

MONTHLY

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FINANCE • INDUSTRY • AGRICULTURE • TRADE

FOURTH FEDERAL RESERVE DISTRICT

Vol. 35—No. 11

Federal Reserve Bank of Cleveland

Cleveland 1, Ohio

Mortgage Financing in Four Cities

WHILE the characteristics of the financing of residential mortgages are known to vary locally, the extent of such local differences is often a subject of guesswork rather than of statistical measurement. An opportunity to utilize carefully gathered statistical information in this connection is presented by the publication this year of the results of the *Residential Financing Survey*, conducted by the U. S. Bureau of the Census as a part of the *1950 Census of Housing*.⁽¹⁾

The survey materials include selected mortgage-financing characteristics, such as size of loan, length of term, interest rate, income of borrower, and numerous other related items. They apply to mort-

gaged, residential, nonfarm properties in the United States, both owner-occupied and rental. Survey results are also given for the four major regions of the country as well as for the 25 largest "standard metropolitan areas".

The comparative information which is selected from the Census survey for presentation below is drawn from the four metropolitan areas falling within the Fourth Federal Reserve District, namely, Cincinnati, Cleveland, Pittsburgh, and Youngstown.⁽²⁾

It should be borne in mind that the local differences outlined below are based on information gathered in August, 1950. Such differences may not be entirely representative of the present-day picture, although it can be surmised that the local comparisons expressed as percentage distributions are likely to be more stable from year to year than aggregates

LENGTH OF MORTGAGE TERM

(Conventional first mortgages on single-family houses, according to *1950 Census of Housing*)

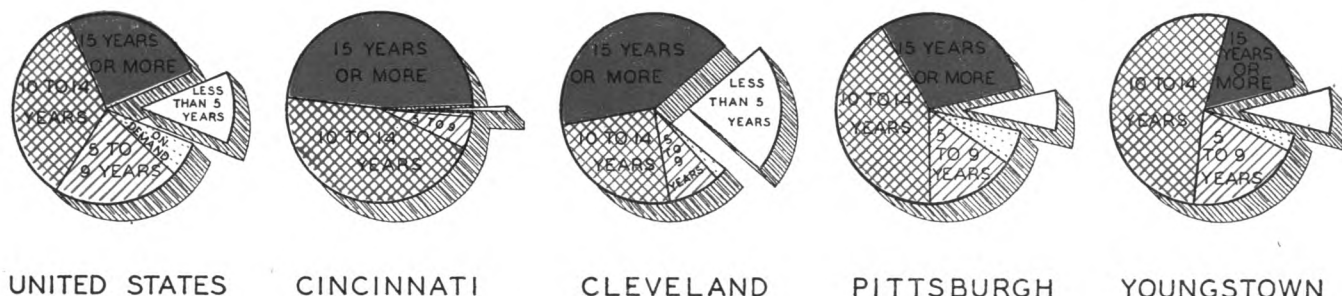


Table 1
MORTGAGE AND PROPERTY CHARACTERISTICS
 All Owner-occupied, Residential, Nonfarm Properties
 With One Dwelling Unit Having Conventional
 First Mortgages
 (Percentage Distribution)
August 1950

CHARACTERISTIC	United States	STANDARD METROPOLITAN AREA			
		Cincinnati	Cleveland	Pittsburgh	Youngstown
Number of Conventional First Mortgages.....	4,840,117	44,336	60,165	68,776	24,163
Market Value					
Total.....	100%	100%	100%	100%	100%
Less than \$6,000....	33	14	4	25	26
\$6,000 to \$9,999....	32	30	24	34	42
\$10,000 to \$14,999....	21	35	38	23	25
\$15,000 or more.....	14	20	34	18	8
Median market value (dollars).....	7,900	10,400	12,800	9,000	8,000
Purchase Price					
Total.....	100%	100%	100%	100%	100%
Less than \$6,000....	56	33	19	48	60
\$6,000 to \$9,999....	25	37	33	27	28
\$10,000 to \$14,999....	12	21	29	14	9
\$15,000 or more.....	7	9	19	10	3
Median purchase price (dollars)....	5,400	7,600	9,600	6,100	5,200
Year Mortgage Made or Assumed					
Total.....	100%	100%	100%	100%	100%
1950 (part).....	16	11	24	14	20
1949.....	23	22	21	20	21
1948.....	18	18	15	17	15
1947.....	13	14	12	14	11
1946.....	9	9	8	10	9
1940-1945.....	17	21	16	21	20
1939 or earlier.....	4	5	5	5	4
Amount of First Mortgage Loan					
Total.....	100%	100%	100%	100%	100%
Less than \$2,000....	24	8	6	14	21
\$2,000 to \$3,999....	36	25	25	37	43
\$4,000 to \$5,999....	21	31	27	26	23
\$6,000 to \$7,999....	11	19	22	10	8
\$8,000 to \$9,999....	5	8	11	5	3
\$10,000 or more.....	5	9	10	8	2
Median loan (dollars)	3,400	5,200	5,300	3,900	3,300
First Mortgage Loan As Percent of Purchase Price					
Total.....	100%	100%	100%	100%	100%
Less than 50%.....	20	15	21	22	22
50% to 59%.....	17	12	30	16	20
60% to 69%.....	20	22	24	25	19
70% to 79%.....	16	25	13	18	19
80% to 89%.....	13	16	8	12	10
90% to 99%.....	5	7	2	4	5
100% or more.....	9	3	3	3	6
Median percent.....	66	70	60	65	64

would be. It should also be pointed out that the *Survey* was conducted through the use of sampling techniques; consequently, the findings are subject to sampling variability, and small differences should be interpreted with caution.

