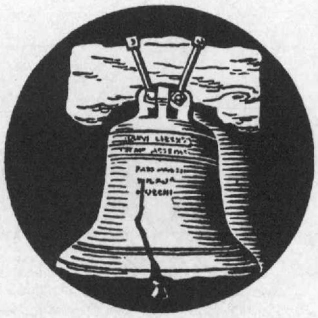
SEPTEMBER 1950

THE BUSINESS REVIEW

FEDERAL RESERVE BANK OF PHILADELPHIA



THE ANATOMY OF THE BUILDING AND MORTGAGE BOOM

New building in 1950 (in dollar terms) probably will more than double the pre-war peak in 1926. Unlike the construction boom of the 1920's, however, the current upsurge also includes sharply rising prices and wages. Building by Government and business is high, but the backbone of the boom is residential building. Basic to the boom are financing arrangements which emphasize the monthly charge and the down payment rather than the price. Accordingly, the outstanding debt of home owners is greater than ever before. Recent Governmental policies will tend to hold down the growth of mortgage credit, and shortages and uncertainties may cause a lull in building late this year. But as new building slackens, inflationary pressures may reappear in the market for existing homes.

CURRENT TRENDS

The Korean conflict had a visible effect on business in this district during July, particularly in retail sales and prices. Bank loans continued to advance, and the money supply and velocity increased.

THE ANATOMY OF THE BUILDING AND MORTGAGE BOOM

The construction boom is over five years old. It started in 1945 and it has grown with only minor interruptions up to the present time. It is big—just how big in physical terms in comparison with previous booms, it is difficult to say. But there is no doubt that it has been one of the main pillars of support for our high-employment economy. While it is impossible to measure exactly, it appears that in dollar terms, this year's total new construction activity will probably more than double that of 1926, the pre-war peak.

The present boom is usually thought of as a housing boom. Actually, other types of construction are important, as the accompanying chart shows. Federal, state, and local outlays and private non-residential building are substantial. Yet, private residential building is the largest single segment of the total, and in the last year and a half it is this segment that has made the large gains. Analysis of the construction situation must, therefore, be directed mainly at housing and housing finance.

The previous history of the construction industry in peacetime and the uncertainties created by the Korean crisis suggest several questions about construction and housing that an analysis of the situation might try to answer. Has the building of the last five years satisfied the largest part of the demand for housing and other construction? If it has not and the requirements of the defense program make curtailment of private building necessary, how strong are inflationary pressures in this field likely to be?

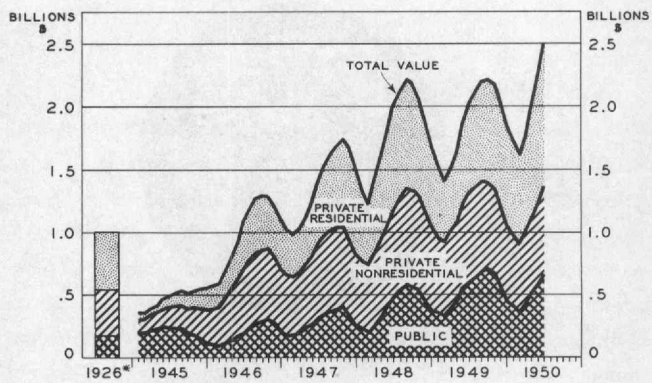
Situation at the End of World War II

In order to get some perspective, recall the situation in construction, particularly housing, at the end of World War II. The business organization of the industry had been disrupted by war. Key men were in defense plants or the armed services, and work forces were scattered. Many firms had gone out of business. Those builders who were ready to go to work were beset by materials shortages. On the other hand, industrial and commercial establishments clamored for the erection of new buildings already planned, and the housing shortage was serious. State and local goverments were under strong pressure for new public buildings and highways.

Building controls and restrictions had been removed shortly after the end of the war, and during the last quarter of 1945 there had been a significant gain in total construction; but much of the increase was in industrial and other non-residential building. Veterans looking for homes were lost in the scramble, and by January 1946 it was felt necessary to re-establish certain priorities.

The Senate's Special Committee on Post-war Economic Policy and Planning had issued a report on housing just before the end of World War II. Basing their judgment upon the record of housing conditions known to

VALUE OF NEW CONSTRUCTION, UNITED STATES



*MONTHLY AVERAGE - PRE-WAR PEAK YEAR
SOURCE: DEPARTMENT OF COMMERCE

exist at the time of the Census of 1940 and upon inability to build during the war years, the committee concluded that it would require building at the rate of 1,200,000 new homes a year for many years to catch up with increased population and family formation and to replace obsolete structures. If incomes remained high, it was felt that the economy could absorb that rate of output "without fear of overbuilding and subsequent hardship to the construction industry." The last was quite significant, for although the need for housing had been large in the past, the construction industry periodically exhausted the effective demand for its product and suffered severe slumps which were felt throughout the economy. It would not have been wise to encourage a repetition of the boom-bust cycle. But here was a rate of home building higher than any we had known in the past which, with some Government assistance, Congress felt could be sustained for many years.

The Post-war Period

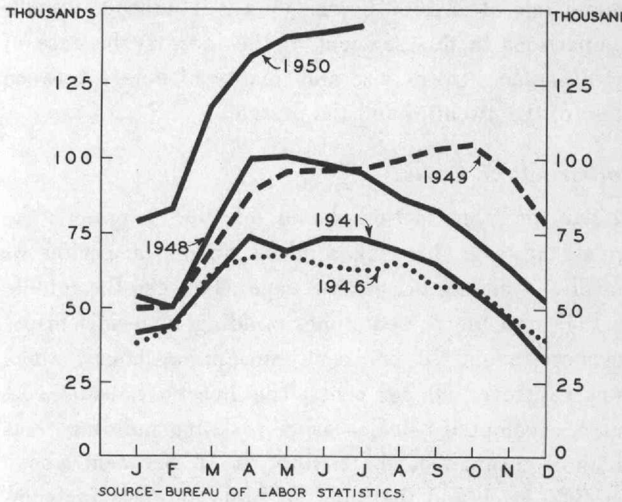
In view of these great expectations and needs, the output of homes and other types of buildings in the early post-war months was disappointing to many. It was recognized, in a general way, that the construction industry needed time to get materials and men to the job again; but although construction activity was increasing steadily, the facts that housing starts in 1946 were below the 1941 total and that many commercial buildings remained mere holes in the ground for months gave rise to numerous complaints. Prices for construction rose sharply. The construction industry, especially the home building segment, was criticized for its antiquated building methods, for its poor integration, for bad materials distribution—the same complaints, in fact, that had been widespread before World War II and to a small extent responsible for some of the pre-war housing legislation.

Such criticism is still heard from time to time but the construction picture today is in sharp contrast to the recent past. After leveling off during the first half of 1949, construction activity, paced by residential building, started a climb to new records. New housing starts, as shown in the chart, began to exceed those of the previous year in July. An unprecedented rate of home building in the fall and winter of 1949 brought total starts to 1,025,100—a new all-time high. The Government's estimate for 1950 is now 1,250,000—a drastic revision of earlier estimates. During the first seven months of 1950, housing starts exceeded the previous monthly record in every month.

From January through August of this year, private expenditures for new dwelling units were 54 per cent higher than in the first eight months of 1949—a jump of $2.7 billion. Expenditures for public construction January through August, including a very small amount of residential building, were up about 9 per cent from the like period of 1949. A significant drop in industrial building brought private non-residential building outlays slightly below 1949 for the eight-month period, but the most recent monthly totals have been higher than those of corresponding months last year. Altogether, total new construction outlays in the United States for the first eight months of 1950 are 20 per cent ahead of the corresponding period in 1949—a rate of increase well in excess of $3 billion a year.

Construction in the Third Federal Reserve District has also made a remarkable record in recent months. During the first half of 1950, on the basis of contract awards,

NON-FARM DWELLING UNITS STARTED, UNITED STATES



total construction appears to have improved somewhat less than it did in the entire nation, but residential building alone showed a greater gain. The amount of the increase in contract awards for buildings of all kinds between the first half of 1949 and the first half of 1950 was not at all uniform throughout the district. Activity in Trenton increased by more than double the district average, and the Harrisburg and Scranton-Wilkes-Barre areas also showed large gains. York, Lancaster, and Cumberland counties, on the contrary, experienced moderate declines.

