store sales	− 2	− 4	− 8	− 1	− 4	− 7
Department store stocks	+ 5	− 5	.....	+ 2	− 5	.....
BANKING (All member banks)						
Deposits	− 1	+ 1	+ 1	− 2	.....	.....
Loans	.....	+ 8	+ 9	+ 1	+ 8	+ 9
Investments	− 1	− 3	− 4	− 2	− 6	− 7
U. S. Govt. Securities	− 1	− 4	− 5	− 2	− 7	− 8
Other	+ 1	+ 3	+ 2	+ 2	+ 1	+ 1
PRICES						
Wholesale	.....	.....	.....	0	− 2	− 2
Consumers	0†	+ 2†	+ 1†	0	+ 2	+ 1
OTHER						
Check payments	+24	+ 3	− 1	+22	+ 2	+ 1
Output of electricity	− 2	− 1	0	.....	.....	.....

* Pennsylvania ** Adjusted for seasonal variation. † Philadelphia

LOCAL CONDITIONS	Factory* Employment — Per cent change Mar. 1949 from mo. ago	Factory* Employment — year ago	Factory* Payrolls — Per cent change Mar. 1949 from mo. ago	Factory* Payrolls — year ago	Department Store Sales — Per cent change Mar. 1949 from mo. ago	Department Store Sales — year ago	Department Store Stocks — Per cent change Mar. 1949 from mo. ago	Department Store Stocks — year ago	Check Payments — Per cent change Mar. 1949 from mo. ago	Check Payments — year ago
Allentown	− 2	− 7	− 3	+ 1	....	....	....	....	+23	−12
Altoona	− 4	− 5	− 4	− 4	....	....	....	....	+15	− 3
Harrisburg	− 3	− 5	− 3	+ 3	....	....	....	....	+29	+12
Johnstown	0	− 7	− 1	+ 9	....	....	....	....	+19	+ 8
Lancaster	− 1	− 3	− 4	− 1	+12	−12	+ 7	−20	+16	−10
Philadelphia	− 1	− 5	0	− 1	+32	−12	+ 7	− 4	+26	+ 3
Reading	− 1	− 4	0	− 1	+10	− 7	+11	+ 6	+20	+ 6
Scranton	− 1	−14	− 3	−16	....	....	....	....	+13	−11
Trenton	....	....	....	....	+17	− 7	+15	− 3	+19	+20
Wilkes-Barre	− 3	− 1	− 7	− 1	+27	−19	+ 5	−10	+12	− 3
Williamsport	− 2	− 8	− 3	− 6	....	....	....	....	+18	− 2
Wilmington	− 2	− 6	− 6	− 1	....	....	....	....	+35	+ 7
York	− 3	−14	− 4	−12	+12	−16	+11	− 7	+23	+ 4

* Not restricted to corporate limits of cities but covers areas of one or more counties.

MEASURES OF OUTPUT

	Per cent change: Mar. 1949 from month ago	Per cent change: Mar. 1949 from year ago	Per cent change: 3 mos. 1949 from year ago
MANUFACTURING (Pa.)*	− 2	− 7	− 5
Durable goods industries	− 3	− 7	− 4
Nondurable goods industries	0	− 7	− 7
Foods	+ 1	− 4	− 4
Tobacco	0	−10	−10
Textiles	− 4	−18	−15
Apparel	+ 5	− 7	−10
Lumber	+ 1	− 5	− 5
Furniture and lumber products	− 5	−21	−18
Paper	0	−10	− 9
Printing and publishing	+ 2	+ 1	− 2
Chemicals	− 2	+ 1	+ 2
Petroleum and coal products	− 2	− 3	0
Rubber	+ 2	−22	−27
Leather	+ 1	− 8	−13
Stone, clay and glass	− 3	− 9	− 5
Iron and steel	− 3	− 3	0
Nonferrous metals	− 4	−12	−10
Machinery (excl. electrical)	− 3	−10	− 8
Electrical machinery	− 4	− 9	− 6
Transportation equipment (excl. auto)	+ 2	+ 4	+ 6
Automobiles and equipment	0	−33	−35
Other manufacturing	− 3	−12	− 8
COAL MINING (3rd F. R. Dist.)†	−33	−48	−33
Anthracite	−30	−52	−37
Bituminous	−44	−19	−10
CRUDE OIL (3rd F. R. Dist.)††	− 2	−10	− 8
CONSTRUCTION — CONTRACT AWARDS (3rd F. R. Dist.)**	−19	−13	+ 6
Residential	−52	−44	+ 3
Nonresidential	− 2	−15	− 1
Public works and utilities	+ 3	+26	+16

