# Monthly Review

Atlanta, Georgia
June • 1961

*Also in this issue:*

HAVE MORTGAGE MONEY, WILL LEND

WITH MORTGAGE MONEY, WILL CONSTRUCTION RISE?

DISTRICT BANKS AND MORTGAGE FINANCING

DISTRICT BUSINESS CONDITIONS

SIXTH DISTRICT INDEXES

Federal Reserve Bank of Atlanta

## *The Southern Housing Market of the Sixties: Change and Challenge*

Residential construction has picked up since the beginning of this year. Still, many observers are wondering how fast and how far housing activity will expand. In other postwar periods of expansion there have been doubts about where housing was going. This time, however, the uncertainty appears to be somewhat more pronounced. The reason: The housing market has changed. Families in the nation and in states lying wholly or partly in the Sixth District—Alabama, Florida, Georgia, Louisiana, Mississippi, and Tennessee—are now better housed than they have been in several decades.

Residential construction surged forward between 1946 and 1949, as a bulging population with money in its pocket demanded the housing it was unable to purchase during the depressed Thirties and the war years of the Forties. During most of the Fifties, we continued to build new housing units and catch up on the maintenance of our existing stock. This activity was stimulated by a growing and shifting population, more and more upgrading (movement of families into larger and better-equipped dwelling units), and rising incomes. Families generally found the credit needed to satisfy their demand for housing available on terms that became increasingly easy.

### Questions for the Sixties

The building boom of the Fifties has increased the number and average quality of housing units here in the South. This changed condition raises two significant questions concerning housing in the Sixties. How adequately does the present stock of housing satisfy the needs of our existing population? How strong will the demand for housing be during the Sixties? Unfortunately, we cannot provide a definite answer to this last question. We can, however, focus on some of the factors that are likely to influence the *quantity* and *quality* of housing demanded in the years ahead.

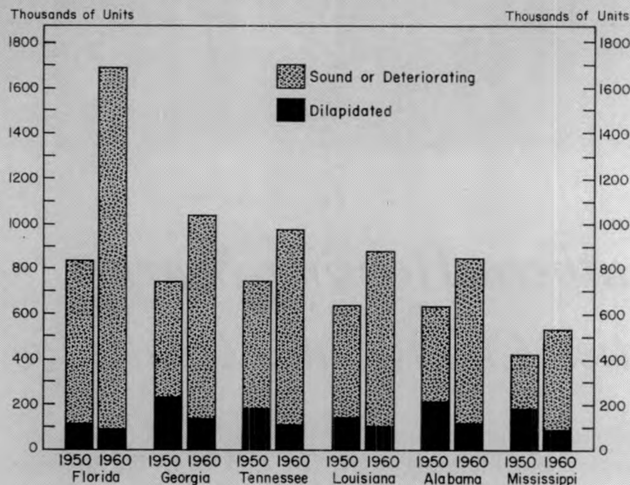
Clues to the present adequacy of the flow of housing services may be uncovered by reviewing data relating to the stock of existing housing. Such information recently became available from the 1960 Census of Housing. This Census provides us with data on the size and condition of the housing stock by geographic area, tenure, and other characteristics. A comparison of these findings with information from the 1950 Census allows us to identify and evaluate changes in housing.

### Housing Stock Is Bigger and Better Than Ever

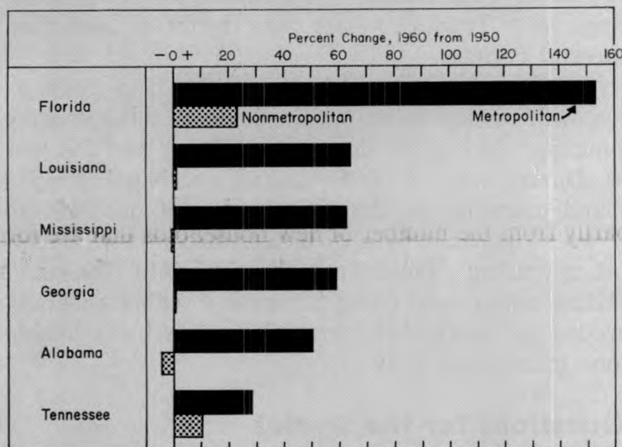
The housing stock, like the movies, is bigger and better than ever. In 1960, the number of housing units in District states totaled about 6.6 million, an increase of 1.5 million over the 1950 level. Florida, alone, accounted for more than one-half of the total increase in units during

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

The size and quality of the housing stock in District states increased sharply from 1950 to 1960, according to data compiled by the U. S. Bureau of the Census.




Most of the expansion in the number of housing units in District states during the past decade is due to the growth of owner-occupied units in metropolitan areas.




The proportion of owner-occupied units to total housing units rose sharply from 1950 to 1960 in all District states.

| | Metropolitan Areas | | | Nonmetropolitan Areas | | |
|---|---|---|---|---|---|---|
| | *Owner* | *Renter* | *Total* | *Owner* | *Renter* | *Total* |
| | *Percent of Total* | | | | | |
| Alabama | | | | | | |
| 1950 | 17.7 | 17.8 | 35.5 | 31.8 | 32.7 | 64.5 |
| 1960 | 27.7 | 18.6 | 46.3 | 32.0 | 21.7 | 53.7 |
| Florida | | | | | | |
| 1950 | 28.5 | 21.1 | 49.6 | 29.1 | 21.3 | 50.4 |
| 1960 | 45.0 | 22.0 | 67.0 | 22.5 | 10.5 | 33.0 |
| Georgia | | | | | | |
| 1950 | 16.9 | 19.8 | 36.7 | 29.7 | 33.6 | 63.3 |
| 1960 | 26.4 | 20.9 | 47.3 | 29.7 | 23.0 | 52.7 |
| Louisiana | | | | | | |
| 1950 | 17.6 | 23.0 | 40.6 | 33.4 | 26.0 | 59.4 |
| 1960 | 28.3 | 23.7 | 52.0 | 30.7 | 17.3 | 48.0 |
| Mississippi | | | | | | |
| 1950 | 3.2 | 3.6 | 6.8 | 44.5 | 48.7 | 93.2 |
| 1960 | 6.0 | 4.6 | 10.6 | 51.8 | 37.6 | 89.4 |
| Tennessee | | | | | | |
| 1950 | 22.0 | 20.4 | 42.4 | 34.5 | 23.1 | 57.6 |
| 1960 | 28.2 | 18.1 | 46.3 | 35.6 | 18.1 | 53.7 |
| District States | | | | | | |
| 1950 | 18.5 | 18.4 | 36.9 | 33.2 | 29.9 | 63.1 |
| 1960 | 30.1 | 19.2 | 49.3 | 31.4 | 19.3 | 50.7 |

the Fifties. This phenomenal expansion in Florida was required to provide shelter for families who had migrated into the state because of its climate, favorable economically and weatherwise.

The quality of the housing stock also improved markedly in the Fifties. The proportion of occupied housing units classified as sound or as deteriorating (units that need repair but are generally livable) soared from 79 percent in 1950 to 91 percent in 1960. Associated with the improvement in the quality of housing was a significant decline in the number of houses that were dilapidated (units that do not provide safe and adequate shelter).

Although the quality of housing in District states has improved considerably, it still lags behind that of the nation. District states, for example, accounted for 11 percent of all occupied housing units in the nation in 1960, but had 23 percent of the housing that was dilapidated.

What is the reason for this uneven distribution of dilapidated dwellings? Part of the explanation is that the average income of the District's families is lower than that of the nation's. Thus, the quality of housing that southern families can afford is also lower. Since the average income of nonwhites tends to be less than that of whites, it is not surprising that a larger proportion of the former group lived in dilapidated dwellings located in District states. In 1960, one of four nonwhites resided in a unit classified as dilapidated, compared to one of 23 whites.

The distribution among District states of dilapidated units was also uneven. The proportion of such units to total occupied dwellings ranged from 13.6 percent in Mississippi to 4.8 percent in Florida. The dilapidated units in most states tended to be concentrated in rental units in rural areas. This concentration persisted throughout the past decade, although substantial progress has been made toward wiping out urban and rural blight.

In 1960, only about 6 percent of the housing units in metropolitan areas were dilapidated, less than half the proportion in 1950. About the same rate of progress was made in erasing slums in nonmetropolitan areas. Last year, however, 13 percent of the housing units in these areas were classified as dilapidated. The slums of the farm, though less visible than those in urban centers, are nonetheless very real. Partly to escape such conditions, many families have moved to the city.