As might be expected in a well-developed, older area, the Third District has not shown such a great increase in the value of construction between the pre-war period and the present as have the less thickly populated areas of the nation. A recent Labor Department study shows that the number of housing starts in the Philadelphia metropolitan area from 1946 through 1949 was 182 per

10,000 population, while Los Angeles chalked up 688, and the national average was 237. For similar reasons, though on a different scale, it is probable that even within the Third District, building has been increasing faster outside the limits of heavily populated cities.

The dollar record of construction outlays must be considered in the light of construction costs which have more than doubled since the 1920's. After allowing for increased costs, it is possible that *in physical volume*, construction has not yet hit the 1926 level. It appears that the rate of the construction peak of 1942 has just been reached. In the field of non-farm residential building, it is true the number of new dwelling units started—a physical measure—currently exceeds 1925's annual rate of 937,000 by far. Yet it is difficult to make comparisons in this segment of the industry because of the differences in the size and quality of homes between those of the 'twenties and the present.

Construction Costs

Unlike the construction boom of the 'twenties, the present upsurge has taken place during a period of sharply advancing prices and wages. Between the middle of 1945 and the present time, building materials prices advanced about 70 per cent, and union hourly wage rates rose over 50 per cent. The Boeckh housing cost index, a comprehensive measure of home building costs in cities throughout the nation, is 52 per cent above the 1945 level, and the index of building costs for commercial and factory buildings has risen almost as much. There was one important, though temporary, reversal in this upward movement. It came at the end of 1948 and lasted until the middle of 1949. A 5 per cent drop in the price of building materials during that period coincided with a general decline in business activity and a slackening of demand for new homes and commercial structures.

With the general improvement in business and the spurt in home building in the second half of 1949, materials prices began to rise again. The upward movement had been accelerated even before the Korean crisis began but since the end of June, anticipation of defense needs has so intensified the demand for materials that prices have regained and passed their previous peaks. Average hourly earnings for nearly 2,400,000 workers in the construction industry have been rising steadily—about 6 per cent in the last year. If the Philadelphia area is typical of others during the last few months, it is likely that a substantial number of skilled men are being paid well in excess of union contract rates.

High prices and wages have spurred efforts to find ways of increasing efficiency and cutting materials costs, especially in the hitherto unprogressive field of housing. Nothing that could be called a revolution in building methods has taken place in home building during the post-war period. For the most part the "conventional," small builder using conventional methods has done the work, but some significant changes have occurred. Although the Lustron Corporation did not succeed in producing as many prefabricated homes as originally planned, other smaller manufacturers were moderately successful. Over 37,000 pre-fabs were shipped in 1949. Some prefabrication of parts of houses is also used in on-site mass production, exemplified by the Levittown development near New York City which has been responsible for a growing number of low-cost homes. A few cities have made progress in revising their building codes to make them consistent with the use of modern materials and techniques. The use of basic power tools has become more widespread even on so-called "conventional" projects. While it is extremely difficult to measure, there is some evidence that output per worker has been increasing since the end of World War II.

Construction Materials

With some interruption, construction materials output has been rising since the middle of 1949. In May and again in June the Department of Commerce's composite index of construction materials rose above the previous post-war peak. Despite record production, however, the tremendous use of materials on the job and the attempt of distributors and retailers to replenish stocks have made the situation a very tight one. In recent weeks the attempts of some builders to accumulate sufficient materials to finish jobs already started and to avoid further price advances may have resulted in a "telescoping" of demands that ordinarily might be spread over a period of weeks or months. This may be responsible, at least in part, for apparent shortages of certain materials in many localities. Gypsum products, cement, and plumbing supplies are currently in short supply in the Philadelphia area; other cities report difficulty in obtaining adequate supplies of cement, millwork, and brick. The cement shortage in the Philadelphia area was aggravated recently by labor-management disputes in several nearby plants at a time when heavy demands were being made for cement in the construction of the New Jersey turnpike and the eastern extension of the Pennsylvania turnpike.

A recent survey made by the Construction Division of the Department of Commerce revealed that this kind of supply situation places comparative newcomers to the building industry at a disadvantage. Producers and distributors seem to be giving preference to well-known and well-established contractors about whose credit standing there is no doubt.

Public Construction

During the first eight months of 1950, expenditures by Federal, state, and local governments accounted for about 25 per cent of all construction outlays. Leaving the current defense program aside, the Federal Government is always in the market for a certain amount of military building and conservation work, but in addition to these and other routine expenditures the Federal Government has been building hospitals for veterans and industrial plants for atomic research and related production. The largest part of the public expenditure total, however, is accounted for by state, municipal, and county governments. The virtual cessation of construction of many important community facilities during the war years and a substantial growth in population created a huge backlog of needs for public utilities, educational and other institutional buildings, highways, and other facilities.

Public building and construction for the month of August affords a typical example of the uses to which public construction monies are being put. Of the total expenditures of $718 million, the largest slice—$300 million—went for highways and the second largest slice —$97 million—was for educational buildings. These two categories together accounted for over half of the total. The remainder, in order of importance, was spent for conservation and development, sewer and water works, hospitals and institutions, and other non-residential building.

Despite vast needs and the great sums of money which have been spent to meet them, it is probable that the current rate of public construction expenditure represents a physical volume not much in excess of that of the early 'thirties. These expenditures have been growing steadily, but during the first half of 1950 the rate of expansion was slowed down.

Private Non-residential Construction

Commercial, industrial, and public utility construction, growing out of expenditures by business, account for the largest part of private non-residential construction. With much obsolete and run-down plant and commercial space in existence after World War II, and with funds readily available, the demand for this type of building was strong and its volume increased steadily from the end of the war until 1949. At that time, the leveling off of consumer demand and the expectation of lower construction costs caused postponement and, in some cases, abandonment of plans for expansion and modernization, especially in industrial and commercial building. The pick-up in business activity in the latter part of 1949 apparently brought about a reversal of this trend. As noted above, private, non-residential construction in the first eight months of 1950—most of which must have been planned during 1949—was still somewhat below that of the previous year, but contract awards rose and business indicated that it expected to increase its expenditures for new plant and equipment. As an article in the *Business Review* for June pointed out, the financial position of business at the beginning of 1950 was such that it was able to take full advantage of the opportunities presented by technological improvement and growing consumer markets.

Housing

The backbone of the construction boom is residential building. The Department of Commerce recently estimated that during 1946-1949, roughly 1.4 million dwelling units a year, including farm houses, "converted" apartment units, and some temporary quarters, had been added to the housing supply. This is far in excess of normal growth in the number of new households. The difference arises out of several factors. First, the backlog of needs for homes created by new family formation during the war; second, a very high rate of marriages immediately following the war; third, "undoubling" of families who previously lived together, and the steady creation of a larger number of new households made possible by higher incomes and easy mortgage terms. The first two factors are temporary, the third contains elements of a lasting nature.

The market for new homes has been generally strong since the end of the war. However, by the end of 1948, the most pressing housing needs had been met. "Scarcity premiums" on older homes had disappeared, thus reducing the temptation on the part of home owners to sell and repurchase a higher-priced new home; materials prices were no longer rising; the home buyer became quality-conscious. In the spring of 1949 many builders were concerned about the sizable inventory of new homes which remained vacant.

The strength in the real-estate markets generally and in home building in particular in the fall and winter of 1949-1950 were surprising to most observers. By spring of 1950 the word most used to describe the situation was "phenomenal." A survey made by this Bank in cooperation with other local organizations has revealed that at the end of June there were virtually no newly finished, vacant single-family homes in low- and moderate-price classes in Philadelphia and its suburbs. Most new homes were being sold long before they were finished and many were being sold from blueprints.

Why the change in 1949, and why the "phenomenal" new-home market in 1950? First of all, undoubtedly, better business conditions, higher incomes, and good employment prospects. The long-heralded depression had had its chance in 1949 and had been proved a dud. Consumers became convinced that building costs would not come down. Another reason may have been the increased availability of Government mortgage funds through the Federal National Mortgage Association and the resurgence in veteran buying. Still another reason may have been that the home builders had found out what the consumer wanted and could afford, and had built to fit the pocketbooks of the mass market.