* Temporary series—not comparable with former production indexes.
** Source: F.W. Dodge Corporation. Changes computed from 3-month moving averages, centered on 3rd month.
† U. S. Bureau of Mines. ††American Petroleum Inst. Bradford field.

EMPLOYMENT AND INCOME

Pennsylvania Manufacturing Industries* — Indexes (1939 avg. =100)	Employment: Mar. 1949 (Index)	Employment: Per cent change from mo. ago	Employment: Per cent change from year ago	Payrolls: Mar. 1949 (Index)	Payrolls: Per cent change from mo. ago	Payrolls: Per cent change from year ago	Average Weekly Earnings: Mar. 1949	Average Weekly Earnings: % chg. from year ago	Average Hourly Earnings: Mar. 1949	Average Hourly Earnings: % chg. from year ago
All manufacturing	122	− 1	− 6	287	− 2	− 1	$52.51	+ 5	$1.348	+ 8
Durable goods industries	149	− 2	− 5	331	− 3	+ 1	57.92	+ 6	1.471	+ 9
Nondurable goods industries	99	− 1	− 7	234	0	− 3	45.30	+ 3	1.179	+ 7
Foods	118	0	− 2	240	0	+ 3	45.37	+ 6	1.121	+ 8
Tobacco	97	0	− 4	206	+ 1	− 8	27.86	− 4	.773	+ 3
Textiles	77	− 4	−12	191	− 5	−15	44.42	− 3	1.199	+ 5
Apparel	90	+ 2	− 7	236	+ 5	− 6	37.15	+ 1	.954	+ 1
Lumber	90	0	− 5	204	− 1	+ 2	42.58	+ 8	1.066	+ 8
Furniture and lumber products	84	− 4	−19	195	− 5	−19	42.80	0	1.021	+ 2
Paper	116	0	− 4	257	+ 1	− 1	47.91	+ 3	1.158	+ 9
Printing and publishing	134	+ 2	− 1	295	+ 6	+11	62.15	+12	1.638	+13
Chemicals	124	− 1	+ 3	267	− 3	+ 8	50.95	+ 5	1.287	+ 9
Petroleum and coal products	150	0	− 1	314	− 1	+ 8	63.52	+ 9	1.642	+11
Rubber	129	+ 2	−19	240	− 1	−16	46.22	+ 4	1.402	+ 9
Leather	86	+ 1	− 9	187	+ 1	− 3	37.05	+ 7	1.023	+ 5
Stone, clay and glass	125	− 2	− 7	281	− 3	− 2	51.59	+ 6	1.270	+ 8
Iron and steel	138	− 1	− 1	307	− 3	+ 6	60.06	+ 7	1.534	+11
Nonferrous metals	127	− 4	−14	283	− 5	− 4	57.97	+12	1.435	+10
Machinery (excl. electrical)	199	− 2	− 6	425	− 3	− 4	54.28	+ 3	1.402	+ 7
Electrical machinery	217	− 3	− 5	462	− 5	− 4	59.49	+ 1	1.536	+ 6
Transportation equipment (excl. auto)	240	0	+ 4	518	+ 4	+15	65.72	+11	1.633	+11
Automobiles and equipment	117	− 2	−32	250	0	−27	58.88	+ 6	1.486	+ 9
Other manufacturing	120	− 5	−11	250	− 2	− 7	43.54	+ 5	1.154	+ 7

* Production workers only.

TRADE

Third F. R. District — Indexes: 1935-39 Avg. =100, Adjusted for seasonal variation	Mar. 1949 (Index)	Per cent change: Mar. 1949 from month ago	Per cent change: Mar. 1949 from year ago	Per cent change: 3 mos. 1949 from year ago
SALES				
Department stores	252	− 2	− 4	− 8
Women's apparel stores	224	+ 7	+ 5	− 7
Furniture stores	......	+15*	−11*	− 5*
STOCKS				
Department stores	248p	+ 5	− 5	......
Women's apparel stores	233p	+ 1	− 5	......
Furniture stores	......	+ 4*	−10*	......

