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CONTENTS

FINANCE • INDUSTRY • AGRICULTURE • TRADE

FOURTH FEDERAL RESERVE DISTRICT

Vol. 33—No. 9 Federal Reserve Bank of Cleveland Cleveland 1, Ohio

Residential Construction

THE unprecedented residential building boom that has been roaring along since October 1949 in the Fourth District, and since the spring of that year in the rest of the United States, has already probably passed its crest. Tightening credit restrictions, shortages of material and labor as well as the impending diversion of materials and manpower are the brakes being applied to the construction machine.

War Emergency On July 18, the President advised the Federal Housing Administration and the Veteran's Administration to tighten up immediately on their mortgage loan insurance and guarantee programs in order to reduce construction and conserve materials that may be needed for the Korean situation and the stepped-up preparedness program, and to help relieve inflationary pressures that the defense activity will begin to generate. The new credit rules will not apply to contracts signed before July 19 for Government mortgage insurance.

Through the first half of 1950 the housing boom was fed and maintained by continued high incomes and abundant liquid assets as well as by the very low down payment requirements on new houses, a plentiful supply of credit available for as much as 30 years, and a low rate of interest.

The examples given in the following table illustrate the extent to which the National Housing Act of 1950 further relaxed the already generous terms of single-family home purchase mortgage insurance that prevailed in 1949. There is also shown, in part, the effect of the new regulations designed to dampen down further housing credit expansion.

This table indicates that for a $7,000 appraised value house, purchase terms are more favorable now, after the July 19 tightening up, than those prevailing a year ago. However, F. H. A. has reduced by 5 percentage points the appraised value that it will insure on any class of home mortgage. In the case of a $7,000 house, this raises the down payment from 5 percent to 10 percent, or a 100 percent increase, but it is still the same amount as required in 1949. Moreover, the interest rate is now only 4¼ percent as compared with 4½ percent, with 30 years to pay the principal amount as compared with 25 years. Some further credit restriction is obtained since future appraisals will recognize only the costs prevailing on July 1. As construction costs since that date have risen about 5 percent, the higher cost will have to be met by the buyer with equivalent increases in the down payment. This could prove to be a major obstacle.

PURCHASE TERMS—F. H. A. INSURED MORTGAGES
Urban Residential

	Appraised Value	Minimum Down-payment	Maximum Term	Rate of Interest
1. New Two-Bedroom House				
1949.....	$7,000	$700	25 years	4½%
1950.....	7,000	350	30 years	4¼%*
July 19, 1950..	7,000	700	30 years	4¼%
2. New Four-Bedroom House				
1949.....	$9,000	$1,100	25 years	4½%
1950.....	9,000	450	25 years	4¼%
July 19, 1950..	9,000	900	25 years	4¼%
3. New Higher-Cost House				
1949.....	$11,000	$1,500	25 years	4½%
1950.....	11,000	1,550	25 years	4¼%
July 19, 1950..	11,000	2,100	25 years	4¼%

*The 4¼% rate became effective April 24.

The efforts of Congress to stimulate the building of lower-cost houses containing more than two bedrooms are plainly shown by the effects of the 1950 legislation on the purchase terms of a $9,000 four-bedroom house. The down payment dropped to only $450 as compared with $1,100 last year. The new regulation boosts it up to $900 or again an increase of 100 percent. This is still $200 less than in 1949 and the buyer can borrow at a lower rate of interest.

The July 19 regulations, however, will have a considerable effect upon the purchase terms of a new $11,000 house. Under the Housing Act of 1950 it was possible to borrow 95 percent of the first $7,000 plus 70 percent of the next $4,000, or a total of $9,450. The borrowing limits are now dropped to 90 percent and 65 percent respectively, making possible a maximum loan of $8,900. This is equivalent to increasing the down payment by 35 percent. While this is a much smaller percentage increase than that applied to the lower cost homes, it does make purchase terms more stringent than those that prevailed in 1949.

For new houses costing from $11,000 to $20,000, the July 19 regulation reduces all future FHA mortgages from 80 percent to 75 percent. In addition, the FHA ceiling on mortgages on single-family homes is reduced from $16,000 to $14,000. In other words, the buyer of a $20,000 single-family house is now required to have a 30 percent equity, or a $6,000 cash down payment.

It thus appears from these examples that the restraints applied to residential building are very mild and would not be likely to have any great effect upon the demand for lower-cost housing or to result in the saving of any great amount of material. There are other aspects of the new regulation, however, that will moderately reduce the amount of construction.

The familiar Title I FHA home repair and modernization loans will require a 10 percent down payment after August 1 instead of none as heretofore. This may reduce somewhat the rapid pace at which this type of loan has been expanding. This postponement of the effective date to August 1, however, probably generated a rush of applications to beat the deadline and assure a large backlog of work that will extend into the fourth quarter. The immediate effect, then, is probably negligible.

Of more consequence, perhaps, are the new regulations concerning loans on veteran housing. The 1950 amendments to the Servicemen's Readjustment Act of 1944 had raised the maximum amount of home loan guarantee from $4,000 or 50 percent of the loan to $7,500 or 60 percent of the loan. The maximum term of the loan was extended from 25 years to 30 years. The amendments also provided that no more combination FHA-GI loans were to be approved after October 20 and processing restrictions began on July 20. It was possible under these terms for GI's to obtain 100 percent financing.

The Veteran's Administration has now been directed to require at least a 5 percent down payment on future loans. While this may take some marginal buyers out of the market, the impact on GI buying will probably not be very great since most lenders were requiring payments of at least this proportion.

A good part of the edge of this restriction is also taken off by the fact that the Veteran's Administration was authorized by Congress this year to make direct loans of $10,000 or less at 4 percent to veterans where 4 percent financing was unavailable from private sources. A fund of $150 million for fiscal 1951 was made available by Congress for these direct loans. The VA apparently will go ahead with this program.

The Administration has also moved in another direction to curtail home mortgage financing, by cutting to $650 million the volume of mortgages that can be insured by FHA in this fiscal year. Congress had authorized an increase of $1,250 million. Here, again, the curtailing effect upon housing will be remote instead of immediate unless FHA moves at once to ration this fund over a 12-month period.

