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FINANCE • INDUSTRY • AGRICULTURE • TRADE
FOURTH FEDERAL RESERVE DISTRICT

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# Inflation and the Curbs on Real Estate

OF the inflationary developments which followed World War II, and which have now reached noticeable intensity, some of the most spectacular have occurred in the area of real estate and real estate credit, particularly the residential sector. The real estate market has been characterized by a large volume of sales, high levels of construction, rising prices and costs, and a record-breaking growth in mortgage credit, all encouraged by governmental stimuli which were increased from time to time.

The business boom, which was not confined to real estate but was general, received a fresh impetus from the Korean War. With resources practically fully employed for civilian requirements, and prices rising persistently, the outbreak of war in Korea intensified demand as consumers and businessmen attempted to anticipate shortages. Residential construction rose to the highest levels on record during the second half of 1950—levels higher than the industry could sustain with existing resources. Steps were deemed necessary (1) to reduce building activity and the use of critical materials needed for defense, (2) to check price rises that were again occurring in the real estate market, and (3) to combat inflationary pressures both in real estate and in the economy generally that were being intensified by the most rapid growth of real estate credit in the nation's history.

**The Boom in Construction** During World War II private construction had declined to very low levels. After the war, restrictions were lifted, supplies of building materials increased, the construction industry became adjusted to a civilian economy, and the volume of building increased almost continuously. Prices and costs also rose throughout most of the period. In each successive year of the five-year period, 1946-50, the value of construction put in place, as reported by the Department of Commerce, was larger than in the preceding year. The dollar amount rose from $5.6 billion in 1945 to $27.7 billion in 1950—a fivefold increase in five years. As the first accompanying chart shows, the value of nonresidential construction increased in each of these years, and the value of residential construction, which accounts for about 45 percent of the total, increased in each year except 1949.[1]

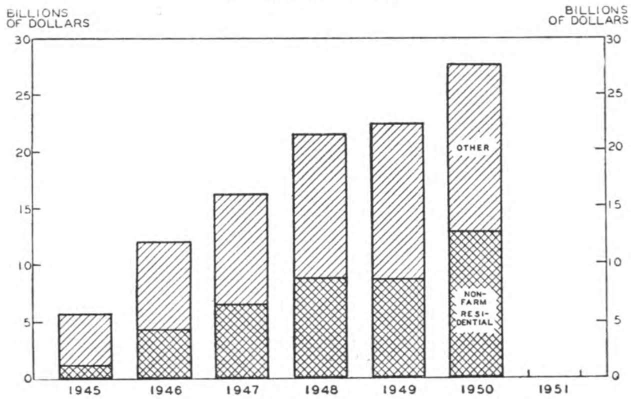
The growth in value of construction has reflected increased demand arising out of needs of industry and government for facilities, out of higher rates of family formation, rising incomes, large liquid asset holdings, and expanding credit on increasingly liberal terms.

**Demand for Houses** Many factors have worked together to cause a high demand for home ownership in recent years. A backlog of demand for housing had accumulated during World War II. Although a substantial number of new residential units was added to the supply during the war through conversion of existing structures even though new construction was curtailed, the

[1]Developments in residential construction have been dealt with in greater detail in the *Monthly Business Review* for September 1950.

**DOLLAR VOLUME OF NEW CONSTRUCTION PUT IN PLACE**

**U. S., 1944-1950**




**. . . after a temporary lull in 1949, the rapid postwar rise in construction expenditures was resumed last year. The 1949 interruption in the growth of residential construction expenditures is mainly attributable to a small decline in costs, rather than to lagging activity.**

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

increased supply was not sufficient to accommodate the demand arising from an unusual rate of formation of new families and from the tendency of families to spread out and occupy more living space per person.

Since the end of World War II the marriage rate and consequent formation of new families have risen to unusually high levels. Moreover, the formation of new households for other reasons has also been exceptionally large: high incomes and liberal credit terms have enabled many married couples, and single persons who previously had been living in households with other families, to afford separate quarters. A high birth rate, associated with the high marriage rate, has also increased the need for separate living accommodations. Moreover, the high birth rate tends to produce shifts of families from smaller to larger quarters and so further to increase the demand for housing.

The Department of Commerce has estimated that the formation of new households averaged about 1.4 million per year from April, 1947 to April, 1950 as compared with 0.5 million per year in the 1930's and 0.6 million per year from 1940 to 1947.

In spite of the expanding demand for housing, the most pressing of the underlying needs appeared to have been met by the end of 1948, and by the spring of 1949 a noticeable inventory of vacant houses had developed. The subsequent resurgence of demand has been due largely to better business conditions, higher incomes, good employment prospects, and recently to concern over the possibility of a renewed wartime shortage of houses and further price rises. After the spring of 1949 new buyers appeared in the market upon realizing apparently that the recession of late 1948 and early 1949 had brought little reduction in the price of houses and that further waiting for price declines would probably be in vain.

**Supply of Houses** The living quarters provided for the 1.4 million new households per year estimated to have been formed in 1947 and 1948 consisted on the average of about 175,000 farm dwelling units, 875,000 newly constructed nonfarm dwelling units, and 400,000 units accounted for by conversion of existing structures, additional house trailers and other dwelling places not usually included under residential construction. Gross additions, therefore, were about 1,450,000 units a year, allowing 50,000 a year for residences demolished by fire or other causes.

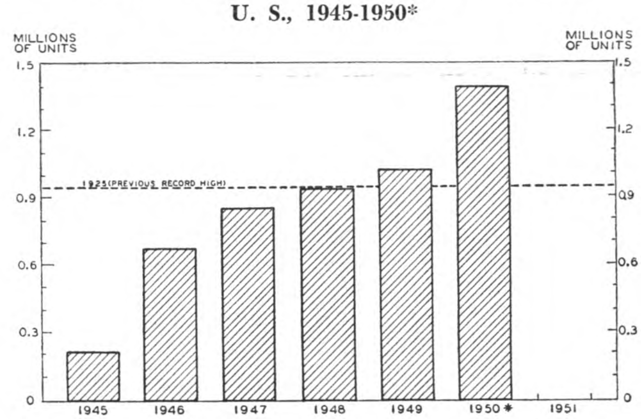
Although such an analysis is not available for the subsequent period, it is significant that in the calendar year 1950, the new construction of nonfarm residences alone had risen so as to equal the annual average of all additional dwelling units provided in the earlier period. (Further substantial additions, of course, were made in 1950 by conversion of existing structures.) The 1,396,000 residential units started last year (second chart) were almost 50 percent more than the 937,000 started in 1925, the peak year of the boom of the 1920's.

