

MONTHLY *Business Review*

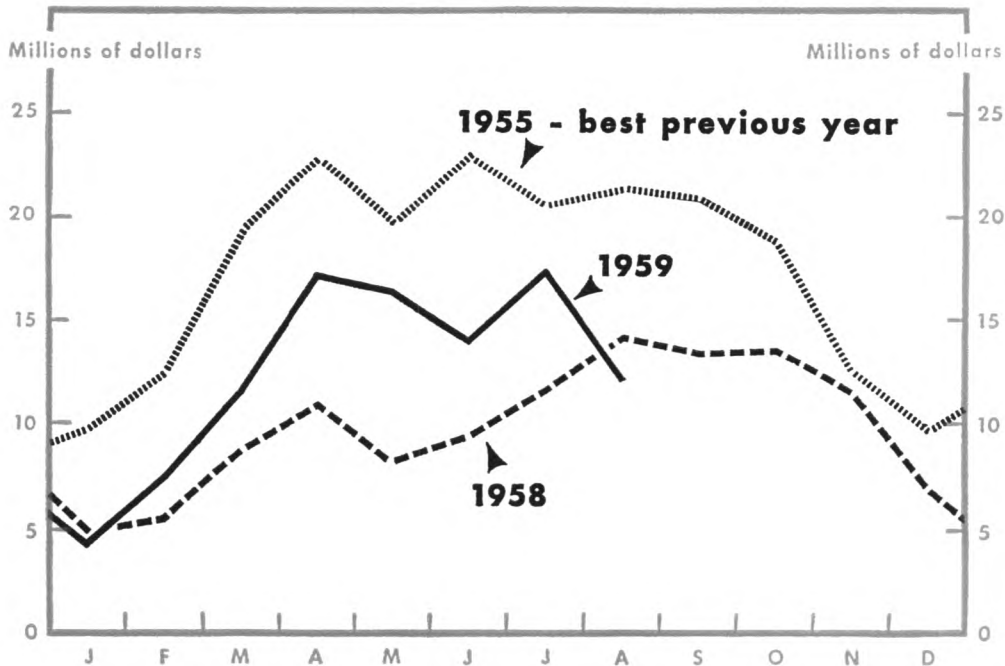
FEDERAL RESERVE BANK of CLEVELAND

October, 1959

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Homebuilding in Greater Cleveland during 1959 (at least until August) has maintained an impressive lead over recession 1958, but has consistently trailed the corresponding volume of record 1955.



Data: Building permits for 1- and 2-family residences in Cuyahoga County, from BUILDERS EXCHANGE

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Building Trends in Cleveland and Other Cities

BUILDING ACTIVITY in the United States has been at record levels during 1959. The different series of nationwide building statistics all tend to confirm this fact, regardless of the varying types of coverage.

Construction contracts awarded⁽¹⁾ during the first half of the year totaled \$18,945 million, up 12 percent from both 1958 and 1957, and up 17 percent from 1956. Building permit valuations for 217 U. S. cities⁽²⁾ totaled \$4,513 million through July, up 10 percent from last year, and likewise well above other recent years.

As is often the case, however, there are considerable contrasts from one geographic region to another. As indicated in the following table, the East Central region (which includes most of the Fourth Federal Reserve District plus the states of Indiana, Illinois, Michigan, and Wisconsin) was the only major region to experience a year-to-year decline from 1958 to 1959.

On the basis of the dollar volume of construction contracts awarded, the Fourth District has not been faring as well as the nation

as a whole. While the 1959 gains from 1958, 1957, and 1956 ranged from 12 percent to 17 percent for the nation, construction contracts awarded in the Fourth District were up 3 percent from 1958 and up 9 percent from 1957, but were down 1 percent from 1956.

Trends in Five Cities

Within the Fourth District, the pace of construction activity has varied considerably among different communities, as indicated on the chart on the next page. According to building permit valuations, building within the corporate limits of Cincinnati and Columbus has proceeded at a rapid rate this year, despite a year-to-year decline in the latter city. In Akron, Cleveland, and Pittsburgh, 1959 appears to be shaping up as a mediocre year.