Who are the people who are buying all the new houses? Builders and real-estate brokers as well as outside observers ask themselves these questions daily. Information concerning the characteristics of today's home buyers and the financial arrangements they make is fragmentary. The Department of Labor will soon publish some information on the subject, and the Bureau of the Census is collecting some comprehensive data on mortgage financing. In the meantime, the Federal Reserve's Survey of Consumer Finances has given some clues:

In 1949, the estimated 1 million existing and 600,000 new homes that were sold averaged about $7,000; almost 60 per cent of the buyers had incomes between $2,000 and $5,000 a year; four out of five buyers, the survey indicated, used borrowed funds to some extent. Spending units containing World War II veterans accounted for 40 per cent of all home purchases. The Federal Housing Administration adds some details on new single-family, owner-occupied homes mortgaged during 1949 under Section 203 of the Housing Act—the average FHA valuation was $8,781 and the mortgages averaged 84 per cent of the valuation; the average buyer's total monthly housing expense was about $78. *Market Survey* reports that early in 1950, 50 per cent of all home sales in Philadelphia were financed with down payments of less than $1,000, 25 per cent with less than $500, and that veterans were buying higher-priced homes than non-veterans.

The Philadelphia survey of new-home vacancies, mentioned above, revealed some significant trends in home building which, although they are accurate only for Philadelphia, probably are indicative of the situation in other cities. Over 70 per cent of the one-family homes put under permit from October 1949 through May 1950 sold for under $9,000. Only about 15 per cent had been in this price range in the previous year. Twenty-five per cent of the homes ranged in price from $6,000 to $8,000. This group included many 16′ x 28′ row airlite and one-story row homes—the "economy home" type of construction, which was barely getting started in this area early in 1949. The survey revealed that homes of this type were very much in demand. Small detached suburban homes in the $10,000 to $12,000 price bracket continued to be very popular.

From these and other facts as well as from the general impressions of the market, it is clear that the housing boom has been sustained by the builders' ability to reach an expanding market among the middle and, to some extent, the low-income groups. The combination of moderate price plus ease of financing has enabled the man who can afford $60 to $70 a month for housing to become a home owner. Present financing arrangements, in fact, have tended to make the price of a home a secondary consideration. The monthly carrying charge and the amount of the down payment have become of paramount importance. Time after time the builder or realtor, when he sees the response to his advertisement, says "We are not selling homes—we're selling financing."

FINANCING THE BOOM

The boom in the construction industry, therefore, has been paralleled by high levels of activity in institutions, public and private alike, which are engaged in mortgage financing. The outstanding debt of owners of 1 to 4-family homes is now at a record level of approximately $40 billion—more than three times the amount owed in 1925.

The volume of outstanding home mortgage debt is a product of several factors. It is, first of all, being influenced by the number of houses being bought. Many of these are existing homes, but a large number are new; the number of homes started in the first half of this year was running at an annual rate nearly half again as great as the pre-war peak set in 1925. It is affected also by the cost at which these homes are bought; construction costs are now more than twice the level of 1925. Statistically, changes in the debt of home owners is the net result of new debts contracted *minus* debts being paid off. For the past few years the rate at which home owners have contracted new debt has approximated $11 billion annually, and in the first half of this year set a new record of $6.6 billion. The rate at which mortgages have been reduced has also been high, but not high enough to keep up with the new debt contracted.

MORTGAGE DEBT ON 1 TO 4-FAMILY HOMES

(Billions $)

	Outstanding at beginning of period	New loans made	Reductions in loans	Outstanding at end of period	Change in outstanding
1945....	18.8	4.7	4.3	19.2	+ .4
1946....	19.2	9.5	5.1	23.6	+4.4
1947....	23.6	10.7	5.7	28.6	+5.0
1948....	28.6	10.8	6.0	33.5	+4.9
1949....	33.5	10.8	7.1	37.2	+3.7
1st half 1950....	37.2	6.6	3.7	40.1	+2.9

Sources: Home Loan Bank Board and Board of Governors of the Federal Reserve System.

Almost three-fourths of this mortgage debt is owed to four types of institutions, and approximately two-fifths of it is covered by Government guarantees or insurance. Therefore, to describe the nature of this lending boom is largely to describe the activities of a small number of private and public institutions.

Private Institutional Lenders

The four types of institutions most active in home mortgage lending are savings and loan associations, commercial banks, life insurance companies, and mutual savings banks. Savings and loan associations (including building and loan associations) are the only institutions primarily concerned with mortgage lending. They are engaged in the business of accepting savings, amounting to a net of approximately $1½ billion last year, and using these funds to make mortgage loans. They are generally small and operate locally. Nevertheless, they hold nearly one-third of the total urban home mortgage debt and have been a growing force in the mortgage market.

Life insurance companies, of course, are not primarily engaged in mortgage lending, but they receive huge volumes of savings annually and are constantly searching for investments which will provide the necessary safety and adequacy of yield. Unlike savings and loan associations, insurance companies operate on a large scale and, accordingly, are important in the financing of large commercial properties and housing projects. In recent years, however, they have become increasingly occupied with financing small home loans guaranteed by the FHA or VA. Most of their loans are still made in their own or correspondent's name but, with the development of the nation-wide market for insured mortgages, a growing proportion is being purchased. Insurance companies now hold one-sixth of the outstanding 1 to 4-family home mortgage debt, and the proportion is rising.

The share held by mutual savings banks, on the other hand, has been declining. Mutual savings banks now hold 9 per cent of the total urban mortgage debt as against 12 per cent in 1939, partly because of restrictions which some states impose on the types and location of mortgages. Steps taken recently to liberalize these restrictions, however, may enable mutual savings banks to assume a larger part in the mortgage market.

SIGNIFICANT CHARACTERISTICS OF MORTGAGE LENDING INSTITUTIONS

United States, end of year 1949

(Dollar figures in billions)	Savings and loan associations	Life insurance companies	Mutual savings banks	Commercial banks
Number of institutions........	5,980	609	531	14,156
Net inflow of savings in 1949...	$ 1.5	$2.9	$ .9	*
Holdings of mortgage debt on 1 to 4-family homes.........	$11.6	$6.0	$3.2	$6.1
Per cent of total 1 to 4-family home mortgage debt held....	31	16	9	16
1 to 4-family home mortgages as a per cent of total earning assets....................	79	10	16	5
Percentage distribution of 1 to 4-family home mortgages:				
Insured by FHA.........	7x	47	12x	16†
Insured or guaranteed by VA..............	23x	20	18x	38†
Not insured or guaranteed..	70x	33	70x	46†

* Not comparable with other institutions because commercial banks create deposits.
x Total mortgages. Data for savings and loan are for insured associations.
† Member banks, Third Federal Reserve District.
Sources: Home Loan Bank Board, Housing and Home Finance Agency, National Association of Mutual Savings Banks, and the Institute of Life Insurance.

Commercial banks are distinct from the other institutions basically in that they have the power to create deposits. This distinction is important inasmuch as deposits are the largest segment of the money supply and fluctuations in them can have a strong effect on business activity. Past experience has shown a definite tendency, moreover, for bank mortgage lending to aggravate rather than counteract swings of the business cycle. It has tended to increase more rapidly than in other institutions during boom periods and to decrease more rapidly during periods of contraction.

At the end of June, member banks in the Third Federal Reserve District had $585 million,* or somewhat less than one-third of their total loans, in real-estate loans. In a great many banks, however, real-estate credit made up 50 per cent or more of total loans. As might be expected, it is the small banks which make farm mortgage loans and there is some tendency for the larger banks to make the "other" mortgage loans, principally on commercial and industrial properties. Banks of all sizes, however, finance residential real estate, to the extent of about three-fourths of their total real-estate portfolios.

IMPORTANCE OF REAL-ESTATE LOANS

Member banks—Third Federal Reserve District

June 30, 1950

Size of bank Total deposits:	Ratio to total loans				Percentage distribution			
	Farm	Residential	Other	Total	Farm	Residential	Other	Total
Under $2 million..	9.0%	36.7%	5.4%	51.1%	23.7%	7.6%	4.0%	7.8%
$2– 5 million..	5.7	40.6	7.4	53.7	42.3	23.6	15.7	23.1
$5– 10 million..	2.9	37.0	10.1	50.0	21.0	20.9	20.5	20.7
$10– 20 million..	1.3	36.9	11.2	49.4	7.3	15.8	17.4	15.7
$20–100 million..	.5	26.2	9.7	36.4	5.1	21.2	28.4	21.7
Over $100 million.	...	5.8	2.0	7.8	.6	10.9	14.0	11.0
All member banks.	1.7%	22.3%	6.2%	30.2%	100.0%	100.0%	100.0%	100.0%

Commercial bank survey. In view of the importance of commercial bank activity in the financing of residential real estate, the Federal Reserve System, in cooperation with the Comptroller of the Currency and the FDIC, has obtained new information on the nature of residential real-estate financing by commercial banks. Tabulations are available only for member banks in the Third Federal Reserve District and it is possible at this time merely to highlight the results of the survey. A more complete analysis which will enable banks to compare their portfolios with others of similar size and location will be made available later.

