

FEDERAL
RESERVE BANK OF PHILADELPHIA

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1958

the new era in eating

housing prospects are improving

business review



THE NEW ERA IN EATING

“A meal fit for a king!” You’ve heard it many times. It’s supposed to be complimentary—not literal. Yet today, the expression may hold more truth than flattery.

Many Americans, perhaps without realizing it, now eat as well as royalty. Freezing brings summertime succulence to their dinner tables the year round. Avocados and artichokes, shellfish and game birds await their fancy in the nearest super market. The finest chefs create pastries for Mrs. Modern to brown and serve. Famous restaurants send her “specialties of the

house” pre-cooked and frozen in plastic bags.

This regal standard of eating is a new and surprising development. Not long ago, Americans were chided for their simple fare, their lack of interest in food. Today they demand and receive menus of imagination and variety.

Since World War II, consumers have formed strong new eating and cooking habits. Food shopping and spending patterns have changed and the changes have stood up in the recent recession. The postwar period has become a new era in eating.

FOOD'S PLACE IN THE BUDGET

About 20 cents out of every dollar the consumer spends goes for food.¹

This figure is somewhat higher than it was in the depths of the depression—an unexpected development. It was thought that in bad times people would spend more on food, less on other things. Then, when business brightened and incomes rose, some economists figured that more dollars would be spent on food but that the amount would be a progressively smaller percentage of total consumption expenditures. In other words, spending on food was supposed to rise at a slower rate than consumer spending as a whole.

By this reasoning, food should be a significantly smaller item in today's "affluent" budgets. Yet spending on food is now relatively more important than it was in the early 1930's.

Food spending also should have been slowed by other factors. With increasing automation, we, as a nation, are doing less physical work. We use less energy and are eating fewer pounds of food per person.

Our population mix has changed in a way that should reduce average food consumption. Compared to 1940, there is a greater percentage of children under 10 and senior citizens over 55. Both groups are relatively light eaters. On the other hand, there is a smaller percentage of those voracious teen-agers who seem to be eating all the time (experts say they do eat 20 per cent more than grownups).

We have been living in a cornucopia of consumer goods. Houses, cars, appliances, recreation, improved services—never before have there been so many things other than food to spend money on, never before has competition for the

¹ Official figures on food expenditures are undergoing a major revision. Our discussion is based on preliminary data just received. This article is concerned with groceries, or food for use at home, not food purchased in restaurants.

consumer's dollar been so keen. Nonetheless, food has more than held its own.

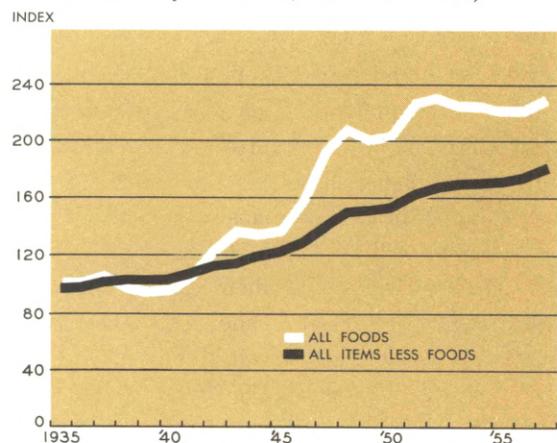
Those food prices

High food prices are a deceptively easy way to explain the consumer's food-spending patterns. The cost of food has risen faster than the general cost of living index. Food is up 158 per cent since 1939, while "all items" are up 108 per cent. Thus, it could be said, high prices have inflated food spending. It costs relatively more to fill the same old market basket. But if we stop here, we get an incomplete picture and run the danger of mistaking cause for effect.

The pushes behind food prices become clearer if we understand food's split personality. Look at it this way: when the housewife checks out her bundles at the market, she purchases two very different kinds of resources rolled into one. First, she buys nourishment—calories, proteins, vitamins, etc., and, of course, taste. Second, she purchases a vast variety of services—things that have been done to her food like transportation,

THE HIGHER COST OF EATING

Consumer price index (1935-1939 = 100)



HOW CHANGES IN THE POPULATION MIX AFFECT FOOD CONSUMPTION

Age Group (years)	Percentage Distribution of the Population		
	1940	1956	1965 (projected)
0 - 9	16.1	22.1	19.8
10 - 19	18.3	14.9	19.1
20 - 54	50.7	45.3	43.0
55 and over	14.9	17.7	18.1
Total	100.0	100.0	100.0

Source: Bureau of the Census

From 1940 to 1956 the population changed in a way that tended to reduce food consumption per person. Light-eating age groups—under 10 and over 55 years—increased in importance while the percentage of hungry teen-agers decreased.