## Housing Moves to Metropolitan Areas

Families migrated in great numbers into metropolitan areas within District states during the Fifties. The attractions? Job opportunities, higher incomes, and better living conditions. The concentration of people in the District's metropolitan areas is associated with the South's continued transformation from a rural society and an agrarian economy to an urban society characterized by a considerable degree of industrialization.

Almost all the increase in housing units in District states from 1950 to 1960 occurred in the District's metropolitan areas. This is partly because of an increase in the number and average size of metropolitan areas. Mainly, it reflects this simple fact: Houses must be built where people settle. By 1960, 49 percent of the occupied hous-



Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

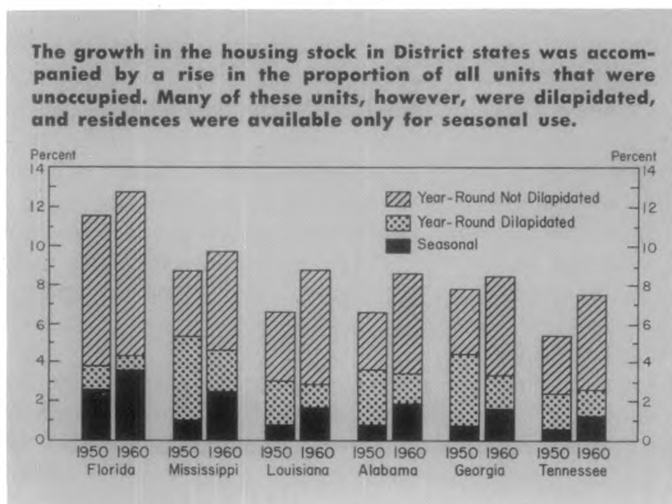
ing units in District states were located in areas classified as metropolitan, compared to 37 percent in 1950.

The movement of families into metropolitan areas has been accompanied by a trend toward home ownership in suburbs that have sprung up around our cities and towns. Owner-occupied units in metropolitan areas in District states have more than doubled in the past decade, whereas renter-occupied units increased about one-third. In nonmetropolitan areas, owner-occupied dwellings increased about 22 percent and more than offset a drop in renter-occupied units. Over the past decade, 1,272,000 owner-occupied units were added to the housing stock of District states, compared to 47,000 renter-occupied units.

As a result of these developments, 62 percent of the housing units in all District states were owner occupied in 1960, compared to 52 percent ten years earlier. In both metropolitan and nonmetropolitan areas alike, about six of every ten units were owner occupied in 1960. This has led one observer to comment that home ownership is now more prevalent than at any time since the colonial days. We cannot verify the accuracy of this statement, but one thing is quite certain. More owner-occupied units were added to the housing stock of District states in the past decade than at any time in history.

## Unoccupied Dwelling Units Rise

The sharp expansion in the number of housing units from 1950 to 1960 was accompanied by an increase in the proportion of vacant units. At the time of the 1960 Census survey, 9.7 percent of all housing units in District states were unoccupied, compared to 8.3 percent in 1950. The proportion of total housing units that were unoccupied varied among District states, as the chart shows.




The figures overstate the vacancy rate level because they include dilapidated and seasonal units as well as units intended for year-round occupancy. When only these latter units are considered, and when homes for sale are excluded, we find that the rental vacancy rate rose from 3.8 percent to 7.8 percent from 1950 to 1960.

The rise in the rental vacancy rate during the past decade is due in part to the sharp expansion of housing starts, both owner-occupied dwellings and rental units, relative to net nonfarm households. Nationally, the number of such households increased 10.2 million during the Fifties. In this same period, however, housing starts throughout the country exceeded 12.0 million. Undoubtedly, starts and households followed a similar pattern in District states. Thus, the supply of housing has exceeded the primary source of demand, household growth. Result: a higher vacancy rate—but improvement in the quantity and quality of housing.

## Back to Fundamentals

The rise in the rental vacancy rate in this part of the South suggests a couple of things. First, that the supply of housing has increased faster than could be absorbed by existing families, given the present level and structure of financial resources and prices. Second, that we should scrutinize the demand for housing much more closely than we have in the past.

That the strength of demand should even be questioned is an indication of the changes that the housing market has undergone. During the past two decades, "unavailability of mortgage credit" was the common diagnosis whenever housing starts slipped. The solution: an injection of credit—and make the terms easier, please. Recently, we have come to wonder if the old magic will continue to work. Some of us have been forced to return to what the professors might call "basic fundamentals."

These fundamentals relate to the quantity and quality aspects of housing demand. *Quantity* is affected by changes in net household formations. In a region of the nation, like the South, the magnitude of such changes results partly from the number of new households that are formed and remain in the area. Added to this is the difference between the number of households migrating into or out of the region. *Quality* is related to such things as the condition of the dwelling, amount of living space, the desirability of the neighborhood.

What are some of the variables that are likely to influence the formation of new households in the years ahead? What factors may encourage some families to upgrade their housing? These are the next questions we will attempt to answer.

## Household Formations in the Sixties

How rapidly the number of households will expand in District states in the Sixties will depend mainly upon undoubling and marriage trends and the extent of net migration into the area. Undoubling, the splitting-up of families, has been decreasing since the early 1950's. Almost no one expects a reversal of this trend in the years ahead. Past data, however, show that the doubling-up of families is substantially greater in the South than in the nation. This is partly because there is a concentration of low-income families in the area. If income and other factors are favorable in the years ahead, undoubling may contribute relatively more to household formations in the South than in the nation.

The number of marriages taking place in any period depends a great deal upon the number of males and females reaching marriageable age. Some theorizers are suggesting that in the next few years marriages in the nation



Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

and in the South will provide only a moderately strong stimulus to household formations This is because the number of people reaching marriageable age will be small, reflecting the low birth rate of the Thirties.

Projecting the course of household formations is tricky business at best. Nationally, all we know for sure is that net nonfarm household formations averaged 902,000 for the years 1955-59. Estimates of the average for the 1960-64 period have ranged between 850,000 and slightly over a million. Most people expect household formations to be higher in the second half of the Sixties than in the first, since this is when the batch of babies born in the middle and late Forties will begin to reach marriageable age.

The problem of estimating future growth in households is even more complex for a region than for the nation because of the added variable, migration. During the past decade, migration accounted for a significant share of the 28-percent increase in households among District states. Within District states, however, the rate of increase ranged from 2 percent in Mississippi to 88 percent in Florida. This startling disparity mainly reflects differences in net migration.

The number of people who remain and are attracted into District states during the next decade will depend largely upon the growth of economic opportunities. Of those families remaining within state boundaries, some will shift from farm to city in search of higher incomes, if present trends toward urbanization and industrialization continue. The movement of families within and across state boundaries may result in some imbalance between households and housing. Those areas into which families move rapidly will, of course, have a stronger relative demand for housing than areas that are more static.

Quite apart from growth in the number of households, what is the likely impact of the changing age distribution of the population on the type of housing demanded in the nation and in the South? Population projections prepared by the Bureau of the Census indicate two major shifts in the 1960-65 period: a bulge in the 20-24 year age group and a gap in the 25-44 year age group. We know from past experience that people in the former group tend to be renters, while home owners concentrate in the latter group. Inference: a demand for rental units. Home builders, however, need not despair necessarily. The number of children 19 years and under is also expected to increase rapidly in the first half of the Sixties. This may create space pressures for existing home owners at some point, and force them into larger homes.

### *Upgrading in the Sixties*

There is plenty of potential for upgrading District housing in the Sixties. About six of ten families in the District are home owners. Some of these owners are probably dissatisfied with their present house for one reason or another. About one of six renters lives in a dilapidated unit. Surely, most of these families would like to move into a better apartment or home. The amount of shifting that will take place among owners and renters, however, will depend largely upon financial and income developments.

Further development of trade-in financing may stimulate upgrading by home owners. In this type of financing, the home owner uses or trades in the equity he has built up in his present home as a down payment against the purchase price of a different one. At the other end of the deal, the builder or realtor agrees to accept the house for a price and assumes the burden of disposing of it. This sounds like a simple technique for boosting home sales. It's not. Home owners and builders both have problems.

Imagine, if you can, that you as a home owner are contemplating a trade-in involving a new and bigger house. These are some of the questions you will have to grapple with. Can you get a "fair" price on your present home? Will the equity built up in your present house satisfy the down payment requirements of the new transaction? Is the interest rate on the mortgage loan associated with the contemplated purchase higher or lower than the rate you are presently paying? By how much has the cost of construction (price of the new house) risen since you last purchased? Finally, are the *additional* satisfactions to be derived from living in the new house worth the *total cost* of upgrading? Or, should you expand and modernize your present home rather than purchase a new one? After considering these things, what will you do?