* Classified in call reports as "loans secured by real estate." An additional $17 million consisted of residential real-estate financing not secured by real estate.

Taken as a whole, the lending policies of member banks in the Third District stand out clearly. Most of their residential real-estate lending is made up of home mortgages, which amount to $386 million. A much smaller amount—$40 million—is in the form of construction loans, and a still smaller volume—$22 million—consists of loans to non-bank mortgage lenders. Over half of the total volume of their home mortgages is guaranteed. Of the remaining amounts in conventional mortgages, more than $8 out of $10 was in amortized mortgages. The average loan is small, amounting to about $3,700.

This is the over-all picture of residential real-estate financing, but policies vary widely among banks. The relatively small country bank, for example, confines itself more directly to mortgages on 1 to 4-family properties than does the large city bank. While about one-half of its loans are guaranteed or insured, it is more disposed to lend on conventional non-amortized loans. In the very smallest banks (those with total deposits under $2 million), non-amortized loans comprise 15 per cent of total mortgage portfolios. Seven out of ten of these small banks have at least some of these loans and two out of five have over 40 per cent of their total mortgages in this category. Even the larger banks in the small towns tend to make a larger proportion of non-amortized loans than do banks of similar size in larger communities.

Like the small country institution, the larger city bank has most of its residential loans in home mortgages. But it tends to participate more actively in insured and guaranteed loans, particularly G.I. mortgages. It also does much more financing of large-scale rental and sale projects, as is of course to be expected since most of these large projects are carried on in large cities and can only be handled by large banks. A major difference in policy is that large banks are much more active in making construction loans than are the smaller banks. Whereas approximately 8 out of 10 small banks have no construction loans whatever, practically all of the large banks do this type of lending and to the extent of 30 to 80 per cent of their total residential real-estate financing; in fact, eight large Philadelphia banks hold 60 per cent of all construction loans outstanding in the Third Federal Reserve District. These loans average over $100,000 in size. They are made under a great variety of procedures, but in essence the bank lends funds to the builder, paying out as construction progresses. The mortgage is eventually placed with the permanent mortgagee when the home is completed,

RESIDENTIAL REAL ESTATE FINANCING

Member banks—Third Federal Reserve District

June 30, 1950

Type of loan outstanding	All member banks—Third District		Percentage distribution for banks with deposits of:					
	Millions $	Per cent	Under $2 million	$2–5 million	$5–10 million	$10–20 million	$20–100 million	Over $100 million
Residential mortgage loans								
1 to 4-family:								
FHA insured	$ 61.5	15.9%	14.3%	15.6%	12.9%	12.2%	24.9%	7.1%
VA 1st lien	145.6	37.7	33.3	34.9	35.2	44.8	39.4	41.0
VA junior lien	1.5	.4	.2	.5	.5	.2	.4	.....
Total guaranteed or insured	208.6	54.0	47.8	51.0	48.6	57.2	64.7	48.1
Conventional, amortized	141.4	36.6	36.1	38.4	40.1	35.5	31.3	37.9
Conventional, not amortized	30.5	7.9	15.0	9.9	10.2	5.5	2.6	5.8
Total conventional	171.9	44.5	51.1	48.3	50.3	41.0	33.9	43.7
Total 1 to 4-family	380.5	98.5	98.9	99.3	98.9	98.2	98.6	91.8
5 or more family:								
Insured or guaranteed	.9	.2	.....	.1	.....	.2	.....	4.1
Conventional, amortized	4.0	1.0	.8	.5	.9	1.4	1.3	2.6
Conventional, not amortized	.6	.2	.3	.1	.2	.1	*	.6
Loans secured by vacant lots	.2	.1	.....	.....	.....	.1	.1	.9
Total 5 or more family	5.7	1.5	1.1	.7	1.1	1.8	1.4	8.2
Total mortgage loans	$386.2	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Mortgage and other real estate loans								
Total mortgage loans	$386.2	86.2%	98.9%	98.1%	97.2%	97.1%	88.7%	26.7%
Construction loans†	40.3	9.0	.9	1.3	2.1	1.9	7.4	47.1
Loans to nonbank mortgage lenders†	21.5	4.8	.2	.6	.7	1.0	3.9	26.2
Total residential real estate financing	$447.9	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

* Less than .05 per cent.
† These loans also may be secured by real estate, but for the purpose of this article are not considered "mortgage loans."

and the builder repays his loan at the bank. Some such arrangement is necessary in large-scale speculative operations where there is no direct and personal contact between the ultimate buyer of the home and the financing institution.

The fact that there are virtually no so-called "construction loans" in the small country bank, however, does not necessarily mean that builders are not financed either directly or indirectly by commercial banks. While some builders in small towns may have sufficient resources to finance themselves, or may be financed to some extent by their suppliers, homes are more likely to be built on a custom basis, and the home owner may get his financing directly from the bank through a mortgage and then pay the builder as needed. In some cases, a home owner will even borrow on a collateral note, eventually executing a mortgage when the home is completed. Thus what appears in small country banks as mortgages may also serve as the equivalent of construction loans. Some observers believe, however, that the volume of speculative building in the smaller communities would be much larger if banks were willing and able to extend the same kind of construction credit that the larger institutions supply in the large cities.

Another striking difference in policies is that larger institutions finance to a much greater extent non-bank, real-estate lenders. Such loans comprise a negligible proportion of real-estate financing in the small banks, but in the very largest banks (those with total deposits over $100 million) it runs as high as one-fourth of their total real-estate loans. There may be fewer non-bank mortgage lenders in small towns and the banks may handle a larger proportion of the mortgage business. Large non-bank lenders are usually located in large cities and require financing which only large banks can supply. Thus, in Philadelphia for example, commercial banks supply millions of dollars to provide mortgage companies with funds in the interim between the time the mortgage is made and the time when it is placed with a permanent investor.

Government Activity in Home Financing

The nature of Governmental activity in home financing can be classified in many ways but perhaps the most convenient classification falls into four general groups. There is, first of all, the direct lending and subsidizing by the Federal Government, as in the current program of the Public Housing Administration and the activities of the Home Owners' Loan Corporation in the 1930's. A second type of activity is represented by the Home Loan Bank system, in which the Government has established permanent credit institutions to provide funds to mortgage lenders. A third type embraces the guarantee and insurance operations of the Federal Savings and Loan Insurance Corporation, the Federal Housing Administration, and the Veterans Administration. Finally, an activity which resembles some of the others but, in many respects, is distinct is performed by the Federal National Mortgage Association in providing a secondary market for insured and guaranteed mortgages.

Direct loans or subsidies. The Public Housing Administration carries out a program of Federal financing assistance through loans and contributions to local public bodies for the purpose of providing low-rent public housing, slum clearance and redevelopment. Activities under the Housing Act of 1949 have not as yet proceeded much beyond the issuance of some local housing authority bonds, but the slum clearance and redevelopment program is expected to proceed as planned despite the Korean hostilities. The public housing program, however, is limited by direction of the President to 30,000 construction starts during the last half of this year.

Federal Home Loan Banks. A second type of Governmental activity is that of the Federal Home Loan Banks in providing credit to their member institutions, mostly savings and loan associations. Their advances to members take the form either of long-term advances up to 10 years secured by first mortgages or Government securities, or short-term advances up to one year, which may be unsecured. As supervisors of more than 3,800 member institutions, they have recently acted to restrict inflationary pressures by reducing the amount their members may borrow to expand business, by limiting the amount of mortgages which members may sell in any calendar year, and by urging other policies to restrict appraisals and the expansion of mortgage debt.