Between now and 1965, changes in the population mix should have the opposite effect. A sharp increase in teen-agers, plus a drop in the 0-10 year group, more than offset the increase in older folks.

processing, and packaging.² The distinction is important.

Now, back to the price story. World War II touched off a major price upheaval. War work created healthy appetites and incomes to satisfy them. Ten million servicemen had to be fed and fed well. Many tons of food were shipped to our allies overseas. The demand for food soared, but the supply was capable of only slow expansion. Output grew but 17 per cent from 1940 to 1945. The price of food rose in spite of Governmental controls and burst out when the controls were finally removed. The wartime increase in demand was mostly for food as nourishment, and those who create and sell nourishment—the farmers—benefited most from the price rise. The farmers' share of the food dollar rose from 40 to 53 cents.

After the country settled back from war, the

² Gross national product accounting includes these services in the price of food rather than in the category of personal consumption expenditures for services.

demand for nourishment continued to increase with the growing population but it was a slow, steady rise that supply factors were able to offset. Still, prices continued to rise. This time, increased demand for services played a prominent part.

THE INVISIBLE MAID

The typical post-war housewife had become dollar rich and minute poor. Her family income climbed to new records but she couldn't find time for all the things she wanted to do. She wanted more hours with her children, social activities, leisure, and often an outside job, but increasing demands were being made on her time. With her growing brood in a new suburban home, she had to be wife, mother, nurse, laundress, chauffeur, gardener, seamstress, chambermaid, and cook. She needed assistance.

The food industry offered a helping hand. During the war it had developed new techniques

for processing food for the military. Now it applied this knowledge to the civilian market and began to take over some of the steps in preparation formerly performed in the kitchen. Food companies offered items ready to cook and already cooked. More foods were canned, more were frozen, more appeared in instant form. "Brown and serve," "heat and eat," "add boiling water" became culinary bywords.

Housewives loved these built-in maid services. With an assist from appliances, women slashed the time they had to spend doing kitchen chores. A recent survey found that the average woman now spends 4 fewer hours a day preparing meals than her mother did.

These hours didn't come free. The cost of the time-saving services often was added to the retail price. Here are some specific examples based on our own "research" in nearby super markets. A frozen, ready-to-serve dinner costs 65 cents while the items it contains could be purchased "in the raw" for 35 cents. Breaded veal cutlet, pre-fried

and frozen, costs 59 cents compared to 33 cents for an equivalent amount of fresh veal. A chocolate cake sold at 89 cents—or more than twice its do-it-yourself cost.

In some instances over-capacity and competition in the freezing industry have pulled prices down but this is the exception rather than the rule. In general, the family budget has had to bear some or all of the cost of built-in services. The consumer, however, has been willing and able to pay.

OTHER INFLUENCES

The strong demand for services is important indeed but other factors also have affected the demand for, and the cost of food.

The household paradox

In spite of the fabulous birth rate since the war, the size of the average household has been getting smaller. It has dropped from 3.67 people in 1940 to 3.34 people today. Other forces have more than offset the work of the stork.

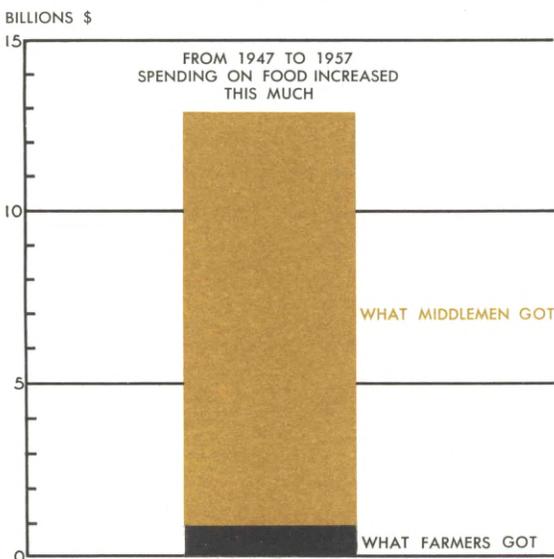
There has been a mass exodus of in-laws and relatives since 1945. Many members of large families have "undoubled" and set up their own smaller households. The virtual disappearance of the domestic, plus earlier marriages, and the draft also have whittled down the size of the average household.

