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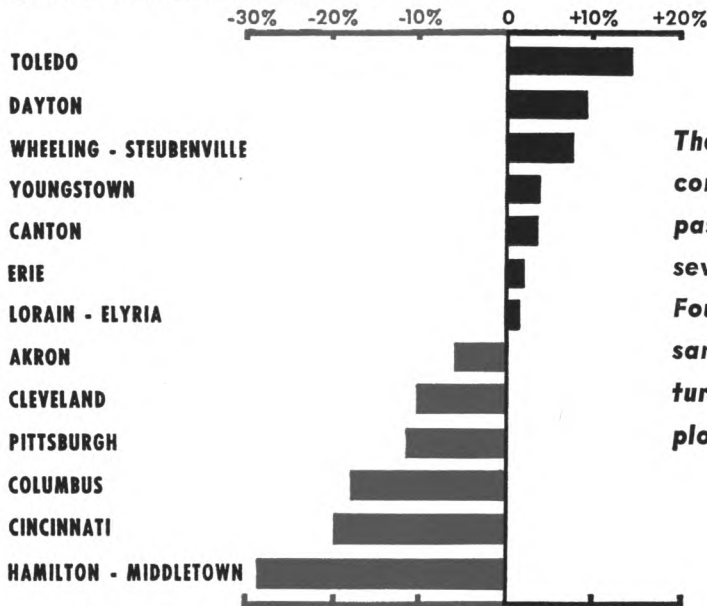
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BUILDING CONTRACTS, 1960

Selected Metropolitan Areas, Fourth District

% Increase or decrease from 1959



The value of construction contracts in 1960 surpassed the 1959 total in seven major areas of the Fourth District, at the same time that manufacturing activity and employment were declining.

Source of data: F.W. Dodge Corp.

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Local Trends in Construction Contracts

COMPARISONS of national, regional, and local trends in construction can be made by analysis of the data on construction contracts published by the F. W. Dodge Corporation. Such a comparison in terms of changes from 1959 to 1960 shows several similarities, as well as differences, between developments in construction in the nation and in the region including the Fourth Federal Reserve District. A comparison of changes between 1959 and 1960 in construction contract activity in metropolitan areas of the District shows much diversity among areas, but also indicates a role played by construction as a supporting factor in some areas which have recently been suffering from substantial unemployment.

What Are Construction Contracts?

Construction contracts are, in effect, new orders to the construction industry. Contracts

are customarily awarded before work is started; actual construction work usually extends over a period of several months, the length of time varying with the type of construction, the availability of materials and labor, and the weather. Changes in the volume of contracts therefore indicate the volume of construction which will be completed in succeeding months,⁽¹⁾ and at the same time, they indicate the probable needs of the construction industry for labor and materials, as well as for financing from the capital markets.

In 1956 the contract series was expanded to include all of the continental United States; it had previously excluded eleven West Coast states. At the same time improvements were made in the compilation of data on residential housing. It is not possible, therefore, to make

(1) The only statistics of construction completed—the dollar value of new construction—is in fact based largely on the contract awards data, with an allowance for the estimated length of time required to complete construction.

Table 1
CONSTRUCTION CONTRACTS DURING 1960

Classification	Value (millions of dollars)		Percent Change From Year Ago	
	Region IV	United States	Region IV	United States
Nonresidential Building	1,057	12,240	— 3.7%	+ 7.5%
Residential Building	1,329	15,105	— 16.5	— 11.9
Total Building	2,386	27,345	— 11.3	— 4.2
Heavy Engineering	785	8,973	+ 18.2	+ 16.0
Total Construction	3,171	36,318	— 5.5	+ 0.1

Source: F. W. Dodge Corporation

comparisons, nationally, with years previous to 1956 or to compare closely developments in local areas prior to 1956 with succeeding years. Nor is it possible to compare directly, changes in building permits with changes in contract awards; the two measures can, and often do, diverge considerably.

Residential Construction Weak in 1960

Nationally, the volume of construction contracts in 1960 barely exceeded the 1959 total because of a drop of about one-eighth, or \$2 billion, in contracts for residential⁽²⁾ construction. (See Table 1.) The shortfall in residential contracts awarded in 1960 was the first since the new 48-state series began in 1956, and paralleled the continued decline in housing starts during the year. All of the decrease in residential housing, in turn, occurred in the reduction in the number of contracts for one-and-two family houses; apartment building contracts continued to increase.

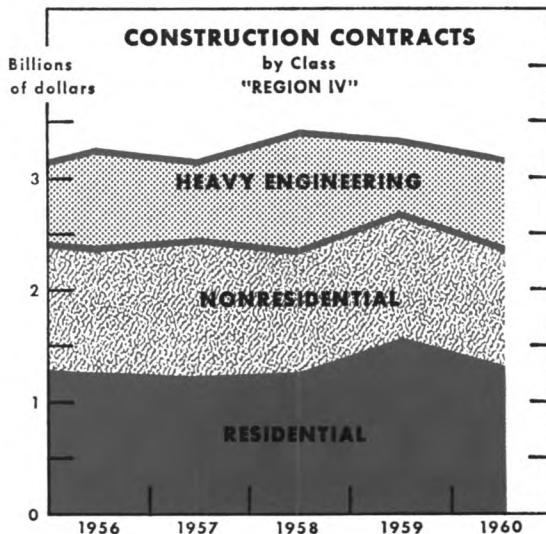
Residential contracts began to fall below year-ago levels in October, 1959, and continued below year-ago totals in every month of 1960 except November.

In Dodge Region IV, a geographical division which includes the Fourth Federal Reserve District,⁽³⁾ residential contracts recorded an even sharper percentage reduction than in the nation as a whole. (See Table 1.) Primarily as a result of a 16½ percent decrease in residential contracts, total contracts in the Region fell 5½ percent from 1959 to 1960. The decline was centered in one- and two-family houses, as was the case nationally. There is no conclusive evidence as to the reasons for the greater drop in residential construction contracts from 1959 to 1960 in Region IV than in the nation as a whole. However, the difference may have been due to the more severe impact which the

(2) Residential construction includes private and public construction of homes, hotels, dormitories, and apartments.

(3) Dodge Region IV includes Ohio, Kentucky, West Virginia, and the western third of Pennsylvania. The area covered is thus more extensive than the Fourth Federal Reserve District, but it has the same general economic characteristics as the Fourth District proper.

Total construction contracts in Region IV in 1960 were 5.5% less than in 1959. Although contracts for residential building showed the largest percentage decline, the total of such contracts was higher last year than in the three years previous to 1959.



Source of data: F. W. Dodge Corp.; "Region IV" includes Ohio, Kentucky, West Virginia and the western part of Pennsylvania.

current recession has had on the economy of Region IV, as a result of its greater-than-average dependence on the durable goods industries, particularly the steel industry.

Changes in nonresidential⁽⁴⁾ building contracts between 1959 and 1960 showed an increase for the nation and a decline for Region IV, as is set forth in Table 1. The increase in such contracts nationally was made up in about equal proportions of larger dollar volumes of contracts for commercial, manufacturing and educational buildings. The decrease in nonresidential contracts in Region IV largely took the form of a decline in commercial and "other" nonresidential contracts. Contracts for construction of manufacturing facilities in Region IV were only slightly lower in 1960 than in 1959 and contracts for educational buildings showed a sizable increase.

(4) "Nonresidential construction" includes both public and private construction of commercial, manufacturing, and educational buildings, as well as a variety of public and private structures such as churches, social and recreational buildings, and hospitals. It does not include heavy engineering projects.

Table 2
BUILDING CONTRACTS IN MAJOR METROPOLITAN AREAS
Within Region IV for 1960

	Percent Change From Year Ago Period			Index of Construction Contracts 1960 (1956 = 100)		
	Residential	Nonresidential	Total Building	Residential	Non- residential	Total Building
Akron	— 0 — %	— 14.8%	— 5.9%	165.1	71.5	112.0
Canton	+ 26.2	— 27.8	+ 3.4	403.3	76.3	178.2
Cincinnati	— 19.5	— 20.6	— 20.0	105.7	107.8	106.6
Cleveland	+ 2.3	— 24.9	— 10.1	97.4	63.9	81.2
Columbus	— 32.3	+ 24.5	— 18.0	83.2	116.3	93.4
Dayton	— 15.7	+ 65.7	+ 9.8	78.7	111.5	91.6
Erie	— 7.5	+ 6.3	+ 2.2	62.2	241.7	136.5
Hamilton- Middletown	— 19.2	— 40.3	— 28.9	111.5	144.6	122.4
Lorain-Elyria	+ 8.2	— 6.9	+ 1.8	125.5	127.6	126.6
Pittsburgh	— 3.0	— 19.7	— 11.5	105.7	100.1	103.1
Toledo	+ 3.6	+ 21.9	+ 14.6	78.2	145.6	110.2
Wheeling- Steubenville	— 23.1	+ 37.1	+ 8.0	92.4	111.4	103.9
Youngstown	+ 9.4	— 3.4	+ 3.8	128.5	111.1	120.8
Metropolitan Area Total	— 7.9	— 8.9	— 8.4	102.9	95.3	99.5
Region IV	— 16.5	— 3.7	— 11.2	105.4	94.3	100.2

Source: F. W. Dodge Corporation

In the remaining, and smallest, category of building contracts, heavy engineering,⁽⁵⁾ both Region IV and the nation as a whole showed approximately similar percentage gains from 1959 to 1960. Contracts placed by utilities in Region IV almost doubled from 1959 to 1960,

as a result of one exceptionally large contract awarded in July.

Building As Support to Business

The 1959-60 pattern of change in building contracts in major metropolitan areas of the Fourth District exhibited, as expected, great variation among individual areas. Such

(5) Heavy engineering construction comprises public works and utility construction, including such projects as streets and highways, bridges, dams, water supply and sewage systems, electric power plants, gas pipelines and mains, and airport and railroad construction.

changes over the last year for certain major areas of the District were quite different from the totals for Region IV and the United States already described. (For details see Table 2.) For the thirteen areas, taken together, building⁽⁶⁾ contracts declined 8 percent from 1959 to 1960.

In seven of the thirteen metropolitan areas, however, building contracts were larger in 1960 than in 1959, and in four of those areas, residential building contracts increased. Residential contracts, including apartments and other multiple housing structures, also advanced slightly in the Cleveland area, where a sharp drop in nonresidential contracts produced a decline in total building contracts.

Of interest, also, is the fact that six of the seven District metropolitan areas in which 1960 building contracts surpassed the 1959

(6) "Building" includes only residential and nonresidential contract awards. The F. W. Dodge Corporation does not report heavy engineering awards for metropolitan areas.

total were designated as having substantial labor surpluses in the classifications announced by the Department of Labor in January.⁽⁷⁾ These areas are Canton, Erie, Lorain-Elyria, Toledo, Wheeling - Steubenville, and Youngstown.

It is not possible to measure the extent to which the economies of these areas have been, or will be, stimulated by the increase in building activity which is indicated by the strength in construction contracts. Taken by itself, an increase in construction activity should benefit business activity and employment in local areas. This is so because the building industry is a large employer in its own right and also because an increase in its direct employment should induce a higher level of activity in supplier and related activities, as well as in sales of local retail and service establishments.

(7) A condition of "substantial labor surplus" is the occurrence of unemployment of 6 percent or more of the labor force, discounting seasonal and irregular factors.