Guarantees and insurance. By far the most important activity of the Government in the mortgage field is its guarantee and insurance of loans. It also insures accounts through the Federal Savings and Loan Insurance Corporation. The effect of insurance in this case is to stabilize the lending institutions and the flow of savings into home financing.

The effect of insuring or guaranteeing mortgage loans is much more complex. Loan guarantees influence both the demand and the supply of credit. They increase effective demand by making some borrowers eligible for loans who otherwise would not be in the credit market. Through amortization, longer terms, and lower rates, guaranteed loans have enabled many borrowers to obtain funds who otherwise would not have been able to contract debt under the old practices. One result, particularly in the early days of the FHA, has been to improve lending standards and practices. Most important, however, was this: as long as resources were not fully employed the expansion in loans did not increase prices, but instead helped the economy to recover from the depression. In recent years, however, the effect of increased demand stimulated by loan guarantees has had inflationary effects.

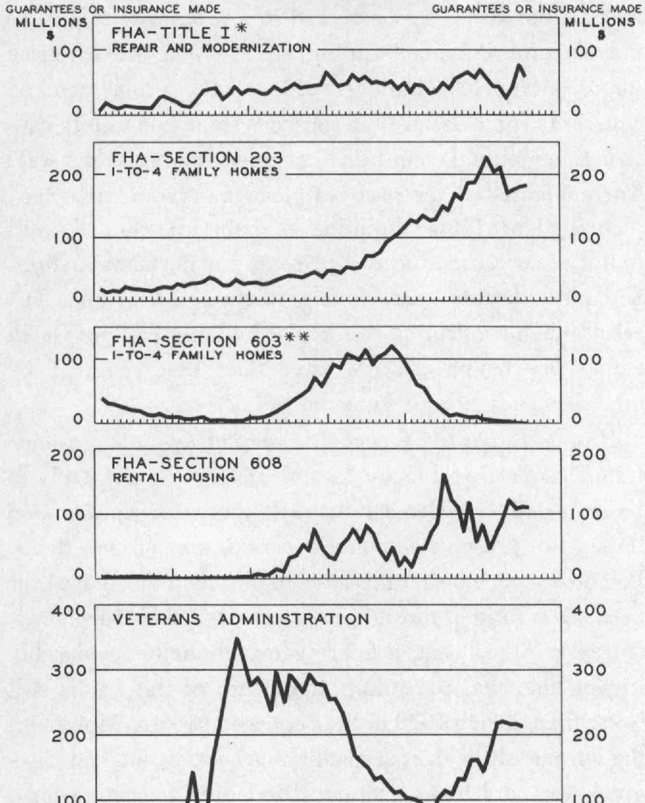
Guarantees and insurance encourage an increase in the supply of credit through their protection of lenders against loss. Furthermore, some of the improved practices which have been fostered by Government guarantee programs will, in themselves, protect lenders and make them more willing to lend. Widespread use of amortization and the elimination of second mortgages are the most outstanding examples. However, to the extent that the loan guarantee programs have made possible inflated appraisals, have reduced the amount of equity needed, and have lengthened the maturities of mortgage loans, they tend to increase the vulnerability of lenders to changes in the real-estate market. And lower interest rates and greater servicing expenses involved in amortized loans tend to reduce the returns to lenders. Thus some aspects of guarantees have not acted to stimulate the supply of credit.

There are a few major types of mortgage loans which the Government insures or guarantees. Under Title I of the National Housing Act, the Federal Housing Administration insures lending institutions against loss on loans made to finance home repair and modernization. Under Title II, the FHA insures the so-called Section 203 mortgages on 1 to 4-family dwellings and Section 207 loans for rental projects. Under Title VI, the FHA until 1948 insured Section 603 loans on 1 to 4-family homes and is still insuring Section 608 loans for rental projects. The Veterans Administration, of course, insures or guarantees home loans to veterans.

The trends of the major types of loan insurance and guarantees are shown in the chart.

Insurance of loans for repair and modernization made under Title I has increased substantially in the post-war period, but will be held down somewhat by the recent requirement of a minimum cash payment of 10 per cent. Insurance under Title II, Section 203, which provides the bulk of FHA activity rose very little early in the post-war period because appraisal policies were more restrictive than on other insured and guaranteed loans. It began to rise in 1948, particularly after the discontinuance of more liberal financing under Section 603, and continued to increase through 1949. The provisions of Section 203 were liberalized in 1948 to facilitate the transition from Section 603 financing, and eased again in April of this year. Section 603 insurance for loans on 1 to 4-family houses rose rapidly during 1947 and 1948 until Congress discontinued this program because it felt that unduly liberal credit was thus being supplied. Section 608, under which rental housing had been financed, was continued beyond April 1948 but further restrictions were placed on this type of financing. As a result of a provision of the Housing Act of 1950, Section 608 financing will be discontinued when existing commitments are carried out. Greater activity is likely to take place in Section 207 loans. All FHA activity will tend to be restricted by the recent action which increased down payments by 5 percentage points and froze appraisals for insurance purposes to costs as of July 1.

TRENDS IN HOME LOAN GUARANTEES AND INSURANCE



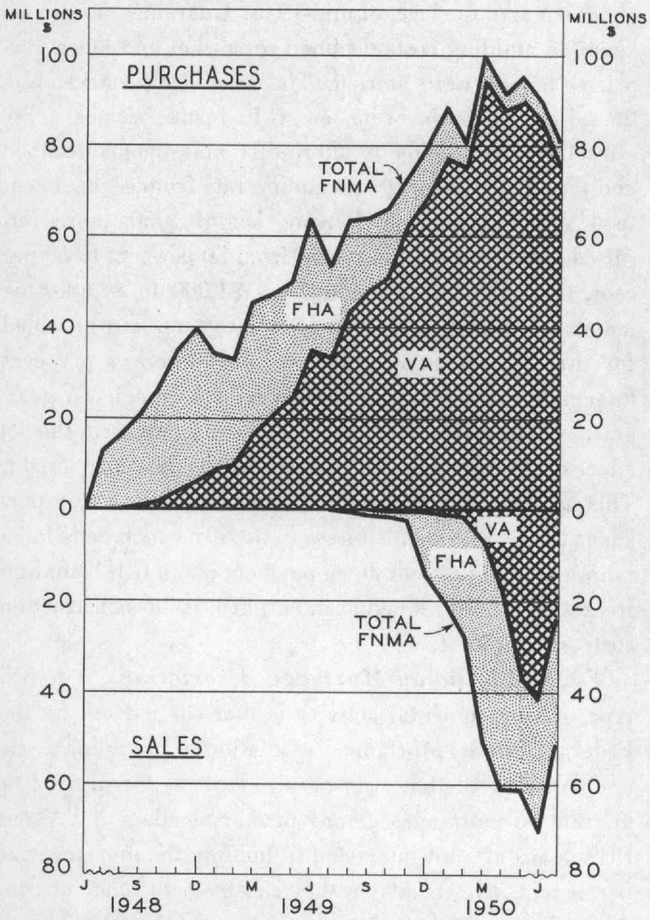
*FACE AMOUNTS FOR 1945 AND 1946; NET PROCEEDS FOR 1947 TO DATE.
**ALSO INCLUDES SECTIONS 609, 610, 611

Mortgage guarantees by the Veterans Administration reached a peak volume in the fall of 1946, but activity fell off somewhat subsequently followed by a drastic decline in 1948. A number of forces were responsible: rising prices for homes cut more and more veterans out of the market; the 4 per cent interest rate on VA loans became increasingly unattractive to investors as yields on alternative investments rose; and the secondary market became tighter as the result of Congressional legislation affecting the Federal National Mortgage Association. By early 1949, VA activity had reached a low point, about equal to the level of mid-1946. Guarantees rose once again as building costs declined somewhat and more low-priced homes were started. The secondary market was liberalized and the rate on G.I. loans became more attractive when yields on alternative investments declined and the FHA lowered its maximum rate from 4½ per cent to 4¼ per cent. The Housing Act of 1950, moreover, raised the maximum guarantee from 50 per cent to 60 per cent, the maximum amount from $4,000 to $7,500, the maximum term from 25 years to 30 years, and provided for direct loans to veterans in cases where 4 per cent financing was not available elsewhere. Although VA guarantees of second mortgages are to be discontinued, the net effect of the Housing Act of 1950 was to liberalize credit. This has been counteracted to some extent by action pursuant to the President's message in July which calls for a minimum of 5 per cent down payment on all G.I. loans and freezes appraisals for guarantee purposes to construction costs as of July 1.