Smaller cooking units mean higher food costs per person. It's a matter of efficiency. Buying and cooking in quantity is considerably cheaper. A survey shows the per-person cost of food is 15 per cent higher in a family of three than in a family of four.

More city folks

The vast movement of people from country to city has tended to raise the nation's food bill.

THE SIGNIFICANCE OF SERVICES



Food costs more in the big town. It has to be shipped farther and handled more often—in some places quite inefficiently. In addition, most city dwellers have to buy all their food. They can't grow a portion of it as their country cousins do. As a result 59 per cent of the nation's people who live in the city account for 69 per cent of all food sales.

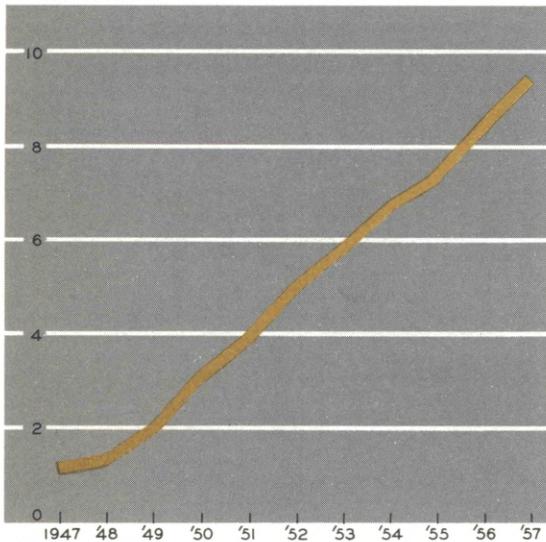
Company's coming

Americans now entertain at home more than they ever did. Having friends in for dinner and the evening is an increasingly popular custom. Guests of some sort are said to be present at one out of every seven home-cooked meals. It is a pleasant way to entertain and it's cheap compared to other forms of playing host but party food does run up the grocery bill.

Related to entertaining is the great glorification of the patio. Summer suburbia has moved its living and cooking outdoors. Charcoal has been

OPERATION DEEP FREEZE

Yearly production of frozen foods
MILLION POUNDS



1957 partly estimated

rediscovered after years of making do with gas and electricity. It's a costly way to eat, however. Only expensive foods seem to be suitable—after all, you can't quite grille a stew. But Dad's doing the cooking and he wants everything to be just so—so hang the expense! Let's eat steak!

Super market shopping

Mother's behavior in the super market has been subjected to a lot of recent surveying. Motivation research people claim she becomes hypnotized by the tiered abundance all about her. Dazed and alone with her shopping cart and her inner drives, she falls for "impulse items" in pretty packages. In the end, say the motivation research men, she buys 35 per cent more than she intended.

It's hard to believe that this figure isn't exaggerated. Nevertheless, super markets have unquestionably been a factor in our growing food purchases. They offer a much greater selection than the corner grocery store of yesteryear. Modern markets carry more than 5,000 items and they do their best to make shopping quick and convenient.