Now, let's look at trade-ins from the standpoint of the builder. When he takes in a home on trade, he assumes certain risks. He has no guarantee, for example, that the price he eventually sells the house for (including reconditioning and selling costs) will equal the price he paid for it. It may be more, or it may be less. The trick is, of course, to make a reasonable profit on the *total* transaction, the trade-in plus the sale of the new house.

The average builder has limited financial resources. He cannot afford to have his capital tied up in even a small inventory of houses. If he did tie it up, in all likelihood his construction activity would cease until he was able to sell one or more of the houses he accepted in trade. Quite apart from risk involved, lack of funds to finance trade-ins may inhibit some builders from engaging in this practice.

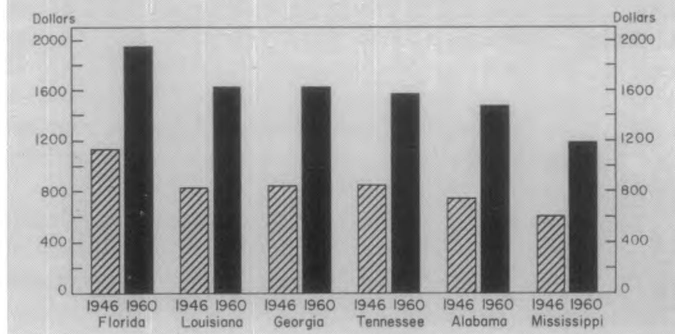
Trade-ins will probably become much more prevalent if pressures to sell homes increase. District families certainly have a share in the $120 billion in equity built up by the nation's home owners. The trade-in process by "unthawing" equities may facilitate exchange. If homes are exchanged on only a limited scale, however, little new demand for housing will result. Only a general upward movement of families into better living quarters can stimulate home building.

Income and price developments may well play the major part in shaping the pace and pattern of upgrading throughout this decade. Since the end of World War II, an income revolution has enabled many families to improve the quality of their housing. More and more families have moved into the moderately-well-to-do class. Nationally, 53 percent of all families earned $5,000 or more in 1959, compared to 22 percent in 1948. The income of families in District states has also risen, as may be inferred from the accompanying chart.

True, part of the income gains of the postwar period have been dissipated by rising prices. Even so, many families now have more real income to spend for housing and other things. A continuation of the income expansion could encourage families to become more dissatisfied with



Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis




their existing living quarters. To coin a technical phrase, the rate of housing obsolescence may increase.

Incomes have risen sharply since 1946, but so have construction costs. As a matter of fact, such costs have risen much more rapidly than the overall consumer price level. Now that many families are reasonably well housed, their choice of expenditures for housing or for other things could be strongly influenced by the pattern of prices. Housing, in the market of the Sixties, may have to compete price-wise more effectively than it has throughout the postwar period.

### Challenge for the Future

We have made great progress toward providing reasonably adequate housing for all families residing in District states. Still, in 1960 more than 500,000 families lived in dilapidated dwellings. Many families who lived in sound or deteriorating dwellings may also have felt they "needed" more and better housing. It is financial capacity, along with need, however, that makes demand effective.

Further improvements in the quantity and quality of housing in District states will depend upon expansion in income. Income expansion in turn is bound up with the problem of encouraging southern economic growth. *This* is the challenge. Growth in housing or economic activity is not, as someone said, simply a matter of holding our breath and floating upward on a cloud of expansion. Growth requires effort and innovation. It also requires change.

ALFRED P. JOHNSON

# *Have Mortgage Money, Will Lend*

In recent months, prospects for home building and mortgage financing in the nation have brightened perceptibly. Throughout most of this year, housing starts in the nation have increased. Current income has been rising, and the outlook for future earnings has improved with the upturn in economic activity. This improvement in families' financial position holds out hope that home sales will be spurred. Given these omens of economic revival, lenders may well anticipate an increase in demand for mortgage funds.

Despite the increase in housing starts, the demand for mortgage credit from all types of lenders in the nation showed only faint signs of picking up through the first quarter of this year. It is normal for mortgage lending to lag behind building activity because of the time that must necessarily elapse between the start of construction and the sale and financing of a house. Signs of an upswing in lending are, nevertheless, evident in the activities of savings and loan associations, institutions which channel a large share of their resources into the mortgage market. Total lending by these institutions for construction, home purchase, and other purposes was higher in the first four months of this year than in the same period of 1960.

Savings and loan associations in District states, on the other hand, did less mortgage lending in the first quarter of 1961 than they did a year ago. That the lending of savings and loan associations in the District recently has not kept pace with that of those in the nation reflects in part the slower recovery of home building in this part of the South.

Outstanding loans secured by real estate at weekly reporting banks in the District have edged upward since mid-1960. This slight rise in long-term real estate lending by banks has been encouraged by a marked expansion in total deposits and some slackening in the demands of businesses and consumers for short- and intermediate-term credit. The real estate lending pattern of commercial banks reflects partly a response to cyclical forces and partly some seasonal increase in demand for credit.

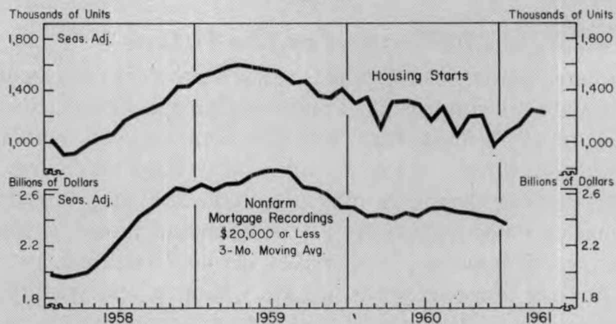
Nationally, the total value of commitments of savings and loan associations and mutual savings banks to acquire mortgages appears to be on the rise. Builders and consumers are again finding it relatively easy to raise mortgage money. "Have mortgage money, will lend" would be the probable response of the typical mortgage loan officer, if he were asked to describe the liquidity condition of his institution. Not only are mortgage funds available, he might add, but they may be obtained at lower costs on somewhat easier terms. The present ability and willingness of most lenders throughout the District and the nation to extend mortgage credit reflects adjustments that have taken place in the past twenty-two months in credit and savings flows.

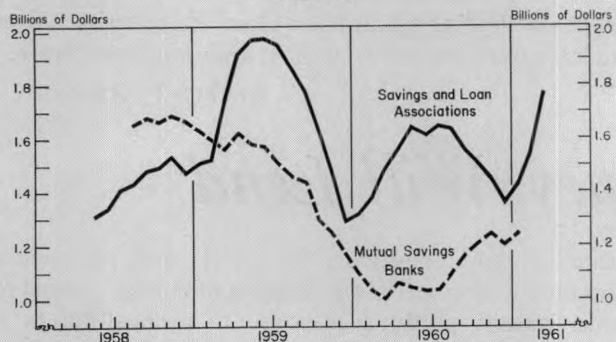
### The Demand and Supply of Mortgage Credit Adjusts

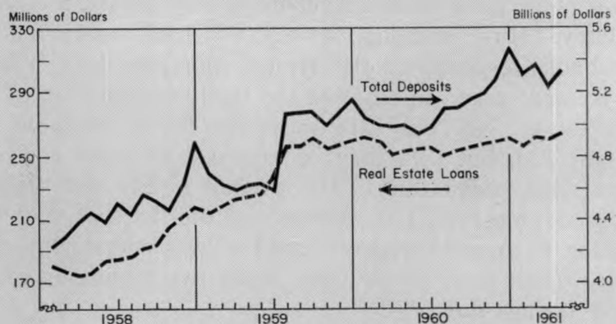
From mid-1959 through December 1960, a sharp drop in home building activity was accompanied by a reduced demand for mortgage credit by home buyers. Nationally, nonfarm mortgage recordings of $20,000 or less fell about 14 percent from July 1959 through the latter part of 1960. Mortgage recordings data, which include the activities of savings and loan associations, insurance companies, and commercial and mutual savings banks, are not available by geographic region. The loan pattern of savings and loan associations in District states throughout much of 1960, illustrated in the following chart, suggests, however, that the national decline in mortgage lending was paralleled in this part of the South.

