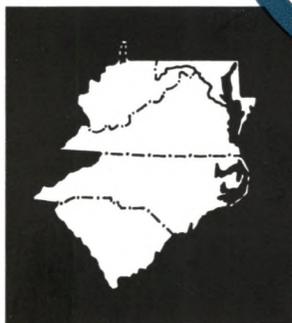


FEDERAL RESERVE BANK OF RICHMOND

MONTHLY REVIEW

Forecasts 1969
Personal Saving Rate
Rural Recreation
The Fifth District



FEBRUARY 1969

FORECASTS 1969

As Usual, An Unusual Year

Forecasting what lies ahead for the economy is a complex task, but once again economic seers have examined the business indicators and have come up with what they set forth as a preview of 1969. As in all previous years the forecasters are again careful to point to the many important uncertainties that complicate their task. But this time they note that the uncertainties are more difficult than usual. Complications like the Vietnam war, the uncertain fate of the tax surcharge, the reaction of consumers to increased social security taxes, and the possibility of further credit tightening have cast long shadows over many a crystal ball. Also, the apparent failure of the tax surcharge to have its anticipated effect on the economy in 1968 added confusion. But forecasters have braved these obstacles and have proceeded with the annual excursion toward the end of the limb.

Most forecasters assume a stabilization of the Vietnam hostilities during 1969, with some reduction in military commitments likely. They look for an extension of the 10% tax surcharge if the economy is continuing to expand rapidly in early 1969, and its expiration on schedule if a slowdown has materialized. There is little agreement, however, concerning the reaction of consumers to underwithholding of 1968 taxes following passage of the surtax and to the increased social security tax. Some expect the economy to be so bullish that these restraining measures will have little effect on consumer expenditures. Other forecasters think that during the first half of the year the higher taxes will provide enough restraint to dampen the growth of consumer expenditures. Apparently comparatively few forecasters expect a stringent credit policy; those that do, think it will last only a short while.

The forecasts examined here represent the best efforts of business and academic economists during autumn and winter of 1968 to predict the performance of the U. S. economy in 1969. This brief article attempts to convey the general tone and pattern of some 52 forecasts compiled in the Research Department of the Federal Reserve Bank of Richmond. Not all of these are comprehensive forecasts and some incorporate estimates of the future behavior of only a few key economic indicators. Several represent group, rather than individual efforts.

The consensus of the forecasts examined in this article call for a 1969 GNP in the range of \$912-\$915 billion. Many of the forecasts were made at a time when GNP growth for the last half of 1968 was being underestimated by a substantial margin. Whether most of the forecasters would revise their 1969 projections upward in the light of the final figures for the third and fourth quarters of 1968 is problematical. At least two have recently increased their GNP estimates—one by a substantial \$8 billion to \$922 billion. In any event, in view of the \$888 billion annual rate in the final quarter of 1968, the consensus forecast would represent a rate of increase of \$10 to \$11 billion per quarter. This would be well below the quarterly increases in 1968.

The views and opinions set forth here are those of the various forecasters. No agreement or endorsement by this Bank is implied. A compilation of forecasts, with names and details of estimates, may be obtained from the Federal Reserve Bank of Richmond.

Prologue The forecasts from which a consensus has been drawn were published during the last four months of 1968 and the first half of January 1969. The early predictions during this period generally

assumed that the tax surcharge would exert a restraining effect during the last quarter of 1968. These generally concluded that a substantial slowing would take place during the first half of 1969, with the rate of expansion accelerating after the mid-year expiration of the surcharge. Of those who predicted quarterly growth, the consensus seemed to be that GNP would grow approximately \$10 billion in each of the first two quarters of 1969 and \$16 billion during each of the last two.

During the course of the forecasting season, the prognosticators have apparently become less sure of their standard saucer-like quarterly prediction. A number of the later predictions indicated that GNP would continue to expand strongly throughout the first half of 1969, with monetary restraint probably producing some moderation in second half growth. Others forecast vigorous expansion throughout 1969, and at the time of this writing, only two foresee some sort of mild recession during the coming year.

1968 in Perspective One of the factors generating some confusion among forecasters this year has been the unexpected performance of the economy in 1968. The continued buoyant performance of the economy in the last half, after passage of the fiscal restraint package, confounded the experts and for the year as a whole, actual business expansion considerably overshot the forecasts made at the beginning of the year.

A year ago most predictions for 1968 were generally in close agreement that the 1968 GNP would range from \$840 to \$845 billion in current dollars, an increase of 7.3% over 1967. After allowance for expected price increases, the growth of real GNP was predicted at about 4.0%. The forecasters expected rapid expansion during the first half of 1968 to be followed by more moderate growth during the last half. In fact, first half growth was somewhat larger and the second half moderation considerably smaller than had been anticipated. Latest Commerce Department estimates now indicate a 1968 GNP of \$861 billion in current dollars, an increase of 9.0% over 1967. After allowing for a 4.0% rise in the implicit price deflator, real GNP had an indicated annual growth rate of approximately 5.0%.

During 1968 the quarterly expansion in GNP measured on an annual rate basis was \$20 billion in the first quarter and \$21.7 billion in the second. Advances of \$18.1 billion during the third quarter and

an estimated \$16.8 billion in the fourth represent a continuing moderation from the first half growth, but considerably less than expected even in forecasts made relatively late in 1968.

The various components of GNP, as well as other important economic indicators which were projected for 1968, almost all show the same tendency on the part of observers to underestimate the 1968 expansion. The rate of unemployment, predicted to increase slightly during 1968, actually fell to 3.6% from 3.8% in 1967. This was the lowest yearly unemployment rate since 1953. Gross private domestic investment was expected to increase by 7.7% to about \$120 billion, but it actually rose 11.5% to \$127.5 billion.

On the consumer's side, 1968 personal consumption expenditures were expected to be between \$523 and \$527 billion, but indications now are that they totaled \$533.7 billion. The consumer price index rose 4.6% from a 1967 average of 116.3, compared with year-ago forecasts of a 3.2% rise. Forecasters were also short on their estimates of sales of domestic automobiles, which came to 8.6 million units against a predicted 8.2 to 8.3 million.

The forecasters underestimated the business sector of the economy as well. Corporate profits before taxes amounted to \$92.1 billion in 1968, well above the estimated range of \$83 to \$87 billion. New construction put in place, at \$84.7 billion, was closer to the predicted range of \$80 to \$84 billion, but still underestimated. The forecasters' estimates of 1.4-1.5 million housing starts, on the other hand, were almost precisely on target. Similarly, the industrial production index, which was predicted to average between 163 and 166 (1957-59=100) for the year, averaged 164.3. The wholesale price index for the year, however, averaged slightly above the level foreseen by the prognosticators, 108.7 on the 1957-59 base as compared with predictions of 108.0 to 108.5. In only one instance were the seers more bullish than the 1968 results. The net exports component of GNP was supposed to range from \$4.5 to \$5.5 billion, but it now appears to have amounted to only \$2.5 billion.

In defense of the forecasters it should perhaps be noted that as the year progressed, those who made quarter-by-quarter estimates seemed to periodically revise these estimates upward. Even in late summer, many expected a substantial moderation in business expansion during the second half. As it became ap-

parent that the third quarter data would show no such moderation, many held on to an expectation of a slower fourth quarter. The unexpectedly strong performance of the economy in the closing months of the year, when the business of forecasting 1969 was getting underway, led to several revisions of early predictions for the coming year. Of this period, Albert T. Sommers of the National Industrial Conference Board noted: "It is hard to recall a time when the tone of sophisticated discussion of economic prospects has fluctuated with such volatility."

Economic policy during 1968 also played a role in explaining the disparity between the forecasts and the results for 1968. The tax surcharge passed as expected, but did not dampen the advance to the extent anticipated. Government purchases totaling \$197 billion were somewhat above the predicted range of \$193 to \$196 billion. There was also a fairly rapid and unexpected growth of the money supply. As prices continued to rise during 1968, the public apparently responded by increasing purchases of goods as a hedge against future price increases. These actions resulted in a sharp decrease in the saving rate in the third quarter, and at the very least postponed the slowing effects of the tax surcharge until 1969.

THE FORECASTS IN BRIEF

Gross National Product Forecasts for 1969 GNP are concentrated in the area of \$912 to \$915 billion. This would represent a 6% yearly gain, substantially below the 9% advance registered for 1968. The forecasts ranged from a low of \$895 billion to a high of \$933 billion. Price rises are expected to account for about half of the anticipated 6.2% increase in current dollar GNP.

Personal consumption expenditures were most often estimated to advance 6.3% to \$567 or \$568 billion. This represents about three-fourths of the percentage increase that was registered during 1968. Government purchases of goods and services are expected to range between \$210 to \$212 billion. The midpoint of this range represents a 7% increase over 1968 government purchases. This is substantially smaller than the 10.5% gain in 1968. The larger part of this increase is expected to occur in state and local government expenditures.

Gross private domestic investment is expected to rise by about 5.0% to \$132-\$136 billion, also a

smaller increase than the 10.7% rise during 1968. Gains in both construction and plant and equipment expenditures are projected. Most forecasters expect the increase in business inventories in 1969 to be somewhat smaller than in 1968.

Industrial Production Most predictions call for a 1969 average of 168-169 for the Federal Reserve index of industrial production (1957-59=100). This represents an increase of approximately 2½% over the 1968 figure. Although most forecasters expect steel production to slow and automobile output to remain about the same, they predict increases in the output of other consumer durables, construction materials, capital equipment, and nondurable goods.

Construction The value of new construction put in place is expected to be between \$89 and \$91 billion in 1969, an increase of 5% to 7% over 1968. Residential outlays are expected to show the largest percentage gain; some forecasters anticipate a rise of 15% to 18%. Private housing starts are most often predicted to rise to 1.65 or 1.70 million, an increase of 10% to 13%. Nonresidential and public housing outlays are expected to advance at a rate below the 4% to 5% recorded in 1968.

New Plant and Equipment Economists have been very bullish about business expenditures for plant and equipment during 1969. The consensus of the forecasts is that they will be \$68 or \$69 billion during 1969, representing an increase of 5% to 7% over the expenditures made in 1968. One very prominent survey of businessmen's intentions even shows an 8% gain.

Corporate Profits Forecasters were somewhat uncertain about 1969 corporate profits, but the consensus is that corporate profits before taxes would be about \$90.0 billion. This would be 2.3% below the 1968 figure. Profits after taxes are expected to be between \$50 and \$52 billion. The midpoint of this range represents no change from the 1968 figure. The apparent inconsistency between the estimates of before- and after-tax profits results from the propensity of most forecasters to estimate either before-tax profits or after-tax profits, but not both.

Unemployment The forecasters were unanimous in their opinion that the unemployment rate would rise from the 1968 average of 3.6%. This 15-year

ECONOMY IN 1968 AND EXPECTATIONS FOR 1969

	Unit or Base	1968*	1969**	
Gross national product	\$ Billions	861	912	to 915
Personal consumption expenditures	\$ Billions	534	567	to 568
Government purchases of goods and services	\$ Billions	197	210	to 212
Gross private domestic investment	\$ Billions	127	132	to 136
Net exports of goods and services	\$ Billions	2.5	2.0	to 4.0
Index of industrial production	1957-1959	164	168	to 169
Sales of domestic automobiles	Millions	8.6	8.9	to 9.1
New construction put in place	\$ Billions	85	89	to 91
Private housing starts	Millions	1.50	1.65	to 1.70
New plant and equipment expenditures	\$ Billions	64	67	to 69
Change in business inventories	\$ Billions	+7.3	+6.0	to +6.5
Corporate profits before taxes	\$ Billions	92	89	to 91
Corporate profits after taxes	\$ Billions	51	50	to 52
Rate of unemployment	Per cent	3.6	4.3	to 4.5
Wholesale price index	1957-1959	108.7	111.0	to 112.0
Consumer price index	1957-1959	121.7	125.0	to 126.0

*Estimated.

**Rough approximations of typical forecast.

low annual rate is generally expected to move up to a range of 4.3% to 4.5% for 1969. Since the December 1968 unemployment rate was at a seasonally adjusted low of 3.3%, the 1969 predictions appear to call for an average of about 900,000 more persons unemployed than was the case at year end 1968.

Prices Estimates of consumer and wholesale prices imply some reduction in inflationary pressures during the year, although most forecasters expect prices generally to continue their upward trend. The consensus is that consumer prices will advance 3.0% to 3.5% during 1969, and that wholesale prices will increase by 2.1% to 3.0%. These predictions compare favorably to the 1968 increases of 4.3% in the consumer price index and 2.5% in the wholesale price index.

Summary The tax surcharge exercised somewhat less than its anticipated restraint during 1968 and the economy advanced considerably faster than had been expected. The 1968 economy had the characteristics of a boom year; consumer prices rose rapidly and the unemployment rate moved to a 15-year low. Forecasters think that 1969 GNP will show a slower rate of expansion than 1968 and that

upward pressure on prices should moderate but not disappear.

The most common forecast for quarter-by-quarter growth in 1969 calls for the rate of expansion of the economy to slow during the first half of 1969 and to accelerate during the second. This prediction has been standard since autumn of 1968, and although most of the prognosticators continue to cling to the "saucer-shaped forecast," there have been some important recent departures from that view.

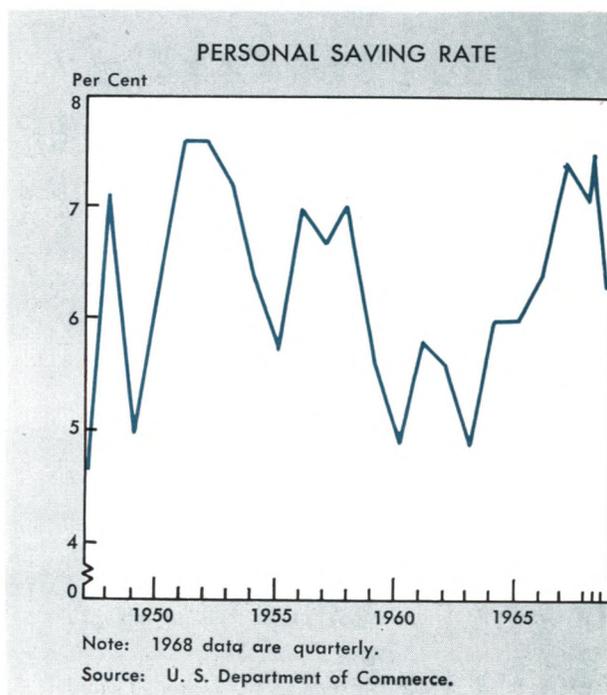
Some forecasters now expect the economy to continue to expand at the present rate until the second half of 1969, when they foresee a slowdown materializing. Moreover, a number of these forecasters think that the slowdown, when and if it comes, may be somewhat more than moderate. Two of the 52 forecasters at the time of this writing expected a recession, although one of rather mild proportions and brief duration. But a few others are predicting continued vigorous expansion throughout the year. Finally, the more prudent are simply refusing to predict the quarterly performance of the 1969 economy—and that means that it is, as usual, an unusual year.

William E. Cullison

PERSONAL SAVING RATE

Since the passage of the 10% tax surcharge in June 1968 the personal saving rate has received much attention in the financial and economic press. Many economists expected the surtax to dampen the ebullient economic growth of the preceding twelve months. This expectation was based in part on forecasts of a sharp slowdown in consumer spending following the imposition of the surtax. In fact, consumer spending did not slow as expected in the third quarter, due in large part to consumers reducing their saving rate.

The personal saving rate expresses the fraction of disposable personal income which is not allocated by the consumer to personal consumption expenditures. Many economists argue that this fraction should be expected to rise as per capita incomes move upward. Nevertheless, experience in this country since 1929 suggests that, looking at annual figures, there is no discernible upward trend. Sharp fluctuations in the rate between 1929 and 1945 are explainable by



special circumstances. The rate fell from 5% in 1929, the first year for which reliable data are available, to negative levels in the depression years of 1932 and 1933. In 1932 the saving rate was a negative 1.3% and in 1933 it stood at a negative 2.0%. In those two years incomes were so low that consumers in the aggregate had to draw down past saving to finance current consumption. Thus, the nation experienced net dissaving, that is, consumer expenditures actually exceeded current personal disposable income. In the middle and late 1930's the average annual saving rate ranged in most cases from about 3½% to about 5½%.

During World War II the saving rate rose sharply, jumping to 25% in 1943 and 25.5% in 1944. Production in that period was geared to the war effort, with many consumer goods in short supply and under strict rationing. Consumers had little choice but to save larger shares of their growing incomes. The saving rate rose, therefore, not so much because of increased incentives to save as because of decreased opportunities to spend. War bond sales and appeals to individual patriotism were also factors influencing saving.

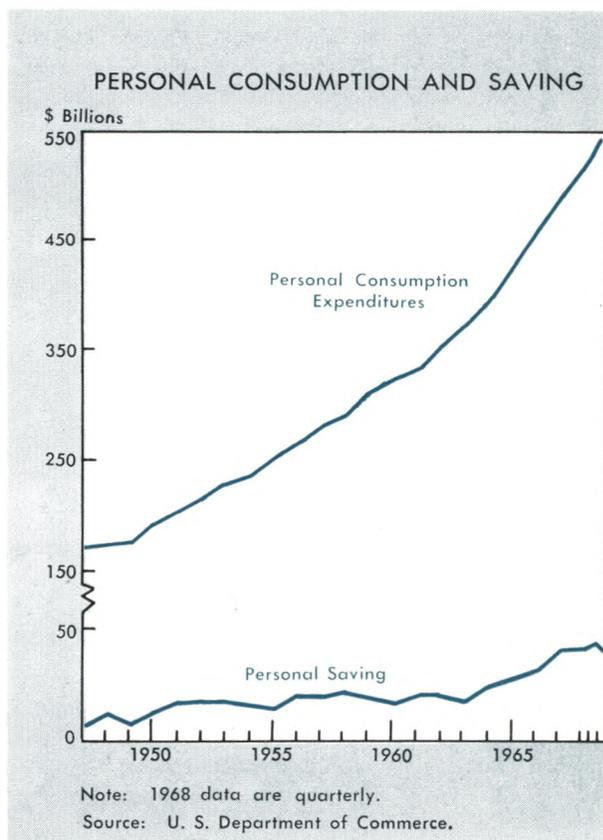
Following World War II the rate moved back down to more normal levels, with annual figures fluctuating between 4.3% and 7.1% in the period from 1947 through 1950. At the outset of the Korean War the rate dropped sharply for several quarters as consumers, remembering the rationing and short supplies of World War II, moved swiftly to lay in a hoard of key consumer items. After the war began in the early summer of 1950, the saving rate dropped to 2.2% in the third quarter of the year. The spate of consumer buying was short-lived, however, as popular fears of a repetition of World War II scarcities subsided. Restrictions on consumer credit, imposed in late 1950, also helped curb consumer spending. The saving rate subsequently jumped to 7.8% in the fourth quarter of 1950 and for the years 1951, 1952, and 1953 remained in the narrow range of 7.2% to 7.6%.

Since the middle 1950's the rate on an annual basis has seldom been below 5% and seldom above 7%. Quarter-to-quarter changes have seldom exceeded one percentage point. Over this period the

quarterly figures ranged from about 5% to about 8.5% and in the large majority of cases were between 6% and 8%.

The income tax surcharge, passed in June 1968 and designed in part to curb consumption, did not immediately achieve that objective. Rather, consumers increased their consumption by allowing a decline in their saving rate to absorb the impact of the added tax. The saving rate dropped from 7.5% in the second quarter to 6.3% in the third quarter. This drop is estimated to have accounted for about \$7 billion of the \$13 billion increase in third quarter consumer spending. Recently released figures for the fourth quarter of 1968 indicate a significant increase in the personal saving rate to 6.9% while there was only a small increase in consumer spending.

M. Grace Haskins



RURAL RECREATION

"Golf courses are replacing cotton fields, barns are becoming vacation cabins, duck blinds crouch at the edge of rice fields, and tents are being pitched in farm woodlands." These are the words used by former Secretary of Agriculture Orville Freeman a few years ago in describing rural recreation, a comparatively new income-producing enterprise for farmers and an aid in rural area development for many communities.

Growing Need for Outdoor Recreation With the growing desire of urban residents to get away from the pressures of crowded city life and to enjoy the out-of-doors, demand for open space for outdoor recreation is multiplying with each passing year. The President's Outdoor Recreation Resources Review Commission (ORRRC) reported in 1962 that 130.4 million people 12 years old and over took part in 17 specified forms of outdoor recreation on $4\frac{1}{3}$ billion separate occasions during the summer of 1960. The report anticipated that participation in these activities will increase to $7\frac{1}{2}$ billion occasions by 1976 and to $14\frac{1}{3}$ billion by the year 2000, provided facilities are available to meet the demand. This would be more than a threefold increase by the turn of the century.

The survey concluded that the expanding market for outdoor recreation is the result of four major factors—population, disposable income, auto travel, and leisure time—all of which are expected to increase in the years to come. Population, the most basic factor, is expected to double by the year 2000. Disposable consumer income is expected to quadruple. And more than a fourfold increase is anticipated for auto travel. The growth in leisure time, much of which can be expected to go into outdoor recreation, is indicated by both a shorter workweek and an increase in paid vacation.

With the surging demand for outdoor recreation estimated to be only a foretaste of what is to come in the years ahead, considerable expansion is planned for recreation facilities in national, state, and local park and forest areas. Even with the planned expansion, the anticipated demand reportedly cannot be met on public land alone. According to a study made by the U. S. Department of Agriculture, the greatest potential for meeting future outdoor recreational needs is on private rural land. Most privately owned land is in farms, forests, and rangeland. This,

then, is where farmers and other rural landowners fit into the outdoor recreation picture.

Recreation on Family Farms There were 2,428 Fifth District farmers—around 1% of the total—who reported receiving recreation income in 1964, according to the Census of Agriculture. Of this number, 252 were located in Maryland, 573 in Virginia, 303 in West Virginia, 863 in North Carolina, and 437 in South Carolina. Total recreation income reported amounted to some \$2.6 million in the District as a whole. For the farms involved, recreation income per farm averaged \$1,089 and ranged from \$758 in North Carolina to \$1,849 in Maryland.

The accompanying chart shows the proportion of farmers reporting recreation income by amount received. For the District, 38% of all farmers reporting recreation income received under \$100; one-third reported from \$100 to \$499; 10% were in the \$500 to \$999 classification; 8% reported from \$1,000 to \$1,999; while 11% received \$2,000 and over. Data for North and South Carolina reveal a similar picture to that in the District, while Maryland data show the greatest departure. With by far the greatest proportion of the District's farmers reporting less than \$500 in this type income, it is apparent that most of them consider their recreation enterprises to be only a supplementary source of income. From a study of county data, it would appear that farms receiving the largest average amount of recreation income are generally located near large population centers.

The kinds of rural recreation enterprises which farmers can develop vary widely, running the gamut from nature walks to fishing, camping, and "hunting preserves." A study made by the Department of Agriculture lists seven categories. These are logical groupings, but they do not cover fully all kinds of income-producing recreation enterprises.

Vacation farms are primarily a type of operation in which paying guests live at the farm during their stay, which may vary from a week to an entire summer. A reasonably modern farm home, with enough sleeping, eating, and living space for a few visitors, is the basic requirement. Good home cooking is a top attraction. A comfortable climate, country air, pleasant surroundings, and a chance to participate in some farm activities are also considered essential. Generally, there are other fa-

cilities, such as ponds for fishing and swimming or horses for riding, which add to the pleasures of the guests. Charges are generally moderate when compared to those for other vacations.

Vacation farms have special appeal for those who want to escape from the confinements of city life. They also provide the opportunity for city-bred children to experience country life such as their parents or grandparents did. Vacation farms can be found scattered throughout the District.

Picnic and sports areas offer a combination of recreation facilities, often to groups for part or all of a day. Charges can be made either separately or on a daily fee basis. Such areas are usually within about an hour's drive from cities and near good highways.

Fishing can be provided in natural waters such as streams, lakes, and rivers, or in man-made lakes or farm ponds. A farmer whose land adjoins public water—a lake or river—can offer access privileges for a fee. By adding the rental of boats and motors and the sale of tackle, bait, and supplies, it is possible to develop a sizable business. Farm ponds built for irrigation, watering livestock, and fire protection are becoming increasingly important for fishing. For the privilege of fishing in private water, fees charged are generally per pole or per fisherman on a daily basis. But for a specialty such as trout fishing, charges are usually based on the weight

or length of the fish caught. The eager trout fisherman who wants to keep his catch can find a number of "catch-out" lakes in the mountain counties of North Carolina and Virginia.

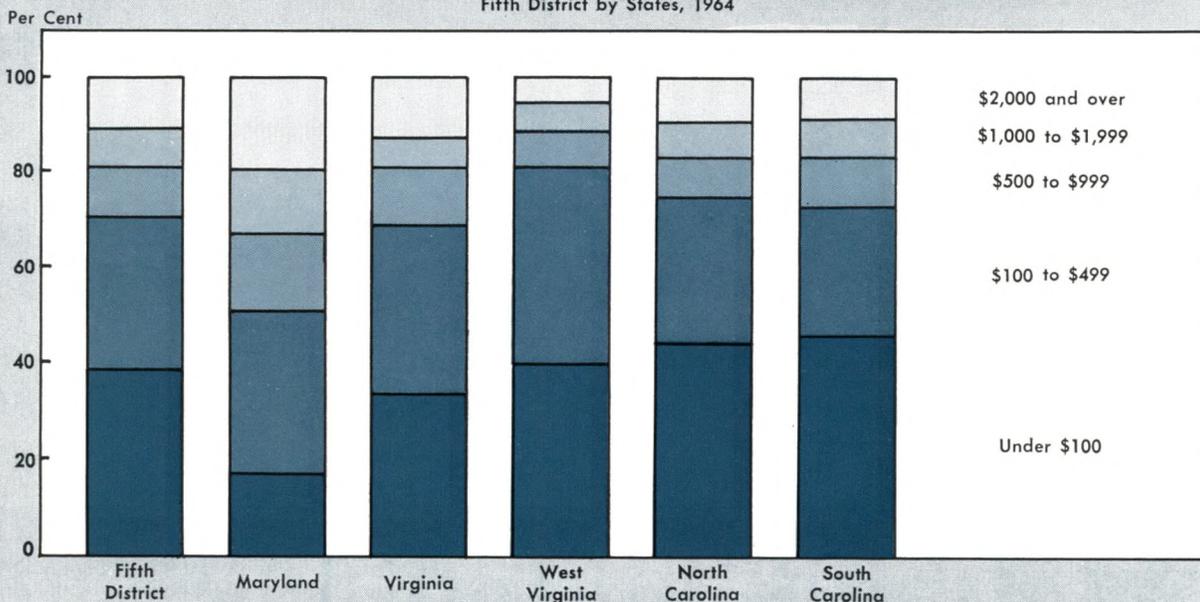
Camping, scenery, and nature recreation areas require a rather special environment. Access to scenic attractions, a variety of wildlife habitat, special plant or animal attractions, and varied topography are some of the essentials. The major source of income comes from privilege fees, although additional income may be derived from sales of supplies and from guide or outfitting services.

Most farmland produces wild game of one kind or another and can be used as hunting areas. More and more farmers are marketing hunting privileges by charging for the privilege of entering their property to hunt. Permits can be sold to individual hunters by the day, or they can be sold in the form of a seasonal lease to a group of sportsmen. Where individual farms are too small, neighboring farmers can combine their properties into a single hunting area for lease to a group of hunters. Quality of the hunting will determine the rates which can be charged.

A "hunting preserve," unlike a hunting area, is a commercial operation which offers guaranteed shooting of pen-raised game for a fee. It is usually the main business of the operator, with farming a supporting activity. Hunting preserves are usually

RECREATION INCOME RECEIVED BY FARMERS Proportion of Farms Reporting by Amount

Fifth District by States, 1964



Source: U. S. Bureau of the Census.

licensed and regulated by state laws. Large preserves may find it profitable to raise their own game, but as a rule the game are bought from a commercial producer. Operators usually provide hunting dogs and a handler as part of the service.

Selling cottage and recreation sites, or recreation use rights, is another type of enterprise considered suitable for farmers. It involves the development of an attractive recreation area on farmland which provides the opportunity for selling cottage, camp, or home sites, or leasing rights to use the facilities built by the owner. Land in the mountains, along a stream, or around a lake may be divided into lots for sale or lease. Another possibility is the sale or lease of land with interesting natural features to school districts for "outdoor classrooms" or science study.

Some Pros and Cons While privately owned rural recreation enterprises can be profitable, they sometimes involve problems. On the plus side, they offer farmers opportunities to increase their incomes without leaving their farms; they frequently aid in diverting cropland from surplus production to a more profitable use; and they contribute to the prosperity of other local business establishments. At the same time they do not remove land from private ownership or reduce the tax base.

On the other hand, a rural recreation enterprise is likely to involve an individual farmer in a set of management problems quite different from those ordinarily associated with farm operation. Among the most frequent of these are: the need to learn the skills required in meeting the general public; a changed tax situation; a changed position with respect to other local ordinances and state laws; recruitment of labor; adequate liability insurance coverage; and vandalism.

Rural Community Recreation Facilities Many of the limitations inherent in an individual's efforts to establish a successful rural recreation enterprise can be overcome by the formation of a recreation cooperative. Advocates of the cooperative approach argue that it has many advantages over the individual approach. It can provide the means of obtaining the larger land area and the larger amounts of other resources often needed for development of rural recreation facilities. It can make possible a more diversified recreation program and often affords greater management skills. Other advantages include joint promotional efforts, joint purchasing, more efficient use of equipment, and limited liability and risk.

A rural user-controlled cooperative near Terra

Alta in Preston County, West Virginia, illustrates the cooperative approach. This year-round recreation complex formally got underway in July 1965 with an \$820,000 loan from the Farmers Home Administration and \$180,000 contributed by 1,200 farmer and rural resident members. With most major developments completed, it opened for business in July 1967. Encompassing more than 2,000 acres of land with a 65-acre lake for boating and fishing, the project includes a lodge, winterized guest cabins, swimming pool, golf course, a camping area for tents or trailers, and a ski lift. Both bow and arrow and regular hunting seasons are observed. The complex supplies recreation to its members and to the public as well. Fees for use of the facilities have been set up, with members getting special discounts and nonmembers paying the full fee. The association's primary aim is to aid the economy of this rural area by drawing vacationers to it.

Evidence that rural community recreation facilities aid in rural area development is shown by an illustration from North Carolina. Near Scotland Neck, in Halifax County, a recreation association has built a new 175-acre recreation area. Included in the complex are an 18-hole golf course and pro shop, tennis courts, playgrounds, and a manager's quarters. Designed to serve nine nearby communities, it is already credited with contributing to the decisions of two new industries to locate in the area.

Summary Growing population, income, leisure time, and travel are increasing the demand for outdoor recreation. This booming market and its anticipated future expansion cannot be met by public facilities alone. There is considerable potential, therefore, in the development of rural recreation enterprises on private land. Farmers and other rural landowners may find it profitable to convert some or all of their land into some form of outdoor recreation. Selling recreation privileges to vacationers and weekend visitors can be a tricky business, however. Before an individual invests heavily in a recreation enterprise, he should carefully study his situation—his potential market, his resources, and his own aptitudes. Rural recreation appears to be a "specialty crop." Farmers with the right talents, in the right location, and with the needed resources will succeed in reaping a profitable harvest. Others will fail. Where a privately owned enterprise is not feasible, it may be possible to use a cooperative approach. A community-developed recreation complex can, in fact, aid in the economic development of the surrounding rural area.

Sada L. Clarke

The Fifth District

Usury Ceilings, Mortgage Funds, and Residential Construction



Until mid-1967, four Fifth District states had statutory limits of six per cent per annum on the contract interest rate for home mortgages. South Carolina and the District of Columbia, with limits of seven and eight per cent, respectively, were the only exceptions. These so-called usury laws had been on the books for a number of years. It has long been argued in many quarters that at times these legal ceilings, and especially the six per cent limit, had the effect of channeling funds away from mortgage markets with resulting cutbacks in the pace of private residential construction.

Experience during the sharp credit stringency in 1966 lent substance to this argument. Over the first eight months of that year, interest rates in most credit markets rose steeply and in some markets moved well above the statutory ceilings. Typical sources of funds for home mortgages were nearly choked off and residential construction faltered badly. As a result plans of some individuals to build or buy homes were curtailed or delayed. At the same time costs of construction were rising, aside from the cost of money, driving up prices of new and existing houses and making home ownership correspondingly more difficult. In some cases actual housing shortages developed.

An Uneven Impact It was contended by some observers of the construction industry in 1966 that the diminution of the supply of mortgage funds,

while general, was irregular as to its impact in various states. Those states which had the lowest ceiling rates appeared to suffer most. Because of sharply rising rates payable on bonds and other market instruments, some types of financial institutions that ordinarily supply large amounts of funds to mortgage markets found it increasingly difficult to raise funds. Banks and savings and loan associations, restricted as to rates they could pay on certificates of deposit, time deposits, and savings accounts, not only found it hard to attract new savings but also experienced great difficulty in holding onto old accounts. Moreover, with yields on alternative investments at unusually high levels, the attraction of six per cent mortgages for life insurance companies and mutual savings banks diminished sharply. Hence, the flow of funds into mortgage markets fell off sharply. This was true throughout the country after the early months of 1966, but especially true in those states where substantially lower limitations on mortgage rates existed.