BEEFED-UP MENUS

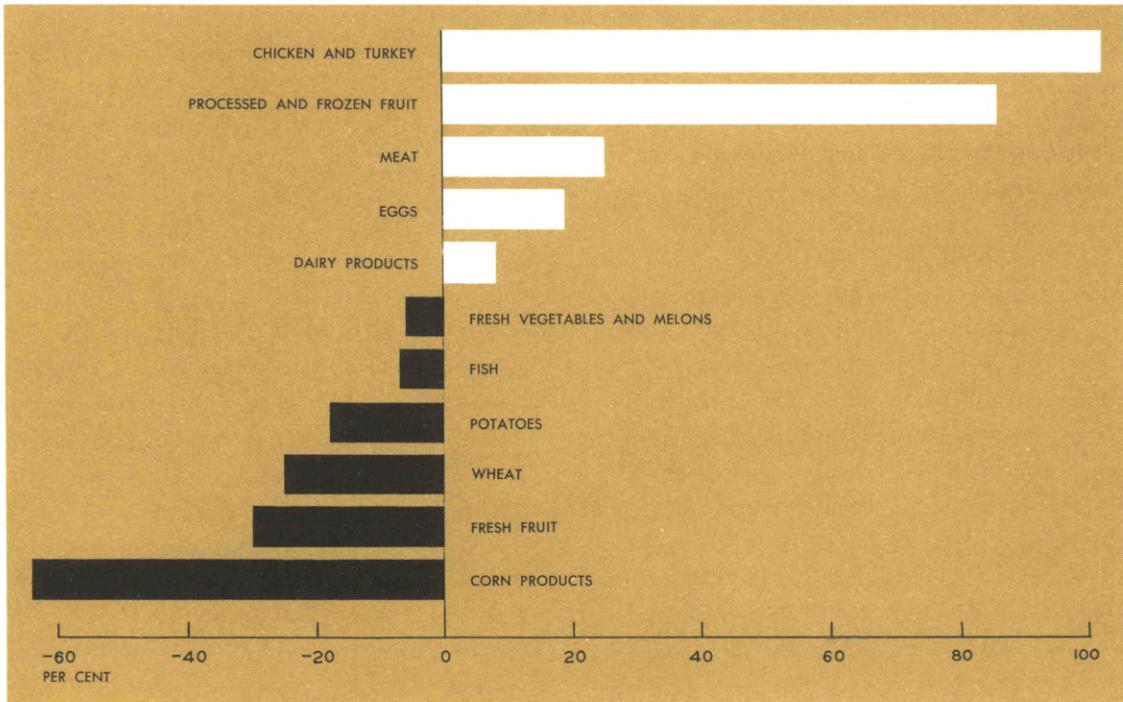
Broad changes have taken place in the average American's diet. He eats more red meat, more poultry, and more dairy products. He has cut back on potatoes and cereals. In other words, he is getting his full feeling with more expensive foods.

This is the traditional response to rising income. People usually buy more steaks and chicken, less bread and spaghetti, when they get a raise. Yet, in menus too, new influences have been at work.

The first is our increased concern about our waistlines. Modern men and women make a greater effort to stay slim than did their parents.

THE CHANGE IN MODERN MENUS

Per capita consumption of selected major foods. Percentage change 1935-1939 average to 1957



Second, people have developed a new interest in nutrition—food for health's sake.

Both these trends have helped cause shifts in our diet. Meat is low in calories and nutritious. So are most dairy products. Many starchy foods, on the other hand, will add to your middle without adding much to your health. Money-wise, proteins and vitamins always seem to be more expensive than calories.

Snatching a snack

Americans have developed other costly dietary habits. One is nibbling. Watching TV, after school, coffee breaks, almost anytime, any place is suitable for a snack. The cokes, peanuts, and potato chips, etc. gulped down between meals in 1957 added up to almost \$2 billion. Some say this

snacking amounts to borrowing appetite from regular meals but many experts think it is extra. They feel that snacks don't reduce the amount we eat when we sit down to the table.

Adventures in eating

Gourmet cooking—a catch-all phrase that includes anything different or exotic—has become very popular. Maybe the idea started during the war when GI's had a chance to see the cooking customs of other countries. And, no doubt, the great postwar increase in foreign travel has played a part. Today most markets have a section devoted to expensive delicacies for discriminating palates. Keeping up with the trend, bookstores do a brisk business in fancy and/or foreign cookbooks that tell you how to cook everything

from shishkabob to bear's foot in red wine.

RECESSION TESTED

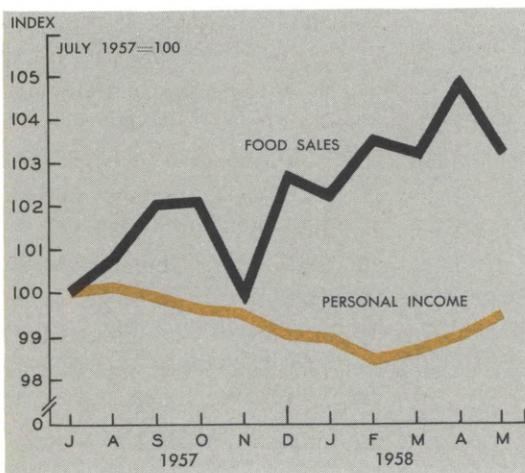
The strength and permanence of the consumer's new cooking and eating habits have been tested by the recent recession. They passed the test—and then some.