Federal National Mortgage Association. A fourth type of Governmental activity is that carried out by the Federal National Mortgage Association in providing a secondary market—that is, a re-sale market—for insured or guaranteed mortgages. Many primary lenders of VA and FHA loans are not interested in holding the mortgages as permanent investments so they sell them to other institutions. For a number of years the Government has shown an interest in facilitating the transfer of mortgages from primary to secondary investors with the view that some agency is needed to provide temporary assistance when this flow is obstructed. The secondary market began to become important after the war when the RFC Mortgage Company, which had for many years conducted secondary-market operations in FHA mortgages, bought VA mortgages.

The RFC Mortgage Company was dissolved in April 1948, however, and in July of that year the FNMA was allowed to provide only a limited market for both G.I. and FHA loans. About a year later the terms under which it operated were liberalized and in October 1949 they were eased further. As the chart shows, purchases of VA loans rose rapidly and reached a peak in March 1950. Most of these were made under commitment to purchase, a procedure which was felt necessary to encourage the flow of credit to veterans. In the Housing Act of 1950, however, Congress prohibited the practice of making commitments

FNMA PURCHASES AND SALES



believing that this procedure was contrary to the purpose of FNMA and that funds were really being used to provide primary financing. Henceforth FNMA could buy mortgages only over the counter. This should have the effect of restricting purchases and, together with substantial sales of mortgages, will tend to have an anti-inflationary effect. This action is in line with the President's statement of July 18, encouraging the FNMA to hold its purchases to a minimum and increase its sales.

THE FUTURE OF THE BOOM

The amount of construction of all types that has been done in the past five years has been large and the present rate of building is high. But if it were not for special conditions created by the Korean War there would be no indication that a slowdown is in prospect for the near future. With the construction industry now working at or very close to capacity, additional building required by the defense program will have to be accomplished by curtailing demands from both private and public sources. Shortages of materials and, later, shortages of manpower will probably make this necessary.

Demands for highways and other community facilities by state and local governments are likely to be steady, and industrial and commercial needs—aside from those directly required by the rearmament program—may expand.

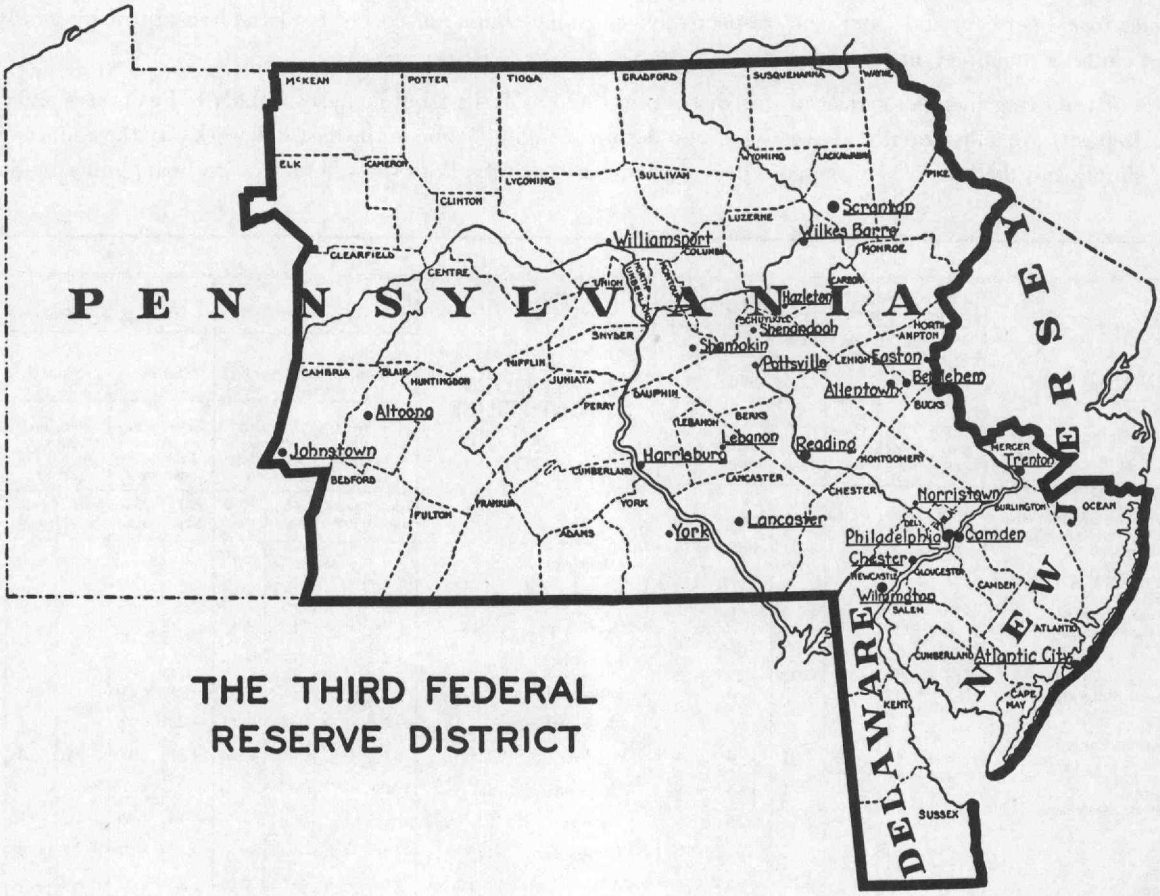
The housing situation is much more complex. During the coming year the desire for new homes undoubtedly will remain high. Larger incomes probably will offset any tendency for postponement of purchases due to the enlargement of the armed services. But it now appears that there may be a lull in home building late this year which will be imposed from the builders' side of the supply-demand equation. The Korean War caused a stampede to buy construction materials required to complete houses under way. Current starts are the result of plans made some time ago; planning for future building is being postponed until builders can gauge the cost-price and materials situations and until the mortgage finance picture is clarified. The result may be a drop in residential building activity which would be—temporarily—greater than that required by materials shortages or financial restrictions.

How effective the recent "tightening up" of mortgage terms has been is difficult to say. Demand is not likely to be materially restricted by unwillingness or inability on the part of prospective home buyers to take on new debts. Personal incomes after taxes are higher than they have ever been. The ratio of mortgage debt to disposable incomes is still only 20 per cent, a figure which though considerably higher than that prevailing at the end of the war is still lower than during 1929 or the depression years. Moreover, the burden of the debt seems lighter because interest rates are lower, and loans are amortized over longer periods. In short, it is less painful to pay off a mortgage today. So important is the monthly payment, in fact, that many home buyers are not aware of the dangers of contracting long-term debts at inflated values. Any measure which would shorten the mortgage terms, and thus increase the size of monthly payments, would therefore tend to curtail the demand for credit. Another approach is to increase minimum down payments, as was recently done for FHA and VA loans.

Restrictions on the flow of mortgage credit can also be effective if applied to the supply of credit. The Federal Reserve System's policies affecting the over-all volume of bank reserves and the money supply provide an underlying basis for such anti-inflationary action. In the particular field of mortgage lending it appears that the most restrictive measure imposed as a result of the President's recent requests has been the freezing of costs as of July 1 as a basis for FHA and VA loans.

The Defense Production Act of 1950, which was signed as this issue goes to press, gives the President authority to restrict the volume of insured or guaranteed real-estate credit and to regulate all extension of credit for new construction started after August 3. The President or any agency he designates may exercise this authority by prescribing maximum loan values, minimum down payments, and maximum maturities. The President has given authority over Federally insured credit to the Housing and Home Finance Agency and over uninsured credit to the Board of Governors of the Federal Reserve System, with instructions to these and other agencies to coordinate action in this field.

As the various forces at work on both the supply and the demand side tend to reduce activity in new housing, however, inflationary pressures are likely to appear in the market for existing homes. We may soon begin to witness a recurrence of the rapid wartime turnover of homes at higher and higher prices with larger and larger mortgages.



THE THIRD FEDERAL RESERVE DISTRICT

CURRENT TRENDS

The outbreak of fighting in Korea near the end of June had a visible effect on business in this district during July. Department store sales spurted as consumers went on a "scare-buying" spree. Industrial buying also increased and as a result of the combined pressure, wholesale and retail prices rose. Production, employment, and payrolls were considerably above 1949 levels as were bank loans, deposits, and investments. Construction maintained its vigorous pace.