Differences in mortgage financing among areas are perhaps most truly reflected by comparisons of the characteristics of conventional first mortgages, since these mortgages are more likely to be locally held (particularly on single-family homes) and their terms least influenced by national conditions. Also, in making comparisons between areas, it is desirable to deal with properties of roughly the same size. For these reasons, this report is limited to conventional first mortgages on owner-occupied properties with one dwelling unit. They constitute a large proportion of the mortgaged properties in each area (Table 2) and, consequently, may be presumed to reflect general differences in mortgage financing among the four large District metropolitan centers.⁽³⁾

Summary of Findings

The market value of owner-occupied, single-family homes averaged higher in Cleveland and Cincinnati than it did nationally or in Pittsburgh and Youngstown. The amount of the mortgage loan showed a direct relationship to property values in the area—running higher in Cleveland and Cincinnati than in the other two areas. Purchase prices generally were below market valuation in August 1950 because the bulk of the mortgages were made in the 1946-1950 period when real estate values were rising rapidly. Rising values apparently affected all four areas to about the same degree, however.

The mortgage loan amount varied less among metropolitan areas than did property values, because of

(2) The standard metropolitan areas include the following counties: *Cincinnati*, Hamilton County in Ohio and Campbell and Kenton Counties in Kentucky; *Cleveland*, Cuyahoga and Lake Counties; *Pittsburgh*, Allegheny, Beaver, Washington and Westmoreland Counties; and, *Youngstown*, Mahoning and Trumbull Counties in Ohio and Mercer County in Pennsylvania.

(3) Government-insured mortgages also play an important role in home-financing, with their importance varying among the four District metropolitan areas. Nationally, about 31 percent of the first mortgages outstanding on owner-occupied, single-family dwellings in August 1950 were insured by the Federal Housing Administration or guaranteed by the Veterans Administration. The Federally-underwritten mortgages were about evenly divided between FHA-insured and VA-guaranteed loans. Pittsburgh was the only one of the four District areas conforming to this national pattern. The FHA's outnumbered the VA's two to one in Cleveland, with about 32 percent of the first mortgages outstanding being government-insured. This preference was reversed in Cincinnati and Youngstown; the proportion underwritten by the government in these two areas (15 percent and 22 percent, respectively) was less than that found nationally.

The government insurance status of first mortgages outstanding on owner-occupied, one-family homes in August 1950 is given in Table 2. The characteristics shown in this report for conventional first mortgages may be found for the Federally-underwritten mortgages in the *Residential Financing Survey*.

differing loan-to-value ratios. The ratio was smallest in Cleveland, where half of the loans were for less than 60 percent of the purchase price, and highest in Cincinnati, where half the mortgages were for more than 70 percent of the purchase price.

In most respects, mortgage-loan characteristics in Pittsburgh and Youngstown followed the national pattern, while substantial deviations occurred in Cincinnati and Cleveland. Savings and loan associations were relatively more active in conventional mortgage financing in the District than they were on a national scale. This was particularly true of Cincinnati, where apparently a very competitive market for mortgage loans exists among the savings and loan associations.

The number of years that the mortgage is to run is somewhat longer in the District areas than it is nationally. In Cleveland, however, a number of short-term, partially-amortized loans were found. As a result, interest rates in Cleveland apparently averaged somewhat lower. Interest charges in Pittsburgh appeared to be higher, on the average, than in other District areas.

Monthly payments of interest and principal varied among the four metropolitan areas in about the same manner as the mortgage loan amount, running higher in Cincinnati and Cleveland than in the other areas. Since the family income of the mortgagor was lowest in Cincinnati, payments apparently imposed a slightly heavier financial burden, in relation to income, on the owners in that area.

Property Values

Property values average higher in the four District metropolitan areas than they do nationally. This is to be expected, partly on the ground that dwellings in the District must be constructed to provide shelter against more radical changes of weather than those built in the South or on the West Coast. Nevertheless, there is considerable variation in property values among areas within the Fourth District.

In August 1950, mortgaged single-family homes in Cleveland had the highest valuation placed upon them by their owners while, as of the same date, those in Youngstown had the lowest valuation, as shown in Table 1. The median value⁽⁴⁾ ranged from about \$12,800 in Cleveland to \$8,000 in Youngstown. About the same variation in market value from area to area is shown by owner-occupied, single-family homes without mortgages, so that the different levels of real estate values among the four District metropolitan areas are not restricted to mortgaged properties alone.

(4) The median is the middle value in a series; that is, the number that divides the series, when arrayed, into two equal parts. For example, a median property value of \$12,800 in Cleveland means that half of the properties had a market value of less than \$12,800, and half had a value of more than \$12,800.

Table 1 continued

CHARACTERISTIC	United States	STANDARD METROPOLITAN AREA			
		Cincinnati	Cleveland	Pittsburgh	Youngstown
Mortgage Holder					
Total.....	100%	100%	100%	100%	100%
Savings and loan association.....	32	81	48	52	52
Individual.....	31	2	10	17	17
Commercial bank or trust company....	18	10	22	20	26
Life insurance company.....	7	5	10	7	1
Mutual savings bank.....	7	(a)	8	(a)	(a)
Other(b).....	5	2	3	4	4
Term of Mortgage					
Total.....	100%	100%	100%	100%	100%
On demand.....	7	1	2	6	3
Less than 5 years....	12	1	22	7	8
5 to 9 years.....	22	6	9	15	20
10 to 14 years.....	34	45	25	41	53
15 to 19 years.....	16	37	31	21	13
20 to 24 years.....	7	10	8	8	2
25 years or more....	1	1	2	1	1
Median term (years)	11	14	12	11	11
Amortization					
Total.....	100%	100%	100%	100%	100%
Fully amortized.....	78	93	66	83	89
Partially amortized..	9	6	30	8	5
Not amortized.....	6	(a)	2	3	2
On demand.....	7	1	2	6	3
Interest Rate					
Total.....	100%	100%	100%	100%	100%
4.0% or less.....	12	13	9	8	10
4.1% to 4.5%.....	12	19	36	6	11
4.6% to 5.0%.....	32	44	36	37	46
5.1% to 5.5%.....	4	6	6	2	8
5.6% to 6.0%.....	36	16	14	46	25
6.1% or more.....	4	2	(a)	(a)	(a)
Median interest rate (percent).....	5.0	5.0	5.0	5.0	5.0
Monthly Interest and Principal Payments					
Total.....	100%	100%	100%	100%	100%
Less than \$20.....	13	8	2	9	11
\$20 to \$39.....	45	35	34	47	50
\$40 to \$59.....	27	35	38	26	29
\$60 to \$79.....	9	13	18	12	6
\$80 or more.....	6	9	8	6	5
Median monthly payment (dollars)....	36	43	45	37	35
1949 Money Income, Mortgagor Families and Individuals					
Total.....	100%	100%	100%	100%	100%
Less than \$2,000....	14	10	6	9	6
\$2,000 to \$2,999....	18	16	8	14	19
\$3,000 to \$3,999....	23	27	23	27	28
\$4,000 to \$4,999....	16	18	19	18	17
\$5,000 to \$5,999....	11	14	14	13	12
\$6,000 to \$7,999....	10	8	16	10	12
\$8,000 to \$9,999....	4	3	5	3	4
\$10,000 or more.....	5	4	9	6	3
Median income (dollars).....	3,700	3,800	4,600	3,900	3,900

Footnotes at end of table, page 4.

Table 1 *continued*
MORTGAGE CHARACTERISTICS

CHARACTERISTIC	United States	STANDARD METROPOLITAN AREA			
		Cincinnati	Cleveland	Pittsburgh	Youngstown
Interest and Principal Payments On All Mortgages on Property As a Percent of Income(c)					
Total.....	100%	100%	100%	100%	100%
Less than 5 percent..	9	5	5	7	11
5 to 9 percent.....	31	28	29	31	32
10 to 14 percent....	26	30	34	31	29
15 to 19 percent....	14	17	15	16	15
20 to 24 percent....	7	9	6	4	6
25 to 39 percent....	6	5	6	5	4
40 percent or more..	7	6	5	6	3
Median percent.....	12	13	12	12	11

Source: 1950 Census of Housing, Volume IV, Part 2.

Note: Details do not necessarily add to totals because of rounding.

(a) Not reported or less than 0.5 percent.

(b) Includes mortgage companies, business corporations, construction companies, and all other holders.

(c) Income of primary families and individuals where income was less than \$10,000.

SELECTED DEFINITIONS

(More detailed definitions may be found in the original Census report)

Mortgaged, residential, nonfarm property. All land and structures given as security for a mortgage loan where more than half of the floor space consists of dwelling units, and none of the dwelling units were located on a farm. A property is classified as owner-occupied if it contains 1 to 4 dwelling units, one of which is occupied by an owner. All other property is classified as rental.

Market value. The amount which the owner estimated the property would sell for under current market conditions (August 1950) and not at forced sale.

Mortgage loan. The amount of the loan at the time it was acquired by the present owner. Thus, it may be the face amount of the mortgage, the unpaid balance on a contract assumed from the previous owner, or, in the case of a refinancing of a previous mortgage, the amount of the new mortgage.

Mortgage holder. The mortgagee. The person, firm or corporation who has legal right to the interest and principal due on the mortgage. The mortgage holder, therefore, is not necessarily the mortgage lender.

Monthly interest and principal payment. The amount required to be paid under the terms of the mortgage. These payments are computed on a monthly basis, regardless of the actual frequency of payment. If other items are included in the required payments, they are excluded from this computation.

Income of primary families and individuals. Total money income of the owner and his relatives, if any, during 1949.

Interest and principal payments as a percent of income. This ratio is restricted to properties where the first mortgage payment includes both interest and principal, where 1949 family income was less than \$10,000 and where income was reported completely. Interest and principal payments are for all mortgages on the property; income is that of primary families and individuals.

The different levels of real estate values among the four metropolitan areas cannot be explained solely by variations among areas in the size and age of dwellings. Whatever the causes, property values differ among the four areas and this fact helps explain some of the differences found among the areas in mortgage financing characteristics. For example, property values vary from area to area in about the same manner as purchase prices. Variations in purchase prices, in turn, have some effect upon the amount of the mortgage loan. Therefore, because of the many direct and indirect relationships between property values and mortgage characteristics, the variation in property values among areas should be kept in mind when evaluating the results of the Survey.

Mortgage Characteristics

Date of Acquisition Between 75 and 80 percent of the conventional first mortgages in all four areas were made or assumed after 1945. In Cincinnati and Pittsburgh, about one-third of the mortgaged properties were acquired in 1949 or later, as compared with 45 percent in Cleveland, and about 40 percent in Youngstown and in the country as a whole.

The combination of these two factors—property valuations and year of purchase—are reflected in the differences among areas in the purchase prices of mortgaged properties, although it is difficult to assign each factor its proper importance. In Cleveland, which had the highest valuation and largest proportion acquired in 1949 and 1950, the median purchase price of mortgaged, owner-occupied properties with one dwelling unit was \$9,600. At the other extreme, the median purchase price in Youngstown was \$5,200, even though there was a relatively large percentage of properties acquired in the later period.

Size of Mortgage Loans As might be expected, the size of the mortgage loan in the different metropolitan areas is affected by the purchase price, although another important factor in this respect is the size of the loan that the lending institution is willing to make on the property. The distribution of mortgage loans by size and loan-to-value ratio is given in Table 1.

The median loan in Cincinnati was about the same as in Cleveland, although purchase prices ran considerably higher in Cleveland. Of the four District areas, Cincinnati had the highest loan-to-value ratio and Cleveland the lowest, while the ratio in Pittsburgh and Youngstown was about midway between these two extremes and about the same as the national average. Part of the deviations in Cincinnati and Cleveland can be explained by the differences in local mortgage lending characteristics that follow.

Table 2
NUMBER OF MORTGAGED, RESIDENTIAL,
NONFARM PROPERTIES

August 1950

TYPE OF PROPERTY	United States	STANDARD METROPOLITAN AREA			
		Cincinnati	Cleveland	Pittsburgh	Youngstown
All Properties.....	9,442,886	78,926	124,500	134,073	39,214
Owner-occupied properties:					
Containing one dwelling unit					
With conventional first mortgage..	4,840,117	44,336	60,165	68,776	24,163
With FHA first mortgage.....	1,178,610	3,128	18,413	13,569	2,400
With VA first mortgage.....	1,033,452	4,698	9,399	16,118	4,593
Containing 2 to 4 dwelling units.....	1,235,829	18,350	25,575	23,602	5,111
Rental properties.....	1,154,887	8,413	10,947	12,007	2,949

Source: 1950 Census of Housing, Volume IV, Part 2.

Note: Details do not necessarily add to totals due to tabulating and rounding discrepancies.

Mortgage Holder

As a source of conventional mortgage loans, savings and loan associations appear to be much more important in the four large District metropolitan areas than they are nationally, and to be particularly active in Cincinnati where they held four-fifths of the conventional first mortgages outstanding on the *Survey* date.

Except for Cincinnati, commercial banks also appear to be somewhat more active in the District areas than they are nationally. Individuals, however, are of lesser importance locally as a source of conventional mortgage funds, particularly in Cincinnati and Cleveland. Life insurance companies do not appear to be active in the Youngstown area, and two of the four cities have no mutual savings banks.

Term of Mortgage

The number of years that a mortgage loan runs is about the same in Cleveland, Pittsburgh, and Youngstown as it is nationally, but it typically runs a little longer in Cincinnati. However, there is still considerable variation in the mortgage terms among areas that is not shown by a comparison of medians.

The major portion of the conventional first mortgages in the Fourth District metropolitan areas run 10 years or more. The proportion varies from 93 percent in Cincinnati to 66 percent in Cleveland. For the United States as a whole, the proportion is only about 58 percent. The larger proportion of longer-term mortgage loans in the metropolitan areas of the District probably reflects, in part, the greater relative importance of savings and loan associations as a source of conventional mortgage funds.

On the other hand, roughly two out of every ten conventional first mortgages in Cleveland run for less than five years, according to the *Survey*, or nearly twice the national proportion. In Pittsburgh and Youngstown, less than one mortgage in ten is for this short term and in Cincinnati only one in a hundred falls into this group.

Amortization When compared with the national figures, a smaller proportion of the conventional first mortgages outstanding in the District areas were not amortized in August 1950 and, except for Cleveland, a larger proportion were fully amortized. As shown in Table 1, the proportion not amortized in the District areas was half or less than the comparable national figure, while the percentage fully amortized in Cincinnati, Pittsburgh and Youngstown exceeded the national figure. The very large proportion fully amortized in Cincinnati is probably associated with the longer term found in that area. The relatively large number of short-term mortgages in Cleveland helps explain why nearly a third of the mortgages outstanding in that area were only partially amortized.

Interest Rate The differences in term and amortization among metropolitan areas are also reflected somewhat in interest rates. In general, the interest charge on conventional first mortgages appeared to be below the national rate in Cincinnati, Cleveland and Youngstown, and above it in Pittsburgh.

In Cleveland, 45 percent of the conventional first mortgages bore a rate of 4.5 percent or less. In Cin-

cinnati, the proportion was about a third, while nationally only about one-fourth of the mortgages bore these lower rates. The large number of mortgages with lower interest charges in Cleveland is most likely a result of the relatively large number of shorter-term mortgages.

Interest rates appear to have been higher in Pittsburgh than nationally. About 46 percent of the mortgages carried a rate between 5.6 percent and 6.0 percent, or roughly twice the proportion in this higher interest bracket found in the other three District cities and considerably above the national figure.