Retail food sales have trended upward since summer 1957. This happened in spite of a drop in personal income. True, rising prices accounted for some, but by no means all, of the increased spending on food.

Super market chains in this area report little downgrading in the quality of the food the consumer is buying. When business slumps, shifts to low-price substitutes—from filet mignon to “franks,” from shrimp to sole—are expected. So far, this kind of shifting has been slight.

The consumer appears to be solidly set in his new food habits. When the recession reduced his income, he found other things in the budget to slash. Spending for automobiles and appliances was trimmed; purchases of furniture and other items were put off. Some of the money thus saved was spent to maintain eating standards.

RECESSION-RESISTANT



The consumer seems to have recession-proofed the food industry.

FOOD IN THE FUTURE

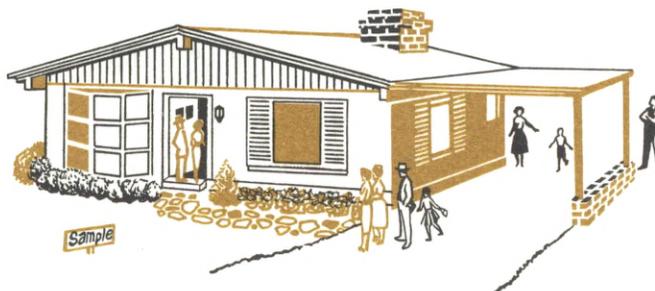
The new era appears to be far from over. Expected increases in income and living standards should sustain food expenditures and other factors should provide extra impetus.

The number of teen-agers will increase 40.5 per cent by 1965—a rate three times as fast as the growth of the whole population. Their ravenous appetites certainly will add to the nation's food bill. Super markets should grow in size and in their understanding of what makes mother buy. Other food-affecting trends like the decline in household size and the centering of activities in the home are expected to continue.

Convenience foods with built-in services are likely to increase in importance. The housewife already has indicated in the recent recession that she is not at all anxious to reassume the chores of preparing food. In addition, the industry itself can be counted on to develop new ways to make its services better and more attractive. An unprecedented amount of research is going on and many new advances in packaging and processing are not far away. For example, radiation-sterilization is being readied for commercial application. The process preserves food so that it can be stored without refrigeration. You just take a meal down from the shelf, pop it into your new radar range for a few seconds, and, Voila!

Food has an exciting future and housewives can look forward to still more free time. As in the past, however, these extra minutes may be costly. The continued popularity of convenience foods could act as a high-level floor for retail food prices. Seasonal factors will continue to be important, of course, but a long-run price decline is not probable.

HOUSING PROSPECTS ARE IMPROVING



Builders, realtors, and lenders

look for a better fall market

Housing markets in the Philadelphia Federal Reserve District have strengthened since the early spring. Most of the improvement in demand for new and existing houses has come in the past six weeks or so and further gains appear likely in the opinion of builders, realtors, and mortgage lenders in our area.

An ample supply of mortgage money and increasing evidence that recessionary forces in the local economy have eased seem to have been the principal factors prompting renewed interest in home buying. But it still is a buyer's market. Competition is keen and price-consciousness remains very much in evidence. Builders are proceeding cautiously and keeping a watchful eye on the fall market, which they hope will permit more starts than in 1957 when adequate financing was so hard to find.

There is mortgage money to supply all foreseeable needs

Mortgage markets have made a complete turn-around since the early weeks of this year, and at present the over-all supply of funds appears to be exceeding the demand by a sizable margin. Some say that lenders have been "beating the bushes" looking for suitable investments in mortgages. Scarcely six months ago the expression, "scraping the bottom of the barrel" was the appropriate way of describing a serious shortage of funds available for housing needs.

In the present situation, it is a borrower's market and would-be borrowers are shopping for terms. Pressure on the rate structure has reduced the interest on conventional mortgages to a range of 5 to 5 $\frac{1}{4}$ per cent from an average of 5 $\frac{1}{2}$ to 5 $\frac{3}{4}$ per cent prevailing a few short months ago.

And conventional loans, with their one-quarter to one-third or larger down payments, are not in very great demand today except on higher-priced houses—those selling at \$20,000 and upward.

FHA insured mortgages have become most popular, especially on the liberalized terms permitted on properties selling up to and including \$13,500. Many old houses are priced in this bracket. Since they now qualify for minimum FHA terms, this type of financing is being used extensively. In secondary markets, FHA's generally are priced at par and in a few cases they are said to command a small premium.