Recent Changes in Department Store Sales in Central Philadelphia	Per cent change from year ago
Week ended April 2	+16
Week ended April 9	+20
Week ended April 16	+ 5
Week ended April 23	− 9
Week ended April 30	+ 2
Week ended May 7	+ 8

*Not adjusted for seasonal variation. P—preliminary.

Departmental Sales and Stocks of Independent Department Stores — Third F. R. District	Sales: % chg. Mar. 1949 from year ago	Sales: % chg. 3 mos. 1949 from year ago	Stocks (end of month): % chg. Mar. 1949 from year ago	Stocks: Ratio to sales (month's supply) March 1949	Stocks: Ratio to sales (month's supply) March 1948
Total — All departments	−12	− 9	− 4	2.7	2.5
Main store total	−12	−10	− 4	3.0	2.7
Piece goodsand household textiles	0	0	−14	2.8	3.3
Small wares	− 4	− 3	− 4	3.6	3.6
Women's and misses' accessories	−22	−16	− 1	2.6	2.1
Women's and misses' apparel	− 9	− 7	− 9	1.7	1.4
Men's and boys' wear	−21	−14	− 3	3.9	3.2
Housefurnishings	− 5	−10	− 8	3.7	3.8
Other main store	−27	−20	− 4	3.3	2.6
Basement store total	−14	− 8	− 7	1.8	1.7
Small wares	−35	−15	+26	2.2	1.1
Women's and misses' wear	−15	− 9	+ 3	1.3	1.1
Men's and boys' wear	−21	−16	−13	2.4	2.2
Housefurnishings	+ 9	+ 7	−16	2.6	3.4
Nonmerchandise total	− 3	− 3	......	......	......

CONSUMER CREDIT

Sale Credit Third F. R. District	Sales: % chg. Mar. 1949 from year ago	Sales: % chg. 3 mos. 1949 from year ago	Receivables (end of month): % chg. Mar. 1949 from year ago
Department stores			
Cash	−12	− 9	....
Charge account	−10	− 5	− 2
Instalment account	−19	−14	+14
Furniture stores			
Cash	− 4	+ 1	....
Charge account	−14	− 9	....
Instalment account	−16	−16	+13

Loan Credit Third F. R. District	Loans made: % chg. Mar. 1949 from year ago	Loans made: % chg. 3 mos. 1949 from year ago	Loan balances outstanding (end of month): % chg. Mar. 1949 from year ago
Consumer instalment loans			
Commercial banks	+ 1	− 2	+25
Industrial banks and loan companies	−10	−11	+ 5
Small loan companies	− 4	+ 1	+ 6
Credit unions	+ 6	+ 9	+28

PRICES

Index: 1935-39 average = 100	Mar. 1949 (Index)	Per cent change from month ago	Per cent change from year ago
Wholesale prices—United States	197	0	− 2
Farm products	225	+ 2	− 8
Foods	206	+ 1	− 6
Other	186	− 1	+ 2
Consumer prices			
United States	170	0	+ 2
Philadelphia	169	0	+ 2
Food	197	+ 1	0
Clothing	190	0	− 1
Fuel	145	0	+ 7
Housefurnishings	196	− 1	0
Other	153	0	+ 7

Weekly Wholesale Prices—U. S. (Index: 1935-39 average = 100)	All commodities	Farm products	Foods	Other
Week ended April 5	196	226	208	184
Week ended April 12	196	225	208	184
Week ended April 19	195	225	207	183
Week ended April 26	194	223	206	182
Week ended May 1	193	221	205	181

Source: U. S. Bureau of Labor Statistics.

