# MONTHLY REVIEW

**Contents:**



FEDERAL RESERVE BANK OF MINNEAPOLIS

FEBRUARY 1964

# The anatomy of innkeeping

The nation's innkeeping facilities have expanded considerably since the war, but strangely enough, the observable demand for accommodations has apparently not increased during this period. This report attempts to examine this paradox by exploring: (1) some of the market and investment conditions that continue to coax new capital into the industry, and (2) possible alternatives open to the industry in adapting to the changing pattern of preferences as between hotel and motel accommodations[1].

The industry is so large and diverse that, in many cases, generalizations can be formed only by making restrictive or even controversial assumptions. Detailed data are often unavailable and making estimates is always hazardous. Nonetheless, the topic is interesting and the opinions of the industry on controversial questions such as motel expansion or convention promotion are important.

## I. THE INDUSTRY'S GROWTH SECTOR

The volume of business and recent trends in the industry are indicated by Census Bureau information, drawn from data prepared by hotel accounting firms. The 1962 revenue of $4.4 billion earned from a total of 2.5 million rooms represents a growth in revenue of about 50 per cent since 1948, coupled with an increase of about 33 per cent in the number of rooms. The reported average number of rooms occupied as a per cent of total, called the "occupancy rate," has declined from 85 per cent to 65 per cent during the same period. Even though the industry-wide occupancy rate has declined, total revenues have remained constant, as shown in Chart 1, because of higher room rates. Differential changes were noted in the various types of accommodations during this period. "Motels and motor hotels" tripled, reaching 1.0 million rooms, while "hotels" held constant at 1.5 million rooms. Hotels' share of industry revenue fell from 92 per cent in 1948 to 63 per cent in 1962, reflecting hotel occupancy rates that are presently at least 10 percentage points lower than those of motels.

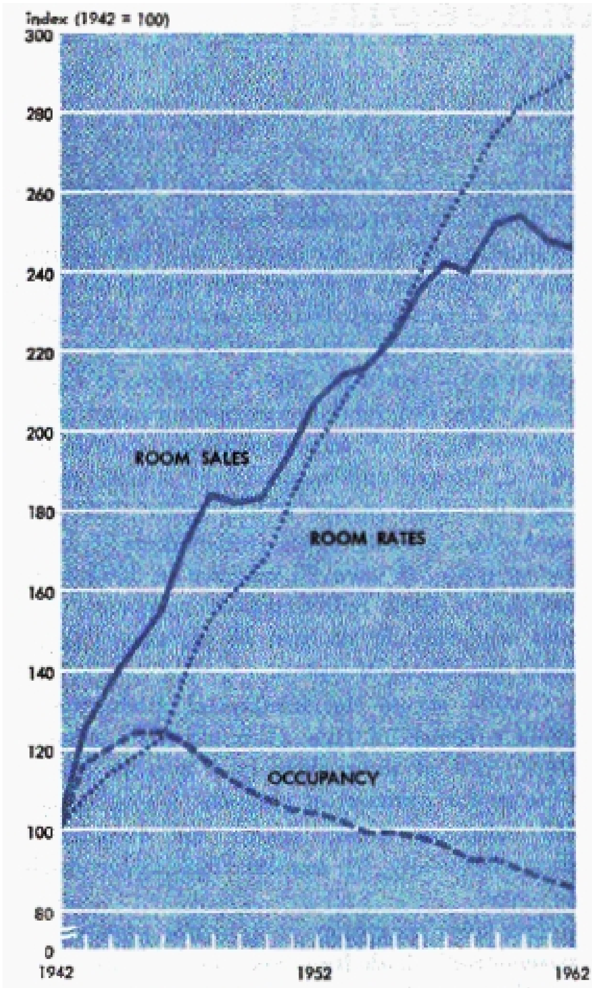
Cutting across the hotel-motel distinction is another based on type of occupancy: terminal stays (two or more days in a specific locale) whether for commercial purposes, a visit or special event, or a convention; and nonterminal stays, frequently by tourists stopping overnight en route.

The hotel occupancy ratio varies greatly and systematically both from week to week and from month to month, as can be seen in Charts 2 and 3.

Motels also show seasonal patterns, but their peak period occurs in the June through August period. The annual average occupancy rate for motels is higher than for hotels primarily because motels do a much greater business from Friday through Sunday, a significant part (43 per cent) of the week's potential business. Families especially prefer motel accommodations. As a result, motels achieve higher rates of "double occupancy," which brings in higher average revenue per room;

[1] For purposes of analysis, "motels" are buildings with from 25 to 150 rooms and with no large public rooms. They are characterized by informality, ready auto access, and typically fringe-of-town locations and recent construction. By contrast, "hotels" are buildings that normally contain 150 or more rooms and include substantial public and convention space. They are characterized by less direct auto access, high-rise construction, and downtown locations. Some are new, but most are renovated older buildings.

Chart 1—Trends in occupancy, room rates and room sales, United States




Source: Harris, Kerr, Forster

double occupancy accounts for some 35 to 40 per cent of the motel trade but for only 15 to 20 per cent of hotel business.

### Market conditions behind changing demand

The consumer's preference for motels reflects the increase of private auto travel and the desire for informality. The complementary drop in railroad passenger volume and the growth of downtown traffic congestion have caused not only families and nonterminal stays but many of those making commercial terminal stays (those stopovers related to industries with suburban locations) to prefer the motels. As a result, the annual revenues from downtown hotel rooms since 1948 would have dropped drastically but for rate increases.