VA guaranteed mortgage loans still are not too popular with most builders but they have been gaining favor slowly in our area. They have been of considerable help in financing existing properties, particularly in cases where an owner has been willing to absorb the shrinking discounts in order to make a prompt sale. These mortgages are accounting for a larger proportion of all home financing than was the case over most of last year.

Buyer's interest in new homes is returning

Builders operating in the price ranges up to about \$15,000 tell us their sales have picked up considerably since June. Some projects above these brackets also are moving faster now, although in this area of the market a spotty situation noted earlier this year seems to persist. As one builder explains it, some projects catch on fast; others are just plain sticky and no one knows why. The mass market for new housing very definitely lies below the \$13,500 level. In this bracket are the row houses and small twin dwellings priced more nearly to suit the budget of today's price-conscious home buyers. But with land and building costs remaining high not very many projects fall into this category. It is, however, significant that more are in the planning stage.

Demand for existing houses is much more active

Sales of existing properties seem to be running somewhat ahead of the new-house market. This is particularly true of houses five to six years old, where financing on favorable terms has become more readily available. In this area of the housing market about the only evidence of stickiness is to be found in some of the older neighborhoods where zoning regulations have been relaxed, and in the case of large dwellings offered at above market prices. Reasonably prompt sales of old houses are taken as a healthy sign. A quick sale on an existing property many times speeds up settlement on a new one.

The supply of unsold houses has diminished

Few builders carried a significant number of completed houses over the winter. They became acutely aware of their weakening market after mid-1957 and scheduled new projects accordingly; however, in a poor early spring selling season even a small inventory seemed to occasion some concern. These carry-overs have since disappeared and no local builders report an overhang of any consequence in today's improved market.

Vacancy rates continue low in rental properties

The number of houses offered for rent has not been large at any time in the recent past. Those that appeared on the spring market seem to have been taken up quickly. Much the same situation is true of small apartments and duplexes. The trend of rents still is rising in metropolitan areas of this District. In the opinion of many realtors, the narrow selection offered in houses for rent and the continuing slow climb in rentals contribute in no small way to the sales demand for houses both new and old. With the help of

better financing, more people seem to find that it suits their budgets to buy rather than pay high rents prevailing in the more desirable locations.

Construction costs have not changed significantly

In our area, as in most other parts of the country, construction costs reached new peak levels last year. Prices of several building materials, notably lumber, declined late last fall and through the winter months. In some cases, however, the spring and early summer of 1958 saw a mild reversal of trends that brought material prices back close to their 1957 peaks. Steel prices, for example, were raised in early August. Current forecasts for the "big three"—lumber, cement, and steel—suggest that a further slow rise may be expected in the months ahead.

Labor costs locally have risen less this year than last. In some instances, long-term contracts negotiated in the spring of 1957 called for only moderate advances in subsequent years. And in others, the fact that so many construction workers were laid off or were on short time last fall and winter seems to have discouraged pressure for wage advances now that more employment oppor-

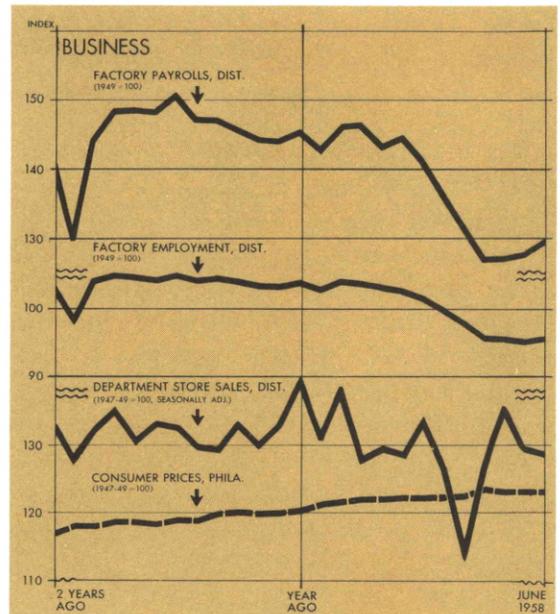
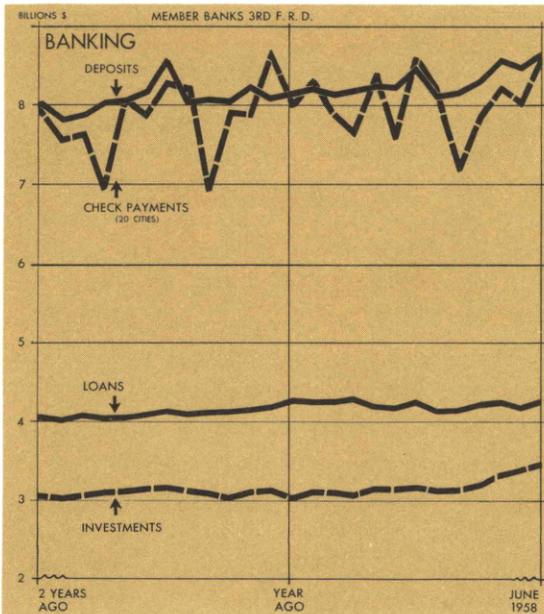
tunities are opening in the home-building field.