BANKING

MONEY SUPPLY AND RELATED ITEMS United States (Billions $)	Mar. 30, 1949	Changes in— 5 weeks	Changes in— year
Money supply, privately owned	164.0	−2.1	− .1
Demand deposits, adjusted	81.0	−2.3	− .5
Time deposits	58.0	+ .3	+1.0
Currency outside banks	25.0	− .1	− .6
Turnover of demand deposits	19.2*	+3.2*	+ .5*
Commercial bank earning assets	112.4	− .9	−1.2
Loans	42.3	+ .3	+3.4
U. S. Government securities	60.9	−1.3	−4.6
Other securities	9.2	+ .1	....
Member bank reserves held	19.0	− .4	+2.4
Required reserves (estimated)	18.6	− .2	+2.6
Excess reserves (estimated)	.4	− .2	− .2

Changes in reserves during five weeks ended March 30 reflected the following:

	Effect on reserves
Decline in Reserve Bank holdings of Governments	− .5
Net payments to Treasury	− .1
Return of currency from circulation	+ .1
Other transactions	+ .1
Change in reserves	− .4

* Annual rate for the month and per cent changes from month and year ago at leading cities outside N. Y. City.

OTHER BANKING DATA	April 27, 1949	Changes in— 4 weeks	Changes in— year
Weekly reporting banks — leading cities United States (*billions $*):			
Loans—			
Commercial, industrial and agricultural	14.1	− .7	− .1
Security	1.9	− .3	+ .4
Real estate	4.1	....	+ .4
To banks	.3	....	+ .1
All other	3.9	....	+ .2
Total loans—gross	24.3	−1.0	+1.0
Investments	37.3	+1.2	−2.5
Deposits	71.8	+ .3	− .7
Third Federal Reserve District (*millions $*):			
Loans—			
Commercial, industrial and agricultural	509	− 20	+ 15
Security	33	+ 5	+ 2
Real estate	91	....	+ 14
To banks	3	− 10	+ 1
All other	275	+ 5	+ 22
Total loans—gross	911	− 20	+ 54
Investments	1,606	+ 10	− 42
Deposits	2,865	− 39	+ 17
Member bank reserves and related items United States (*billions $*):			
Member bank reserves held	19.0	....	+2.0
Reserve Bank holdings of Governments	21.2	− .6	+ .8
Gold stock	24.3	....	+1.2
Money in circulation	27.4	....	− .3
Treasury deposits at Reserve Banks	1.1	− .5	....
Federal Reserve Bank of Phila. (*millions $*)			
Loans and securities	1,465	− 40	− 13
Federal Reserve notes	1,609	− 5	− 11
Member bank reserve deposits	891	− 35	+ 87
Gold certificate reserves	1,168	− 58	+ 93
Reserve ratio (%)	44.6%	−.4%	+2.4%

OPPORTUNITY DRIVE

The Spring Savings Bond Drive—the "Opportunity Drive"—began on May 16 and will continue through June 30. The national goal is to sell $1,040,000,000 in Series E bonds. Pennsylvania's quota is $82,600,000 and Philadelphia's $21,600,000.

Individuals are urged to participate in the Pay Roll Savings and Bond-A-Month plans, one of the easiest and surest ways to "save for a rainy day." The widest possible distribution of our national debt, moreover, gives more citizens a real dollars-and-cents stake in the country.

Although only E bond sales will count toward the goal, F and G bonds will continue on sale. The principal characteristics of the three types of savings bonds are listed below.

	Series E Savings Bonds	Series F Savings Bonds	Series G Savings Bonds
Issue price	75% of maturity value	74% of maturity value	100%
Maturity	10 years from date of issue	12 years from date of issue	12 years from date of issue
Rate	Varies; 2.90% if held to maturity	Varies; 2.53% if held to maturity	Varies; 2.50% if held to maturity
Denominations	$25 to $1,000 (maturity value)	$25 to $10,000 (maturity value)	$100 to $10,000
Redeemable for cash prior to maturity	At holder's option only, after 60 days from issue date at stated redemption values	At holder's option only, after 6 months on one calendar month's notice at stated redemption values	At holder's option only, after 6 months, on one calendar month's notice at stated redemption values*
Use as collateral	No	No	No
Salable in open market	No	No	No
Amount for which eligible investor may subscribe	Not more than $10,000 maturity value in each calendar year	Not more than $100,000 issue price of Series F and G together in any one calendar year	

* Upon death of owner, redeemable at 100% after 6 months from issue date if application for redemption is made within 6 months after decease.