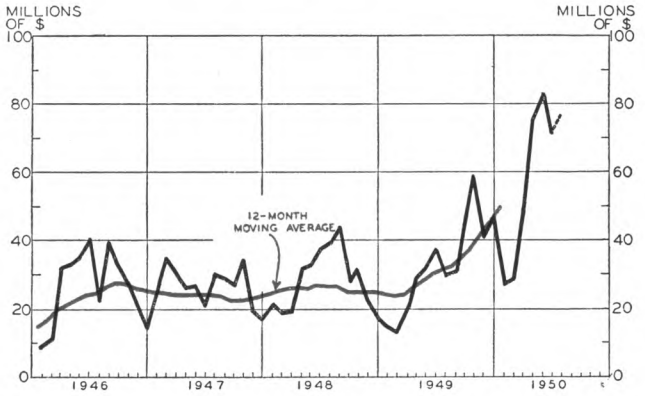
Public housing construction is to be reduced in the second half of this year. It had been expected that nearly 50,000 units would be started by December 31, but the Housing and Home Finance Agency has now been requested to re-examine the whole program and to limit the number of starts to 30,000 dwelling units. It is estimated that about 1,600 units had been started up to June 30.

Congress had also authorized $300 million in direct loans to schools for faculty and student housing. No commitments have been made for this class of loan and it is now directed that this provision be suspended indefinitely. The Federal National Mortgage Association (the principal secondary market for FHA and VA mortgage loans) has been instructed to hold its purchases to a minimum.

The net effect of all of these financial changes upon residential building activity will probably be to check somewhat the number of new housing starts by the latter part of the third quarter. More important, perhaps, in slowing down forward plans was the fact that contractors were already having difficulty by July in obtaining sufficient manpower and materials of all kinds to carry on existing jobs without delay and undue cost increases. In northeastern Ohio, for example, it was reliably reported that there was a severe shortage of masons, bricklayers, and carpenters. Contractors were attempting to pirate workers from each other with premiums in some cases of nearly 100 percent over the union scale to get enough men on the job.

The uncertain status of the defense program as to its scope and requirements of labor and building

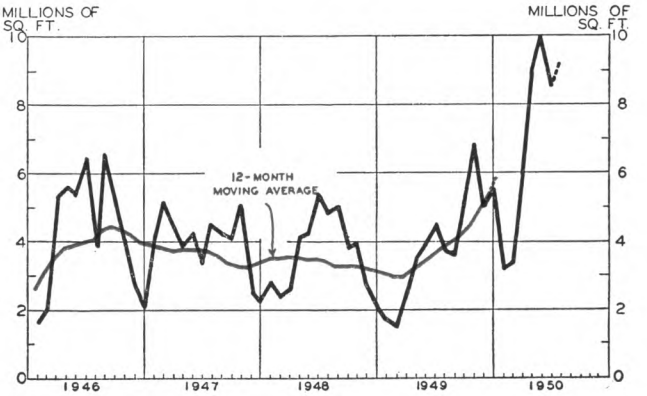
VALUE—NEW RESIDENTIAL CONSTRUCTION
Fourth District



. . . since early 1946 the value of residential construction has been rising slowly. The total for the first seven months of 1950 is larger than any other entire postwar year.

Source: F. W. Dodge Corporation.

FLOOR AREA
NEW RESIDENTIAL CONSTRUCTION
Fourth District



. . . physical volume of residential building trended downward until the recent boom turned it up in the fall of 1949.

Source: F. W. Dodge Corporation.

materials has also induced many contractors to adopt a wait-and-see attitude. Work on homes now in various stages of construction is continuing, but for the moment, at least, forward commitments are being avoided until the situation clarifies. At least two large contractors in the northeastern Ohio area have already sharply cut the balance of their 1950 programs.

Progress of the Boom

Prior to the advent of the current building boom, the value of residential construction contract awards in the District* since 1946 had been increasing at a very slow rate. In that year $322 million of new residential building were placed under contract and in the next two years there were increases of only 2 and 8 percent, respectively.

Through the first nine months of 1949, residential activity actually lagged behind the other postwar years and then picked up enough momentum in the final quarter to attain the record total of $405 million, or 17 percent above 1948 and 26 percent ahead of 1946. The pace in the initial seven months of 1950, as shown in the chart, has continued unabated. In fact the seven-month total of $413 million was somewhat larger than that attained in any other entire postwar year.

In contrast to the trend in dollar valuation, the direction of District postwar residential construction when measured by physical volume—either square feet of floor area or number of dwelling units—was markedly downward until the closing month of 1949.

As shown on the chart, the square feet of floor area placed under contract dropped 5 percent in 1947 and another 9 percent in the following year. In 1949, square footage lagged sharply until the rush in the last quarter finally carried the total 8 percent above 1948, but still left it below the 1946-47 levels. Despite the good gains shown in the first quarter of 1950, the 1947 level was not surpassed until April.

After the initial burst of construction activity in 1946, the number of new dwelling units placed under contract dropped 15 percent in 1947 and an additional 7 percent the next year. Again, by virtue of the strong last quarter, the number of units in 1949 rose some 15 percent from the previous year. Activity in the first half of 1950 was very high and this year will undoubtedly be the best on record despite the credit restraints that have begun to be imposed.

The adjacent table shows the number of units in the District placed under contract since 1946, the average size of new units, and the average cost per square foot.

This table would indicate an inverse relationship between the per-square-foot costs and the average size of the dwelling unit. As costs increased each year through 1949, the size of the dwelling unit shrank. It is of some interest to note that the per-square-foot cost in the first half of 1950 dropped almost 2 percent and there was a 5 percent gain in the size of the average structure. Costs in 1950 were about 30 percent higher than in 1946.

* F. W. Dodge Corporation is the source of all contract award data used in this article. Since detailed data are not available by counties, all of Kentucky and West Virginia are included in the District computations. This raises the District figures by about 10 percent.

FOURTH DISTRICT NEW RESIDENTIAL CONTRACTS AWARDED

Year	Number of Units	Average Size, Sq. Ft.	Average Cost, Sq. Ft.
1946	44,600	1,149	$6.29
1947	38,100	1,275	6.74
1948	35,300	1,257	7.81
1949	40,700	1,176	8.47
1950*	63,000	1,237	8.33

Source: F. W. Dodge Corporation.
* Estimated on basis of first six months, seasonally adjusted.