Although the demand for their products was greater, Pennsylvania factories did not expand their output in July. Shutdowns of plants for vacations were largely responsible for the failure to increase production. However, physical output was 10 per cent above that of July 1949. Heavy goods industries were especially busy; the vital rubber and iron and steel plants were working at about top speed turning out their much-sought-after products. The high level of production helped to keep factory employment steady. A decline over the previous month in the number of workers in the heavy goods industries was offset by increased employment in factories making nondurables. A strike sharply reduced employment in the automotive field. The combination of high employment and record weekly earnings pushed the value of payrolls far above that of last year.

Department store sales, which had been slow in feeling the effects of the business boom, received a war-created "shot in the arm." Scare buying on the part of the housewife was primarily responsible for the June to July sales increase of 16 per cent. The demand for such items as hosiery, household appliances, linens, and television sets which the consumer expected to be curtailed in the future was unusually strong.

The surge of "protective buying" on the part of both the industrial consumer and the housewife fomented an almost immediate increase in prices during July. Led by higher food and farm product prices, the wholesale and consumer indexes for the United States rose 4 per cent and 1 per cent, respectively. In Philadelphia, the cost of food and housefurnishings advanced but the price of clothing remained unchanged.

Investments of reporting member banks in this district declined in August, but loans, especially to businesses and consumers, advanced. Deposits are substantially above a year ago despite a slight decline in the past five weeks. In the country as a whole, the money supply and the turnover of demand deposits increased in July. Both showed fairly significant gains over a year ago.

SUMMARY	Third Federal Reserve District — Per cent change			United States — Per cent change		
	July 1950 from		7 mos. 1950 from year ago	July 1950 from		7 mos. 1950 from year ago
	mo. ago	year ago		mo. ago	year ago	
OUTPUT						
Manufacturing production..	0*	+10*	− 3*	0	+22	+ 8
Construction contracts.....	− 5	+29	+36	+ 3	+50	+52
Coal mining...............	−27	−19	− 1	−21	+22	− 5
EMPLOYMENT AND INCOME						
Factory employment.......	0*	+ 4*	− 4*	0	+ 8	+ 1
Factory wage income.......	0*	+14*	− 1*	.....	.....	.....
TRADE**						
Department store sales.....	+16	+27	+ 3	+22	+29	+ 3
Department store stocks....	− 1	+ 7	.....	− 3	+ 4	.....
BANKING (All member banks)						
Deposits..................	0	+ 6	+ 5	+ 1	+ 6	+ 4
Loans.....................	+ 1	+16	+ 8	+ 2	+14	+ 6
Investments...............	− 1	+ 4	+ 8	− 1	+ 4	+ 9
U. S. Govt. securities	− 1	+ 2	+ 6	− 2	+ 1	+ 7
Other.....................	− 1	+12	+14	+ 3	+19	+19
PRICES						
Wholesale.................	.....	.....	.....	+ 4	+ 6	− 1
Consumers.................	+ 1†	+ 2†	− 1†	+ 1	+ 2	− 1
OTHER						
Check payments...........	−11	+17	+15	− 7	+12	+ 7
Output of electricity.......	− 6	+ 5	+ 6	.....	.....	.....

*Pennsylvania. **Adjusted for seasonal variation. †Philadelphia.

LOCAL CONDITIONS	Factory* — Employment		Factory* — Payrolls		Department Store — Sales		Department Store — Stocks		Check Payments	
	Per cent change July 1950 from		Per cent change July 1950 from		Per cent change July 1950 from		Per cent change July 1950 from		Per cent change July 1950 from	
	mo. ago	year ago	mo. ago	year ago	mo. ago	year ago	mo. ago	year ago	mo. ago	year ago
Allentown............	0	+ 2	+2	+17	....	....	....	....	− 6	+19
Altoona..............	+4	+62	+ 8	+94	....	....	....	....	− 4	+ 9
Harrisburg...........	0	+ 3	+1	+17	....	....	....	....	− 2	+ 9
Johnstown............	+2	+ 2	+7	+13	....	....	....	....	0	+17
Lancaster............	0	+ 1	+2	+13	− 1	+16	− 5	+8	− 5	−23
Philadelphia.........	−5	− 4	−5	+ 1	−22	+26	− 6	+7	−13	+18
Reading..............	+1	+ 3	+2	+14	−11	+10	−11	+8	− 9	+16
Scranton.............	0	+ 7	−1	+15	....	....	....	....	− 5	+20
Trenton..............	....	....	....	....	−10	+39	− 4	+1	0	+19
Wilkes-Barre.........	+1	− 3	+1	− 6	− 2	+27	− 4	+8	− 3	+17
Williamsport.........	−3	+ 8	−1	+10	....	....	....	....	− 3	+16
Wilmington...........	+3	+ 7	+2	+12	....	....	....	....	−13	+ 9
York.................	+3	+16	−1	+29	0	+25	− 5	+8	− 8	+11

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

MEASURES OF OUTPUT

	Per cent change: July 1950 from month ago	Per cent change: July 1950 from year ago	Per cent change: 7 mos. 1950 from year ago
MANUFACTURING (Pa.)*	0	+10	− 3
Durable goods industries	− 1	+14	− 5
Nondurable goods industries	+ 2	+ 5	0
Foods	+ 7	+ 4	− 2
Tobacco	− 1	− 4	−10
Textiles	− 1	+ 9	+ 4
Apparel	− 2	+ 4	+ 4
Lumber	− 1	− 1	− 7
Furniture and lumber products	− 4	+37	+25
Paper	0	+ 9	+ 6
Printing and publishing	+ 1	− 1	− 2
Chemicals	− 2	+ 9	− 2
Petroleum and coal products	+ 1	+ 2	− 4
Rubber	+ 5	+46	+ 9
Leather	+ 6	+ 4	− 1
Stone, clay and glass	− 4	+10	− 2
Iron and steel	+ 1	+25	− 3
Nonferrous metals	− 3	+15	− 4
Machinery (excl. electrical)	+ 1	+14	− 9
Electrical machinery	+ 1	+10	− 1
Transportation equipment (excl. auto)	− 3	−41	−45
Automobiles and equipment	−36	−25	+ 8
Other manufacturing	− 1	+ 6	− 3
COAL MINING (3rd F. R. Dist.)†	−27	−19	− 1
Anthracite	−29	−27	+ 1
Bituminous	−23	+49	−15
CRUDE OIL (3rd F. R. Dist.)††	+ 4	+11	− 2
CONSTRUCTION — CONTRACT AWARDS (3rd F. R. Dist.)**	− 5	+29	+36
Residential	−29	+54	+77
Nonresidential	+26	+20	+20
Public works and utilities	+ 9	+14	+11

*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: July 1950 (Index)	Employment: Per cent change from mo. ago	Employment: Per cent change from year ago	Payrolls: July 1950 (Index)	Payrolls: Per cent change from mo. ago	Payrolls: Per cent change from year ago	Average Weekly Earnings: July 1950	Average Weekly Earnings: % chg. from year ago	Average Hourly Earnings: July 1950	Average Hourly Earnings: % chg. from year ago
All manufacturing	116	0	+ 4	283	0	+14	$54.98	+ 9	$1.386	+4
Durable goods industries	136	− 1	+ 5	319	0	+17	60.70	+12	1.507	+3
Nondurable goods industries	97	+ 1	+ 3	241	+ 1	+ 9	47.80	+ 6	1.228	+4
Foods	123	+ 5	+ 5	269	+ 7	+ 7	48.65	+ 2	1.191	+3
Tobacco	76	− 2	− 7	181	− 1	0	31.26	+ 8	.812	+5
Textiles	74	0	+ 5	188	− 1	+ 9	45.46	+ 3	1.186	0
Apparel	88	− 2	+ 2	239	0	+12	38.36	+10	1.002	+9
Lumber	86	+ 2	0	203	0	+ 2	43.84	+ 2	1.114	+3
Furniture and lumber products	98	− 2	+34	245	− 3	+47	46.27	+ 9	1.085	+7
Paper	119	− 1	+ 5	291	+ 1	+15	52.68	+10	1.257	+4
Printing and publishing	132	+ 1	0	293	+ 1	+ 3	62.73	+ 3	1.698	+3
Chemicals	110	− 2	+ 4	263	− 1	+17	56.95	+12	1.372	+5
Petroleum and coal products	150	+ 1	0	333	+ 2	+ 4	67.69	+ 5	1.692	+2
Rubber	136	+ 2	+16	324	+ 6	+49	59.27	+28	1.485	+3
Leather	86	+ 4	+ 2	198	+ 6	+10	39.62	+ 8	1.099	+8
Stone, clay and glass	118	− 1	+ 6	281	− 2	+18	54.61	+12	1.347	+6
Iron and Steel	133	+ 1	+11	312	+ 2	+29	63.31	+17	1.587	+4
Nonferrous metals	122	+ 1	+ 8	277	− 4	+18	59.06	+ 9	1.460	+3
Machinery (excl. electrical)	169	− 1	+ 3	395	+ 1	+14	59.22	+10	1.436	+2
Electrical machinery	206	+ 2	+ 7	443	+ 3	+10	60.09	+ 3	1.531	0
Transportation equipment (excl. auto)	133	− 3	−42	274	− 3	−39	62.85	+ 4	1.581	0
Automobiles and equipment	86	−38	−30	213	−38	−25	67.99	+ 7	1.533	−1
Other manufacturing	115	0	+ 2	243	0	+10	44.13	+ 8	1.204	+4

*Production workers only.

TRADE

Third F. R. District Indexes: 1935-39 Avg. =100 Adjusted for seasonal variation	July 1950 (Index)	Per cent change: July 1950 from month ago	Per cent change: July 1950 from year ago	Per cent change: 7 mos. 1950 from year ago
SALES				
Department stores	332	+16	+27	+ 3
Women's apparel stores	239	+ 2	+ 4	−11
Furniture stores	......	+ 5*	+33*	+ 6*
STOCKS				
Department stores	240	− 1	+ 7	......
Women's apparel stores	208	− 2	+ 9	......
Furniture stores	......	− 1*	+12*	......

Recent Changes in Department Store Sales in Central Philadelphia	Per cent change from year ago
Week ended Aug. 5	+23
Week ended Aug. 12	+34
Week ended Aug. 19	+12
Week ended Aug. 26	+12
Week ended Sept. 2	0

*Not adjusted for seasonal variation.

Departmental Sales and Stocks of Independent Department Stores Third F. R. District	Sales: % chg. July 1950 from year ago	Sales: % chg. 7 mos. 1950 from year ago	Stocks (end of month): % chg. July 1950 from year ago	Stocks: Ratio to sales (months' supply) July 1950	Stocks: Ratio to sales (months' supply) July 1949
Total — All departments	+21	0	+ 7	3.2	3.7
Main store total	+25	+ 1	+ 7	3.5	4.1
Piece goods and household textiles	+55	− 4	0	2.6	4.1
Small wares	+14	0	+10	4.6	4.8
Women's and misses' accessories	+21	− 1	+13	3.6	3.9
Women's and misses' apparel	− 2	− 9	+13	3.1	2.6
Men's and boys' wear	+12	+ 2	+ 9	4.2	4.3
Housefurnishings	+49	+14	+ 4	3.4	4.8
Other main store	+14	− 2	− 4	3.3	3.9
Basement store total	+ 9	− 5	+ 4	2.0	2.1
Domestics and blankets	+67	+ 6	+ 4	1.4	2.3
Small wares	+11	+ 9	+ 9	2.2	2.2
Women's and misses' wear	− 1	−10	+ 6	1.6	1.4
Men's and boys' wear	+ 6	− 1	+12	2.5	2.3
Housefurnishings	+14	+ 3	− 6	3.1	3.7
Shoes	+17	− 3	− 1	3.0	3.6
Nonmerchandise total	+ 3	+ 2	......	......	......

CONSUMER CREDIT

Sale Credit Third F. R. District	Sales July 1950		Receivables (end of month)
	% chg. July 1950 from year ago	% chg. 7 mos. 1950 from year ago	% chg. July 1950 from year ago
Department stores			
Cash	+10	− 4	....
Charge account	+26	+ 3	+ 9
Instalment account	+54	+19	+34
Furniture stores			
Cash	+14	− 4	....
Charge account	+39	+ 8	....
Instalment account	+42	+10	+21

Loan Credit Third F. R. District	Loans made		Loan balances outstanding (end of month)
	% chg. July 1950 from year ago	% chg. 7 mos. 1950 from year ago	% chg. July 1950 from year ago
Consumer instalment loans			
Commercial banks	+54	+63	+17
Industrial banks and loan companies	+19	+ 5	+10
Small loan companies	−34	−37	+12
Credit unions	+30	+31	+33

PRICES

Index: 1935-39 average = 100	July 1950 (Index)	Per cent change from	
		month ago	year ago
Wholesale prices—United States	202	+4	+6
Farm products	232	+6	+6
Foods	217	+6	+6
Other	187	+2	+4
Consumer prices			
United States	173	+1	+2
Philadelphia	172	+1	+2
Food	206	+2	+5
Clothing	181	0	−1
Rent	122	0	....
Fuel	142	+1	0
Housefurnishings	193	+1	+1
Other	152	0	0

Weekly Wholesale Prices—U.S. (Index: 1935-39 average = 100)	All commodities	Farm products	Foods	Other
Week ended Aug. 1	205	236	222	189
Week ended Aug. 8	205	234	221	190
Week ended Aug. 15	205	231	220	190
Week ended Aug. 22	206	232	221	191
Week ended Aug. 29	207	236	223	192

Source: U.S. Bureau of Labor Statistics.

BANKING

MONEY SUPPLY AND RELATED ITEMS United States (Billions $)	July 26 1950	Changes in—	
		four weeks	year
Money supply, privately owned	170.4	+ .8	+4.1
Demand deposits, adjusted	86.6	+1.2	+3.6
Time deposits	59.4	− .3	+1.0
Currency outside banks	24.4	− .1	− .5
Turnover of demand deposits	20.7*	+3.5*	+9.5*
Commercial bank earning assets	122.4	+ .3	+7.7
Loans	46.0	+1.0	+5.5
U.S. Government securities	65.0	−1.0	+ .6
Other securities	11.4	+ .3	+1.6
Member bank reserves held	16.4	+ .4	−1.1
Required reserves (estimated)	15.6	+ .1	−1.0
Excess reserves (estimated)	.8	+ .3	− .1

Changes in reserves during 4 weeks ended July 26 reflected the following:

	Effect on reserves
Net payments by the Treasury	+.4
Increase in Reserve Bank loans	+.3
Decrease of currency in circulation	+.1
Decrease in Reserve Bank holdings of Governments	−.3
Gold and foreign 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	Aug. 30 1950	Changes in—	
		five weeks	year
Weekly reporting banks—leading cities			
United States (*billions $*):			
Loans—			
Commercial, industrial and agricultural	14.7	+ .8	+ 1.8
Security	2.2	− .5	− .1
Real estate	5.0	+ .2	+ .8
To banks	.4	+ .1	+ .1
All other	5.4	+ .4	+ 1.3
Total loans—gross	27.7	+1.0	+ 3.9
Investments	41.3	− .4	− 1.0
Deposits	76.9	+ .8	+ 2.6
Third Federal Reserve District (*millions $*):			
Loans—			
Commercial, industrial and agricultural	557	+ 35	+ 85
Security	48	+ 5	+ 16
Real estate	128	+ 6	+ 32
To banks	6	− 9	− 4
All other	358	+ 20	+ 72
Total loans—gross	1,097	+ 57	+201
Investments	1,739	− 43	− 10
Deposits	3,098	− 6	+183
Member bank reserves and related items			
United States (*billions $*):			
Member bank reserves held	16.3	− .1	− .2
Reserve Bank holdings of Governments	18.6	− .6	+ 1.1
Gold stock	23.8	− .4	− .9
Money in circulation	27.0	+ .1	− .4
Treasury deposits at Reserve Banks	.7	+ .2	+ .1
Federal Reserve Bank of Phila. (*millions $*)			
Loans and securities	1,240	+ 39	+ 43
Federal Reserve notes	1,601	− 1	0
Member bank reserve deposits	763	+ 2	+ 21
Gold certificate reserves	1,278	− 43	+ 42
Reserve ratio (%)	51.0%	−1.7%	− .2%