New Statutory Ceilings As a result of the 1966 experience many state legislatures undertook searching restudies of their usury laws and of the possible implications of the low legal ceilings for residential construction and for home ownership. From these studies there emerged numerous revisions of longstanding legal ceilings. Many states which had maintained the six per cent limit on home mortgages

PERCENTAGE CHANGE IN VALUE OF CONTRACTS AWARDED FOR RESIDENTIAL CONSTRUCTION
From Corresponding Year-Earlier Period
Fifth District by States and the U. S.

	1966			1967			1968		
	1st Half	2nd Half	Year	1st Half	2nd Half	Year	1st Half	2nd* Half	Year*
Maryland	16.2	-38.7	-14.4	-30.0	-19.5	-25.8	-11.8	27.2	3.9
District of Columbia	-50.5	-50.2	-50.4	-73.9	-30.7	-57.8	108.1	45.1	73.1
Virginia	-9.4	-44.8	-26.6	-27.5	39.8	-2.9	34.7	37.6	36.1
West Virginia	21.3	-20.8	-1.9	-6.7	45.1	16.3	39.6	-23.0	7.2
North Carolina	9.1	-23.8	-7.8	-8.3	30.6	8.2	36.6	20.1	28.7
South Carolina	15.9	-21.3	-4.2	-2.5	47.8	19.8	51.3	2.8	26.3
Fifth District	2.2	-34.9	-16.9	-21.6	19.1	-5.2	26.1	21.6	24.0
United States	-2.5	-30.8	-16.6	-12.1	41.4	10.1	33.3	22.8	28.1

Data upon which this table and the accompanying article are based are furnished by and are used with the permission of the F. W. Dodge Co.
*December 1968 data are not available. Per cent changes for the second half and for the year are calculated from five- and eleven-month totals, respectively, for both years.

raised the ceilings, in some cases as high as eight per cent, in the hope that this would make more funds available to finance local residential construction.

North Carolina was the first District state to act when on June 21, 1967 the contract rate limit was raised to seven per cent on residential construction loans secured by a mortgage or deed of trust. Then on March 1, 1968, Virginia raised its contract rate limit to eight per cent, and on July 1, 1968, the contract rate limit in Maryland moved to eight per cent. Finally, West Virginia moved its contract rate ceiling to eight per cent on September 14, 1968. No changes were made to the limits applicable in the District of Columbia and South Carolina.

These legislative changes apparently have had the effect of increasing the flow of funds into residential building. However, some observers maintain that as interest rates have risen further, particularly in recent months, even the new ceilings may not prove high enough to provide a sufficient flow of funds into mortgage markets. In this connection, it should be noted that ceiling rates on FHA and VA mortgage loans were raised to six and three-fourths per cent last May and to seven and one-half per cent in January of this year.

Residential Building Contracts Since 1966 The construction industry in any given area is of course affected by changes in general economic conditions. In most important respects, changes in the general economic climate during the past three years were similar for the District and the nation at large. It is beyond the scope of this article to examine the impact of such factors. Nor is it the intention to explain differences in construction activity entirely by state interest rate ceilings. It is informative, however, to examine the relative changes in value of residential construction during the 1966-68 period.

The accompanying table underscores the generality of the problems that occurred. Residential construc-

tion contracts in the Fifth District and throughout the United States suffered large declines in 1966, with most of the cutback coming in the second half of the year. Recovery began in 1967 but it developed more slowly in the District than in the nation at large. For the first half of 1967 awards were lower than in the corresponding year-earlier period for both the District and the nation, with the drop considerably sharper for the District. The figures show improvement in 1967's second half although it should be noted that this comparison is with the extremely poor performance of the second half of 1966. For 1967 as a whole the District experienced a further decline while the United States at large began to recover and recaptured a substantial portion of the previous year's loss. Data for 1968, though still incomplete, show a continuation of the recovery. In each half, gains over the corresponding year-earlier period were substantial for the District as for the nation as a whole. District percentage gains were not as great, however, as those for the entire United States.

A state by state examination of the table also points up some interesting comparisons. The District of Columbia does not provide a good example since the value of its residential construction is relatively small and tends to move erratically. By the end of 1968, North and South Carolina and West Virginia had more than regained the decline they had experienced in the earlier part of the three-year period. Virginia had almost done so, and, excluding D. C. from the analysis, the only remaining exception was Maryland, where special legal difficulties arose over the interpretation of laws regarding interest ceilings. This may have been a factor in the apparent reluctance of some lending institutions in that state to participate in the home mortgage market until a court clarification was obtained.

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