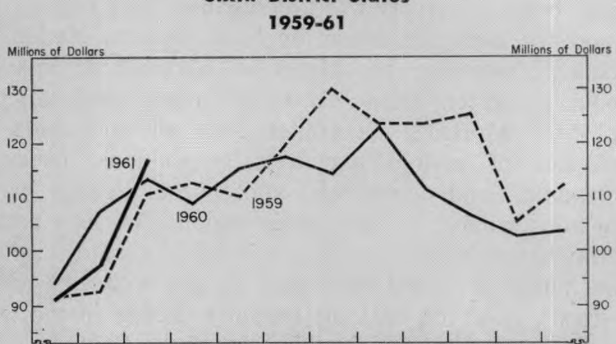
In contrast to this downward trend in mortgage lend-

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis




ing, savings flowed into financial institutions at an accelerated rate. During 1960, for example, the net increase in savings of the nation's consumers and businesses in savings accounts and life insurance reserves at four major financial institutions totaled $17.9 billion. About 75 percent of this increase was accounted for by savings and loan associations, mutual savings banks, and insurance companies. Commercial banks accounted for the remaining 25 percent of the increase in savings, a substantially larger proportion than in 1959.

Throughout most of this year, savings have continued to pour into the coffers of financial institutions located in the nation and the District. This has meant that these institutions, while they always have welcomed savings, have had to put this larger pool of funds to work at a time when mortgages and other investments have been in short supply. In order to obtain mortgages, therefore, investors have bid up their price and forced down yields. Looked at in another way, realignment in the demand and supply of mortgage funds has resulted in lower interest rates for potential borrowers.

## *Borrowing Costs and Terms Ease*

Nationally, the interest rate on a 25-year loan insured by the Federal Housing Administration—adjusted for discounts—was 5.75 percent in April 1961, or 49 basis points lower than in January 1960. While the degree of decline may have varied somewhat among regions, there is no doubt that borrowing costs have eased in most sections of the country.

In the District, scattered evidence shows that interest rates have declined. Yields on conventional mortgages in April of this year ranged between 5¾ and 6¼ percent, with most rates ¼ to ½ percent lower than in January 1960. Discounts on 25-year FHA-insured loans yielding 5¾ percent, moreover, were almost nil, compared with 3 to 4 points early last year. Discounts are a couple of points higher on FHA loans yielding 5½ percent, the rate in effect between early February and late May. The FHA rate was reduced to 5¼ percent, effective May 29. Finally, discounts on 5¼ percent loans guaranteed by the Veterans Administration have fallen to about 4 points. At this level of discount, VA loans may once again prove attractive to investors.

Not only have interest rates declined as the supply of mortgage funds seeking investment has increased, but home borrowers are getting a break in a couple of other ways. There is fragmentary evidence that down payments and maturities on conventional loans have eased slightly in certain areas. Some lenders, moreover, are absorbing a larger share of the cost of closing a home loan.

## *Will Credit Ease Stimulate Home Building?*

The housing and mortgage finance industries, as well as others concerned with the course of economic activity, are now attempting to appraise the impact of easing in the mortgage market on activity and lending. A reduction in down payments, for example, may draw into the housing market families who had previously been held out because of limited liquid assets. A lengthening of maturities

*Continued on Page 10*



Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

# *With Mortgage Money, Will Construction Rise?*

How would you react to an easing of mortgage credit? As the preceding article has pointed out, the cost of borrowing money to buy a house has declined in recent months. Moreover, you can probably borrow a larger part of the purchase price and take longer to repay your loan now than you could a few months ago. Would this be sufficient inducement to lead you to buy a house? If economists knew how you and other hundreds of thousands of Americans would answer that question, they would also know the answer to the one posed in the preceding article; a question that is being asked by many observers of the economic scene today: "Will credit ease stimulate home building?" This is an important question in the Sixth Federal Reserve District states, as an examination of developments in the area's construction industry shows.

## Current Activity Down

The chart on construction employment in Sixth District states suggests why builders in the area are looking for a stimulus to building. While businessmen are usually happy to obtain more business, they are particularly so when business has been trending downward, as it has in the District's construction industry. Assuming that changes in the seasonally adjusted number of construction workers give at least a rough idea of building trends, we can see that District building activity started a more or less steady decline after reaching a record high in mid-1959. With the downtrend continuing through March of this year, the industry's employment in the first quarter of 1961 averaged 14 percent less than during the second and third quarters of 1959. A further drop occurred in April, but the rate of decline slackened appreciably, possibly heralding a leveling off of construction employment.

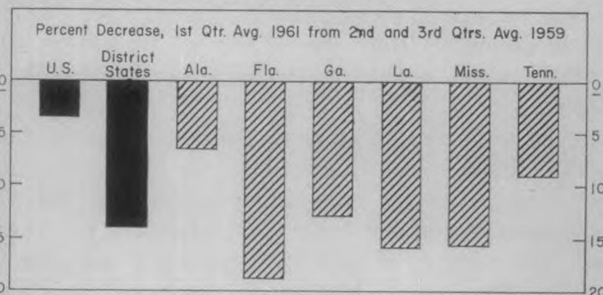
The decline in District construction activity over the past year and a half has reflected declines in every District state. Florida, which had previously been in the forefront of expansion, has experienced the sharpest decline, about 19 percent. Alabama has shown the smallest decline among District states, about 6 percent. Nationally, the trend has also been downward, but the decline has been considerably smaller than in District states.

## Decline, in Part, Because of Housing

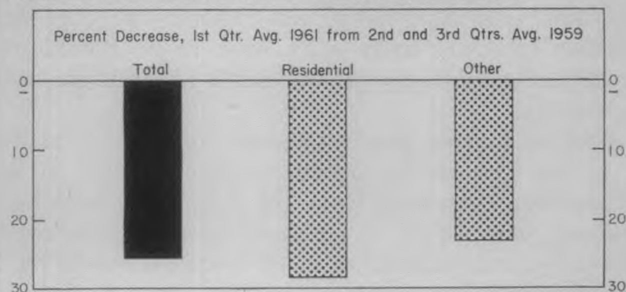
Our concern with the possible effect of easier mortgage credit on the District's construction industry is understood when we note that reduced home building has been a major factor in the industry's decline. Compared with mid-1959, when District construction employment reached its peak, seasonally adjusted contracts for residential construction in the first quarter of this year were down about 28 percent. Residential building in District states accounted for over 46 of every 100 dollars in construction contracts awarded during 1960, making home building the most important single component of the construction industry. Add this to the fact that about 85 percent of houses purchased each year in the nation involve the use of mortgage credit, and you see why so much

**Construction employment in District states started to decline after mid-1959 and continued downward through April 1961.**

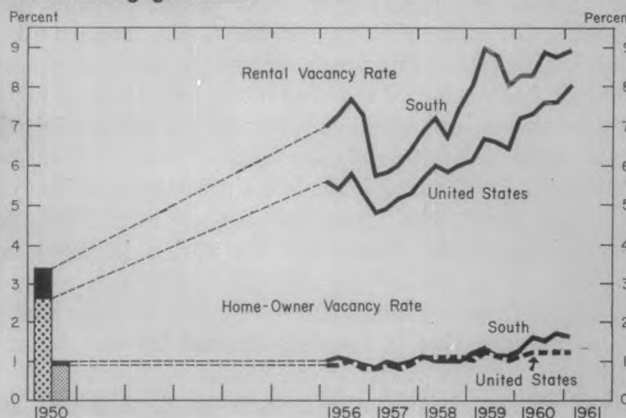
**The decline in construction employment during the past year and a half reflected decreases in each District state. The U. S. decline in the same period was smaller.**




**District construction activity was off because of a reduced volume of contracts reported for both residential and other types of construction by F. W. Dodge Corporation.**




**A rising trend in vacancy rates in the U. S. and the South, illustrative of the District trend, gives evidence of an easing demand for housing that may dampen any stimulus from easier mortgage credit.**






Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

attention is being given to the possible impact on construction activity of easier home-mortgage credit.

If the downtrend in this important sector were turned into an uptrend, total construction activity would be given a major boost. This, in turn, would have an immediate helpful effect on the entire economy of the Sixth District states, where total nonfarm employment has changed little in recent months after earlier declines associated with the nationwide recession that began in about the second quarter of last year.

### But Housing May Pick Up

Is there evidence yet of such a stimulus from easier mortgage credit? So far, the signs have not been particularly encouraging, but perhaps it's just too early to tell. In the nation, where housing statistics are available more quickly than in the District, the number of new houses started rose in January, February, and March, then dropped back slightly in April. Even the pessimists probably would agree that this indicates at least a leveling off, but because the recent developments have partly reflected recovery from the effects of unusually severe weather, some remain unconvinced that there is any improvement.