Over the years, in the larger metropolitan areas in which these five municipalities are located, residential building tends to exceed non-residential building, but only by a small margin. In 1959 there has been a pronounced upswing in homebuilding and, in general, a decline in the proportion represented by non-residential building. In the corporate-city building totals used below, building activity is, on the whole, at the highest levels in areas where residential building is booming; where residential building is following a moderate pace, the corporate-city building total is likewise moderate.

In *Columbus*, where residential building has been exceptionally strong recently, January-July building permits amassed a total of \$55 million. This was the largest volume for the period of any Fourth District city and

1959 BUILDING PERMIT VALUATIONS

(January-July)

Percent change from 1958

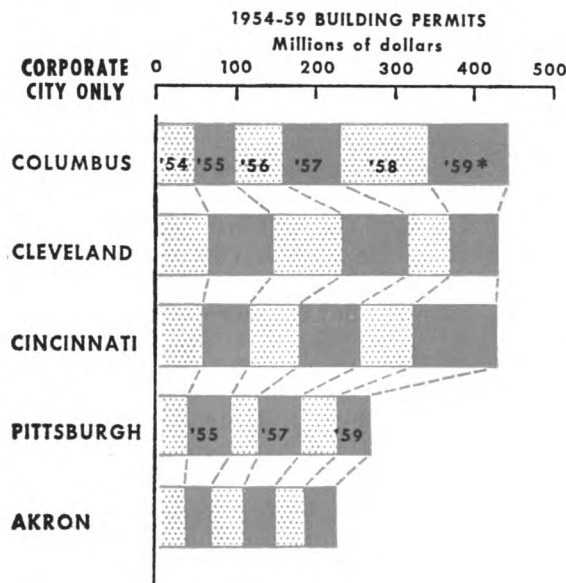
New England	+48%
West Central	+24
Mid Atlantic	+23
Mountain	+23
Pacific	+ 8
South Central	+ 4
South Atlantic	+ 3
East Central	- 7
TOTAL U. S.	+10%

Source: Dun & Bradstreet, Inc.

(1) Source: F. W. Dodge Corp.

(2) Source: Dun & Bradstreet, Inc.

Columbus leads all other Fourth District cities (including the three largest) in the cumulative total of building permits for the past six years.



* Annual rate based on first seven months

it placed Columbus fourteenth among all the cities of the nation in this respect. The projected 1959 total for this mid-Ohio community is \$98 million. This is an outstanding volume for a medium-size city, but it nevertheless would represent a decline of about 14 percent from last year's local record. Although complete historical data are not readily available, it appears that the 1958 building permit total of \$113 million in Columbus was an all-time record, not only for that city, but for any corporate Fourth District city, regardless of size. Largely as a result of the marked expansion in the past two years, Columbus is leading all other Fourth District cities, including the three largest (Cleveland, Pittsburgh and Cincinnati) in the cumulative score building permits for the past six years. (See chart.)

The January-July building permit total in *Cincinnati* amounted to \$48.8 million, the second largest figure for any Fourth District city. That was a gain of more than 50 percent from last year, the largest percentage increase in a major city in this area. At this rate, total 1959 volume could reach a record

\$106 million, double the volume of five years ago.

Building permits in *Pittsburgh* totaled \$27 million during the first seven months of the year, making a decline of nearly 18 percent from the corresponding months of 1958. At this rate, the projected 1959 total for the corporate city would be about \$38 million as compared with \$46 million last year and the city's record of \$55 million reached in 1955 and 1957.

In *Akron*, building has been slightly above the year-ago level. Permits totaled \$24 million through July, for a gain of 3 percent from 1958. If building continues at the same rate, the 1959 aggregate of \$39 million will be close to that of each of the previous three years, which ranged from \$41 million in 1956 to \$38 million in 1958.

For the last three years, building in *Cleveland* has tended to slow down. In the initial seven months of 1959, permit valuations totaled \$48 million, up less than 2 percent from the previous recession year. If these figures are projected for the balance of the year, the resulting total is \$58 million, which would rank 1959 below four of the past five years.

A Closer Look at Cleveland

It is apparent from the Cleveland building record that improvement in the first half of this year came about despite the fact that 1959 got off to a delayed start in that city. Construction jobs of all types were held up for long periods in January and February because of frigid weather and deep snow. The severe weather caused stretchouts of the time needed to complete building projects that had already been started, and thus restricted the number of new starts. First-quarter permit values for building within the city limits yielded a total of less than \$10 million. For comparable periods, that was the smallest volume in a number of years, even falling short of the previous year's recession level. But ever since the breakup of winter, the local building industry has been forging its way to a relatively better position.

In month-by-month comparisons with the excellent pre-recession years of 1957 and 1956, it is clear that the cumulative building total of 1959 in Cleveland was gaining ground through midyear. Building permits at the end of January this year were off 61 percent from the record 1956 pace. (Figures are for the corporate city.) From that point on, the deficit from the peak year, when measured at monthly intervals, narrowed to 42 percent, 40 percent, 40 percent, 36 percent, and then to 25 percent at the end of June.

In July and August, however, the catching up process came to an end. July permits in Cleveland touched a five-year low for the month, amounting to \$5.8 million, and were the second lowest of any July total since 1949. The August figure dipped lower, to \$4 million, and was at an 11-year low for the month. Consequently, by the first of September, cumulative building permit volume receded to a level 41 percent below the comparable position in record 1956. Similar comparisons with other years confirm the fact that July marked a turning point and that a further loss of position occurred in August.

It is noteworthy that 1959 building in Cleveland has had very little support from expenditures by heavy industry. Building permits issued for the construction of manufacturing plants amounted to only \$5 million between the first of the year and September, or at an annual rate of about \$8 million. That was one of the smallest investments in Cleveland manufacturing plant since 1950. The 8-month total of \$5 million is substantially below the corresponding \$15-million aggregate for the first eight months of 1956, and the projected annual rate of \$8 million for 1959 contrasts sharply with the total of \$20 million in 1956 or the record of \$27 million back in 1951.

Also lagging somewhat are dollar expenditures for commercial buildings such as stores and warehouses, for office structures, and for buildings to be used for various educational, health, religious and similar functions. All the dollar totals are unadjusted for increased building costs so that physical volume of

factory and other construction has been even less in relation to previous years than the dollar comparisons would indicate.

Residential Building in Greater Cleveland

A large part of total building activity falls in the residential category and in the Greater Cleveland area (taken here as Cuyahoga County) the homebuilding segment of the construction industry has a strong lead over the recession year 1958. Permit volume for new 1- and 2-family homes throughout Cuyahoga County amounted to \$99 million up to September of 1959. That is 37 percent more than in the same period last year and the increase appears quite impressive. However, the gain has resulted mostly from the extremely low level to which homebuilding sank last year.

Comparisons with good years, given in the table below, show the rate of 1959 homebuilding in the Cleveland area to be trailing by a substantial volume. Thus the January-August 1959 residential volume was off 21 percent from 1956, a change which was much the same as the corresponding 24 percent decline in total building.

The year 1956 has been mentioned for comparison since it stands as the all-time record year for total building in the Cleveland area. However, residential building reached its peak there in 1955. In that year, the eight-month aggregate for 1- and 2-family permits amounted to \$148 million. The current year's

RESIDENTIAL BUILDING PERMITS IN GREATER CLEVELAND

(millions of dollars)

1959 Year-to-date Total at End of:	% Change From		
	1956	1955	
January	\$ 4.2	-64%	-56%
February	11.6	-49	-46
March	22.9	-43	-44
April	39.9	-31	-37
May	56.2	-23	-33
June	70.1	-22	-34
July	87.2	-20	-31
August	99.1	-21	-33

Source: Builders Exchange

homebuilding pace is off 33 percent from 1955 as against the corresponding decline of 14 percent for total building in Greater Cleveland (or the 19 percent decline for total building in the corporate city of Cleveland.)

In residential building, as in total building, the progress made during 1959 in catching up with previous good years slowed in late spring and virtually ended during the summer. End-of-month cumulative totals comparing 1959 with corresponding year-to-date figures for 1956 and 1955, as shown in the preceding table, indicate that improvement tended to slow up after May and gave way to a slightly greater "deficit" in August.

While the dollar level of residential building was falling rapidly in the three years immediately following 1955, physical volume declined even more. The number of permits issued in the first eight months of the year dropped from nearly 9,400 in 1955 to about 4,100 in 1958. The total of 5,734 permits for homes issued thus far in 1959 has been exceeded in seven of the past nine years.

The course of homebuilding in Greater Cleveland, like that of total building activity, is subject to influences of the general economic climate as well as to the needs of an ever-expanding population. According to local building permit valuations, the average new home built today costs roughly half again as much as the average house built ten years ago. This is partly because larger and better houses are being put up, and partly because of the rise in building costs per unit of physical output. An additional cost increase not measured in the building permit valuations is

the increased financing cost which results from the larger amounts of credit involved and from the general advance in interest rates.

It is of interest to note that, after years of continuous rise in the average permit value per dwelling in Greater Cleveland, there was a letup of about 5 percent in 1958, and a further decline of 1 percent between 1958 and 1959 to date. The all-time high was reached two years ago when the average permit value per dwelling (exclusive of land costs) amounted to \$18,400, up more than 50 percent from 1950. That was in 1957. The next year, in 1958, the average eased to \$17,500, and to date this year it is down by \$200 to \$17,300. The drop is probably due more to a tendency to cut back the average size of new dwellings and provide less in the way of luxury features than to any genuine cost-cutting. Nonetheless, the decline signals an effort to meet buyers' desires for lower-price housing.

For homebuilding in Cleveland and elsewhere, a long-range view suggests that the future may be a more competitive era, though not necessarily a less active one, than has prevailed during much of the postwar period. An extreme housing shortage existed for quite a few years after World War II and many of the homes erected were small and otherwise inadequate. Many of the original postwar purchasers have already switched to better housing, and others are, or would like to be, in the market for a replacement. In these cases, however, there is no longer as much urgency to acquire a new home as was the case in the early postwar years.

Around the Fourth District—

SAVINGS DEPOSITS OF INDIVIDUALS

(Outstanding at commercial banks, end of August 1959)

	% change from year ago
Canton	+ 16%
Lexington	+ 8
Columbus	+ 7
Youngstown	+ 7
Erie	+ 7
Toledo	+ 6
Pittsburgh	+ 5
Dayton	+ 5
Akron	+ 4
Cleveland	+ 2
Cincinnati	+ 1
Wheeling	- 0
FOURTH DISTRICT TOTAL	+ 4%

* * *

Sales by Fourth District department stores for the four-week period ended September 26 were 9 percent above the total for the corresponding year-ago period.

* * *

Through September there was very little *secondary unemployment* reported in the Cleveland area as a direct result of steel shortages, but significant cut-backs in activity and employment were expected for the near future if the steel industry should remain shut down.

* * *

In August, sales of *homefurnishings* showed relatively large year-to-year gains at Fourth District department stores. Compared with the year-ago level, *major household appliance* sales were up 20 percent, and sales of *radios, phonographs, and TV sets* were up 19 percent.

* * *

Farmers' indebtedness to member banks in the Fourth District rose substantially during the second quarter of 1959; the late-June total of \$212 million was more than 6 percent above the level a year earlier. Much of the increase occurred in real-estate loans, which accounted for about one-half of the outstanding debt.

* * *

Commercial and industrial loans at Fourth District reporting banks increased each week for four consecutive weeks in September.

(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 mimeographed releases.)

Expansion by Electric Utility Companies

Fourth District

FOLLOWING an expansion of 135 percent in generating capacity in the decade from 1948 to 1958, privately-owned electric utilities serving the Fourth Federal Reserve District are planning to increase their capacity by another 20 percent by 1961. This addition to generating capacity will be achieved, as was the previous expansion, both by building new power stations and by expanding existing plants.

As the map shows, new capacity added since 1953 and scheduled to be added by 1961 is primarily in two areas—on the shore of Lake Erie and along the Ohio River, including its principal tributaries in Pennsylvania. The Lake Erie locations take advantage not only of the proximity of large industrial areas and centers of population, but also of the availability of lake water for cooling purposes. Generating stations on the Ohio River and its tributaries have the special advantage of being able to obtain coal by river barge at a considerable saving in transportation costs.

The largest quantity of new capacity installed in recent years and presently under construction in the District is along the Ohio River. Whether this trend toward riverside locations will continue is not clear at present. One major utility of the Fourth District has cancelled its plans to build a large station on the Ohio River. Technological advances have made possible increasingly efficient long-distance transmission of high-voltage power, but developments in the transportation of coal, such as the coal pipeline which is now operating in Ohio, may have offset some of the advantages of long-distance power transmission.

Generation by Steam, not Hydro

All of the increase since 1948 in the capacity of privately-owned electric utilities serving the District, as well as all of the addi-

tional capacity under construction, represents additional steam generating facilities. Electricity produced from steam accounts for all but a small fraction of the electric power generated by utilities in the Fourth District, including the power generated by the larger municipally-owned utilities. In turn, virtually all the steam raised is obtained by burning coal; other fossil fuels and nuclear power account for a very small share of electric power produced. Privately-owned utilities serving the District burned 27,467,000 tons of coal in 1958; this was about 18 percent of the tonnage of coal consumed by all utilities in the U. S. in that year.

The Shippingport atomic power plant (in western Pennsylvania) has been in operation since 1957, but no new nuclear power stations are being constructed by major utilities serving the District; the small nuclear reactor being built at Piqua, Ohio, will furnish electric power to that city's municipal power system.

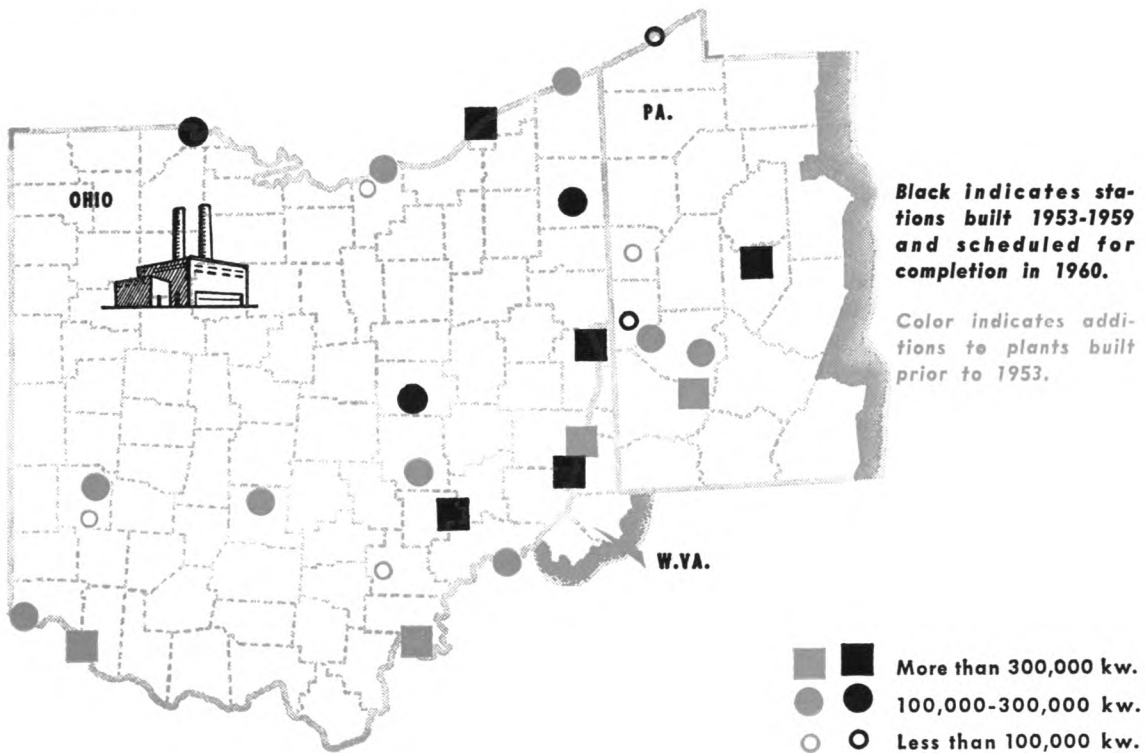
The information on capacity changes and type of generator given above was obtained from a survey of the twelve major privately-owned utilities serving the Fourth District⁽¹⁾

From 1948 to 1958, privately-owned electric utilities in the United States increased their capacity by 138 percent; the percentage gain for the utilities of the Fourth District was about the same. During this ten-year period the privately-owned electric utility industry as a whole increased the proportion

(1) The service areas of these utilities do not entirely coincide with the District's boundaries; in the case of several of the companies the largest part of their service area is outside the District. However, it was not possible to divide data from these companies by Federal Reserve District. In any case, the inclusion of data for areas outside the Fourth District but contiguous to the District is unlikely to have made any substantial difference in the conclusions drawn from the information collected.

The companies surveyed did not include the Ohio Valley Electric Company, which serves only the Atomic Energy Commission plant in Pike County.

**LOCATION OF NEW GENERATING CAPACITY
1953-1961**



submitted include all spending for electric of its capacity represented by steam generation from 79 percent to 88 percent, thus moving closer to the District position of nearly 100 percent steam generation. The proportion of steam generating capacity in the entire utility industry, including publicly-owned facilities, is, however, much smaller, primarily because of the large proportion of capacity represented by Federal government hydroelectric projects.

The only electric generating project of the Federal government which is located in the Fourth District—the Wolf Creek flood-control hydroelectric project in Kentucky—has a capacity of 270,000 kw. and supplies power to the Tennessee Valley Authority system. Many small cities and towns, as well as a few large cities, have publicly-owned power systems, but in total they represent a small

proportion of generating capacity serving the District.

Internal combustion engines are an important source of power for the small publicly-owned utilities, which were not covered by the survey. These utilities have undoubtedly made additions to their capacity since 1948 and are planning future additions. In the case of the major privately-owned utilities, however, no increase is planned in the very small amount of internal combustion capacity now installed, and the same is true for hydroelectric capacity.

Reduction in Capital Spending

The utilities cooperating in the survey were asked to estimate their total construction expenditures for electric facilities for the balance of 1959 and for 1960. The figures

generating, transmission, and distribution facilities. They exclude spending on gas facilities by gas-and-electric utilities as well as expenditures on miscellaneous items such as steam heating plants.

The companies included in the survey report that they are spending 11 percent less on electric facilities in 1959 than in 1958, and expect to reduce such spending even further in 1960. (See accompanying chart.) Expenditures in 1960 are projected at \$287 million, or about 17 percent less than spending in 1959. Inasmuch as the replies to the survey were made in mid-summer, the data for 1959 expenditures appear to be fairly firm, but the plans for 1960 may be regarded as less certain.

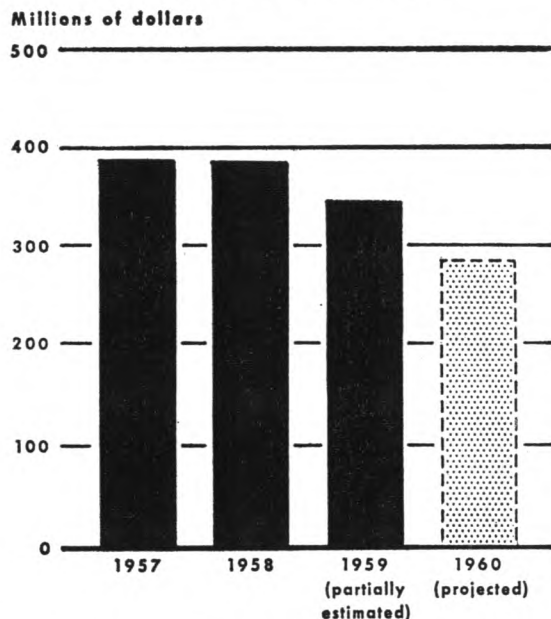
Some indication that utility spending will turn up after 1960 is provided by the step-up in utility orders for new generating equip-

ment reported by large suppliers. Because of the length of time required to complete such machinery, however, these orders will not be translated into new construction for two to three years.

A comparison of the capital spending plans of electric utilities serving the Fourth District with the new construction planned by such utilities on a nationwide basis (as disclosed by national surveys) shows that, nationally, electric utilities expect to reduce their construction outlays in 1959 and 1960 by a smaller proportion than do the utilities serving the District. Thus, the expected percentage decline in construction expenditures in 1959 indicated for District utilities is twice that expected by all privately-owned utilities⁽²⁾ in the United States—11 percent as compared with 5½ percent.

For 1960, preliminary estimates indicate that total construction expenditures of all electric utilities in the U. S., both private and publicly-owned, will be about 4 percent below the 1959 total. The capital spending plans of District utilities for 1960 thus represent an even greater contrast with the national totals than is true for 1959. Electric utilities of the Fourth District may, perhaps, be more confident of their ability to supply future expected demand for electricity than are utilities elsewhere in the nation. It is also possible that the impact of the 1957-58 business recession on electricity sales in the District may have resulted in a somewhat more cautious appraisal of sales prospects than was the case in other parts of the nation.

CONSTRUCTION EXPENDITURES BY PRIVATELY-OWNED UTILITIES Serving the Fourth District



For 1959 and 1960, District utilities expect construction outlays lower than the high levels reached in 1957 and 1958.

Effect of the '57-'58 Recession on Sales

It has been noted in other issues of this *Review* that the business recession of 1957-58 was more severe in the Fourth District than over the nation as a whole. The pattern of electricity sales over that period furnishes corroborative evidence.

Total kilowatt-hour sales by District utilities were 6 percent lower in 1958 than in 1957; nationally, utility sales in 1958 were 2

(2) As estimated by *Electrical World*

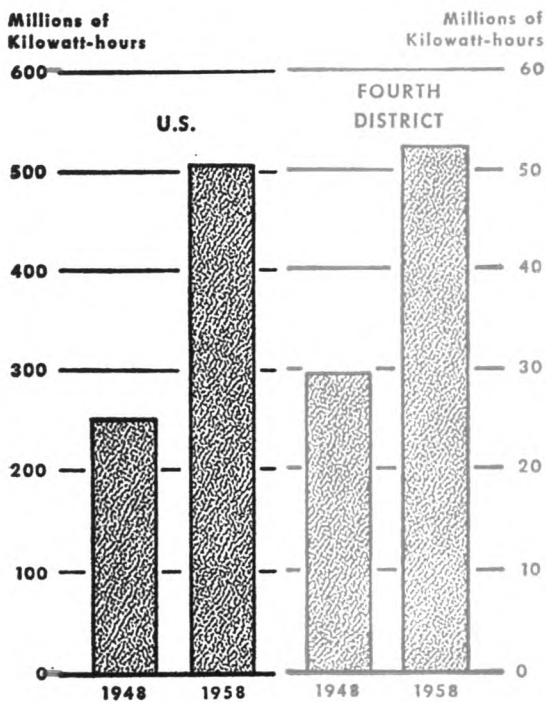
percent higher than in 1957. One reason for the difference was the 3 percent drop in business purchases from District utilities, as contrasted with a small increase nationally in the number of kilowatt-hours sold to commercial and industrial users.