What about builders' plans?

Although homebuilders in this area have become more optimistic lately, their projects are geared closely to the current market for houses. This means that operations still are on a conservative scale compared with 1955 and earlier postwar years when the apparent need for new dwellings was considerably greater than at present. It is a healthy situation over-all, and our builders say they want to keep it that way.

In line with the moderate improvement experienced in recent weeks, some builders' plans have been reactivated in whole or in part. These were projects temporarily shelved when the demand for houses fell off and both construction loans and permanent financing were so difficult to arrange. This is a welcome and apparently fully warranted change of pace. But it does not forecast any rapid expansion or a shift to a more speculative type of home building for the fall market. There are signs that in the weeks ahead more ground will be acquired and development started—but only if the expected demand from home buyers materializes.

FOR THE RECORD...



SUMMARY	Third Federal Reserve District			United States			Factory*		Department Store		Check Payments
	Per cent change			Per cent change			Employment	Payrolls	Sales	Stocks	
	June 1958 from		6 mos. 1958 from year ago	June 1958 from		6 mos. 1958 from year ago					Per cent change June 1958 from
	mo. ago	year ago		mo. ago	year ago						
OUTPUT											
Manufacturing production	+1	-13	-13	+2	-10	-10					
Construction contracts	+6	+2	-8	+12	+18	-1					
Coal mining	+20	-17	-26	+20	-17	-21					
EMPLOYMENT AND INCOME											
Factory employment (Total)	0	-8	-7	+1	-10	-9					
Factory wage income	+2	-11	-11	....	....	....		
TRADE*											
Department store sales	-1	-7	-4	-1	-4	-3					
Department store stocks	+2	-1	....	+3	-3	....				
BANKING (All member banks)											
Deposits	+2	+6	+3	+3	+8	+5					
Loans	+2	0	+1	+3	+1	+2					
Investments	+2	+15	+7	+3	+19	+10					
U.S. Govt. securities	+2	+12	+4	+3	+19	+9					
Other	+4	+23	+15	+4	+20	+14					
Check payments	+7†	+7†	+1†	+12	+13	+5					
PRICES											
Wholesale	....	....	....	0	+1	+2					
Consumer	0‡	+2‡	+3‡	0	+3	+3					

LOCAL CHANGES	Factory*		Department Store		Check Payments					
	Employment	Payrolls	Sales	Stocks						
					Per cent change June 1958 from					
	mo. ago	year ago	mo. ago	year ago	mo. ago	year ago				
Lehigh Valley..	+1	-8	+2	-10	....	....	....	....	+26	+24
Harrisburg ...	+4	-12	+7	-14	....	....	....	....	+7	+13
Lancaster	+1	-6	+2	-4	-9	+6	-5	+7	+5	+6
Philadelphia .	0	-8	+1	-8	-7	-9	-8	0	+5	+5
Reading	+1	-7	+5	-9	-6	-5	-10	-7	+1	+2
Scranton	0	-10	+1	-10	-14	-4	-8	0	+9	+10
Trenton	+2	-13	+1	-14	+12	-3	+5	-5	+8	+16
Wilkes-Barre .	0	-6	+1	-9	-8	-8	-2	-1	+5	+3
Wilmington..	0	-9	+1	-10	-2	-4	-6	0	+32	+22
York	+1	-5	+4	0	0	-6	-6	-3	-3	-3

*Adjusted for seasonal variation. †20 Cities ‡Philadelphia

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