In the Sixth Federal Reserve District, where the decline in home building had been more severe than in the nation, the pessimists may be even harder to convince. Still, there are omens of possible better days ahead in the District. First, the number of new dwelling units authorized by local building permits had apparently halted their earlier sharp decline by late 1960, as had the comparable national number. Second, the index of seasonally adjusted contracts for residential construction stopped declining in January, and, more important, has picked up somewhat since then. Because contracts cover work soon to be started, this development points toward a probable rise in home building activity.

Does this mean that residential construction activity is, at last, responding to easier credit and that we can sit back and confidently await the sharp upswing in home building characteristic of the mortgage market during the postwar years? Such a rise is, of course, a possibility. A more cautious attitude, however, is warranted when one sees evidence that the basic demand for housing may have eased enough to dampen any stimulus from easier credit alone. As the chart on quarterly vacancy rates shows, there has been a steady uptrend in vacant dwelling units available for rent. Figures for the South, comprised of Sixth District states and nine other states, show an upward trend similar to that of the nation but with an even higher level of vacancies. Although quarterly figures for District states alone are not available, figures from the Censuses of Housing for the area indicate a similar uptrend between 1950 and 1960, with the actual vacancy rates falling between those of the South and the nation in 1950 and in 1960.

Judging from available national figures, we may explain the apparent easing in housing demand by the tendency during the last ten years for the number of houses built to exceed the number of new households formed and also by a steady decline in the number of married couples without their own households. It seems quite likely that the same factors have been at work in the District, since the pace of building here generally exceeded that in the nation during the last decade. Whatever the explanation, the apparent easing in the demand for housing leads one to expect easier mortgage credit to provide less of a stimulus to home building now than it has in previous postwar periods of credit ease.

### Rise in Other Types Too?

Important as the home-building sector of the construction industry is, the other numerous and varied kinds of construction account for more than half of total construction activity in Sixth District states. Ranging from the building of highways, schools, and hospitals to office buildings and factories, these other types of construction collectively may have similar or different movements than residential construction. During the past year and a half they have, unfortunately for District activity, reinforced a downtrend in home building. Thus, seasonally adjusted nonresidential contracts in the first quarter of this year averaged about 23 percent below the monthly average of second and third quarters 1959, when total construction employment reached its record high. We may now hope that nonresidential building will also reinforce any upswing in residential activity that may be getting underway. Contracts through April, however, showed that the hoped-for rise in Sixth District nonresidential construction activity had not, as yet come.

PHILIP M. WEBSTER

## Bank Announcements

*On May 1, two nonmember banks began to remit at par for checks drawn on them when received from the Federal Reserve Bank:*

*The Buford Commercial Bank, Buford, Georgia. Officers are John D. Carter, President, and Forrest Puckett, Vice President and Cashier. Capital totals $100,000, and surplus and undivided profits $112,288.*

*The Peoples Bank, Lithonia, Georgia. Officers are G. O. Persons, II, President; R. O. Persons, Jr., Vice President; W. L. Williamson, Cashier; and Mrs. Emelyn Gardner, Assistant Cashier. Capital totals $25,000, and surplus and undivided profits $52,088.*

*On May 12, the newly organized nonmember Exchange Bank of Temple Terrace, Temple Terrace, Florida, opened for business and began to remit at par. Officers are G. R. Griffin, President; Max H. Hollingsworth, Vice President; Archie H. Jones, Cashier; and Fred P. Hayman, Assistant Cashier. Capital totals $300,000, and surplus and undivided profits $150,000.*

**STATISTICAL STUDY**

*The second revision of* ECONOMIC CHARACTERISTICS OF THE SIXTH FEDERAL RESERVE DISTRICT *is now available for distribution. This study classifies economic data for the District by state and 27 trade and banking areas. Individual copies may be obtained without charge upon request to the Research Department, Federal Reserve Bank of Atlanta, Atlanta 3, Georgia.*

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

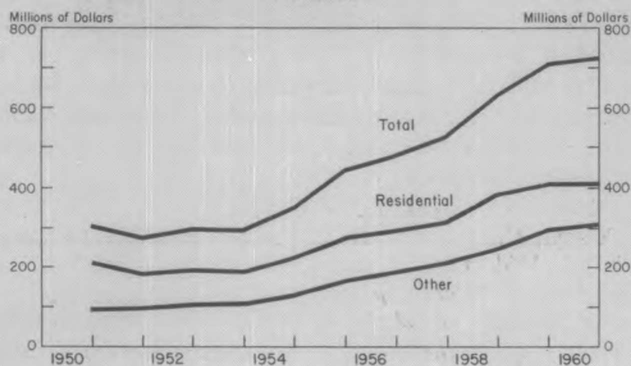
# *District Banks and Mortgage Financing*

The Southeast, like the nation, vastly increased the size and quality of its stock of houses and commercial structures during the postwar period. Accordingly, financing requirements of home buyers, builders, and mortgage lenders increased tremendously. Financial institutions oriented to the mortgage market responded to this basic demand for money and provided funds in large quantities. While the activities of such institutions as savings and loan associations and life insurance companies are well known, the substantial contribution made by commercial banks has been somewhat less publicized.

What have been the trends in real estate lending by banks in this region during the last decade? How do large and small banks compare with regard to their holdings of mortgage loan assets and their ability to increase them? Can southern banks make a greater contribution to mortgage financing within the bounds of safety and liquidity?

## All Types of Real Estate Lending Expand

At member banks in the Sixth Federal Reserve District, loans secured by nonfarm real estate amounted to $720 million on December 31, 1960, representing an increase of $420 million since the end of 1950. This gain was about evenly divided between loans on residential properties and those on commercial properties, although the proportion secured by residential structures declined from




68 to 57 percent. Most nonfarm real estate loans represent mortgage holdings, but some construction loans and a small amount of other business loans secured by real estate are included. Loans secured by farm land amounted to $52 million at the end of 1960, or 6.7 percent of total real estate loans.

District member banks also sharply expanded their loans to construction firms and interim mortgage credit to other real estate lenders during the period after World War II. Construction loans more than quadrupled from 1946 to 1957, the latest year for which outstanding loan data are available. Loans to other real estate lenders—mainly mortgage companies, which originate and service loans for permanent investors—increased 250 percent between August 1954 and February 1959 at member banks in leading District cities.

Indeed, member banks in this District are probably more active in making construction loans and loans to other real estate lenders than in buying permanent mortgages. Although a loan survey made in October 1957 showed that construction loans amounted to only $145 million, or 28 percent of nonfarm real estate loans, and that loans to other real estate lenders amounted to $195 million, or 38 percent, these percentages understate the importance of these loans. Both types of credit mature much sooner than the average real estate loan—an average six months for construction loans and less for loans to mortgage companies—and therefore turn over faster.

Judging from national data, the relative importance of commercial banks in the market for nonfarm residential mortgages increased sharply immediately after World War II, reaching an historical peak in 1947 and 1948. Thereafter, as the resources of other institutions specializing in mortgage finance grew rapidly, the share held by banks declined. In District states, it dropped from 15 to 8 percent from the end of 1949 to the end of 1959.

Nevertheless, bank-held mortgages continued to grow more rapidly than total bank resources. The share of nonfarm real estate loans in total District member bank assets increased from 4.5 to 6.0 percent from 1950 to 1960.

What caused real estate loans at District banks to increase as much as they did? First, the heavy postwar demand for mortgage credit made itself felt at banks as well as at other lending institutions. In Florida, where population growth and demand were especially great, growth in real estate loans was strongest. Second, higher interest rates on real estate loans than on some other types of loans and securities made this type of investment comparatively attractive to banks. Third, the near doubling of total resources and a somewhat greater gain in time deposits permitted member banks to invest more in real estate loans without loss of liquidity with respect to deposits.

## Lending by Small and Large Banks

As a general rule, the smaller the bank, the more important its real estate lending to total lending activity. For example, at the end of 1960, 31 percent of the total loans at banks with deposits of less than $5 million were real estate loans, compared to 9 percent at banks with deposits of $100 million and over.