NOTES ON FEDERAL RESERVE PUBLICATIONS

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

"Lender of Last Resort: The Federal Reserve and Commercial Bank Liquidity", Federal Reserve Bank of Richmond, February 1961.

"The Royal Family Grows Restless", Federal Reserve Bank of Philadelphia, February 1961.

"Mobile Homes, a Maturing Industry", Federal Reserve Bank of Chicago, February 1961.

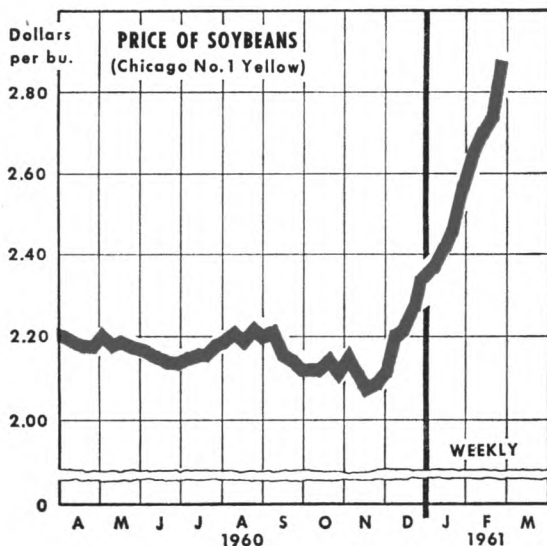
(Copies may be obtained without charge by writing to the Federal Reserve bank named in each case.)

Case History of Soybean Prices

RECENT INCREASES in soybean prices, both in cash and futures markets, have been so spectacular as to call attention to the commodity and to raise questions about the supply-demand relationships which underlie the price developments.

As of late February, soybean prices were 80 cents above the November level of slightly more than \$2.00 per bushel. Accompanying the rise in prices on cash markets has been a spurt in activity in soybeans in the futures market. In January, at the world's largest commodity exchange—the Chicago Board of Trade—soybean volume soared to 1.7 billion bushels, the highest level for any month in trading history. This high level of trading

Following four years of minor price fluctuation, soybean prices last November entered a sharply rising phase.



Plotted as of Thursday; last date plotted, Feb. 23.

established soybeans as the number one commodity at the exchange in respect to volume. The increase in futures activity as well as the rising prices presumably stems from a fear on the part of buyers that soybeans may be in short supply before the end of the current marketing year.

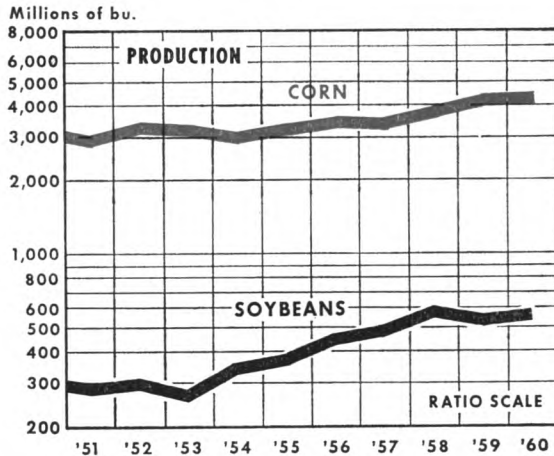
While such price behavior might suggest at first that last year's crop was an especially short one, the fact is that the 559-million-bushel harvest of 1960, although not equal to the record production of 1958, was the second largest soybean crop of record; it was 50 percent larger than output in 1955 and nearly double production of 10 years ago. In comparison, corn production last year was up only 35 percent from the 1955 crop and 42 percent from the 1950 output. Despite the rapid advance in production, government stocks of soybeans represent less than 1 percent of last year's crop, while surplus stocks of corn are now nearly equal to one-half of the record 1960 output. The difference lies in the spectacular increase in consumption of soybeans.

Domestic Consumption on the Rise

Soybean oil is an important food product. The crude oil is refined and used in the production of shortening, margarine, and cooking and salad oils. A lesser quantity is used in the manufacturing of paints, varnishes, resins, and other non-food products. Over the years, soybean oil has represented about one-half the value of a crushed bushel of soybeans.

Consumption of soybean oil in the United States has doubled since 1950. Increased utilization has come about through a slight rise in per capita use of food fats, a growing

Production of soybeans has risen faster than corn production since 1953.



population and the substitution of soybean oil for other food fats in the diet.

The largest single use of soybean oil last year was in the manufacture of shortening. Soybean oil is the major cooking oil ingredient used in shortening production. Last year, 1.2 billion pounds, or 27 percent of the soybean oil produced, went into this food product and accounted for 51 percent of total fats and oils used in shortening. A growing population along with a rise in per-capita consumption of shortening have brought about a market increase in use of soybean oil in this product, along with an increase in quantities of lard used.

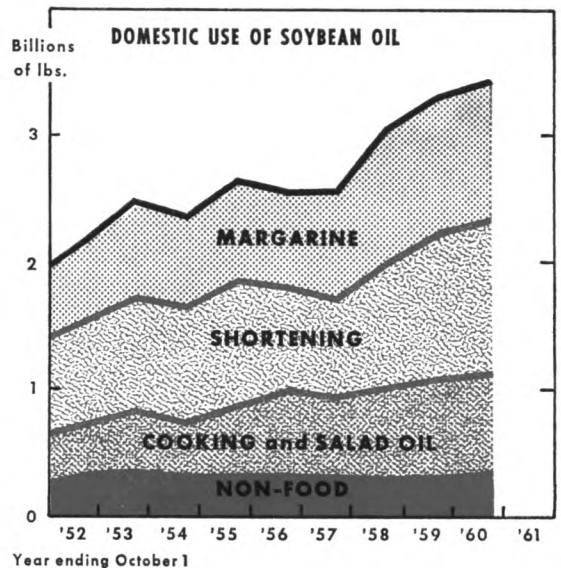
The largest growth in the use of soybean oil has been in the margarine industry. During 1960, over 1 billion pounds were used in margarine production. This represents more than a four-fold increase over the past 10 years. The advance has come about in two ways. In the first place, soybean oil is providing an increasing proportion of the total fats and oils used in margarine. Last year, soybean oil accounted for 85 percent of total fats and oils used in margarine whereas before World War II, cottonseed oil had been the principal ingredient. Secondly, margarine consumption per person has increased 50 percent from 6.1 pounds in 1950 to 9.2 pounds in 1960. The

increased consumer demand for margarine can be attributed to the removal of restrictive legislation and to a favorable margarine-butter price ratio over the last decade.

Another growth factor for the soybean oil industry has been its use for cooking and salad oils. Domestic consumption of these oils has doubled since 1947. In 1959, about 18 percent of soybean oil production went into these uses. The primary reasons for the rise have been an increase in per-capita consumption of mayonnaise and salad dressing and a growth in commercial use of cooking oils in the preparation of such items as French fried potatoes, potato chips, and other similarly prepared foods.

In contrast to the growth in the use of soybean oil in food products, use of soybean oil in industry is on the decline. Increased competition of plastics in the manufacture of protective coatings has been an important factor. Last year, industrial use of soybean oil accounted for only 8 percent of soybean oil production.

Use of soybean oil in food products has advanced steadily over the past decade, with use in margarine showing especially large gains.



Crushing of soybeans yields not only oil but also meal. Soybean meal has a high protein content and most of the production is consumed domestically as livestock feed. A small amount is used in the production of glues, adhesives, and several specialty food products.

The amount of soybean meal used in the production of high-protein feeds has increased steadily, while amounts of other protein-rich products such as cottonseed meal, tankage, and bran have remained fairly stable. From 1955 to 1960, the amount of soybean cake and meal used in high-protein feeds has accelerated, due to a steady rise in the quantity fed per animal unit and a slight rise annually in the number of animal units fed. Rapid growth of the commercial broiler and turkey industry, for example, has been an important factor. The number of turkeys raised in the United States has increased from 44.4 million in 1950 to 82.3 million in 1960. Over the same period of time, the number of broilers produced rose from 631 million to about 1.9 billion.

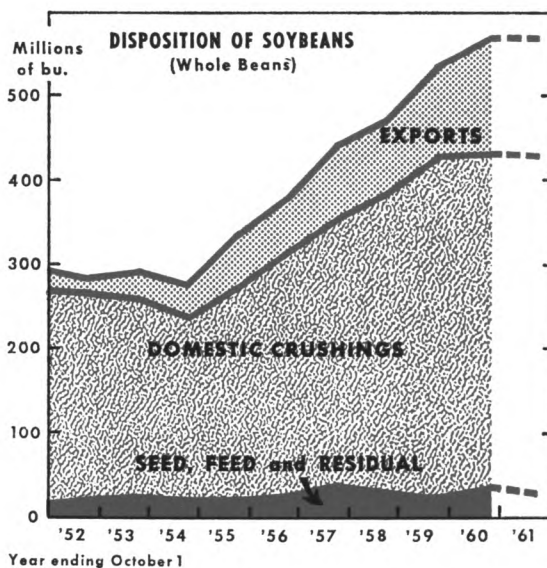
Exports of Beans Advance Sharply

Although more than one-half of the soybeans produced are consumed domestically, a rapid growth in markets abroad has been an important factor in enabling the American farmer to dispose of his increased production. In addition to being the world's largest producer of soybeans, the United States is also the biggest exporter. During the year ended October 1, 1960, a record 142 million bushels of whole beans were exported.

At the present time, exports of soybeans, as indicated by inspections, are 10 percent above year-earlier levels. The rise in exports reflects a continuation of the advance in foreign demand as consumers abroad gain purchasing power, and, at the same time, find soybeans and soybean products highly acceptable foods. It is also due in part to a reported drop in production in Communist China, the world's second largest exporter of soybeans.

The nation's best customers, by far, last year were the Japanese who purchased 41

Exports of whole beans continued to climb last year, reaching a record 142 million bushels; domestic crushings, however, appear to be leveling off.



million bushels. Exports to Japan last year were double those of four years earlier. Part of the rise in exports to Japan resulted from a break in trade relations between Japan and China in 1958; the Japanese presently import nearly all their soybeans from the United States. Also, the standard of living in Japan has been rising, which, together with the growth in population, has pushed consumption upward. Because of the limited land area in that nation, the increased consumption requires importation of additional quantities of soybeans.

In contrast to the situation in the United States and Europe, soybeans are an important source of protein in the Japanese diet. About one-half the beans are consumed whole. In addition, most of the soybean meal is processed into food products.

Increasing demand for soybeans in Europe has come about in a somewhat different manner. First of all, a rise in income led to a greater demand for meat, and demand for protein feed, in turn, has increased sharply. Consumption of soybean oil in Europe has

also been on the rise as it has become more acceptable to consumers for use in food products. Since the European countries have a large crushing capacity, they have preferred to increase their imports of whole beans.

A leading European customer is the Netherlands which purchased 26 million bushels of beans last year. West Germany, meanwhile, imported 15 million bushels from the United States crop.