In addition to construction, another factor augmenting the supply of houses for sale in the recent boom years was rent control combined with modified tax treatment of capital gains. This factor differed from construction, however, in that it did not in-

**RESIDENTIAL CONSTRUCTION**

**New Permanent Nonfarm Dwelling Units Started**

**U. S., 1945-1950***



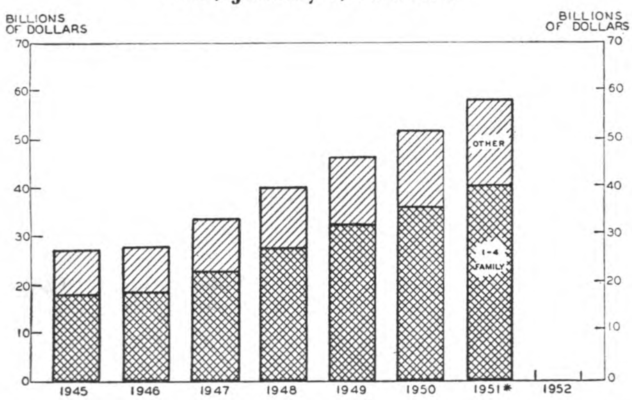

**. . . in each of the past two years the number of new houses started has risen to record proportions. The high volume of 1.4 million in 1950 was about one and a half times as large as the longstanding record established in 1925.**

* Preliminary

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

**URBAN NONCORPORATE MORTGAGE DEBT OUTSTANDING**

**U. S., January 1, 1945-1951***




**. . . the volume of outstanding mortgage debt (urban noncorporate) has risen from less than $30 billion to about $60 billion within the past five years. The part secured by 1-4 family homes makes up about two-thirds of the total and that on multi-family and commercial structures makes up the balance.**

* Preliminary

Source of data: U. S. Department of Commerce. 1951 figures estimated by Federal Reserve Bank of Cleveland.

crease the number of dwelling units. With the income from rentals held down while the price of houses was high, it became apparent to many landlords that a larger net gain after taxes was to be had by selling the realty, usually to an owner who would occupy it.

**Cost of Houses** The cost of building houses has risen since World War II by more than one-half and is now more than double the level of costs prevailing in 1939 and 1940. This aspect of the construction boom is in vivid contrast with the situation in the boom of the 1920's. After World War I, costs rose to a peak in 1920 and then settled back to rise only moderately during the period of large construction. The recent upward pressure on costs reflects large demand, close-to-capacity construction, and rising prices for commodities and real estate generally. Rising construction costs are a part of the general inflation which has developed under conditions of nearly full employment, rising incomes, growth of credit, and an increasing supply of money.

A temporary reversal in the rise of costs occurred in the first half of 1949. Coinciding with the moderate decline in general business activity and a slackening in the demand for new homes, prices of building materials dropped an average of six percent during that period. By the second half of 1949, however, costs had again turned upward. In 1950 supplies of some materials became rather tight in spite of record output. This situation was aggravated after the outbreak of war in Korea by a tendency on the part of builders and building supply dealers to increase their inventories.

**Financing the Boom** The character of the financial resources available to the real estate market has fostered and stimulated inflationary tendencies in this field.

A scarcity of consumer spending outlets during the war together with high incomes both during and since the war led to a record accumulation of liquid assets. These unparalleled financial resources combined with the liberal credit terms available on government-aided loans brought many new buyers into the home market. While more cash was available for down payments than in prewar days, the required down payments were smaller. Longer maturities and lower interest rates resulted in smaller amortization payments. As a consequence many persons, who formerly could not have bought houses, have been able to buy them. All purchasers have been able to capitalize their monthly payments into larger principal sums and have thus been able to pay higher prices for their houses.

Mortgage debt has doubled in the past five years. Four-fifths of this debt is owed by individuals and groups other than corporations and farmers, and as shown in the third of the accompanying charts, the major part of the urban noncorporate debt is secured by home mortgages—those on one- to four-family residences. In the past three years alone the net increase in the home mortgage debt was larger than in the whole decade of the real estate boom of the 1920's.

The recent growth in home mortgage loans has been financed chiefly by four types of institutions—savings and loan associations (including building and loan associations), commercial banks, insurance companies, and mutual savings banks. As the last chart indicates, these institutions hold about three-fourths of all home mortgage loans. Savings and loan associations hold the largest share—about one-third of the total. They have also had the largest net increase in dollar amounts in the past six years, although commercial banks and insurance companies have had larger percentage increases. The share held by savings banks had steadily declined for a decade until 1948 when, partly because of liberalized laws in some states, it began to increase slightly.

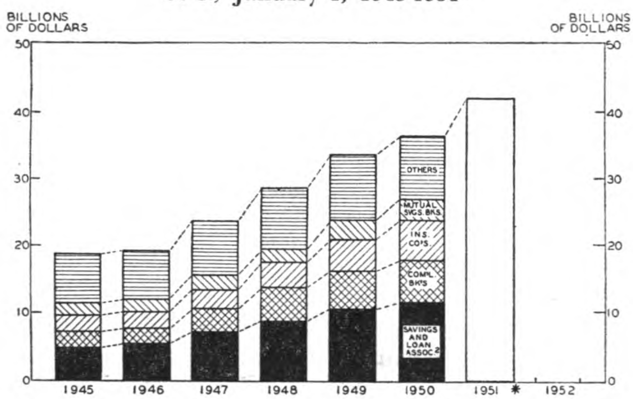
These four types of institutions also hold most of the outstanding loans on commercial buildings and on apartment houses and other large residential structures. Because insurance companies invest in many large commercial properties and housing projects, their holdings of *all* mortgage loans—as distinguished from home mortgage loans—are larger than those of savings and loan associations.

Of the estimated $44 billion of credit outstanding

**MORTGAGE LOANS OUTSTANDING ON 1-4 FAMILY NONFARM HOMES[1]**

**By Type of Lender**

**U. S., January 1, 1945-1951***




**. . . the largest holders of home mortgages are savings and loan associations[2], with about one-third of the total. Commercial banks and insurance companies each hold about one-sixth. The proportionate share held outside the four major institutional groups has decreased since World War II.**

* Preliminary

1 Because of the inclusion in this chart of debt owed by corporations, the totals are slightly larger than the debt shown for 1-4 family homes in the preceding chart. The corporate debt on 1-4 family residences was about $2 billion in 1950.

2 Including building and loan associations.

Source of data: Federal Savings and Loan Insurance Corporation. 1951 total estimated by Federal Reserve Bank of Cleveland.

on one- to four-family houses on January 1, 1951, more than two-fifths was insured or guaranteed by Federal agencies. A record amount equal to about one-third of the value of all new mortgage loans (including temporary ones) of $20,000 or less recorded last year was insured by the Federal Housing Administration or insured or guaranteed by the Veterans Administration. About one-half of all private nonfarm houses started in 1950 were financed by such government-underwritten credit.

In each of the past three years the volume of new FHA-insured mortgage loans has risen to record levels. The terms available to borrowers on insured mortgages were liberalized by the Housing Act of 1948, to stimulate production of houses in the lower price and rental ranges where the greatest demand exists.

The volume of VA loans declined during 1948 and the first half of 1949, but has risen since then. The return to favor (among lenders) of guaranteed veterans loans is accounted for by a number of factors: a decline in yields on alternative investments, particularly U. S. Government securities; growth in savings deposits and a large volume of insurance premiums which made funds readily available; resignation to the fact that the four percent interest rate on these loans was not likely to be raised; and the "take-out" activities of the Federal National Mortgage Association.

Since July 1, 1948, when it was first authorized to purchase VA loans (in addition to FHA loans, which it was already buying), FNMA put into the market approximately $1.4 billion. By making commitments to buy eligible mortgages, the Association enabled lenders with small capital to make more loans than they were prepared to hold, or than private investors were prepared to buy. In the spring of 1950, the authority of FNMA to make commitments was revoked. The mere existence of FNMA and the extraordinary rate at which outstanding mortgages have been paid down or off have combined to encourage greater activity of lenders on the assumption that they are adequately protected as to the quality and liquidity of their portfolios.

The rate of payoff on outstanding mortgages has been rapid, but not fast enough to offset the effect of large and numerous new mortgages. To a considerable degree, moreover, the high mortgage reduction rate is attributable to the high rate of mortgage lending. In addition to normal amortization there are retirements of old mortgages at the time of sales of houses, the mortgage given by the purchaser being merely a replacement. There are also retirements of interim mortgages given to finance a construction or purchase transaction, until the old house is sold or until a long-term loan is granted on the new house. These temporary loans serve to inflate the quantity of new mortgage loans and also of mortgage payoffs. Because the demand for, and supply of, houses for sale have been large, transactions have been numerous and a substantial increase in both the number of new mortgages and the number of payoffs was inevitable.

**Restraints on Real Estate** Throughout most of the past five and one-half years, government policy tended to provide increasing stimulus to housing and construction. It was not until July 1950 that steps were taken to impose restraints. Effective July 19, 1950, the FHA and VA amended their regulations to prohibit consideration of increases in prices or costs after July 1, 1951, when appraising properties to be financed under insurance or guaranties provided by those agencies. This had the effect in some cases of requiring purchasers to pay in cash for any increase in costs or prices occurring after that date and represented some tightening of credit.

On September 8, 1950, the Defense Production Act was enacted. The Act deals largely with the need of combating inflation and of curtailing nondefense production. The real estate aspects of the program outlined in the Act authorize restrictions upon the use of construction labor and materials and also upon the use of real estate credit. To whatever extent the curbing of credit is successful in lowering the demand for housing, the need for the more stringent direct controls on construction and construction materials will be reduced. Also, to whatever extent the curbing of credit expansion is successful in slowing the growth of the supply of money in circulation and of buying power generally, the problem of inflation will be lessened.

Seven important actions affecting real estate have been taken under the direction of the President and the authority of the Defense Production Act, since it became law last September.

1) On September 18 restrictions were placed on the terms of instalment sales of (and small instalment loans for) materials and services in connection with residential repairs, alterations, or improvements. This is a part of the consumer credit regulation, Regulation W, issued by the Board of Governors of the Federal Reserve System.

2) On October 12 limitations were placed concurrently by the Housing and Home Finance Administration and the Board of Governors of the Federal Reserve System on the terms of credit with respect to one- and two-family residences. The terms of credit extended, insured, or guaranteed by the Federal Government and its agencies, are covered by the regulations of the FHA and VA. Restrictions on other real estate credit are covered by Regulation X of the Board of Governors.

3) On October 27 the construction of recreational buildings costing more than $5,000 was prohibited by the National Production Authority.

4) On December 27 the NPA declared certain materials used in construction to be in scarce supply, thereby making them subject to the stipulation in the Act that scarce materials shall not be accumulated in inventory beyond normal needs.

5) On January 12 credit restrictions were applied by the Board of Governors and the HHFA to credit with respect to multi-unit housing.

6) On January 13 the construction of commercial buildings was prohibited until February 15, after which date construction was to be allowed only upon specific authorization from NPA.

7) On February 15, concurrently with the end of the "freeze" on commercial building, restrictions were applied to credit for structures of this and certain other types.

**Regulation of Real Estate Credit** Regulation X applies only to real estate construction credit with respect to property on which new construction was begun after 12 o'clock noon, August 3, 1950.[2] On the other hand, the regulations of the FHA and VA apply to loans both on new and on old properties. The regulations prescribe maximum loan values and maximum maturities.

At the time of issuance of the regulations of October 12, 1950, a press announcement of the Board of Governors stated in part, "The regulations . . . are designed to help reduce the currently high inflationary pressures by restricting the flow of funds into the mortgage market and through the reduction of new home construction activity next year, to assure that materials and labor required for the defense program will be available when needed.

"The regulations apply to virtually all future loans on new construction of one and two-family houses. The restrictions agreed upon, according to Thomas B. McCabe, Chairman of the Board, and Raymond M. Foley, HHFA Administrator, are based on an estimate that, to curb serious inflation in the housing market and to meet presently estimated defense requirements, housing production in 1951 should be reduced about one-third below the current record level of homebuilding, or not more than 800,000 units. They are intended, however, to continue, as far as possible through control of credit, the relative preferences for veterans and the price distribution of housing sought by Congress in its legislative enactments. The situation will be kept under close review to determine whether defense or inflationary developments require later modifications."

Inasmuch as the restrictions on the extension of credit for real estate purposes were designed as anti-inflationary measures rather than as regulators of the soundness of lending practices, the Defense Production Act authorized, and Regulation X applies, restrictions on all credit for financing new construction whether or not secured by a mortgage.[3] A prospective builder or purchaser of a new home cannot borrow from a regular lender more than the maximum amounts permitted by the regulations even though he is prepared to pledge Government securities for the loan. Regulation X requires that the lender must take into account all outstanding credit in connection with the property, as well as the amount of credit being extended.

It is difficult at this time to appraise the effectiveness of the regulations in achieving the objective of reducing 1951 residential construction to about 800,000 units. Thus far the only noticeable effect has been a reported drop in prices of building sites and the release of options previously held on such land by speculative builders. In all other respects, the elements in the boom—sales, prices, costs, construction, and mortgage lending—are still evidencing

[2] The Defense Production Act authorized the regulation of credit only with respect to such new construction where the credit was not insured or guaranteed or extended by a government agency.

[3] Under certain conditions, short-term construction loans are exempt from the Regulation.

(CONTINUED ON PAGE 8)

# CHRONOLOGY OF EC

| 1950 | WORLD EVENTS | GENERAL | PRODUCTION |
|---|---|---|---|
| **July** | **8** MacArthur named commander of United Nations forces in Korea | **7** President Truman authorizes use of selective service<br>**9** Symington (National Security Resources Board Chairman) made civilian mobilization chief<br>**19** Truman calls for partial mobilization | **1** Steel capacity increases during first ha year announced as more than one mi lion tons; more expansion planned |
| **August** | **1** Russia rejoins Security Council<br>**18** U.N. forces stop Red advance in Southeastern Korea | | **25** Commerce Dept. orders cut in civilia rubber use<br>**29** Truman approves $500 million expansio in Army tank-building program |
| **September** | **15** Inchon landing; counter offensive begins<br>**26** North Atlantic ministers agree on joint army | **1** Armed forces to be expanded to 3 million, says Truman<br>**8** **DEFENSE PRODUCTION ACT** becomes law<br>**9** **ECONOMIC STABILIZATION AGENCY** set up<br>**18** Marshall appointed Secretary of Defense<br>**29** Labor Dept. sets up Office of Defense Manpower | **8** Cotton exports curbed<br>**11** Commerce Dept. sets up National Pro duction Authority headed by Harrison<br>**15** Synthetic rubber plants to produce c capacity<br>**18** First regulation issued by NPA limits ir ventories of 32 war materials |
| **October** | **4** U.N. authorizes crossing 38th parallel<br>**20** Pyongyang, Red capital, captured | **4** Interstate Commerce Commission establishes Defense Transportation Administration; Knudson, Administrator | **3** **PRIORITY SYSTEM** for defense orde imposed by NPA<br>**12** Details of priority system for steel estal lished<br>**27** NPA bans "amusement" construction |
| **November** | **26** **CHINESE LAUNCH DRIVE AGAINST U.N. FORCES** | **7** Congressional elections<br>**27** "Lame Duck" Congress convenes | **20** Symington plans 17% increase in alum num production<br>**30** NPA forbids use of copper in certa products |
| **December** | **4** Attlee-Truman meet in Washington<br>**18-19** Atlantic powers integrate plan for defense; name Eisenhower supreme allied commander in Europe<br>Reverses in Korea precipitate foreign policy debate in U.S. | **16** **PRESIDENT TRUMAN DECLARES NATIONAL EMERGENCY**<br>**16** **OFFICE OF DEFENSE MOBILIZATION** set up<br>**16** Charles E. Wilson named Director of Defense Mobilization<br>**21** Office of Defense Manpower creates 13 regional committees | **19** Civilian use of tin cut by NPA order<br>**29** NPA orders General Services Administra tion sole buyer and distributor c natural rubber supply |
| **1951**<br>**January** | **6** Eisenhower begins European survey<br>**11-31** U.N. debates: cease-fire plans, branding of China as aggressor, and conciliation efforts (India, etc.) | **3** Congress passes $3 billion civilian defense program<br>**8** President delivers State-of-the-Union message to new Congress<br>**12** President submits annual economic report to Congress | **3** Defense Production Administration set u under ODM and over NPA; Harris administrator<br>**15** NPA curbs commercial building<br>**25** Controlled Materials Plan for steel, co per, and aluminum to be in operati by July 1, announces NPA |
| **February** | **1** U.N. brands China aggressor<br>U.N. forces regaining offensive in Korea<br>**2** Eisenhower reports on rearming Europe | **9** Flemming named Chairman of Manpower Policy Committee<br>**28** Labor representatives walk out of mobilization agencies | **1** NPA bans use of aluminum in more th 200 items after April 1st<br>**9** Steel defense load increased to an es mated 20% of total annual output<br>**20** Use of steel, copper, and aluminum f autos and consumer durable goods be cut 20% or more beginning April 1 |

KEY TO INITIALS: ODM = Office of Defense Mobilization NPA = National Production Authority ESA = Economic Stabilization Agency