Most small banks, of course, are in small cities. Demands for private short-term credit from commercial and industrial borrowers are generally less strong there than in the large cities, and competition from other real estate lenders may also be weaker. Moreover, time deposits, which may influence the amount of real estate lending banks can do, are greater in relation to total deposits at small banks than at large ones. Because of legal limitations, a national bank must hold its outstanding loans secured by real estate (excluding Government insured or guaranteed loans and construction loans) within an



Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

amount no greater than 60 percent of its total time deposits or 100 percent of unimpaired capital and surplus, whichever is higher. Most member banks are operating well within these limits, but many relate their long-term real estate lending to the inflow of time deposits.

**Real Estate Loans**
**Sixth District Member Banks**
**1950 and 1960**

| Deposit Size of Bank ($ Millions) | Number of Banks | | Dollar Volume of Loans | | Real Estate as a Percent of Total Loans | |
|---|---|---|---|---|---|---|
| | Dec. 30 1950 | Dec. 31 1960 | Dec. 30 1950 | Dec. 31 1960 | Dec. 30 1950 | Dec. 31 1960 |
| | Percent of Total | | | | | |
| 0 - 5 | 50 | 28 | 15 | 6 | 32 | 31 |
| 5 - 10 | 21 | 26 | 13 | 12 | 28 | 29 |
| 10 - 25 | 15 | 26 | 17 | 20 | 22 | 22 |
| 25 - 50 | 6 | 9 | 14 | 16 | 19 | 20 |
| 50 - 100 | 4 | 5 | 11 | 13 | 13 | 18 |
| 100 and over | 4 | 6 | 30 | 33 | 10 | 9 |
| All Banks | 100 | 100 | 100 | 100 | 16 | 15 |

Although real estate lending accounts for a smaller share of total lending at large banks than at small ones, large banks control a greater proportion of total resources, thus accounting for a major share of the real estate lending at all District banks. Between 1950 and 1960, large banks accounted for a more than proportionate share of the increase in this lending. As a result, large banks held more of the total real estate loans outstanding at District member banks in 1960 than in 1950.

The greater demands for real estate financing in large cities resulting from the greater population growth and building activity there may partly explain the greater growth in real estate lending at large banks. Since small banks were already heavily committed to real estate lending in 1950, they may have been less inclined to commit additional funds to real estate lending in subsequent years.

## *Can Banks Do More?*

Will District banks contribute more to real estate financing in the 1960's than in the last ten years? Broadly speaking, the answer depends on four factors: (1) overall demand for mortgage credit, (2) growth of bank resources, (3) demands for other kinds of bank credit, and (4) bank decisions on lending policies.

About the demand for mortgage and construction credit we can be quite sure. Continued population growth in parts of this region will generate demand for more houses and funds to finance them. On the other hand, other short-term credit demands may also press heavily on bank resources, even as resources grow.

In such an environment of competing demands, the fourth factor influencing banks' volume of real estate loans—possible changes in bank policies—could be crucial. The recent easing of legal restrictions on national banks may lead to some policy changes. Since late 1959, national banks have been authorized by law to make conventional loans of up to 75 percent of the appraised value of the real estate if the loan is to be amortized within twenty years. Previously, national banks could make a conventional loan of no more than two-thirds of the appraised value of the property if the loan were to be amortized completely within fifteen years.

Past experience with Government guaranteed and insured mortgages, however, suggests that bankers consider liquidity more important than legal restrictions. Bank holdings of Government insured or guaranteed mortgage loans are not subject to the restrictions on conventional mortgage financing. A national bank could, therefore, legally have made loans on residential property at much more liberal terms than at those imposed on conventional mortgage lending even before the recent liberalization of restrictions. Many banks have made such FHA and VA loans in large volume. Yet, in 1960 such insured or guaranteed loans made up only about one-fourth of the total dollar volume of mortgage loans on residential properties held by District banks. Apparently, the banks preferred to make loans with shorter maturities than those typical of FHA and VA. Such liquidity considerations are likely to continue to influence lending policy in the future.

Some banks are exploring a possible way to keep active in the mortgage lending field and at the same time avoid undesirable liquidity aspects. By originating a substantial volume of mortgages in their own communities, they hope to build up a staff competent not only to grant or originate loans efficiently but to service a large volume for other holders as well. At the same time, by developing channels for the sale of mortgages in the secondary market, they believe they can keep the mortgages they hold themselves within the limits of their banks' liquidity standards.

During the 1960's, the pattern of residential construction may differ considerably from that of the 1950's, as the article on the southern housing market states. Also, uneven rates of income growth and migration may cause residential construction to be heavier in certain cities and localities than in others. Consequently, some banks may find heavier demands for real estate financing than others. In addition, changes in financing techniques may be required. If the past record is any guide, however, District bankers will undoubtedly continue to adapt their lending practices to the changing times and to contribute significantly to short-term construction financing and long-term mortgage lending.

ALBERT A. HIRSCH

---

*Continued from Page 6*

and a lowering of mortgage rates, by reducing monthly payments, could also help to overcome the income obstacle that may have deterred some families from buying a new or more expensive home.

The availability of mortgage funds on favorable terms to the borrower does, no doubt, tend to broaden the base of potential home buyers. It should be remembered, however, that families *demand* the satisfaction that comes from living in a home. They demand mortgage credit simply to obtain this satisfaction. As we have noted in the first article in this issue, the nature of the housing market has changed markedly during the past decade. Families in the District are now better housed than they were ten years ago. Thus, the task of stimulating home building through easy credit may now be more formidable than in the past.