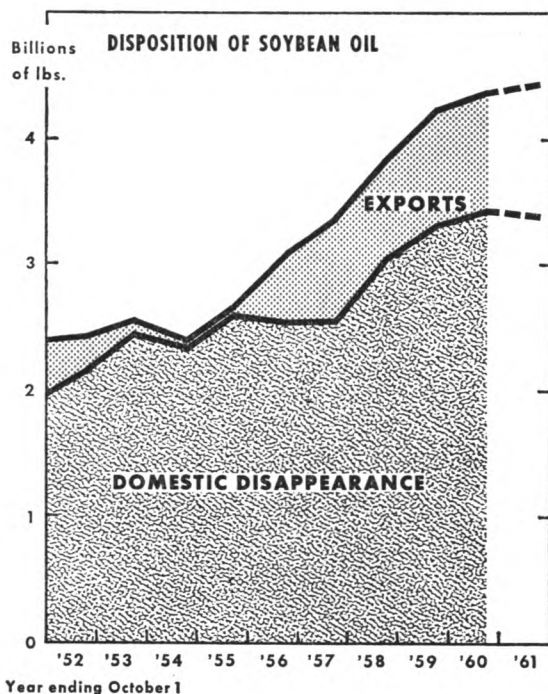
Canada is also an important buyer. Last year, Canada purchased nearly 16 million bushels of soybeans. Canada in turn exports substantial quantities to the United Kingdom, thereby gaining the lower import duties as a member of the British Commonwealth.

Exports of Oil and Meal Also Rise

The amount of soybean oil exported has also increased rapidly in recent years. Last year, slightly less than 1 billion pounds were sent abroad; the U. S. Department of Agriculture expects oil exports this year to top the 1 billion mark. Part of the increase in exports in recent years has taken the form of shipments abroad under the provisions of Public Law 480. However, it is significant to note that the increase last year reflected commercial sales of larger physical quantities, suggesting that soybean oil is a product that is competitively priced in the world market.

Exports of soybean meal usually account for only about 5 percent of meal production. Last year, however, a record 1.3 billion pounds were exported. These higher exports resulted from heavy buying by European countries to replenish drought-stricken feed supplies.

The major portion of soybean oil produced is consumed domestically, but exports have advanced sharply in recent years.



In general, the above analysis suggests that the recent advance of soybean prices, although subject to some speculative influences, is in large part due to a continued expansion in exports coincident with a reduction in stocks to minimum levels, as growth in domestic consumption continues unabated.

(Note: Data cited here and shown in chart form are from the U. S. Department of Agriculture, supplemented by daily market reports.)

Around the Fourth District—

SAVINGS DEPOSITS OF INDIVIDUALS

(Outstanding at commercial banks, end of February 1961)

	% change from year ago
Columbus	+13%
Canton	+ 8
Erie	+ 8
Cincinnati	+ 6
Pittsburgh	+ 6
Toledo	+ 6
Akron	+ 5
Youngstown	+ 4
Lexington	+ 2
Cleveland	+ 1
Dayton	- 1
Wheeling	- 8
FOURTH DISTRICT TOTAL	+ 4

* * *

After brightening for several weeks, the *steel* industry picture has clouded up again. During two weeks in late February and early March, the index of steel output dropped 6 points in the Cleveland-Lorain district, 8 points in Cincinnati, and 14 points in the Youngstown-Warren-Canton area. There was, however, a 4-point increase in the Pittsburgh-Wheeling district.

* * *

Burley tobacco plantings during 1961 are expected to increase in Kentucky, Ohio, West Virginia, and other important growing areas in the U. S. as a result of a 6-percent increase in acreage allotments announced by the Secretary of Agriculture.

* * *

Bank debits during February at reporting banks in 33 Fourth District centers were down nearly 11 percent from a year ago. The year-to-year decline, the largest since May 1958, can be partly attributed to the fact that February of this year had one less working day than February last year. However, after adjustment for both seasonal variation and the number of working days, bank debits during February also declined from January, by about 5 percent.

* * *

Preliminary estimates of Fourth District *department store sales* in February indicate that seasonally adjusted sales remained about the same as in January. For the year 1961 to date, sales are about equal to year-ago volume.

* * *

Total *investments* and total *loans* adjusted at 26 weekly reporting banks in the Fourth District declined during the last two weeks of February and the first week of March.

(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.)



FOURTH FEDERAL RESERVE DISTRICT