Part of the cause for smaller dwelling units in 1948 and 1949 was the effort of builders to provide a lower priced unit for the mass market, and one of the most obvious ways of doing this was to build a smaller house.

A more recent and important method of reducing costs of single-family dwelling units in the northern part of the District has been to construct them without basements. While basementless houses have been standard practice for many years in the southern and southwestern portions of the United States, they have not been viewed with favor in this District. In part this was due to their prohibition by some local building codes, and also because of the more severe winter climate and the difficulty of properly heating such structures and insulating the floor against moisture and freezing.

Improved engineering practices and development of new types of heating units seem to have overcome these long-standing obstacles, and some building codes have been revised to recognize the practicability of basementless, single-family homes. Extensive promotion has also increased public acceptance of this type of construction.

In northern Ohio, for example, a completely dug and finished basement for a standard six-room house costs about $1,500. Elimination of this feature thus substantially reduces foundation costs and enables the builder to produce a larger floor area of liveable space at a reduced per-square-foot cost. Increased popularity of the so-called ranch type house equipped with a small utility room instead of a basement is thus part of the explanation of the 1950 gain in floor area and small decrease in per-square-foot costs.

Changes in Type of Building

In the recent postwar years there have also been some important shifts in the percentage distribution of residential contracts awarded in terms of apartments, one-family dwellings built for owners, and one-family dwellings built for sale or rent. The changes are shown in the accompanying table.

The most striking change shown in the period between 1939 and 1950 is the sharp increase of 76 percent in the proportion of one-family units built for sale or rent. (The term "for-sale-or-rent" is a misnomer since nearly all single-family homes are originally built for sale and are rented only when a buyer cannot be found.) Since this type of construction represents speculative building, the increase may be taken as a measure of the activity of the real estate market and the relative ease with which new housing may be disposed of under the low down payment and easy terms that have characterized the postwar real estate market.

In the first half of 1950, 51 percent of all dwelling units put under contract were of the for-sale type. While this was somewhat less than the proportion in 1946 and 1947, it represents a gain from last year when the housing market was relatively slow during the first three quarters of the year.

The next largest change took place in apartment construction with a drop of 41 percent in the proportion of total units between 1939 and 1950, i.e., from 29 percent to 17 percent. The proportion of apartment units placed under contract in the first six months of 1950 was about one-fifth lower than in all of 1949. In the final four months of last year, there was a very sharp increase in apartment contract letting as builders and promoters finally began

TYPE OF DWELLING UNIT—FOURTH DISTRICT
Percentage Distribution

	1939	1946	1947	1948	1949	1950*
One-family, owner-occupy.	38	11	21	29	29	30
One-family, sale or rent...	29	68	62	57	48	51
Apartment.....	29	18	13	10	21	17
Two-family.....	4	3	4	4	2	2
TOTAL.....	100	100	100	100	100	100

Source: F. W. Dodge Corporation.
* First 6 months.

to take advantage of the liberal financing terms under Section 608 of the National Housing Act and the continuing demand for rental property. This legislation expired on March 31, 1950, with a considerable backlog of projects that had not been processed by the FHA, and for which no contracts had been awarded.

Congress provided an additional $500 million in the National Housing Act of 1950 to be used to clear up the Section 608 backlog. Applications are being screened carefully by the Federal Housing Administration since there is some evidence in various cities of a surplus of high-rent apartments that were built under the provisions of this law. Apartment mortgage loans for new projects are now covered by the less liberal, amended Section 207 of Title II.

The changes in the multi-family mortgage loan guarantee regulations apparently have had no deterring effect upon the construction of new apartment

CONTINUED ON PAGE 9

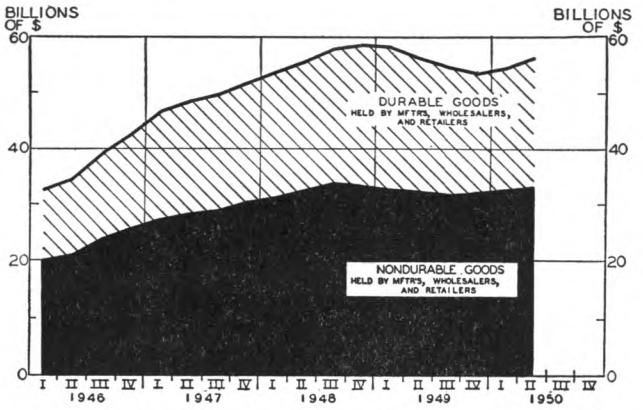
Business Inventories at the Start of the Korean War

UP to the time of the outbreak of the Korean conflict late in June the principal question about business inventories was whether or not they were once more becoming excessive in terms of current and prospective consumer demand. Now, however, with the economic changes and the rearming program which are following in the wake of the conflict in Asia, the relevant questions about business inventories take approximately the following form: Will supplies be sufficient for both military and civilian needs? To what extent do business inventories need to be protected by means of official or unofficial curbs on forward buying or speculation?

The most recent data on inventories yield indications which are at best only straws in the wind with respect to questions of this type. For example, inventory data for department stores in the Fourth Federal Reserve District show that stocks on hand at the end of July were still slightly above year-ago levels, in spite of the spectacular and probably temporary drain on the store shelves resulting from the summer wave of scare buying.

During June, on the eve of the North Korean attack, the usual answer which was given to questions about the rising inventories at that time was that stocks were not excessive in relation to normal needs. Such an answer given in June was in turn based on statistical data which were for the most part limited to the figures for the early part of the year, due to the inevitable lapse of time required for collection and processing of figures. Now, with the benefit of somewhat more recent data (even though they are mainly applicable to the pre-Korean period) it becomes possible to take a fresh look at the inventory position as of the end of June, and to consider it in the light of the new order of the day, i.e., from the standpoint of adequacy rather than that of possible excess.

TOTAL BUSINESS INVENTORIES
DURABLE AND NONDURABLE GOODS
U. S., 1946-50, End-of-Quarter, Seasonally Adjusted



. . . by the end of the second quarter of this year business inventories had recovered markedly from the 1949 decline; stocks of durable goods, however, were still considerably short of the peak dollar volume of early last year.

Source of data: U. S. Department of Commerce.

Stocks at the End of June

At the end of June of this year business inventories had been recovering from the rather steep reduction accompanying the recession of 1949. In fact many observers of business trends considered the 1949 recession itself to be largely a manifestation of what is sometimes called an "inventory cycle". Actually, owing in part to the recovery in production in excess of generally increasing consumption, inventory expansion had progressed somewhat further by the end of the second quarter than was generally supposed at the time. The material presented below is mainly directed toward illustrating this point. Thus, the inventory-recovery phenomenon of the first half of the year is a slightly reassuring sign, so far as it goes, for the important question of adequacy of supplies in the current and immediately prospective period. Indeed, there is now reason to believe that toward the end of this year the question of surplus inventory might have come very much to the forefront had not the outbreak of hostilities changed the setting.

Durable and Nondurable Goods

The general pattern of business inventories in the recent cycle is shown by the first of the accompanying charts. Thus, total business inventories declined markedly from the last quarter of 1948 to the third quarter of 1949, but by the end of the second quarter of this year they had recovered more than half of the ground lost.[1] The fluctuations in stocks of durable goods were especially pronounced, as shown by the shaded area of the chart, indicating in seasonally-adjusted dollar terms the course of durable goods inventories considered as the sum of values of durable goods at all three levels,—manufacturer, wholesaler, and retailer. The 1950 recovery of durable goods inventories was quite pronounced even though there was some distance to

(1) All inventory magnitudes discussed in this article are in terms of dollar values rather than physical volume. The inventory cycle of 1948-50, of course, reflected price changes to a considerable extent. In June 1950, after the decline and partial recovery in prices, wholesale prices still stood about 7 percent lower than in September 1948, while retail prices were about 4 percent lower.

go if former levels in these lines were to be regained. In the case of stocks of nondurable goods (at all three levels combined), the downward movement began earlier than that of durable goods but was much less drastic. The recovery carried stocks of nondurable goods by the end of June almost to the peak reached in the Fall of 1948.

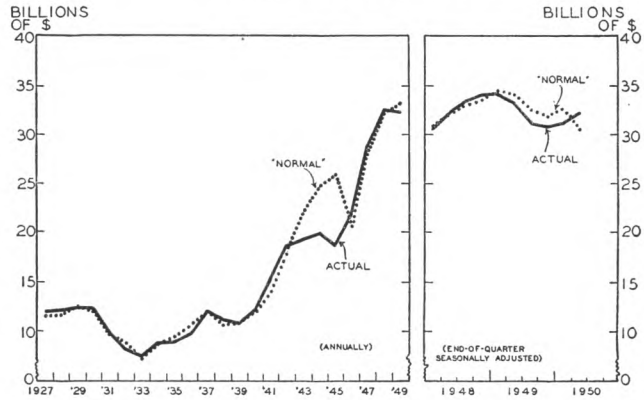
Rebuilding Inventories to "Normal" Manufacturers' inventories in general registered sharper changes from late 1948 through the first half of 1950 than did wholesalers' or retailers' inventories. The marked recovery of manufacturers' inventories during each of the first two quarters of this year is emphasized by use of a special device shown in the second chart. Actual manufacturers' inventories are depicted in comparison with "normal" inventories for the same periods. The concept of "normal" as used here is based upon computations associated with the observed fact that changes in manufacturers' inventories tend to lag about six months behind changes in manufacturers' sales.(2) The chart shows that on an annual basis the course of actual manufacturers' inventories followed very closely that of the calculated or "normal" inventories except for the war period when, of course, exceptional influences were at work.

On the right-hand side of the chart, which shows the same computation on a quarterly basis for the past few years, it is apparent that manufacturers' inventories fell considerably under normal levels, in the sense here defined, during the 1949 recession. However, between March and June of 1950, manufacturers' inventories recovered to the extent of passing the "normal" level. As a qualification it should be noted that the level of "normal" inventories depicted for the end of the second quarter may be somewhat understated because of the fact that its formula-determined position reflects a weakness in sales during the final quarter of 1949 which in turn was partly attributable to the steel strike of that time. Nevertheless, even if allowance is made for possible understatement of the normal and consequent exaggeration of the degree of inventory recovery by the end of June 1950, the fact remains that the recovery was strong.

Wholesalers' inventories, accounting for less than one-fifth of total business inventories, have played a less strategic role in the recent changes. However, from the first to the second quarter of this year, wholesalers' inventories showed a substantial gain for the first time since mid-1948 and by June 30 were back almost to the peak level of 1948.

MANUFACTURERS' INVENTORIES: ACTUAL AND "NORMAL"

U. S. 1927-1949, Annually; 1948-1950, Quarterly ("Normal" means calculated on basis of usual relationship to previous sales trends*)



. . . during the second quarter of this year manufacturers' inventories passed the "normal" level, where normal is calculated through customary relationships to previous sales.

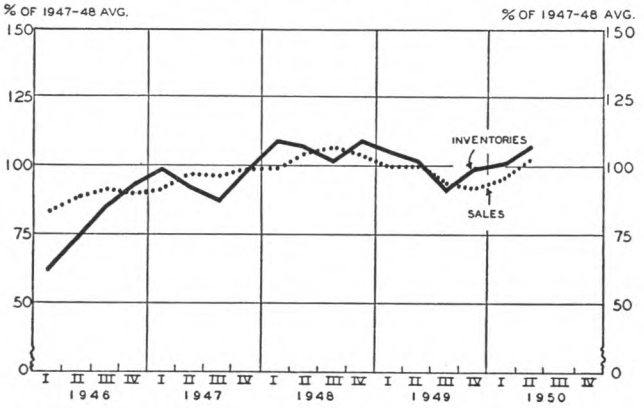
* Based on U. S. Department of Commerce data and method; calculated from a linear least squares regression equation, with inventories related to sales lagged 6 months.

Retail Inventories The changes in inventories held by retailers were also more moderate than those in manufacturers' inventories both on the downswing and the upswing of the recent cycle. If actual retail inventories were depicted in comparison with a calculated "normal" in a manner similar to that shown above for manufacturers' inventories, the June 1950 picture would show a significant narrowing of the gap, but not a closing of the gap. The entire subject of normality in retailers' inventories is, however, subject to even more uncertainties than is the case with manufacturers' inventories. Such uncertainties stem in part from long-time shifts in merchandising techniques which affect turnover rates, and partly from frequent changes in retailers' inventory policies. In this connection, manufacturing and retailing groups have often in recent years had differences of opinion as to what constitutes the most desirable type of retail inventory policy.

Department Store Stocks The recent changes in retail inventories may perhaps be understood better by an examination of part of the retail field rather than attempting to encompass the entire range of retail operations. Department

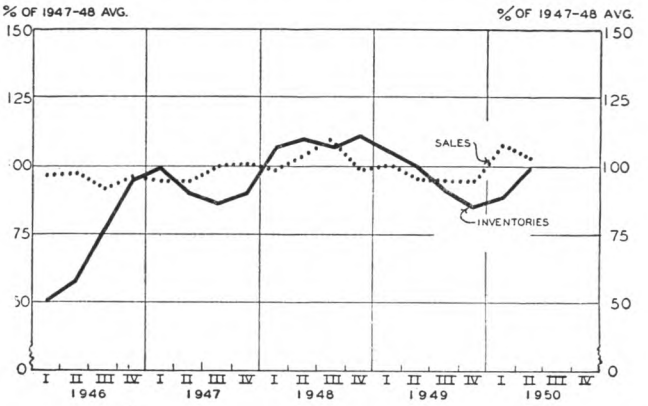
(2) See "Current Inventory Developments" by Walter W. Jacobs and Sylvia F. Broida, U. S. Department of Commerce *Survey of Current Business*, April 1949, and also "The Rise in Business Inventories", *Survey of Current Business*, June 1950. The chart shown above employs the formula developed by Jacobs and Broida, applied to the regular Department of Commerce figures on business inventories. The only significant difference between this chart and the one shown in the June issue of *Survey of Current Business* is that the latter ends with the first quarter of 1950, while this one is carried through the end of the second quarter. The change in the picture between the two quarters, however, is quite significant.

TOTAL INVENTORIES AND SALES
Fourth District Department Stores
(Seasonally adjusted quarterly averages)



. . . the department store inventory position was stronger than the sales position during the entire first half of this year, measured by comparison with average levels of stocks and sales during 1947 and 1948.

INVENTORIES AND SALES OF FURNITURE AND BEDDING
Fourth District Department Stores
(Seasonally adjusted quarterly averages)



. . . department store inventories of furniture and bedding were partially rebuilt during the first half of this year, but they still lagged behind the sales trend.

store inventories are selected for special attention, partly because of the wide range of commodity items involved and partly because of the availability of detailed statistics. Three of the accompanying charts, as well as the table, give some indications of the position of inventories held by Fourth District department stores at the start of the Korean war.

One chart shows total department-store inventories as compared with sales in the Fourth District, for quarterly periods from 1946 through the first half of this year. Adjustment has been made for seasonal variation both in sales and stocks. It is apparent that the level of department store inventories had recovered by the second quarter of this year to a quite considerable extent. In comparison with average levels of stocks and sales during 1947-1948, the department store inventory position looked stronger than the sales position during the entire first half of this year. It should be realized, however, that the base period used here (1947-1948=100) does not necessarily represent a "normal" position either for sales or for stocks, or for their mutual relationship. Furthermore, for the final quarter of 1949, the weakness of department store sales in relation to stocks should, of course, be discounted for the special effects of the steel strike, especially in this District.

Selected Hard and Soft Goods Departments

A second chart of the accompanying department store series shows the corresponding picture of stocks and sales of furniture and bedding for Fourth District department stores.[3] In this case, the sharpness of the 1949 reduction in hard-goods inventories is evident; the rebuilding of inventory in early 1950 is also apparent, although a considerable distance remained to go before former levels of furniture stocks would be reached either on an absolute basis or in relation to sales.

(3) The selection of furniture and bedding from among the various hard-goods departments, and the selection of dresses from among various soft-goods departments, was dictated partly by considerations of availability of data. A similar chart, for example, showing adjusted stocks and sales of major household appliances would possibly be of greater interest, but seems at the present time to be impractical because of the especially great uncertainties surrounding the seasonal patterns in these lines. Nevertheless the two departments which were selected are important in themselves, and in many ways are representative of other hard-goods and soft-goods departments respectively.

ANNOUNCEMENT

The Ottoville Bank Company, Ottoville, Ohio, became a member of the Federal Reserve System on August 15, 1950.

The new member bank is located in an agricultural section of northwestern Ohio, approximately 60 miles south of Toledo.

The bank was incorporated in 1903. At the present time, combined capital and surplus total $80,000. Officers of the new member bank are:

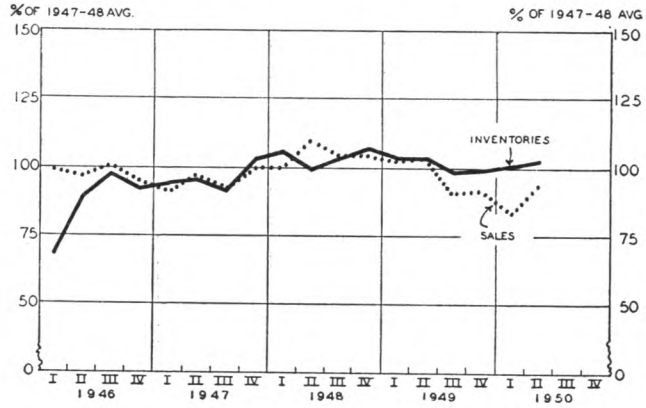
LEO E. ROMER . . . . . *President*
ALEX J. MILLER . . . . . *Vice President*
RICHARD BERNARD . . *Cashier and Secretary*
LEO J. HEMMELGARN . . . *Assistant Cashier*
JAMES WM. ROMER . . . *Assistant Cashier*

The final chart shows the recent course of inventories and sales of dresses, representing a single department selected from the other soft-goods lines. It may be seen that the 1949 inventory reductions of this department were less severe than the sales reductions, and that the June 1950 level of stocks was relatively high.

In addition to the trends shown in the charts, another way of ascertaining the recent inventory situation for various lines of department store goods is to divide the dollar inventory on hand at the beginning of a month by dollar sales during the same month. The resulting stocks-sales ratio, expressed as number of months' supply on hand in terms of current sales, is shown in the accompanying table for twelve selected departments as well as for the total store. The periods covered are June 1950 compared with year-ago June, and also the average of the first six months of this year as compared with the corresponding figure of last year. It is apparent from the figures applying to the selected apparel departments (top part of table) that inventories of these soft-goods lines during the early part of the year tended to be approximately the same in relation to monthly sales as they were a year ago. In the case of men's furnishings and women's shoes there appeared to be some increase in the number of months' supply on hand as compared with a year ago.

The situation in the housefurnishings departments was somewhat different, as shown by the lower segment of the table. Most of these departments in June 1950, and also during the first half-year as a whole, registered a smaller number of months' supply on hand than they had a year ago. In the case of radios, phonographs and television, the average supply on hand from January through June was relatively quite low (1.8 months' supply as compared with 3.1 a year ago). This reflected the

INVENTORIES AND SALES OF DRESSES
Fourth District Department Stores
(Seasonally adjusted quarterly averages)



. . . stocks of dresses held by Fourth District department stores were at high levels in relation to sales during the first half of this year.

NUMBER OF MONTHS' SUPPLY ON HAND*
SELECTED DEPARTMENTS, FOURTH DISTRICT DEPARTMENT STORES
(June 1950 and Average of First Half of 1950 Compared with Year Ago)

	June 1950	June 1949	Jan-June '50	Jan-June '49
Selected Apparel Depts.				
Men's Clothing	3.8	4.0	4.3	4.4
Men's Furnishings	2.9	2.8	4.2	3.8
Women's and Misses' Coats and Suits	3.6	4.6	2.2	2.2
Blouses, Skirts and Sportswear	2.1	2.1	2.4	2.4
Juniors' and Girls' Wear	2.9	2.8	2.7	2.5
Women's and Children's Hosiery	2.1	2.1	2.0	2.0
Women's and Children's Shoes	5.0	5.0	5.1	4.8
Selected Housefurnishings Depts.				
Furniture and Bedding	3.5	4.2	3.5	4.4
Major Household Appliances	2.5	3.0	2.6	3.8
Radios, Phonographs and Television	4.4	4.3	1.8	3.1
Domestic Floor Coverings	4.1	4.6	3.9	4.5
Linens, Domestics and Blankets	4.3	3.9	4.3	4.1
All Departments	3.0	3.1	3.1	3.1

* Retail value of stocks at month's start, divided by sales during month for identical stores reporting to the Federal Reserve Bank of Cleveland.

dramatic boom in sales of television sets during the early part of the year. A late spring slump in television sales, however, was reflected in a high stocks-sales ratio for June (4.4 months' supply compared with 4.3 a year ago). Relatively high levels of stocks were also reported for linens, domestics and blankets; as events turned out, the latter development can perhaps be regarded as fortunate in view of the consumer run on items such as sheets which occurred during the summer buying wave following Korean developments.

In summary, it now appears that business inventories at the outbreak of the Korean war, for all major branches of the economy, had recovered from previously reduced levels to a marked extent,—probably more so than was generally realized at the time. While this fact gives no positive assurance of adequacy of supplies in the current difficult period and that which lies ahead, it is to a limited extent a favorable factor in the present situation. The outlines of the inventory picture are less favorable, however, when distinctions between durable and nondurable goods are drawn. For it was in the field of durable goods that inventory rebuilding prior to July had lagged somewhat, and this is the economic area where enlarged military requirements are now being superimposed upon a continuing strong volume of civilian demand.

Residential Construction

CONTINUED FROM PAGE 4

units. After a dull initial three months this year, apartment building contract awards in the second quarter pushed to within 5 percent of the record fourth quarter of 1949. The number of units in the first half of 1950 was nearly triple that of the corresponding 1949 period, with the bulk of the awards taking place in the Pittsburgh territory.

Construction of single-family dwellings for owner-occupants has gained appreciably from the low levels of 1946-47 and in the first half of 1950 accounted for 30 percent of all dwelling units placed under contract in the District. This proportion, however, was still more than 20 percent under that prevailing in 1939. The slowness with which this class of builder re-entered the postwar market was probably due to a belief that building costs would soon come down. By 1948 builder-owners apparently became convinced that costs were not going to drop and began to let contracts in increasing numbers.

With the preliminary July contract award figures now available, there is some evidence that the residential building boom may have reached its crest in the Fourth District in May. Two months' figures certainly do not make a trend, but the fact remains that the June contract awards totaled $71.8 million or 14 percent lower than the record-breaking month of May. Awards in July rose somewhat from the previous month but were still 8 percent short of the May record.

The June decline was not evenly distributed among the various types of residential awards. Construction of single-family dwellings for the account of the owner-occupants was down only 6 percent while contracts of single-family, for-sale units dropped 23 percent. June was one of the few months on record when the value of owner-occupant awards exceeded that of for-sale housing. The large speculative builders will probably react more quickly to anticipated or actual shortages of labor and material. On the other hand, the value of apartment building awards in June was identical with the previous month.

It should also be noted that the falling off of contract awards does not foreshadow an early slackening in construction activity. The volume of work now in process is undoubtedly the largest on record. It will be some months before this begins to taper significantly. It must also be held in mind that all of these figures represent plans which predate the beginning of the events in Korea and that a sudden hardening of credit terms or restrictions in the use of building materials could change this trend over night.

SUMMARY OF NATIONAL BUSINESS CONDITIONS

By the Board of Governors of the Federal Reserve System

(Released for Publication August 25, 1950)

Under the stimulus of heavy consumer and business buying after the invasion of Southern Korea, prices, activity, and incomes have increased considerably beyond the advanced levels reached in June. Consumer purchases of goods, although reduced from the July peak, are still at a high level. Prices of agricultural commodities, after a marked rise in the early part of July, have shown little net change, while prices of industrial products have advanced further. Common stock prices have recovered most of the declines from June to mid-July. Bank credit to private borrowers and State and local governments has expanded rapidly.

Industrial production

The Board's industrial production index in August is expected to be about 204 per cent of the 1935-39 average, as compared with 199 in June, and 197 in July when vacations and plant closings not adequately allowed for lowered the index.

Steel production declined slightly in July but returned to capacity levels in the first three weeks of August. Scheduled output in the fourth week was reduced by about one-tenth as a result of a railway labor dispute in steel-producing districts. In July production of nonferrous metals and lumber declined somewhat.

Production of finished durable goods was generally maintained in July. There were marked gains in output of aircraft and various types of construction and industrial machinery. While little change in output of railroad equipment was noted, new orders for freight cars were the largest in many years. Motor truck production declined in July but in August was close to record levels. Passenger car assemblies were reduced somewhat in July and early August from the peak June level by holiday influences, some model changeovers, and labor disputes.

Nondurable goods output was only slightly lower in July as declines in production of textiles and some other goods, as a result of vacations, were less marked than in other recent years. Production of paper and paperboard in mid-August was about 5 per cent above the record June level. Output of rubber products and petroleum refining activity continued to rise in July. Crude petroleum output increased 3 per cent and was 12 per cent above the average level of the past 15 months.

Employment

Employment in nonagricultural establishments rose by about 150,000 persons in July, after allowing for seasonal changes. Most of this expansion was in industries manufacturing durable goods and in construction and retail trade activities.

Construction

Construction activity continued to increase in July and contract awards were maintained at advanced levels. The number of dwelling units started was estimated to be 144,000 as compared with 142,000 in June and 96,000 a year ago.

Agriculture

The official cotton estimate released August 8 indicated a crop of 10.3 million bales as compared with a harvest of 16.1 million last year; including the increased carry-over, however, supplies this season will be about 4.5 million bales less than last season but about as large as in most other recent years. Other crops developed favorably in July and the total harvest of feed and food crops is expected to be about as large as last year.

Distribution

The Board's seasonally adjusted index of department stores sales rose by one-fifth in July to 362 per cent of the 1935-39 average as anticipatory purchases of some items like major household appliances more than doubled the already high volume of sales prevailing in June. Demand for passenger automobiles was very heavy. Also, purchases of various nondurable goods which were in short supply during the past war expanded considerably in July. Anticipatory buying has decreased in August from the July peak.

Commodity prices

The average level of wholesale prices, which advanced 5 per cent during July, has shown little change in the first three weeks of August. Prices of farm products and foods have declined slightly but prices of industrial commodities have advanced further. The most marked increases have been in prices of imported materials. Prices of scrap metal and copper and lead products have also advanced considerably.

In retail markets average food prices have apparently shown little change following marked increases in July. Prices of a number of other consumer goods, including fuels, textile furnishings, tires, and used automobiles, have advanced further.

Bank credit

Total loans and holdings of corporate and municipal securities at banks in leading cities showed an exceptionally large increase of 1½ billion dollars during July and early August. Real estate and consumer loans continued their rapid rise and business loans also expanded sharply during this period. Banks sold a large volume of short-term Government securities to the Federal Reserve and to nonbank investors and purchased a small volume of Government bonds.

An outflow of gold and large sales of long-term Treasury bonds by the Federal Reserve System to nonbank investors also tended to drain reserve funds from banks during July and the first half of August. Banks met this drain and accumulated additional reserves more than enough to support the expansion in private credit mainly by their sales of short-term securities.

Security markets

Yields on Government securities showed little change during the first three weeks of August. On August 18, the Federal Reserve announced a rise in the discount rate to 1¾ per cent at New York and a change in open market policies and the same day the Treasury announced new refunding offerings. Following these announcements, short-term market rates rose while yields on longer issues remained firm. Yields on high-grade corporate bonds declined in the first three weeks of August and common stock prices increased gradually to a level about 4 per cent below the June peak.

FINANCIAL AND OTHER BUSINESS STATISTICS

Time Deposits at 57 Banks in 12 Fourth District Cities

(Compiled August 4, and released for publication August 5)

City and Number of Banks	Time Deposits July 26, 1950	Average Weekly Change During: July 1950	June 1950	July 1949
Cleveland (4)	$ 875,022,000	—$1,637,000	+$394,000	—$452,000
Pittsburgh (10)	480,693,000H	+ 254,000	+ 46,000	— 5,000
Cincinnati (8)	178,186,000	— 313,000	— 506,000	— 152,000
Akron (3)	101,027,000	— 468,000	— 83,000	+ 42,000
Toledo (4)	106,113,000	— 24,000	+ 40,000	— 48,000
Columbus (3)	84,285,000	— 138,000	— 70,000	— 112,000
Youngstown (3)	62,418,000	— 38,000	— 54,000	— 82,000
Dayton (3)	45,752,000	— 149,000	— 54,000	— 100,000
Canton (5)	41,573,000	— 105,000	— 9,000	— 32,000
Erie (4)	40,829,000H	+ 25,000	+ 22,000	+ 24,000
Wheeling (5)	26,883,000	—0—	— 11,000	— 67,000
Lexington (5)	10,494,000	— 64,000	+ 5,000	— 4,000
TOTAL—12 Cities	$2,053,275,000	—$2,657,000	—$280,000	—$988,000

H—denotes new all-time high.

Time deposits at reporting banks in 12 Fourth District cities declined at an average weekly rate of $2,657,000 during July. This was the third successive month of decline from the April peak, thus establishing a movement similar to that which occurred during the same period last year. The shrinkage during this July, however, was larger than in the corresponding month of 1948 or 1949.

As in July of last year, all the cities except two reported a reduction of time deposits during the month. The rate of contraction in **Cleveland**, $1,637,000 per week, was faster than in any month since the end of 1947, and reduced the volume of time deposits to a level only slightly above the comparable 1948 figure. There was an average weekly decrease of $468,000 in **Akron** as against a gain of $42,000 per week in July last year. In **Toledo, Wheeling** and **Youngstown,** the shrinkage was less noticeable than in the same month last year.

Erie and **Pittsburgh** both reported an increased volume of time deposits for the eighth successive month, reaching new all-time peaks. Payment of the veterans' bonus in Pennsylvania may have affected the course of time deposits in these cities during the past few months.

Adjusted Weekly Index of Department Store Sales*

Fourth District

(Weeks ending on dates shown. 1935-39 average=100)

1949		1950		1949		1950	
Jan. 8	326	Jan. 7	273	July 2	285	July 1	316
15	317	14	307	9	283	8	308
22	324	21	305	16	283	15	345
29	298	28	302	23	276	22	381
				30	272	29	409
Feb. 5	301	Feb. 4	301				
12	303	11	290	Aug. 6	265	Aug. 5	365
19	290	18	273	13	248	12	337
26	274	25	250	20	267	19	320
				27	262	26	
Mar. 5	270	Mar. 4	255				
12	282	11	276	Sept. 3	276	Sept. 2	
19	268	18	262	10	282	9	
26	275	25	261	17	279	16	
				24	268	23	
						30	
Apr. 2	304	Apr. 1	281	Oct. 1	288		
9	306	8	275	8	249	Oct. 7	
16	270	15	260	15	251	14	
23	278	22	279	22	244	21	
30	299	29	327	29	263	28	
May 7	320	May 6	296	Nov. 5	259	Nov. 4	
14	277	13	290	12	241	11	
21	301	20	293	19	256	18	
28	280	27	290	26	276	25	
une 4	277	June 3	290	Dec. 3	286	Dec. 2	
11	283	10	306	10	293	9	
18	293	17	303	17	304	16	
25	299	24	300	24	257	23	
				31	289	30	

* Adjusted for seasonal variation and number of trading days. Based on sample of weekly reporting stores which differs slightly from sample reporting monthly.

Bank Debits*—July 1950 in 31 Fourth District Cities

(In thousands of dollars)

(Compiled August 10, and released for publication August 11)

No. of Reporting Banks		July 1950	% Change from Year Ago	3 Months Ended July 1950	% Change from Year Ago
188	ALL 31 CENTERS	$7,809,443	+16.0%	$23,474,528H	+14.3%
	10 LARGEST CENTERS:				
5	Akron, Ohio	277,915H	+25.3	765,143H	+16.3
5	Canton, Ohio	124,938	+28.1	373,319H	+23.8
15	Cincinnati, Ohio	975,041	+25.0	2,943,378H	+20.3
10	Cleveland, Ohio	2,013,431	+12.6	5,987,438	+12.7
7	Columbus, Ohio	567,559	+ 3.3	1,761,909H	+ 8.2
4	Dayton, Ohio	260,547H	+23.2	760,797H	+20.3
6	Toledo, Ohio	381,650	+ 3.7	1,123,381	+12.0
4	Youngstown, Ohio	174,610	+25.8	519,084H	+19.8
6	Erie, Penna.	100,956	+21.0	296,216H	+19.3
49	Pittsburgh, Penna.	2,228,638	+16.8	6,871,858H	+13.1
110	TOTAL	$7,105,285	+15.6%	$21,402,523H	+14.2%
	21 OTHER CENTERS:				
9	Covington-Newport, Ky.	$ 44,810	+19.4%	$ 131,853H	+12.8%
6	Lexington, Ky.	58,539	+15.7	176,487	+ 9.6
3	Elyria, Ohio	22,680	+40.9	65,640	+31.0
3	Hamilton, Ohio	41,513	+16.8	127,151H	+15.9
2	Lima, Ohio	52,521H	+17.8	146,736H	+19.4
5	Lorain, Ohio	18,223	+11.5	54,879	+ 6.6
4	Mansfield, Ohio	50,371H	+42.5	145,225H	+29.9
2	Middletown, Ohio	39,505	+36.7	116,138H	+28.0
3	Portsmouth, Ohio	21,924	+17.7	64,283	+ 9.9
3	Springfield, Ohio	47,501	+ 6.6	140,826H	+ 3.9
4	Steubenville, Ohio	25,539	+23.3	73,238	+14.8
2	Warren, Ohio	42,169	+21.7	127,461H	+19.0
3	Zanesville, Ohio	29,269H	+20.5	86,579	+16.5
3	Butler, Penna.	32,907	+24.5	99,844	+17.4
1	Franklin, Penna.	7,421	+13.5	22,349	+14.2
2	Greensburg, Penna.	22,938	+18.1	68,026	+ 9.5
4	Kittanning, Penna.	10,961	+22.7	30,897	+ 4.5
3	Meadville, Penna.	13,894	+40.1	43,209H	+28.7
4	Oil City, Penna.	21,342	+19.7	60,839	+11.1
5	Sharon, Penna.	29,929	+ 9.3	87,585	+ 9.0
6	Wheeling, W. Va.	70,202	+17.9	202,760H	+11.1
78	TOTAL	$ 704,158	+20.6%	$ 2,072,005	+15.0%

*Debits to all deposit accounts except interbank balances. H—Denotes all-time high.

The July total of debits to deposit accounts (except interbank) in 31 Fourth District cities established an all-time high for the month of $7,809,443,000. This represented an increase of 16% over the comparable 1949 figure, and after adjustment for the different number of business days was virtually the same as in June. The aggregate of debits for the three months May, June and July registered an all-time peak for any three-month period, and was 14.3% greater than in the same three months last year.

While deposits at both large and small centers advanced to new peaks, the rate of turnover of these accounts was faster than in any month this year with the exception of June, and was virtually the same as in July of 1948.

TEN LARGEST CENTERS

For the third consecutive month, each of the ten largest centers reported a volume of debits in excess of the year-ago amount. For the group as a whole, the increment over July 1949 was 15.6%, with six cities posting gains of more than 20%. **Canton** scored the largest gain, 28%, for the third successive month, partly due to the relatively small amount of debits there a year ago. The smallest gains of between 3 and 4% were registered by **Columbus** and **Toledo.**

For the three months ending with July, **Cleveland** and **Toledo** were the only centers failing to achieve all-time highs.

TWENTY-ONE SMALLER CENTERS

Debits at the smaller centers were almost 21% greater than in July last year. The extent of the gains showed wide variation, ranging from nearly 7 percent in **Springfield** to over 42 percent in **Mansfield,** although the majority of the centers registered increments of between 10 and 25%.

Lima, Mansfield and **Zanesville** were the only cities to establish all-time highs in July.

Indexes of Department Store Sales and Stocks

	Daily Average for 1935-1939=100 Adjusted for Seasonal Variation July 1950	June 1950	July 1949	Without Seasonal Adjustment July 1950	June 1950	July 1949
SALES:						
Akron (6)	393	295	294	330	277	247
Canton (5)	449	369	333	377	354	280
Cincinnati (8)	386	293	299	298	272	230
Cleveland (10)	318	269	247	257	255	250
Columbus (5)	409	314	331	327	301	265
Erie (3)	420	366	302	328	333	236
Pittsburgh (8)	332	283	253	239	275	182
Springfield (3)	321	271	283	260	263	229
Toledo (6)	353	280	280	272	260	215
Wheeling (6)	309	252	229	235	232	174
Youngstown (3)	413	324	295	314	304	224
District (96)	364	299	274	284	281	214
STOCKS:						
District	252	265	228	251	261	228

Back figures for year 1949 are shown in the February issue. For years 1946-48 see August 1949 issue, page 7.