ALFRED P. JOHNSON



Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

# Sixth District Indexes

**Seasonally Adjusted (1947-49 = 100)**

| | 1960 | | | | | | | | | | 1961 | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| SIXTH DISTRICT | MAR. | APR. | MAY | JUNE | JULY | AUG. | SEPT. | OCT. | NOV. | DEC. | JAN. | FEB. | MAR. | APR. |
| Nonfarm Employment | 142 | 144 | 144 | 143 | 143 | 143 | 143 | 142 | 142 | 141 | 142 | 141 | 141 | 141 |
| Manufacturing Employment | 125 | 126 | 126 | 126 | 126 | 125 | 124 | 123 | 122 | 122 | 121 | 121 | 121 | 121 |
| Apparel | 195 | 197 | 198 | 198 | 199 | 196 | 193 | 188 | 188 | 189 | 187 | 187 | 186 | 189 |
| Chemicals | 134 | 137 | 137 | 138 | 137 | 137 | 132 | 131 | 131 | 133 | 133 | 133 | 134 | 135 |
| Fabricated Metals | 191 | 191 | 196 | 196 | 196 | 197 | 193 | 190 | 188 | 189 | 191 | 189 | 184 | 184 |
| Food | 115 | 116 | 118 | 117 | 117 | 117 | 120 | 119 | 117 | 116 | 118 | 118 | 118 | 118 |
| Lbr., Wood Prod, Fur. & Fix. | 79 | 79 | 80 | 79 | 78 | 78 | 77 | 76 | 76 | 75 | 73 | 73 | 73 | 73 |
| Paper | 166 | 169 | 170 | 167 | 169 | 166 | 167 | 166 | 165 | 164 | 163 | 164 | 165 | 166 |
| Primary Metals | 94 | 98 | 99 | 99 | 97 | 95 | 91 | 92 | 88 | 89 | 86 | 87 | 86 | 87 |
| Textiles | 89 | 88 | 88 | 88 | 89 | 88 | 87 | 86 | 85 | 85 | 84 | 84 | 83 | 84 |
| Transportation Equipment | 205 | 210 | 210 | 205 | 197 | 199 | 199 | 205 | 185 | 190 | 191 | 190 | 183 | 187 |
| Nonmanufacturing Employment | 149 | 152 | 151 | 151 | 150 | 150 | 150 | 150 | 150 | 149 | 150 | 150 | 149 | 149 |
| Manufacturing Payrolls | 216 | 227 | 230 | 233 | 236 | 228 | 221 | 220 | 217 | 218 | 213 | 212 | 214 | 219 |
| Cotton Consumption** | 94 | 95 | 94 | 93 | 93 | 90 | 85 | 83 | 83 | 79 | 78 | 79 | 79 | 82 |
| Electric Power Production** | 387 | 363 | 366 | 375 | 382 | 385 | 373 | 372 | 369 | 390 | 401 | 383 | 368 | n.a. |
| Petrol. Prod. in Coastal Louisiana & Mississippi** | 228 | 224 | 222 | 220 | 220 | 221 | 223 | 232 | 233 | 250 | 239 | 237r | 247 | 244 |
| Construction Contracts* | 333 | 333 | 351 | 371 | 370 | 361 | 353 | 337 | 322 | 286 | 307 | 313 | 323 | n.a. |
| Residential | 360 | 356 | 384 | 387 | 376 | 367 | 362 | 364 | 305 | 300 | 286 | 326 | 341 | n.a. |
| All Other | 311 | 315 | 325 | 359 | 365 | 357 | 346 | 316 | 336 | 276 | 324 | 303 | 309 | n.a. |
| Farm Cash Receipts | 121 | 126 | 132 | 132 | 127 | 155 | 149 | 167 | 156 | 132 | 134 | 145 | 136 | n.a. |
| Crops | 95 | 100 | 111 | 98 | 83 | 147 | 134 | 157 | 131 | 94 | 97 | 123 | 104 | n.a. |
| Livestock | 179 | 188 | 185 | 192 | 194 | 189 | 188 | 186 | 201 | 199 | 191 | 191 | 205 | n.a. |
| Department Store Sales*/** | 162 | 192 | 176 | 183 | 194 | 178 | 185 | 189 | 179 | 187 | 177 | 181 | 178 | 183 |
| Department Store Stocks* | 225 | 223 | 223 | 227 | 227 | 232 | 230 | 231 | 235 | 233 | 224 | 221 | 221r | 229p |
| Furniture Store Sales*/** | 128 | 149 | 145 | 142 | 147 | 143 | 135 | 141 | 140 | 134 | 133 | 123 | 118 | 139p |
| Member Bank Deposits* | 181 | 180 | 180 | 180 | 183 | 183 | 185 | 188 | 188 | 189 | 189 | 192 | 189 | 191 |
| Member Bank Loans* | 345 | 347 | 349 | 349 | 351 | 354 | 353 | 353 | 352 | 359 | 351 | 355 | 353 | 354 |
| Bank Debits* | 285 | 274 | 271 | 281 | 265 | 279 | 284r | 265r | 283r | 281r | 288r | 280r | 295r | 270 |
| Turnover of Demand Deposits* | 153 | 148 | 163 | 159 | 162 | 167 | 158 | 152 | 153 | 151 | 162 | 156 | 155 | 146 |
| In Leading Cities | 167 | 167 | 181 | 183 | 179 | 190 | 175 | 159 | 162 | 163 | 176 | 168 | 167 | 164 |
| Outside Leading Cities | 119 | 114 | 126 | 119 | 129 | 124 | 120 | 113 | 111 | 119 | 125 | 116 | 122 | 111 |
| ALABAMA | | | | | | | | | | | | | | |
| Nonfarm Employment | 124 | 126 | 126 | 126 | 126 | 126 | 125 | 125 | 125 | 124 | 125 | 123 | 123 | 123 |
| Manufacturing Employment | 105 | 108 | 108 | 108 | 108 | 107 | 105 | 103 | 103 | 102 | 101 | 101 | 101 | 102 |
| Manufacturing Payrolls | 188 | 194 | 196 | 199 | 200 | 192 | 182 | 187 | 183 | 175 | 175 | 175 | 177 | 183 |
| Department Store Sales** | 156 | 179r | 162 | 171 | 178 | 170 | 166 | 166 | 155 | 165 | 158 | 156 | 166 | 173 |
| Furniture Store Sales | 112 | 127 | 128 | 127 | 126 | 119 | 117 | 120 | 110 | 111 | 109 | 105 | 99 | 131 |
| Member Bank Deposits | 161 | 159 | 159 | 159 | 160 | 162 | 164 | 169 | 165 | 167 | 169 | 170 | 167 | 169 |
| Member Bank Loans | 289 | 296 | 298 | 293 | 291 | 293 | 292 | 293 | 294 | 299 | 300 | 299 | 303 | 298 |
| Farm Cash Receipts | 125 | 122 | 131 | 123 | 124 | 123 | 150 | 182 | 130 | 121 | 115 | 126 | 133 | n.a. |
| Bank Debits | 244 | 239 | 239 | 244 | 232r | 253r | 252r | 239r | 244r | 236r | 242r | 233r | 243r | 226 |
| FLORIDA | | | | | | | | | | | | | | |
| Nonfarm Employment | 201 | 203 | 203 | 202 | 202 | 202 | 202 | 201 | 201 | 201 | 200 | 200 | 200 | 200 |
| Manufacturing Employment | 205 | 206 | 209 | 209 | 208 | 208 | 208 | 207 | 207 | 208 | 206 | 207 | 209 | 209 |
| Manufacturing Payrolls | 352 | 370 | 389 | 392 | 407 | 403 | 392 | 399 | 384 | 384 | 368 | 374 | 373 | 392 |
| Department Store Sales** | 245 | 273r | 260 | 264 | 277 | 263 | 256 | 261 | 268 | 276 | 264 | 264 | 287 | 269 |
| Furniture Store Sales | 157 | 181 | 175 | 167 | 167 | 203 | 172 | 156 | 168 | 164 | 156 | 149 | 145 | 156 |
| Member Bank Deposits | 238 | 237 | 235 | 236 | 242 | 240 | 241 | 246 | 248 | 250 | 247 | 252 | 247 | 248 |
| Member Bank Loans | 552 | 553 | 551 | 553 | 557 | 564 | 560 | 561 | 551 | 560 | 550 | 556 | 556 | 550 |
| Farm Cash Receipts | 171 | 217 | 225 | 187 | 204 | 270 | 248 | 212 | 196 | 232 | 266 | 264 | 197 | n.a. |
| Bank Debits | 404 | 380 | 395 | 431 | 390r | 427r | 418r | 405r | 420r | 413r | 415r | 399r | 418r | 383 |
| GEORGIA | | | | | | | | | | | | | | |
| Nonfarm Employment | 136 | 138 | 137 | 136 | 136 | 135 | 135 | 135 | 134 | 134 | 134 | 134 | 133 | 134 |
| Manufacturing Employment | 124 | 124 | 124 | 123 | 123 | 123 | 121 | 121 | 118 | 119 | 117 | 116 | 116 | 117 |
| Manufacturing Payrolls | 208 | 218 | 226 | 223 | 228 | 220 | 213 | 211 | 205 | 205 | 199 | 200 | 203r | 206 |
| Department Store Sales** | 156 | 170 | 169 | 164 | 175 | 159 | 168 | 172 | 158 | 164 | 157 | 155 | 166 | 155 |
| Furniture Store Sales | 120 | 142 | 132 | 135 | 134 | 137 | 134 | 144 | 138 | 135 | 123 | 120 | 124 | 132 |
| Member Bank Deposits | 159 | 159 | 160 | 160 | 161 | 164 | 166 | 170 | 169 | 170 | 169 | 173 | 172 | 172 |
| Member Bank Loans | 271 | 271 | 275 | 275 | 278 | 286 | 288 | 286 | 291 | 289 | 285 | 292 | 292 | 290 |
| Farm Cash Receipts | 146 | 153 | 144 | 150 | 125 | 215 | 160 | 204 | 120 | 148 | 144 | 152 | 171 | n.a. |
| Bank Debits | 252 | 251 | 252 | 263 | 252 | 259r | 274 | 250r | 259r | 257r | 265r | 255r | 267r | 246 |
| LOUISIANA | | | | | | | | | | | | | | |
| Nonfarm Employment | 130 | 132 | 132 | 131 | 131 | 130 | 129 | 129 | 128 | 128 | 129 | 129 | 128 | 128 |
| Manufacturing Employment | 95 | 96 | 96 | 95 | 96 | 95 | 94 | 94 | 93 | 93 | 92 | 91 | 92 | 91 |
| Manufacturing Payrolls | 184 | 188 | 184 | 181 | 182 | 181 | 173 | 170 | 168 | 175 | 177 | 173 | 177r | 179 |
| Department Store Sales*/** | 150 | 155r | 152 | 161 | 159 | 152 | 148 | 151 | 140 | 155 | 151 | 151 | 155 | 149 |
| Furniture Store Sales* | 172 | 176 | 175 | 184 | 203 | 145 | 161 | 159 | 167 | 172 | 164 | 152 | 139 | 156 |
| Member Bank Deposits* | 159 | 160 | 159 | 158 | 161 | 159 | 164 | 163 | 164 | 166 | 165 | 167 | 163 | 169 |
| Member Bank Loans* | 328 | 329 | 334 | 334 | 335 | 334 | 332 | 329 | 323 | 331 | 319 | 322 | 314 | 331 |
| Farm Cash Receipts | 94 | 89 | 101 | 119 | 102 | 91 | 113 | 115 | 137 | 113 | 93 | 103 | 104 | n.a. |
| Bank Debits* | 238 | 227 | 225 | 242 | 216r | 230r | 250r | 212r | 225r | 234r | 210r | 208r | 236r | 215 |
| MISSISSIPPI | | | | | | | | | | | | | | |
| Nonfarm Employment | 136 | 137 | 136 | 135 | 135 | 134 | 135 | 135 | 135 | 134 | 137 | 136 | 136 | 136 |
| Manufacturing Employment | 135 | 136 | 137 | 136 | 135 | 134 | 132 | 132 | 133 | 131 | 130 | 129 | 130 | 132 |
| Manufacturing Payrolls | 256 | 252 | 247 | 257 | 256 | 250 | 238 | 242 | 239 | 240 | 244 | 237 | 241r | 244 |
| Department Store Sales*/** | 153 | 166r | 154 | 175 | 175 | 153 | 149 | 158 | 151 | 164 | 149 | 146 | 154 | 157 |
| Furniture Store Sales* | 94 | 100 | 113 | 107 | 112 | 100 | 95 | 84 | 101 | 124 | 93 | 92 | 101 | 88p |
| Member Bank Deposits* | 202 | 198 | 199 | 197 | 198 | 194 | 196 | 204 | 199 | 209 | 204 | 205 | 207 | 208 |
| Member Bank Loans* | 425 | 427 | 429 | 431 | 433 | 425 | 431 | 431 | 433 | 460 | 442 | 446 | 442 | 449 |
| Farm Cash Receipts | 115 | 101 | 105 | 97 | 104 | 98 | 121 | 141 | 162 | 136 | 86 | 99 | 116 | n.a. |
| Bank Debits* | 247 | 238 | 224 | 245 | 243r | 255r | 253r | 242r | 258r | 254r | 238r | 234r | 256r | 236 |
| TENNESSEE | | | | | | | | | | | | | | |
| Nonfarm Employment | 124 | 128 | 127 | 127 | 127 | 127 | 126 | 126 | 125 | 124 | 124 | 124 | 124 | 124 |
| Manufacturing Employment | 125 | 127 | 127 | 127 | 128 | 127 | 128 | 126 | 124 | 123 | 123 | 123 | 123 | 123 |
| Manufacturing Payrolls | 211 | 231 | 228 | 229 | 230 | 231 | 224 | 221 | 218 | 217 | 215 | 216 | 216r | 220 |
| Department Store Sales*/** | 137 | 159 | 146 | 155 | 167 | 151 | 157 | 164 | 156 | 157 | 147 | 154 | 151r | 147 |
| Furniture Store Sales* | 98 | 103 | 111 | 107 | 93 | 98 | 96 | 101 | 98 | 96 | 83 | 89 | 92 | 103 |
| Member Bank Deposits* | 164 | 164 | 163 | 165 | 170 | 167 | 166 | 171 | 169 | 170 | 170 | 176 | 176 | 175 |
| Member Bank Loans* | 304 | 305 | 309 | 309 | 313 | 314 | 311 | 313 | 314 | 328 | 315 | 319 | 310 | 311 |
| Farm Cash Receipts | 86 | 100 | 95 | 102 | 109 | 113 | 106 | 122 | 143 | 86 | 96 | 99 | 99 | n.a. |
| Bank Debits* | 239 | 231 | 241 | 238 | 230r | 240r | 238r | 224r | 247r | 236r | 249r | 245r | 258r | 237 |