The effect on District utilities of the decline in commercial and industrial sales in 1958 was accentuated by the relatively large importance of this category of sales in total sales of electric power made by District utilities. In 1957, such sales accounted for 65 percent of all kilowatt-hours sold by District utilities; the comparable national percentage was 58 percent. The larger share of the total represented by commercial and industrial sales in the District reflects the greater importance within the District of manufacturing industry, and particularly of industries which are large users of power, such as the steel, chemical, paper, and transportation equipment industries. In 1958, the decline in activity in the steel industry, which is the largest single industrial consumer of electric power in the District, was especially severe.

Residential sales of electric power, the largest category of sales apart from commercial and industrial sales, continued to increase in 1958, despite the recession, both in the Fourth District and nationally. Such gains were the result both of an increase in the number of residential customers and in the average use of electricity, as greater numbers and a wider variety of household appliances were used. Largely as a result of the decline in sales in 1958, the cumulative gain in sales by electric utilities of the District from 1948 to 1958 was at a smaller rate than for the nation as a whole, as is shown by an accompanying chart. Total sales by District utilities were 75 percent larger in 1958 than in 1948, while all U. S. privately-owned utilities doubled their sales over the same period.

A similar comparison of sales from 1948 to 1957 shows more correspondence between District and national trends than does the 1948-1958 measure. Over the slightly shorter period, total sales by utilities serving the District moved up by 86 percent, while the na-

TOTAL SALES OF ELECTRIC POWER (Privately-owned utilities)



Electricity sales by District utilities were 75% higher in 1958 than in 1948; sales by all privately-owned utilities doubled in the same interval.

tionwide increase was 97 percent.

To round out the picture of electric power consumption in the District, it should be noted that a considerable proportion of electric power production in the District is accounted for by manufacturing firms that generate power for their own use. In 1958, these companies produced close to 9 billion kwh, representing about one-quarter of all sales to commercial and industrial users by electric utilities of the District.

Generation of electricity by plants for their own use is most important in the primary metals, chemicals, and paper groups of industries. Electric power is also produced by other industries which take advantage of the waste heat resulting from their manufacturing processes or which have occasion to use steam in their principal operations.

NOTES ON FEDERAL RESERVE PUBLICATIONS

Among the articles published in the September monthly business reviews of other Federal Reserve Banks are:

“Revolving Check Credit: Is It Fad or Fixture?”, Federal Reserve Bank of Philadelphia.

“Competition from Abroad”, Federal Reserve Bank of Chicago.

“Treasury Debt Management”, Federal Reserve Bank of New York.

“Some Economics of Water Use in Broad Sectors of the Economy”, Federal Reserve Bank of Kansas City.

Copies may be obtained without charge by writing to the Federal Reserve Bank named in each case.

* * *

Recent statements on Federal Reserve policy and related matters include:

“Inflations—Their Lessons and Losses”, by C. Canby Balderston, Vice Chairman, Board of Governors of the Federal Reserve System. Remarks made on September 8, 1959, at Richmond, Virginia.

“Inflation—Enemy of Growth”, by Winfield W. Riefler, Assistant to the Chairman, Board of Governors of the Federal Reserve System. Paper presented on July 21, 1959, at Stanford, California.

“Agricultural Credit in Today’s Economy”, by Charles N. Shepardson, Member, Board of Governors of the Federal Reserve System. Remarks made on August 6, 1959, at St. Louis, Missouri.

Copies of these remarks are available without charge from the Board of Governors of the Federal Reserve System, Washington 25, D. C.