However, the median interest rate was the same (5.0 percent) in all four District areas as it was nationally.

Monthly Payments Monthly payments of interest and principal differed among the metropolitan areas in about the same manner as did the size of the mortgage loan. The figure was nearly the same in Cincinnati and Cleveland, at a position about one-fifth to one-fourth above the national figure. In Pittsburgh and Youngstown, the monthly payment was almost identical with that found for the country as a whole.

In this connection, it is interesting to note that there is often a close correspondence between monthly rentals and monthly mortgage payments. In Pittsburgh, Youngstown, and the United States as a whole, the monthly rental of all renter-occupied

units was about the same as the monthly interest and principal payments of owners of single-family houses. In Cincinnati and Cleveland, however, monthly mortgage payments were quite a bit larger than rents, probably reflecting the larger mortgage loans (higher property values) in these two areas.

However, the family incomes of mortgagors were considerably above average. This is illustrated by the following comparison of the median money income of all families and individuals in 1949 with that of mortgagor families and individuals:

	Families and Total	Individuals Mortgagor
United States	\$2,782	\$3,700
Cincinnati	2,909	3,800
Cleveland	3,457	4,600
Pittsburgh	3,068	3,900
Youngstown	3,218	3,900

Monthly mortgage payments took about one-eighth of the mortgagor family's income. Since incomes ran somewhat lower in Cincinnati, while mortgage loans were relatively large, the monthly payments took a slightly bigger bite out of the Cincinnati family's income (Table 1). Higher incomes in Cleveland offset the larger monthly payments.

This short report on differences in home-mortgage financing characteristics within the Fourth District by no means exhausts the material available on the subject in the *Residential Financing Survey*.

Recent Trends in Business Loans

LENDING by commercial banks to business concerns has been at an appreciably reduced pace during recent months. Such a development has been attributed mainly to a slackening in business demand for loans, which in turn is at least partially associated with a tendency toward greater caution in policies toward inventories.

A perspective on the nature and extent of the recent changes in the volume of business loans, at least as regards banking in the Fourth Federal Reserve District, may be afforded by the accompanying charts. All data refer to outstanding volume of loans classified as "commercial, industrial and agricultural", held by weekly reporting banks of the Fourth District. The respective volumes of loans to selected industrial or business groups, as well as total business loans, are included in the series depicted by the charts.

For each month end during the years 1952 and 1953 to date, cumulative net change in loan volume outstanding *since the beginning of the year* is plotted in the four charts which appear on page 8. Outstanding *total business loans*, as may be seen from the first chart, have shown marked tendencies to decline since May of this year. The decline from June through October has amounted to about \$72 million, or 5 percent of the end-of-May volume.⁽¹⁾ The early part of the year had witnessed irregular movements, including a sharp upward thrust during March. Cast against the background of the previous year's movements in Fourth District business loans, also shown on the chart, the easing tendency during a considerable part of this year is all the more apparent.

Last year, however, was in several respects a rather unusual year for the timing of business loans, and is therefore a not altogether satisfactory bench mark for appraising the course of this year's loans. The effects and aftereffects of the steel strike, for example, were influential in last year's developments in borrowings. Partly on that account, and partly for other reasons, the course of changes in outstandings last year departed somewhat from usual seasonal patterns.

There is ordinarily a downward seasonal movement in the volume of business loans outstanding during the early part of the year (as repayments on certain types of loans are made) followed by an upward movement during the second half of the year.

If an estimated allowance is made for such a typical seasonal movement, based on postwar experience, the results appear in a "seasonally adjusted" curve of Fourth District business loans outstanding as shown by the chart appearing on this page. On such a seasonally adjusted basis, an almost uninterrupted upswing since early 1950 has given way in 1953 to an appreciable downward tendency observable since May. Such a showing confirms, in a broad sense, the finding already indicated.

Returning to the set of charts on page 8, which are based on cumulative net change since the start of the year, further light on the nature of this year's changes may be obtained by examination of some of the particular business groupings which go to make up the total of "business loans".

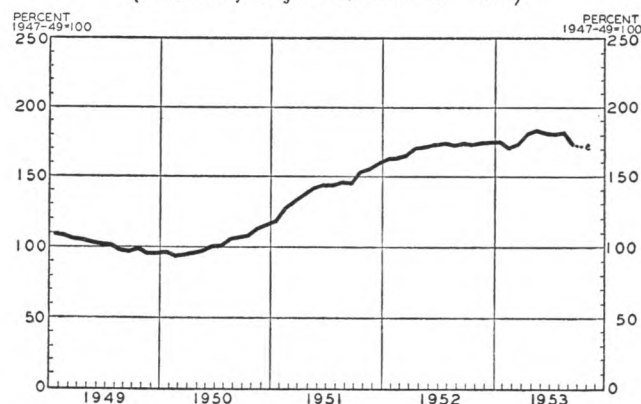
During the early part of 1953, borrowings by *metals and metal products manufacturers* increased from the first of the year, but at no time did the cumulative change approach the level of the previous year. The increase continued through March, after which the level of outstandings remained fairly steady until the month of September, when a very sharp decline was recorded. For 1953 to date, the borrowings by this group stand in sharp contrast to the course of events in 1952.

Textiles, apparel and leather manufacturers started 1953 with a strong increase in outstanding debt, which continued through February. At this point, cumulative change in borrowings exceeded that of last year. After February, however, indebtedness of

INDEX OF BUSINESS LOANS OUTSTANDING

Weekly Reporting Banks—Fourth District

(Seasonally adjusted; 1947-49 = 100)



... *total business loans* in the Fourth District, after seasonal adjustment, show a steady rise since early 1950 until May of this year, when an observable downward tendency set in.

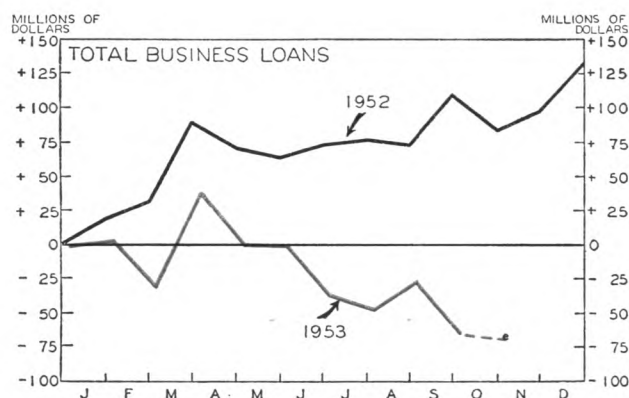
e Estimated.

(1) The decline in outstandings from September to October, as indicated on the chart, would have been more pronounced if it had not been for the issuance of the new Commodity Credit Corporation certificates of interest. During the last week of October, a significant volume of these certificates was acquired by the banks, and reported as business loans.

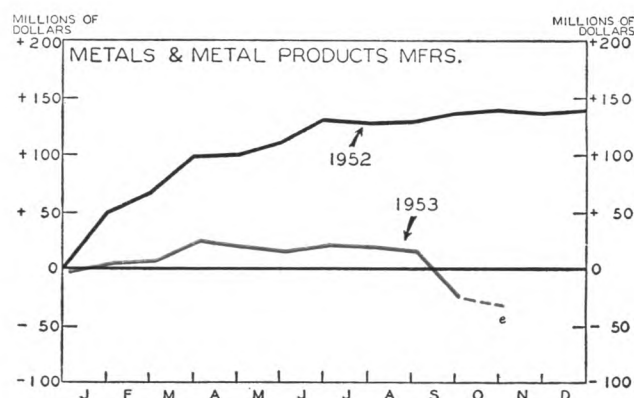
CUMULATIVE CHANGE IN BUSINESS LOANS

(Since start of years 1953 and 1952)

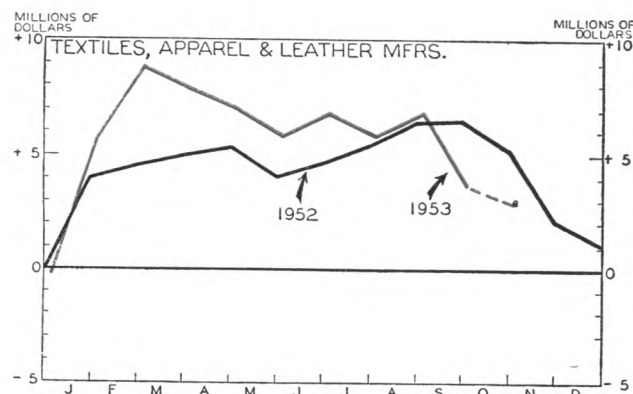
Outstandings Held by Fourth District Weekly Reporting Banks



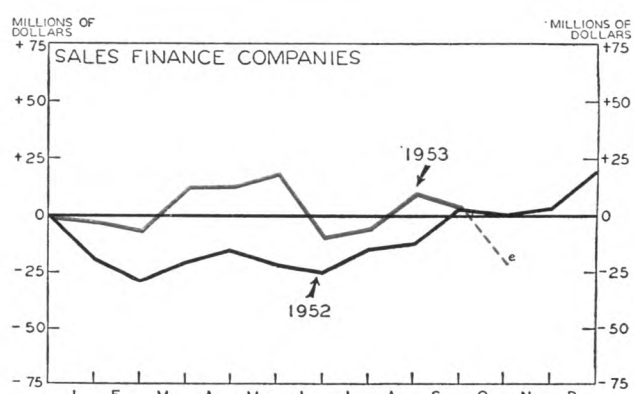
... total business loans have shown a marked decline since May of this year (about 5 percent) contrasting with an upward trend last year.



... outstandings owed by *metals and metal-product manufacturers* increased much less than a year ago through the first half of this year, and dropped sharply in September.



... manufacturers of *textiles, apparel and leather products* began this year with large addition to borrowings; the margin over last year, however, was whittled away, and a sharp drop in September brought the cumulative change below last year's.



... increases in bank debt owed by *sales finance companies* outstripped those of a year ago until early this fall, when the cumulative-change position became about equal with that of last year.

e Estimated.

textile manufacturers declined rather sharply through May. During the same period of 1952, the borrowings of this group had been gradually increasing, although they showed a slight decline during April of last year. From May 1952 through September of that year a steady increase in borrowings had occurred, followed by a sharp drop which continued for the balance of the year. This year, by contrast, the period from June through August was characterized by alternate increases and decreases in debt. Then the month of September brought a very sharp decline in debt, so that the cumulative rise fell below

that of 1952 for the first time this year.

Sales finance companies have been generally running ahead of their showing of 1952. Last year, outstandings had declined initially through February. Then a slight gain had occurred during March and April, followed by a decrease during May and June. Starting in July of last year the outstanding debt of this group had risen steadily through September, lost ground slightly in October and then had continued to rise for the rest of the year.

Early 1953 recorded only slight declines in outstandings of sales finance companies—slighter than

those of 1952—while the period March through May showed increases in debt exceeding the 1952 amounts. During June the level of debt was reduced sharply, but it rose again during July and August. Borrowings of sales finance companies then declined during September to reach a point at the end of the month where the cumulative change since the start of the year was only slightly above that of last year.

Loans to other business groups not shown in the chart series have undergone varying trends, although in practically all cases the pattern of easing during recent months is repeated. For example, outstandings of *wholesale trade* have not recorded any net monthly increase since the first half of the year, and at last reports the cumulative change for the year stands below the year-ago position.

In *retail trade* the picture is somewhat stronger for this year, as compared to 1952. After a gentle decline through February of this year, there was a sharp

increase in outstandings during March, followed by a gentle rise through May. The same period last year had been characterized by a steady decline through April. During the current year a decline in indebtedness occurred for the period May through August, somewhat similar to that of last year. Increases in debt were recorded during September, with some decrease indicated for October. The pace of borrowings by the retail trade group in September and October does not appear to be quite as great as that of last year.

The detailed changes in the volume of business loans which have just been described apply only to the reporting banks of the Fourth District, as mentioned at the outset. An easing tendency during recent months, however, appears to characterize the course of business loans on a nation-wide basis, as well as in this District.

SUMMARY OF NATIONAL BUSINESS CONDITIONS

Released by the Board of Governors of the Federal Reserve System

Industrial activity and retail sales in September and October were somewhat below earlier advanced levels. Wholesale commodity prices generally continued to show little change. Total loans and investments at banks contracted from mid-September to mid-October and yields on securities declined sharply.

Industrial Production

The Board's preliminary index of industrial production in September was 232 per cent of the 1935-39 average, down 1 per cent from August. The reduction in output of about 3 per cent from the unusually high level maintained during the first half of the year reflected partly efforts to limit inventories. The total index is expected to change little in October, with increases in output of steel and autos largely offsetting further reductions in petroleum and some other products.

Output of durable goods declined moderately in September, reflecting further decreases in autos, farm machinery, some items of industrial equipment, and reduced output of steel. Steel mill operations, however, turned up at the end of the month, and in October have been scheduled at an average rate of about 95 per cent of capacity. Auto output also expanded somewhat in October, while truck production was sharply curtailed late in the month owing partly to model changeovers. Over-all production of major household goods decreased slightly in September with furniture and appliances declining somewhat further and television sets strengthening seasonally.

Nondurable goods production declined slightly in September as activity was reduced in the rayon and wool industries and operations were curtailed somewhat at petroleum refineries. Output of paperboard continued at capacity levels through mid-October. Activity in the cotton textile industry and in most other nondurable goods industries in September held steady at August levels.

Minerals production also was maintained in September. Fuel output changed little with a small cutback in crude petroleum offset by an increase in coal mining. In early October crude output was curtailed further to a level about 4 per cent below that of late August and early September and production of coal was also reduced somewhat.

Construction

Value of construction awards increased substantially in September to about the July level, reflecting chiefly large awards in connection with a new atomic energy project. Outlays for new construction put in place continued high, with advances in private business construction and public construction offsetting a further slight decrease in residential building. The number of housing units started declined further in September to 92,000, as compared with 94,000 in August and 101,000 in September 1952.

Employment

Employment in nonagricultural establishments was maintained at near record levels in September, a time

when a seasonal expansion usually occurs. In reports for mid-September, which included the Labor Day holiday for many establishments, the factory work-week was down almost one hour, to 39½. Unemployment in September continued at a low level.

Distribution

Seasonally adjusted sales at department stores decreased further in September, partly reflecting unusually warm weather, but showed some rise in the first half of October. Sales of new and used cars remained very active for this season of the year. Preliminary indications are that the seasonally adjusted index of department store stocks declined slightly in September.

Commodity Prices

The average level of wholesale commodity prices declined slightly from mid-September through October, reflecting partly seasonal reductions in prices of livestock and meat. Corn fell about 15 per cent during this period of crop harvest, but wheat advanced to the highest levels since early May. Average prices of industrial commodities changed little. Steel scrap declined further in early October but subsequently advanced, and nonferrous metals generally strengthened. Hides, rubber, and lumber declined. Tire prices were raised, while gasoline prices were reduced in some areas.

The consumer price index rose slightly further in September, reflecting increases in most groups of goods and services other than foods.

Bank Credit and Reserves

Total loans and investments at banks in leading cities declined from mid-September to mid-October, reflecting both a continued reduction in holdings of U. S. Government securities and a decline in loans. All major categories of loans and investments except real estate loans declined. There was a contraction in business loans of 95 million dollars compared with an increase of over 500 million in the corresponding four-week period last year. Interest rates on business loans made in the first fifteen days of September by banks in nineteen centers averaged 3¾ per cent, about the same as in early June.

Bank reserve positions continued easy during the first three weeks of October. Reserve funds were supplied through Federal Reserve purchases of Treasury bills in the first week of October, as well as an increase in float, and a decline in Treasury deposits at Federal Reserve Banks. Excess reserves of member banks averaged 800 million dollars, while borrowing from the Federal Reserve averaged under 400 million.

Security markets

Yields on Treasury and other high-grade bonds declined sharply in October. Short-term yields also declined, and the yield on new three-month Treasury bills was 1.22 per cent in late October as compared with 1.63 per cent at the end of September.

A New Concept of Conservation

by CLYDE WILLIAMS, *President and Director, Battelle Memorial Institute*



Since 1900, the total annual consumption of agricultural products in the United States has more than doubled, the use of minerals and mineral fuels has risen sixfold, and electric power output has about doubled every decade. The nation is now consuming between $2\frac{1}{2}$ and 3 billion tons of raw materials annually, and in 1952 produced more than 400 billion kwh of electric power.

With a constantly expanding economy, raw materials and energy consumption will continue to rise. It has been estimated that in another 25 years the country will probably need 40 per cent higher agricultural production than in 1950, nearly twice the minerals and mineral fuels output, and three-and-one-half times as much electric power.

This prodigious, insatiable appetite for energy and raw materials, accompanied by increasing recognition that the country does not have an unlimited supply of rich natural resources, has given rise to renewed emphasis on conservation. For many years, the Federal and state governments have taken the leadership in promoting the conservation of public lands, forests, and waters. In its new phase, however, conservation is taking on a much broader scope. It is becoming the cornerstone for our total economic security. It is the fountainhead from which will spring reassurance that our industries and homes need never fear any curtailment of progress toward higher standards of living because of inadequate natural resources.

Conservation, in its broadest sense, may be defined as endless effort to secure for mankind the greatest benefit from our natural resources. More specifically, it means using the smallest amounts of our natural resources that are consistent with the needs of the economy for high-quality products and services. Conservation means planning for the replenishment of natural resources through the discovery and economic development of new supplies. Implicit in both aspects of conservation are the elimination of wasteful practices, the maximum use of waste materials, and the substitution of a more plentiful material for one in lower supply.

Substantial progress has already been made in the more economical use of our lands, water, minerals, and other natural resources. Fifty years ago, central electric power stations used an average of six pounds of coal for each kilowatt-hour produced; now they average about $1\frac{1}{5}$ pounds for the same output, and some of the newest ones consume as little as $\frac{3}{4}$ of a pound. Better protective coatings and alloys have contributed immeasurably to extending the life span of metal products. Billions of dollars worth of replacement materials have been saved through the engineering of instruments, equipment, and controlled manufacturing methods which are designed to ensure the production of high-quality products. Improvements in petroleum discovery and production methods during the past 25 years have more than doubled our oil resources.

Through the use of agricultural chemicals and other scientific farming methods, farmers have been able to increase many times their acreage yields for such crops as corn, wheat, potatoes, and cotton.

In spite of these and many other advances that have been made, the opportunities for increasing our supplies of energy and raw materials through more economical use of existing resources truly stagger the imagination. Nearly four out of every five units of energy available from fuels consumed in the United States are lost in the conversion and application of those fuels, in the form of electrical and mechanical energy, to useful work in motor vehicles, factories, homes, and commercial establishments. One authority has estimated that we are still paying about \$5.5 billion annually, in direct costs, for the replacement of corroded metal products. If our farms and forests could be rid of harmful insects, weeds, fungi, and other agricultural pests, the country's annual farm output might be increased between 30 and 40 per cent. More sulphur is said to escape into the atmosphere as waste from industrial plants than is actually used by sulphur-consuming industries. Measured in terms of rainfall available for man's use, the nation's potential water supply is six to thirteen times as great as present daily consumption.

In the total conservation picture, exciting potentials are also seen in the discovery and development of energy and raw materials supplies that have previously been considered uneconomical to exploit. Copper companies have already set a notable example. The country is now obtaining most of its copper from ores that contain about one per cent of metal, as compared to five per cent in 1890. Advances being made in the development of more economical methods for the processing of low-grade ores are encouraging this trend. By 1965-75, for example, iron ore producing companies expect that Lake Superior low-grade iron ores will become an important source of total iron ore supplies, perhaps to the extent of 20 million tons. More and more attention is being given to the by-product recovery of materials that were previously wasted. Cases in point are the recovery of molybdenum from copper ores, cobalt and iron from nickel, germanium from zinc, and useful products from waste gases that otherwise contaminate the atmosphere.

A number of eventualities, uneconomical or otherwise impractical in our present day, are no longer considered "impossible". For example, improved recovery techniques are opening the way for more extensive development of the ocean's fabulous resources of food, fresh water, and minerals. Peacetime applications of atomic energy are coming closer. When the cost of producing petroleum reaches a point where it is profitable to make an equivalent fuel from coal, oil shale, or tar sands, industry will be ready to assume the task. Research is in progress that may some day make it possible to harness the almost limitless energies of the sun.

We know that perfection in the conservation of our natural resources is a virtually unattainable ideal. However, we also know from past and present experience that the seeds for progressively higher standards of living are contained in the constant striving for the attainment of that ideal. As our supplies of rich natural resources have declined, a powerful new force, modern science and technology, has appeared on the scene. It is this new force that will make it possible to strive more vigorously towards the attainment of total conservation, and, over the years to come, resources unlimited.

Editor's Note—While the views expressed on this page are not necessarily those of this bank, the *Monthly Business Review* is pleased to make this space available for the discussion of significant developments in industrial research.