*For Sixth District area only. Other totals for entire six states. n.a. Not Available. p Preliminary. r Revised.

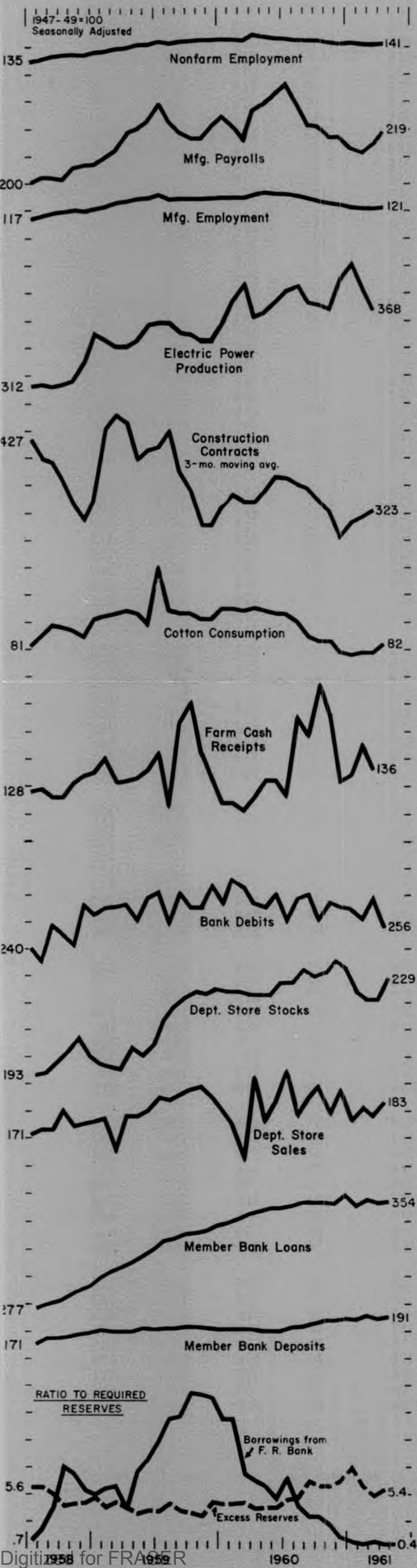
**Daily average basis.

Sources: Nonfarm and mfg. emp. and payrolls, state depts. of labor; cotton consumption, U.S. Bureau of Census, construction contracts, F. W. Dodge Corp.; petrol. prod., U.S. Bureau of Mines; elec. power prod., Fed. Power Comm. Other indexes based on data collected by this Bank. All indexes calculated by this Bank.



Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

# DISTRICT BUSINESS CONDITIONS




**Definite signs of economic recovery have appeared, although overall improvements in April were small.** Recovery is underway in some of the District's key industries, but nonfarm employment has not yet increased perceptibly. A relatively slow pickup in employment, of course, is not unusual in the early phase of business recovery.

**There were encouraging signs from the cotton textile industry, one of the District's most important manufacturing industries.** Cotton consumption in April rose moderately after several months of low-level stability. Activity at steel mills in the region increased sharply in April and May.

**These and other improvements in April resulted in an increase in manufacturing employment. It was, nevertheless, too small to overcome the sluggishness in nonmanufacturing employment, so total nonfarm employment remained virtually unchanged for the fourth consecutive month.** A slight rise did occur in Georgia, but changes in other District states were not large enough to affect the employment indexes.

**Even though little change occurred in the average length of the manufacturing work week, the rise in manufacturing employment was sufficient to boost manufacturing payrolls.** No doubt, earnings other than those of manufacturing workers rose in April also. Farm earnings in March, for instance, measured by cash receipts, were at a level considerably above last March's. Although lower farm prices of cattle, broilers, and some fruits and vegetables had a weakening effect on receipts, strength in orange, hog, soybean, and rice prices were responsible for the increase over last March's level.

**Consumers used some of their additional incomes to boost their purchases.** After rising in April, department store sales held firm in May, according to preliminary figures. Furniture store sales showed a marked improvement. Sales at household appliance stores, however, weakened in April, following the gains made in the preceding month. In March, automobile sales rose moderately, and, if they continued to move similar to U. S. sales as they did in March, further gains were made in April and May.

**Despite some increase in spending, consumers displayed a great deal of caution.** Many appeared anxious to use additional earnings to reduce their instalment debt at commercial banks. Even though a substantial rise in new borrowings to purchase consumer goods other than automobiles occurred, commercial bank instalment credit in April remained below that of a year ago. Outstanding debt declined for the seventh consecutive month. While consumers continued to repay their instalment indebtedness, they added to their holdings of time deposits and savings and loan shares at about the usual rate for this time of year.

**Not much strength was displayed in the demand for loans at District member banks.** Member bank loans, seasonally adjusted, changed little during April and remained below the year-end level at banks in leading District cities. The lack of change in April reflects declines at Alabama, Florida, and Georgia member banks that offset the gains in other states, particularly Louisiana. Investments at member banks, on the other hand, rose sharply in April, largely reflecting purchases of Treasury short-term securities by banks in leading cities. Reserve positions remain easy with excess reserves being substantial and borrowings from the Federal Reserve Bank of Atlanta minimal.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis