

MONTHLY

Business Review

FEDERAL RESERVE BANK of CLEVELAND

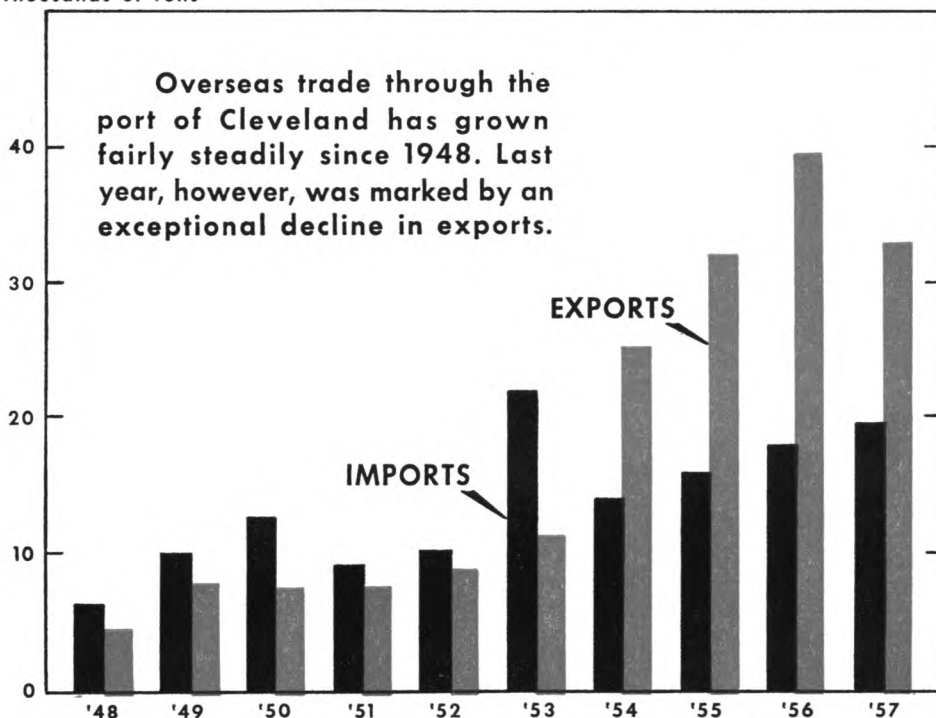
October, 1958

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OVERSEAS TRADE OF THE PORT OF CLEVELAND

Thousands of Tons



Source of data: U. S. Army, Corps of Engineers

Overseas Trade of Great Lakes Ports

IN PROPORTION to the total amount of cargo carried on the Great Lakes, overseas trade is quite small, representing in recent years about 1½ percent of the volume of all trade handled by Great Lakes ports.⁽¹⁾ Domestic trade and trade with Canada are overwhelmingly larger because of the quantities of iron ore, coal, limestone, and wheat carried by the familiar lake freighters, which themselves dwarf the small ships now used in overseas trade on the Great Lakes. The Great Lakes are just beginning to be an artery of foreign trade, whereas they have been an integral part of the domestic transportation system for more than 50 years.

Despite its relatively small size, however, overseas trade through Great Lakes ports is marked by the variety of cargoes carried, in contrast to the few bulk commodities which make up most of the traffic on the lakes. Overseas trade is important, also, because of its rapid growth in recent years and because it is in this kind of trade that the St. Lawrence Seaway is expected to have its principal effect.

A considerable part of the overseas cargo carried on the Great Lakes consists of high-value, low-weight package freight. Package freight is a fairly new and different kind of cargo in Great Lakes ports, where the movement of thousands of tons of bulk cargo is commonplace.

Cleveland and Toledo are the only Great Lakes ports of the Fourth District that handle overseas cargoes in any appreciable amount; overseas trade through other lake

ports in the District is infrequent and very small. Lorain, Fairport Harbor, Ashtabula, and Conneaut are major ports in domestic and Canadian trade, but they have not as yet played any part in overseas trade beyond an occasional cargo.

In turn, Cleveland and Toledo are overshadowed as overseas trading centers by several other lake ports. In 1957, Cleveland and Toledo combined handled about 16 percent of all overseas cargo moving through Great Lakes ports, expressed in terms of tonnage. Chicago has always been the largest lake port in overseas trade, followed by Detroit, and in recent years, by Milwaukee. (The share of Fourth District lake ports in overseas trade on the Great Lakes does not, of course, indicate the stake of the Fourth District in total U. S. foreign trade, since lake ports handle only a small part of this trade.)

Trends in Tonnage

Overseas trade of all Great Lakes ports combined has shown a substantial upward trend over the period since 1948, but there has been considerable year-to-year fluctuation within that period, notably from 1953 to 1954, and again from 1956 to 1957. (See chart.)

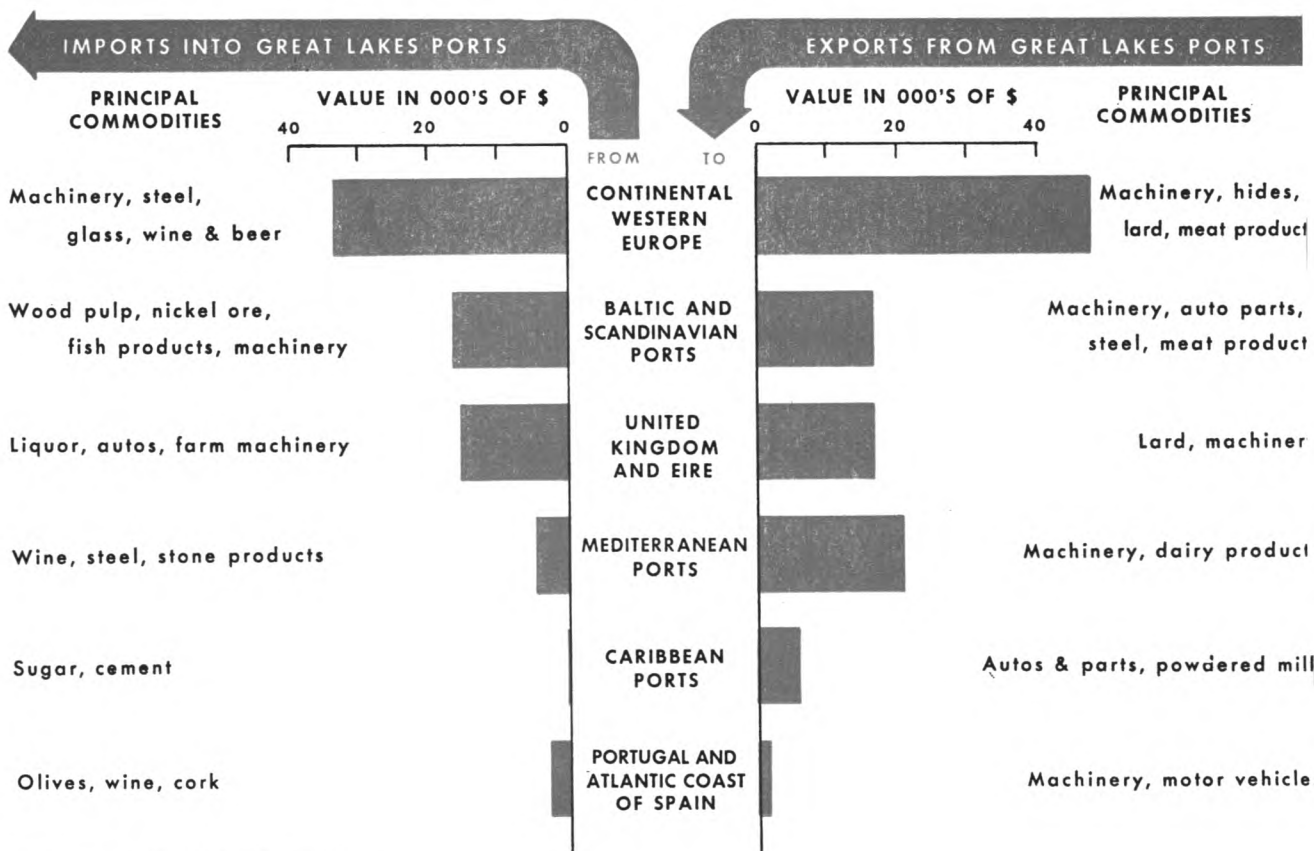
Most of that fluctuation was in imports, which reached a peak in tonnage in 1953 as a result of exceptionally large imports of steel through Detroit. Exports, in contrast, increased each year, except 1948, until 1955, but have shown little change since then.

Preliminary data indicate that the tonnage of overseas trade through Great Lakes ports in 1957 was 11 percent below the 1956 total.

(1) The term "overseas" trade as used here refers to trade with all foreign countries except Canada, excluding Defense Department "special category" exports. The data used here also exclude overseas cargoes transshipped at Canadian ports.

TRADING AREAS AND COMMODITIES

Overseas Trade of Great Lakes Ports — 1956



Source of data: Great Lakes Commission

All of that decline was accounted for by a 22 percent decrease in imports, which not only fell short of the 1955 and 1956 totals, but were about one-third below the record high reached in 1953. Exports through Great Lakes ports in 1957 were about one percent higher than in 1956, but dropped below the record 1955 total by about the same percentage.

No commodity detail is as yet available for the overseas trade of all lake ports in 1957, but the drop in imports in that year appears to have resulted principally from much smaller imports of cement, which, in physical volume, had been the largest single import into Great Lakes ports in 1956. The large ex-

pansion of capacity by domestic cement producers in 1957 was probably the principal reason for the decline in imports. Imports of cement through Great Lakes ports (Chicago being the principal port concerned) skyrocketed from nothing in 1954 to 54,000 tons in 1955, and increased further to 58,000 tons in 1956, during the period when domestic supplies were inadequate. Imports of glass and steel also were apparently much lower in 1957 than in the previous year.

The slight decline in exports from 1955 to 1956 was the result of offsetting movements in principal exports groups. Smaller shipments of animal feeds, hides and skins, and

steel mill products were offset by larger exports of lard, meat products, and petroleum coke. In terms of dollar value, in fact, overseas exports of Great Lakes ports were slightly higher in 1956 than in 1955, indicating an increase in exports of higher-value commodities.

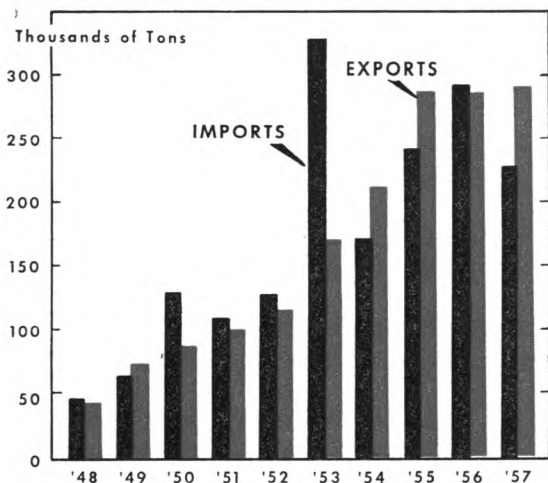
Cleveland and Toledo

Overseas trade through the port of Cleveland has also grown fairly steadily since 1948, dropping below the previous year's total only in 1951 and in 1957. (See cover chart.)

Overseas trade through the port of Cleveland fell off by 15 percent from 1956 to 1957. Exports through the port dropped by one-quarter between the two years, more than offsetting a small increase in imports.

Changes in Cleveland's overseas trade between 1956 and 1957 appear to have been caused by shifts in three commodities. On the export side, shipments of synthetic rubber and lard dropped very sharply, while fluor-spar, for use by local chemical and steel com-

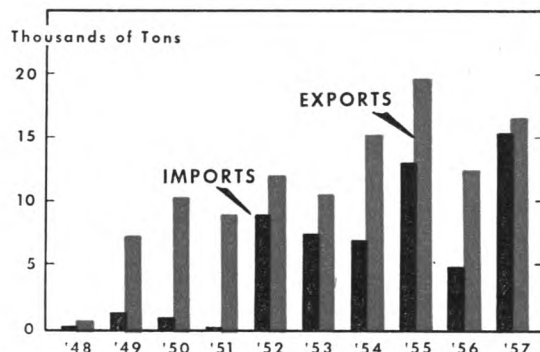
ALL GREAT LAKES PORTS



Source of data: U. S. Army, Corps of Engineers

Overseas trade of Great Lakes ports grew steadily during the postwar period until 1957, when a sharp fall in imports dropped total trade below the 1955 and 1956 level.

TOLEDO



Source of data: U. S. Army, Corps of Engineers

Toledo's overseas trade increased very sharply between 1956 and 1957 as imports reached a new high and exports moved closer to the record 1955 mark.

panies, was imported in large quantities from Spain, marking the first time this particular raw material had been imported through Cleveland.

Toledo's overseas trade is smaller than that of Cleveland and it has shown considerably more year-to-year fluctuation, in response to the changing fortunes of the few commodities which constitute such a large part of its trade. Thus, the drop in both imports and exports from 1955 to 1956 was due to smaller imports of glass and a reduction in exports of petroleum coke; that commodity has been Toledo's largest single export for several years. Sizable imports of glass through Toledo in 1955 were the result of the record production of automobiles in that year, which caused a demand for automobile window glass that domestic producers could not fill.

In contrast to Cleveland, overseas trade through Toledo increased sharply from 1956 to 1957, largely as a result of a tripling in imports between the two years.

The big jump in imports through Toledo between 1956 and 1957 was the result of larger imports of steel, woodpulp, and paper, the latter two commodities being relatively new imports into Toledo. The more modest in-

crease in exports between the two years was accounted for largely by soybean oil and meal, dried milk, and cheese.

Trade with Europe Predominates

Data recently published by the Great Lakes Commission⁽²⁾ make possible an analysis, more detailed than was previously possible, of the trading areas and commodities involved in the overseas trade of the Great Lakes ports. As an accompanying chart shows, most Great

(2) *Great Lakes Overseas Commerce*, Great Lakes Commission (established 1955 by Interstate Compact) Ann Arbor, Michigan.

Lakes overseas trade is carried on with ports in Northern and Western Europe; Mediterranean and Caribbean ports account for much smaller shares. Trade with other areas is negligible or nonexistent. The predominance of Northern and Western Europe in Great Lakes overseas trade is to be expected because of their geographical location close to the St. Lawrence River and their importance as trading partners of the United States.

Some of the major components of trade with each area are also shown in the chart, indicating the wide variety of commodities in Great Lakes overseas trade.

NOTES ON FEDERAL RESERVE PUBLICATIONS

Among the articles recently published in monthly business reviews of other Federal Reserve banks are:

“Life Insurance Companies in the Postwar Capital Markets”, Federal Reserve Bank of New York, September 1958.

“The Rise of Savings and Loan Associations”, Federal Reserve Bank of Richmond, September 1958.

“United States Gold Losses”, Federal Reserve Bank of Kansas City, September 1958.

“Weather and Retail Trade”, Federal Reserve Bank of Chicago, September 1958.

(Copies may be obtained by writing to the Federal Reserve Bank named in each case.)

* * * *

Statements on Federal Reserve policy include:

“Recent Economic Trends and Federal Reserve Policy”. Remarks by M. S. SZYMCZAK, Member, Board of Governors of the Federal Reserve System, before the Washington Chapter of the National Association of Accountants, Washington, D. C., September 17, 1958.

“Money in Peace and War”. Remarks by J. L. ROBERTSON, Member, Board of Governors of the Federal Reserve System, before the Annual Convention of the American Bankers Association, Chicago, Ill., September 24, 1958.

(Copies of these two addresses are available at the Board of Governors of the Federal Reserve System, Washington 25, D. C.)

Mortgage Warehousing

Fourth District

ON AUGUST 13, 1958, the Federal Reserve System conducted the latest in a series of surveys which began in 1955 on Warehousing of Real Estate Mortgages by weekly reporting member banks.⁽¹⁾ Outstanding loans warehoused at 17 Fourth District reporting banks in August 1958 amounted to \$71 million, representing a 23 percent decrease from the record level established in August 1956. Between the same dates, outstanding warehousing loans for the entire United States declined 18 percent. Unused commitments to extend mortgage credit to real estate lenders, amounting to \$30 million this year, were 41 percent below the high point reached in August 1955.

Types of Warehousing

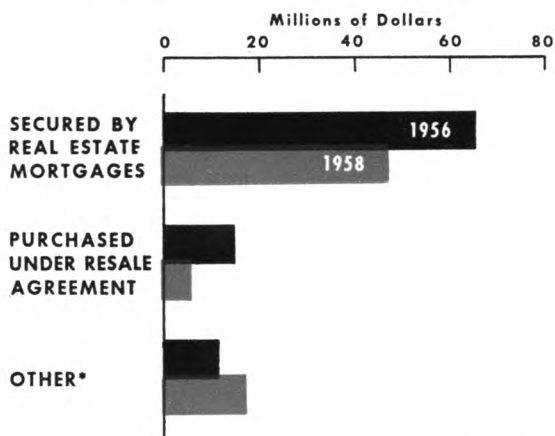
Mortgage warehousing may be defined as the granting of interim loans by commercial banks to nonbank real estate lenders, such as mortgage companies, savings and loan associations, and insurance companies. The use of the term "warehouse" arises from the temporary character of the advance. It is intended that the loan will be terminated within a reasonably short period, after which the mortgage is to be taken over by the ultimate holder.

A common type of mortgage warehouse lending, practiced by commercial banks for many years, takes the form of a loan made to a real estate lender and secured by mortgages being processed—completion of legal and administrative details—before they can be sold

to the permanent lender. The short-term nature of the loan is assured by a commitment on the part of the permanent lender to accept delivery of the mortgage, once terms and specifications have been met.

In recent years, the advent of the mortgage company in the mortgage market has led to the development of a type of warehousing loan that is similar to the above except that it lacks a commitment by a permanent holder. To some extent, this type of loan adds stability to the mortgage market by making it possible for the mortgage company to maintain continuous operations and to finance mortgages for which it has not yet found a permanent holder. In the absence of a commitment by a permanent holder, banks gen-

TYPES OF WAREHOUSING LOANS
(Weekly Reporting Member Banks, Fourth District)



(1) In 1955, reporting banks were asked to estimate previous year figures. Thus, information becomes available for five consecutive years.

* Unsecured, or secured other than by real estate mortgages

CREDIT EXTENDED TO REAL ESTATE MORTGAGE LENDERS
Fourth District Weekly Reporting Member Banks
(Amounts outstanding in thousands of dollars)

Type of Loan by Major Classes of Borrower	August 11, 1954 ⁽¹⁾	August 10, 1955	August 8, 1956	August 14, 1957	August 13 1958
Mortgages Purchased Under Resale Agreement:					
Insurance Companies.....	\$ —	\$10,879	\$ 4,758	\$ 1,173	\$ 1,923
Mortgage Companies.....	—	5,159	9,362	5,353	1,824
Savings & Loan Associations.....	—	—	—	—	—
Others ⁽²⁾	110	191	959	1,190	2,222
Total.....	\$ 110	\$16,229	\$15,079	\$ 7,716	\$ 5,969
Secured by Real Estate Mortgages:					
Insurance Companies.....	\$ 173	\$ 1,322	\$ 202	\$ —	\$ —
Mortgage Companies.....	16,104	57,671	64,652	65,990	47,206
Savings & Loan Associations.....	—	—	—	—	—
Others ⁽²⁾	20	5	165	10	105
Total.....	\$16,297	\$58,998	\$65,019	\$66,000	\$47,311
Unsecured, or Secured Other Than By Real Estate Mortgages:					
Insurance Companies.....	\$ —	\$ —	\$ —	\$ —	\$ —
Mortgage Companies.....	1,402	870	707	986	1,913
Savings & Loan Associations.....	4,517	10,659	10,778	11,214	15,473
Others ⁽²⁾	—	—	85	75	75
Total.....	\$ 5,919	\$11,529	\$11,570	\$12,275	\$17,461
Total Loans.....	\$22,326	\$86,756	\$91,668	\$85,991	\$70,741
Unused Firm Commitments To Extend Credit of Above Types:					
Insurance Companies.....	⁽³⁾	\$20,377	\$15,700	\$11,215	\$ —
Mortgage Companies.....	⁽³⁾	26,606	18,367	17,252	23,298
Savings & Loan Associations.....	⁽³⁾	50	320	809	875
Others ⁽²⁾	⁽³⁾	4,465	534	2,250	6,250
Total.....	⁽³⁾	\$51,498	\$34,921	\$31,526	\$30,423

(1) Estimated figures, 1954.

(2) Mutual saving banks, builders, and other organizations (other than banks) that make or hold substantial amounts of real estate loans.

(3) Information not requested in Survey.

erally seek to protect themselves by limiting advances to an amount less than the market value of comparable mortgages available for immediate delivery. However, lending of this type involves the possibility that, due to a sudden weakening of the market, banks may find it necessary to absorb warehoused mortgages into their portfolios, or to extend the maturities of the warehousing loans. In either case the loans become a longer-term addition of commercial bank credit to the mortgage market.

A third type of warehousing loan involves an extension of credit to a permanent holder. The demand for such a loan occurs when the permanent holder is committed to purchase mortgages in excess of his current and anticipated inflow of funds. The duration of such a loan is not limited to the period required to complete technical processing, but the maturity may be as long as twelve or eighteen months, depending upon the time required by the permanent lender to reduce his commitments to a volume compatible with available funds.

The first two types of warehousing loans are essentially short-term and are designed to finance the processing and sale of mortgages in a way similar to other working capital loans. The latter type, on the other hand, supplements the resources of the permanent lender and it is more akin to an intermediate-term capital loan.

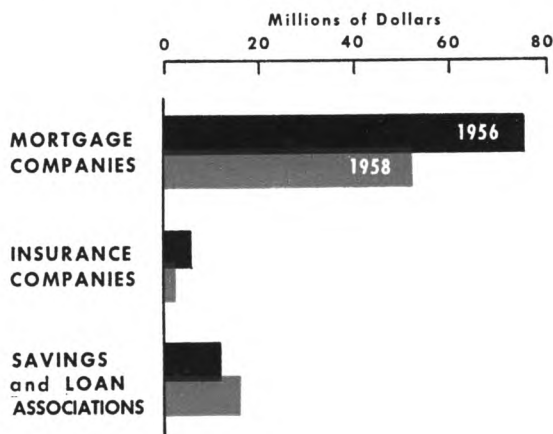
Mortgage Warehousing, 1954-1956

The volume of credit extended to real estate mortgage lenders by 17 Fourth District weekly reporting member banks is indicated on the accompanying table. (In terms of volume, these banks hold about 60 percent of all loans and 40 percent of all real estate loans of Fourth District member banks.) The results of the surveys indicate that warehousing loans increased substantially between 1954 and 1955, and climbed further to reach a peak in 1956. The increase was from \$22 million in 1954 to \$92 million in 1956.

Having been stimulated during 1954 by credit ease, relaxation of mortgage terms, and

BANK CREDIT OUTSTANDING TO REAL ESTATE MORTGAGE LENDERS

(Weekly Reporting Member Banks, Fourth District)



a more favorable rate position on Government-backed mortgages, many investors went into 1955 with large forward commitments to purchase mortgages. In 1955 they found themselves overcommitted; savings had fallen below the predicted volume and the demand for mortgage credit had increased above expectations. Thus investors turned to banks to tide them over until their positions stabilized. Warehousing loans helped alleviate the deleterious effect of sharply curtailed forward commitments on housing construction. The use of bank loans by overcommitted lenders, however, indicates longer-term extensions of credit by banks than are ordinarily contemplated in mortgage warehousing.

In 1956, with generally tighter credit conditions prevailing than in 1955, warehousing loans reached a peak although the gain was only moderate, 6 percent. In contrast, the outstanding volume had tripled between August 1954 and 1955. Unused commitments to warehouse future mortgages declined about \$16 million between August 1955 and August 1956, presaging a fall in the demand for warehousing loans.

Mortgage Warehousing, 1957-1958

As indicated in the accompanying table, in 1957 warehousing loans to real estate mortgage lenders receded \$5 million from the 1956 peak, and dropped \$15 million further in 1958.

As was the case before 1956, the accompanying chart shows that mortgage companies continued to be the largest borrowers in spite of a decline in borrowings from \$75 million in 1956 to \$51 million in 1958. Loans to insurance companies fell from \$5 million to \$2 million during the same period. On the other hand, savings and loan associations increased their dependence on bank credit appreciably, increasing from \$11 million in 1956 to over \$15 million in 1958.

Loans secured by a pledge of real estate mortgages that remain the property of the real estate lender, although down substantially in 1958, continue to be the predominant

type of warehousing loans. This might be expected so long as mortgage companies remain the principal borrowing group. Mortgages purchased under resale agreement declined drastically from \$15 million down to \$6 million between 1956 and 1958, primarily due to lessened activity by mortgage companies. Loans secured by nonreal estate assets or unsecured loans rose from \$12 million to over \$17 million. This occurred because savings and loan associations borrow primarily on collateral other than mortgages, or they borrow without any collateral at all.

Unused commitments to real estate mortgage lenders declined \$4 million between 1956 and 1958. However, the greatest decline took place between 1955 and 1956, when commitments declined \$16 million. It seems that permanent mortgage lenders have managed to move their forward commitment volume to a more appropriate relation with the current demand and supply for mortgage funds.

Around the Fourth District—

SAVINGS DEPOSITS OF INDIVIDUALS

(Outstanding at commercial banks, end of August 1958)

	% change from year ago
Lexington	+29
Cincinnati	+18
Canton	+12
Pittsburgh	+10
Erie	+9
Akron	+8
Dayton	+8
Toledo	+5
Columbus	+5
Youngstown	+3
Cleveland	+2
Wheeling	-1
FOURTH DISTRICT	
TOTAL	+6

Bank debits during August at reporting banks in 32 Fourth District centers were 10% below a year ago. For the eight months through August, the corresponding figure was 8% below a year ago.

* * * *

Sales by Fourth District *department stores* in August were 4% below a year ago. However, August of this year had one less shopping day than the year-ago month; thus on a daily average basis, sales were slightly better than last year.

* * * *

Customers at Fourth District department stores during August transacted a larger share of their purchases on a *credit basis* than in the previous month or a year ago. The proportion of credit sales to the month's total was 66.8% as against 65.3% in July and 65.0% in August of last year.

* * * *

The rate of steel production in the Cleveland-Lorain district rose to 68% of capacity during the week ended September 27. That was the highest point of the year to date, and represented the first time this year that the local rate exceeded the national rate.

* * * *

Cash receipts from farming so far this year have exceeded 1957 levels by 5% in Ohio, by 8% in Kentucky, and by 7% in both Pennsylvania and West Virginia. The nation-wide figure shows an even larger percentage gain.

(The above items are based on various series of District or local data, which are assembled by this bank and distributed upon request in the form of current releases.)



FOURTH FEDERAL RESERVE DISTRICT