# OMIC MOBILIZATION

| WAGE—PRICE | MONETARY—FISCAL | FOURTH DISTRICT | 1950 |
|---|---|---|---|
| Scare buying and acceleration in general rise of prices | **18** Government lending agencies tighten terms on housing loans<br>**19** President Truman asks Congress for $10 billion rearmament expansion<br>**25** Truman asks $5 billion tax increase | | **July** |
| **30** Fifth round of wage increases gathers momentum in auto industry | **18** FRB raises discount rates<br>**18** Treasury's interest rate policy unchanged in record $13 ½ billion refunding | **15** World War II bomber plant at Cleveland to be reopened as Cadillac tank plant | **August** |
| Office of Price Stabilization, and Wage Stabilization Board, set up within ESA<br>Additional industries affected by fifth round wage increases | **18** FRB reinstates Regulation W<br>**22 CONGRESS INCREASES PERSONAL** and **CORPORATION TAXES** by $4½ billion<br>**22** Congress votes $17.8 billion more for defense<br>**27** FRB will guarantee loans to finance defense production under Regulation V | **2** Weekly initial claims for unemployment compensation in Ohio drop to new post-war low<br>**18** Republic and Armco announce formation of Reserve Mining Co. for large scale utilization of Mesabi magnetic-taconite ores | **September** |
| Valentine appointed head of ESA<br>Ching named Chairman of Wage Stabilization Board | **12** Housing credit curbed: FRB issues Regulation X, Veteran's Administration and housing agencies tighten credit restrictions<br>**16** FRB tightens Regulation W | **30** Steel output in Pittsburgh-Cleveland-Youngstown area hits new peak | **October** |
| Leading steel producer grants pay increase and raises prices<br>DiSalle named Director of Office of Price Stabilization | **1** Manufacturers' excise tax of 10% imposed on TV sets<br>**19** FRB urges restraint in bank lending | **17** Republic Steel announces $75 million expansion program at Cleveland | **November** |
| Large auto firms announce price raises<br>Valentine asks auto firms to withdraw price increases<br>ESA orders auto prices rolled back to Dec. 1<br>ESA sets up voluntary pricing standards<br>Rent control extended to March 31<br>ESA stabilizes auto wages until March 1 | **1** Truman asks $18 billion more in defense appropriations<br>**28** FRB raises reserve requirements of member banks | **7** Jones and Laughlin announces $228 million expansion program at Pittsburgh and Cleveland | **December** |
| Soft coal contract grants 20 cents hourly increase to miners<br>Johnston replaces Valentine as ESA chief<br>ESA issues **GENERAL CEILING PRICE REGULATION,** freezing prices at Dec. 19-Jan. 25 levels, and general **WAGE FREEZE** at Jan. 25 level | **1 EXCESS PROFITS TAX** levied by Congress<br>**2** Congress passes $20 billion supplemental defense appropriation<br>**15** President submits $72 billion budget, requiring $16 ½ billion revenue increase to balance<br>**16** FRB raises margin requirements on stocks to 75% | **16** Wheeling Steel will add 63 coke ovens<br>**17** Cadillac tank orders now total $500 million<br>**18** Westinghouse announces multi-million expansion in Pittsburgh<br>**28** OPS names Sydney Hesse Acting Director of Region 6 (Ohio, Kentucky, and Michigan) | **1951**<br>**January** |
| Price of steel scrap rolled back<br>Livestock slaughter put under OPS control<br>WSB recommends wage policy; labor members walk out<br>Johnston signs new wage policy allowing 10% "catch-up"<br>OPS sets margin ceilings for retailers | **2** Truman implements budget message by requesting $10 billion increase in individual, corporation, and excise taxes for Fiscal '52<br>**14** FRB extends Regulation X to cover commercial building | **3** Steel production (past week) exceeds previous high in Pittsburgh-Cleveland-Youngstown area<br>**12** Firestone Tire & Tubber Co. announces plan to operate the Ravenna, Ohio arsenal | **February** |

OPS = Office of Price Stabilization WSB = Wage Stabilization Board FRB = Federal Reserve Board

### Inflation and the Curbs on Real Estate

(CONTINUED FROM PAGE 5)

greater activity than a year ago. During the first two months of 1951 housing construction has proceeded at levels which, if the usual seasonal pattern were followed throughout the year, would result in a total of about 1,400,000 new units—or the same as in 1950. Most of the current construction, however, is being financed on commitments entered into before the regulations were issued. Such financing is exempt from the regulations. As the season progresses an increasing proportion of the new structures will have to be financed under the terms of the regulations. Builders' and lenders' reports indicate that by late spring and summer, building will be retarded by the regulations and by restrictions on materials. Greater concern seems to be felt over possible shortages of materials than over the restrictive effects of the regulations.

Many lenders have reported that the restrictions on so-called "conventional" loans—those not insured or guaranteed by the FHA or VA—imposed by Regulation X were no more severe than the ones they had already imposed themselves. The extent to which the FHA and VA regulations are more restrictive is also subject to some uncertainty. The newer regulations, while more severe with regard to loan ratios and maturities, are more liberal with regard to appraisals. The present regulations permit taking current markets into account when making appraisals, whereas the earlier regulations of the government agencies would not permit consideration of increases in prices or costs since July 1, 1950. On the other hand, some factors in the trade report that the financing of existing properties is tending to shift from FHA-insured loans to conventional loans among those lenders who are legally permitted to grant more liberal terms.

The Board of Governors has delegated the administration and enforcement of Regulation X to the Federal Reserve banks. The Federal Reserve Bank of Cleveland has established a Real Estate Credit Department with a staff of administrators and field investigators at its Head Office and at the branches in Cincinnati and Pittsburgh. Advisory committees composed of representatives of the business and financial groups concerned with real estate have been appointed. The members of the committees are listed opposite. The committee members have given generously of their time and talents in keeping this bank informed regarding developments, in presenting the view of the trade on current problems and in giving advice on the numerous questions which arise from time to time.

# Advisory Committees on Real Estate Credit

## FOR CLEVELAND AREA

EVERETT C. ANDREWS, President
E. C. Andrews Company
Past President, Home Builders Association of Greater Cleveland

IRVING W. DISTEL, Vice President
Society for Savings in the City of Cleveland

DONALD C. DUNLAP, Realtor
Past President, Cleveland Real Estate Board

A. C. FINDLAY, Executive Vice President
Union Savings & Loan Company
President, Cuyahoga County Savings & Loan League

ROBERT L. FREE, Vice President
Cragin, Lang and Company
President, Cleveland Real Estate Board

GEORGE E. HAGENBUCH,
Executive Vice President and Counsel
Citizens Federal Savings & Loan Association
Past President, Cuyahoga County Savings & Loan League

WILLIAM E. MILLER, President
Fraser Mortgage Company

HARRY R. TEMPLETON, Vice President
The Cleveland Trust Company

A. A. TREUHAFT, President
Keyes-Treuhaft Company
President, Home Builders Association of Greater Cleveland

W. B. WALTER, District Sales Manager
Building Products Division, Johns-Manville Sales Corporation
President, The Builders Exchange, Inc., of Cleveland

G. STANLEY YOUNG, Executive Vice President
Land Title Guarantee & Trust Company

## FOR CINCINNATI AREA

ERWIN G. DOWNING, Vice President
Fifth Third Union Trust Company

JESSE HIGGINS, Manager
Allied Construction Industries of Cincinnati

MILLS JUDY, Builder and Realtor
President, Cincinnati Real Estate Board

WALTER JULIUS, Vice President
Federal Home Loan Bank of Cincinnati

THOMAS MCILVAIN, Builder and Realtor
Acting Executive Director,
Home Builders Association of Greater Cincinnati

JOHN G. QUICK, Vice President
Union Central Life Insurance Company

WILLIAM A. RECKMAN, President
Western Bank & Trust Company

HARRY SIEMERS, Secretary
Franklin Savings & Loan Company
President, Hamilton County Savings & Loan League

PAUL J. VOLLMAR, Vice President
Western & Southern Life Insurance Company

LOUIS WEILAND, President
Greater Cincinnati Savings and Loan Exchange
Director and Attorney, Inter-Valley Building & Loan Association

## FOR PITTSBURGH AREA

HARRY D. GRIFFITHS, Manager
Mortgage Department
Reliance Life Insurance Company

H. W. HANNA, Executive Director
Home Builders Association of Allegheny County

JOHN H. KUNKLE, President
Union Title Guaranty Company
President and Director, Fort Pitt Federal Savings & Loan Association

GEORGE PARKER, President
Federal Home Loan Bank of Pittsburgh

VINCENT P. SCHNEIDER, Vice President
Peoples First National Bank & Trust Company

JOHN H. SCOTT, President
Scott Mortgage Company

WALTER SCOTT, SR., Vice President and Treasurer
Scott and McCune, Inc.

ELMER S. STANIER, Vice President and Treasurer
Dollar Savings Bank

ELMER F. STRIEPEKE, Manager
Mortgage Department
Commonwealth Trust Company

FRANK T. TROHAUGH, General Manager
Jenkins Arcade Company

# SUMMARY OF NATIONAL BUSINESS CONDITIONS

## By the Board of Governors of the Federal Reserve System

(Released for Publication February 28, 1951)

Activity at factories and mines and in the construction industry was generally maintained at advanced levels in January and February. Department store sales in February were down somewhat from the peak rate reached in mid-January. Prices of agricultural commodities advanced further, while prices of industrial commodities leveled off after the Federal price-freeze order on January 26. Bank loans to business continued to expand substantially in January and early February.

### Industrial production

The Board's production index in January was 219 per cent of the 1935-39 average, 10 per cent above last June and 20 per cent above January 1950. Output of durable goods declined slightly in January, while production of nondurable goods and of minerals increased somewhat.

In February, industrial production is estimated to have declined slightly, owing mainly to the effects of work stoppages at railroad terminals and in the wool textile industry. After the end of the rail strike in mid-February, steel and coal production recovered to about January levels and automobile output rose to the highest weekly rate since last October.

Small reductions in activity were fairly widespread in January among metal fabricating industries, reflecting in part the initial effects of cuts in metal use for nondefense purposes and in part temporary factors. A moderate decline in the automobile industry reflected mainly additional model-changeovers. Production of most household durable goods was maintained close to earlier record levels. Steel production increased in January to a new record annual rate of 104 million tons. Output of railroad equipment and aircraft also expanded further. Lumber production was at an exceptionally high level for this season.

The rise in nondurable goods output in January reflected mainly new record levels of paper production, and gains in cotton textiles, chemicals, and petroleum products. Meat production declined from the high November-December rates, but was 3 per cent larger than a year ago.

### Employment

Employment in nonagricultural establishments, seasonally adjusted, increased slightly further in mid-January to 45.7 million. Employment in retail trade, construction, and manufacturing industries declined less than is usual at this season. The average work week in manufacturing decreased to 40.6 hours, as compared with an average of 41.3 in the preceding three months; average hourly earnings showed some further rise.

### Construction

Value of construction contracts declined in January, reflecting seasonal decreases in most categories of awards. The number of housing units started in January continued at a very high winter rate, totalling 87,000 as compared with 95,000 in December and 79,000 in January 1950. The moderate decline from December to January reflected a sharp drop in public units offset in part by some rise in private units started.

### Distribution

The Board's seasonally adjusted index of the value of department store sales in January was 360 per cent of the 1935-39 average. This was 28 per cent higher than in January 1950 and about equal to the peak reached last July immediately after the Korean outbreak. Dollar sales at most other retail outlets, especially apparel stores, exceeded their earlier peaks. In mid-February, sales at department stores were about 16 per cent greater than in the same period a year ago. Despite the exceptionally large volume of sales of numerous nondurable as well as durable goods, retailers' inventories have been generally maintained reflecting the sustained high level of output.

### Commodity prices

The wholesale price level continued to advance after the announcement of the general Federal freeze order on January 26, reflecting mainly increases in farm products and foods which are only partly controlled. Farm products rose 4 per cent further by the third week in February, to a level 33 per cent above the low point reached early last year. Prices of industrial commodities showed little further rise from a level 17 per cent higher than a year ago.

Consumer prices probably advanced somewhat further in January, with increases in food prices again accounting for most of the rise.

### Bank credit and the money supply

Business loans at banks in leading cities increased substantially further during January and the first half of February—a season of the year when these loans usually decline. Deposits and currency held by businesses and individuals decreased somewhat owing in part to a seasonal transfer of funds from private to Treasury accounts as a result of income tax payments. Purchases of Government securities from the banking system by nonbank investors and a continued gold outflow also tended to reduce the privately held money supply during this period.

Required reserves of member banks increased by about 2 billion dollars between mid-January and early February as a result of additions to legal reserve requirements. Banks met these increases in part by their usual receipts of reserves at this season of the year and in part by selling U. S. Government securities.

### Security markets

A rise in common stock prices during the first two weeks of February was almost completely offset by a decline in the third week. Yields on most U. S. Government securities and high-grade corporate bonds continued to show little change.

# FINANCIAL AND OTHER BUSINESS STATISTICS

## Time Deposits at 55 Banks in 12 Fourth District Cities

(Compiled February 9, and released February 10)

| City and Number of Banks | Time Deposits Jan. 31, 1951 | Average Weekly Change During: Jan. 1951 | Dec. 1950 | Jan. 1950 |
|---|---|---|---|---|
| Cleveland (4) | $ 877,095,000 | —$337,000 | +$2,517,000 | +$ 860,000 |
| Pittsburgh (9) | 482,810,000H | + 249,000 | + 282,000 | + 1,747,000 |
| Cincinnati (8) | 175,089,000 | — 28,000 | + 271,000 | + 113,000 |
| Akron (3) | 100,011,000 | — 45,000 | + 356,000 | + 55,000 |
| Toledo (4) | 105,711,000 | + 157,000 | + 450,000 | + 314,000 |
| Columbus (3) | 86,147,000H | + 87,000 | + 198,000 | + 66,000 |
| Youngstown (3) | 61,731,000 | — 21,000 | + 49,000 | + 40,000 |
| Dayton (3) | 44,884,000 | + 13,000 | — 42,000 | + 76,000 |
| Canton (5) | 41,224,000 | — 29,000 | + 213,000 | — 18,000 |
| Erie (3) | 39,564,000 | — 83,000 | + 118,000 | + 88,000 |
| Wheeling (5) | 26,345,000 | + 54,000 | — 103,000 | — 134,000 |
| Lexington (5) | 10,153,000 | + 34,000 | — 4,000 | + 25,000 |
| TOTAL—12 Cities | $2,050,764,000 | +$ 45,000 | +$4,305,000 | +$3,242,000 |

H—Denotes new all-time high.

Time deposits at reporting banks in 12 Fourth District cities were virtually unchanged during January, registering an average weekly increase of only $45,000. This contrasts with a weekly rate of gain of over $3,000,000 in January last year and $2,500,000 in the same month of 1949. The failure of time deposits to establish a more than nominal gain may be associated with the unusually high volume of consumer purchases last month.

Although half of the cities reported increases in the volume of time deposits, the gains exceeded those of a year ago at only three cities, **Columbus, Wheeling** and **Lexington.**

Time deposits at **Cleveland** banks declined at a weekly rate of $337,000, reversing the upward trend which was evident during the last quarter of 1950. At **Pittsburgh** a new all-time high in time deposit liabilities was registered at the end of January, as a rate of expansion similar to that of the preceding three months was maintained. In both these cities, however, as also in **Cincinnati** and **Erie,** the January movement in time deposits was in marked contrast to the gains achieved in the same month of the two previous years.

**Toledo** banks reported a seasonal expansion in time deposits, lifting these accounts to the highest level on record for that month but here, too, the gain was smaller than in January 1950.

## Adjusted Weekly Index of Department Store Sales*

Fourth District

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

| 1950r | | 1951 | | 1950r | | 1951 | |
|---|---|---|---|---|---|---|---|
| Jan. | 7.....278 | Jan. | 6.....425 | July | 1.....327 | July | 7...... |
| | 14.....310 | | 13.....412 | | 8.....322 | | 14...... |
| | 21.....320 | | 20.....443 | | 15.....354 | | 21...... |
| | 28.....308 | | 27.....398 | | 22.....388 | | 28...... |
| | | | | | 29.....418 | | |
| Feb. | 4.....293 | Feb. | 3.....287 | Aug. | 5.....374 | Aug. | 4...... |
| | 11.....308 | | 10.....359 | | 12.....344 | | 11...... |
| | 18.....279 | | 17.....354 | | 19.....330 | | 18...... |
| | 25.....255 | | 24.....365 | | 26.....323 | | 25...... |
| Mar. | 4.....258 | Mar. | 3..... | Sept. | 2.....295 | Sept. | 1...... |
| | 11.....279 | | 10..... | | 9.....324 | | 8...... |
| | 18.....264 | | 17..... | | 16.....345 | | 15...... |
| | 25.....263 | | 24..... | | 23.....318 | | 22...... |
| | | | 31..... | | 30.....335 | | 29...... |
| Apr. | 1.....285 | Apr. | 7..... | Oct. | 7.....297 | Oct. | 6...... |
| | 8.....279 | | 14..... | | 14.....307 | | 13...... |
| | 15.....262 | | 21..... | | 21.....287 | | 20...... |
| | 22.....283 | | 28..... | | 28.....298 | | 27...... |
| | 29.....334 | | | | | | |
| May | 6.....299 | May | 5..... | Nov. | 4.....280 | Nov. | 3...... |
| | 13.....296 | | 12..... | | 11.....281 | | 10...... |
| | 20.....299 | | 19..... | | 18.....288 | | 17...... |
| | 27.....295 | | 26..... | | 25.....221 | | 24...... |
| June | 3.....295 | June | 2..... | Dec. | 2.....195 | Dec. | 1...... |
| | 10.....314 | | 9..... | | 9.....328 | | 8...... |
| | 17.....309 | | 16..... | | 16.....334 | | 15...... |
| | 24.....306 | | 23..... | | 23.....314 | | 22...... |
| | | | 30..... | | 30.....342 | | 29...... |

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

r—Revised

## Bank Debits*—January 1951 in 31 Fourth District Cities

(In thousands of dollars)
(Compiled February 15, and released for publication February 16)

| No. of Reporting Banks | | Jan. 1951 | % Change from Year Ago | 3 Months Ended Jan. 1951 | % Change from Year Ago |
|---|---|---|---|---|---|
| 187 | ALL 31 CENTERS | $9,698,455H | +39.6% | $27,608,710H | +32.2% |
| | 10 LARGEST CENTERS: | | | | |
| 5 | Akron, Ohio | 342,178H | +52.6 | 972,328H | +37.8% |
| 5 | Canton, Ohio | 146,337H | +40.9 | 411,322H | +35.2 |
| 15 | Cincinnati, Ohio | 1,228,642H | +40.1 | 3,430,221H | +28.9 |
| 10 | Cleveland, Ohio | 2,511,608 | +39.6 | 7,142,563H | +32.9 |
| 7 | Columbus, Ohio | 625,637 | +18.3 | 1,801,106 | + 7.9 |
| 4 | Dayton, Ohio | 287,224 | +21.3 | 843,067H | +19.9 |
| 6 | Toledo, Ohio | 456,261 | +39.3 | 1,341,996H | +28.9 |
| 4 | Youngstown, Ohio | 202,460 | +34.0 | 587,481H | +34.5 |
| 6 | Erie, Pa. | 112,569 | +37.3 | 324,195H | +27.6 |
| 48 | Pittsburgh, Pa. | 2,909,399H | +51.6 | 8,257,378H | +43.8 |
| 109 | TOTAL | $8,822,315H | +41.2% | $25,111,657H | +33.0% |
| | 21 OTHER CENTERS: | | | | |
| 9 | Covington-Newport, Ky. | $ 49,557H | +23.6% | $ 139,437H | +16.0% |
| 6 | Lexington, Ky. | 139,596 | +11.6 | 360,146 | +36.9 |
| 3 | Elyria, Ohio | 27,362 | +51.2 | 80,158H | +39.0 |
| 3 | Hamilton, Ohio | 52,060H | +24.7 | 147,151H | +21.7 |
| 2 | Lima, Ohio | 60,708H | +38.1 | 168,747H | +33.2 |
| 5 | Lorain, Ohio | 21,341 | +26.9 | 62,686 | +23.6 |
| 4 | Mansfield, Ohio | 55,879 | +35.8 | 165,185H | +29.7 |
| 2 | Middletown, Ohio | 50,867H | +35.4 | 139,408H | +26.0 |
| 3 | Portsmouth, Ohio | 23,837 | +26.0 | 71,050 | +19.2 |
| 3 | Springfield, Ohio | 55,456H | +23.4 | 156,140H | +14.8 |
| 4 | Steubenville, Ohio | 28,427H | +31.7 | 80,006H | +25.7 |
| 2 | Warren, Ohio | 51,668H | +46.4 | 147,943H | +36.9 |
| 3 | Zanesville, Ohio | 30,526 | +24.2 | 89,364H | +16.3 |
| 3 | Butler, Pa. | 37,513H | +27.7 | 104,691 | +21.8 |
| 1 | Franklin, Pa. | 7,772 | +33.2 | 23,942 | +23.4 |
| 2 | Greensburg, Pa. | 25,153 | +32.6 | 74,831 | +29.9 |
| 4 | Kittanning, Pa. | 11,996 | +25.2 | 33,808 | +20.7 |
| 3 | Meadville, Pa. | 15,478 | +32.4 | 43,455 | +17.0 |
| 4 | Oil City, Pa. | 20,463 | +19.0 | 59,109 | + 8.6 |
| 5 | Sharon, Pa. | 33,051 | +27.4 | 101,557H | +35.0 |
| 6 | Wheeling, W. Va. | 77,430 | +26.8 | 248,239H | +27.8 |
| 78 | TOTAL | $ 876,140 | +25.3% | $ 2,497,053H | +24.8% |

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

Another all-time high of $9,698,455,000 was established by the January total of debits to deposit accounts (except interbank) at banks in 31 Fourth District cities. The increase in debit volume in January over the December figure is in sharp contrast to the usually substantial seasonal decline in the first month of the year. The customary decline in deposits, however, was evident in January, and as a result, deposit turnover reached a new record rate during the month.

### TEN LARGEST CENTERS

The contra-seasonal expansion in debits was most pronounced at the large cities. **Akron** with a margin of 52.6% led all the cities in year-to-year comparisons for the second month. At **Pittsburgh,** debits for the past three months combined aggregated 43.8% more than in the comparable period a year ago, when a relatively low debit volume was reported. **Columbus** and **Dayton** were the only large centers to register year-to-year increments of less than 34%. However, these two cities led year-to-year comparisons in January 1950.

### TWENTY-ONE SMALLER CENTERS

Although January debit volume at the smaller centers was less than in December, a majority of these cities reported slight increases in debits, contrary to the usual movement. Year-to-year gains, which averaged 25.3% for the group as a whole, were generally smaller than at the large centers.

Several of the smaller centers reported new all-time high debit totals in January. Increases over the comparable 1950 figures ranged from 51.2% at **Elyria** and 46.4% **at Warren** to 19.0% at **Oil City** and 11.6% at **Lexington.** The relatively small increase at Lexington reflects different timing of tobacco marketings.

The three month total of debits, up 24.8% from the year-ago period, showed a smaller year-to-year expansion than at the large cities for the fourth month in succession.

## Indexes of Department Store Sales and Stocks

Daily Average for 1935-1939 = 100

| | Adjusted for Seasonal Variation Jan. 1951 | Dec. 1950 | Jan. 1950 | Without Seasonal Adjustment Jan. 1951 | Dec. 1950 | Jan. 1950 |
|---|---|---|---|---|---|---|
| SALES: | | | | | | |
| Akron (6) | 428 | 369 | 286 | 316 | 598 | 212 |
| Canton (5) | 458 | 422 | 328 | 339 | 717 | 243 |
| Cincinnati (8) | 391 | 344 | 316 | 305 | 561 | 247 |
| Cleveland (11) | 376 | 328 | 283 | 289 | 528 | 218 |
| Columbus (5) | 398 | 372 | 336 | 302 | 606 | 255 |
| Erie (4) | 416 | 374 | 314 | 320 | 662 | 242 |
| Pittsburgh (8) | 365 | 267 | 261 | 274 | 422 | 195 |
| Springfield (3) | 327 | 323 | 269 | 235 | 559 | 193 |
| Toledo (6) | 365 | 316 | 268 | 260 | 540 | 191 |
| Wheeling (6) | 314 | 267 | 235 | 211 | 482 | 157 |
| Youngstown (3) | 451 | 410 | 305 | 338 | 672 | 229 |
| District (98) | 395 | 328 | 290 | 293 | 538 | 215 |
| STOCKS: | | | | | | |
| District | 357 | 351 | 256 | 313 | 294 | 224 |

ERIE
TOLEDO
CLEVELAND
PA.
AKRON
YOUNGSTOWN
CANTON
PITTSBURGH
OHIO
DAYTON
COLUMBUS
WHEELING
W. VA.
CINCINNATI
LEXINGTON
KY.
Fourth Federal Reserve District
MAIN OFFICE
BRANCH OFFICES