### Comparative costs

In addition to consumer preference, a significant difference in construction costs favors the rapid growth of the motel. A new motel can be built almost anywhere for $8,000 to $12,000 per room, while new hotels cost from $15,000 to $23,000 per room. Merely adding a new room to an existing convention hotel costs at least $10,000. Moreover, operating overhead and departmental or variable costs are all typically lower for motels. Reported industry data show that motels in 1962 had overhead costs of 18.5 per cent of gross revenue and variable costs of 56.7 per cent of gross revenue, compared to 20.6 per cent and 60.0 per cent, respectively, for hotels. These considerable advantages possessed by motels are illustrated in Table 1.

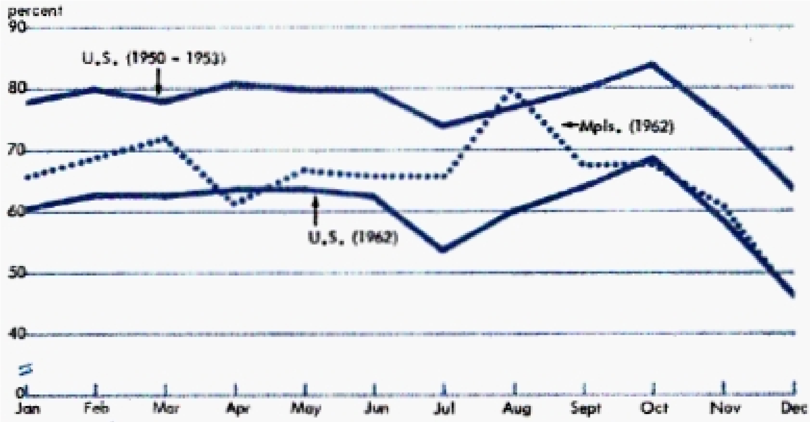
TABLE 1—1962 OPERATING DATA IN DOLLARS PER AVAILABLE ROOM*

| | Typical Hotel 300-500 Rooms | Typical Motel 75-150 Rooms |
|---|---|---|
| Annual Room Revenue | $2,485 | $2,780 |
| Direct Departmental Expense | 882 | 809 |
| General Overhead Expense | 1,168 | 1,034 |
| Real Estate Taxes | 221 | 147 |
| Total Expense | 2,271 | 1,990 |
| Operating Profit from Rooms | 214 | 790 |
| Food and Beverage Profit | 316 | 468 |
| Income from Stores, etc. | 199 | 55 |
| Total Operating Profit | 729 | 1,313 |
| Profit as a Percent of Room Revenue | 29.3% | 47.2% |

Source: Harris, Kerr, Forster: Trends in the Hotel-Motel Business, 1962.

The observable difference in profitability, since rates are roughly comparable, appears to be due about equally to: (1) higher average motel occupancy rates, and (2) lower costs. Of course, these are average figures and many exceptions can be found. However, it appears the average motel, as compared to the hotel yields an investor almost double the gross cash flow per room. This greater flow permits a larger mortgage. What is true of comparative cash flow appears to be true also of net profits after taxes. That is, motels appear more profitable after depreciation and financial charges are deducted from cash flow. This conclusion is supported by the claims of hotelmen that hotels rarely return 10 per cent, while motels frequently return up to 35 per cent on equity capital.

Chart 2—Monthly occupancy variations, United States and Minneapolis




Source: Horwath & Horwath, Annual Survey

With the benefit of this relatively greater cash flow, it is said that contractors are able to build motel units, mortgage them heavily, sell the motel to a group of small investors but retain a lease, then sell the lease to an operator and make a fair profit. Unless built to the saturation point, such units appear capable of competing profitably with older hotels. Group investors may be quite content with smaller accounting profits as long as dividends can be paid at above average rates. Such rates are possible by using some portion of the cash flow which is swollen because of accelerated depreciation writeoffs. Often the depreciated property is sold again for a capital gain, and a new group begins another round of depreciation. It should, of course, be noted that such schemes are neither peculiar nor common to motel building. While resale has tax advantages for hotels too, their poorer earnings now render this a less profitable and less likely alternative.

## II. ONE ALTERNATIVE FOR THE INDUSTRY'S DECLINING SECTOR:

### TAPPING THE CONVENTION MARKET

As motels continue to rise on the outskirts of cities and even downtown, the nation's hotels face the problem of attracting business from some other quarter. In many cities hotelmen are looking to the rising convention market for one possible solution.

The scarcity of published data makes it difficult to assess the national convention market. We do know, however, from fragmentary data assembled by the International Association of Convention Bureaus, that the number of conventions grew from 17,000 in 1948 to 20,000 in 1957. Past experience suggests that visiting attendance at these conventions in 1957 represented two-thirds of the total, with the average length of stay being four days and single occupancy the rule. Under these assumptions, convention demand would have accounted for about 27 million room days, or about 5 per cent of the industry's total demand.

With convention activity continuing to climb, this figure may be expected to have reached 7 per cent during 1963. While the convention trade may seem relatively small, it nevertheless accounts for 10 to 14 per cent of the downtown hotel occupancy and about 35 per cent of hotel occupancy among the one hundred larger cities that serve the convention market. In St. Paul, for example, surveys indicate that 44 per cent of the total projected occupancy of a new 500-room convention hotel might be expected from this source. The percentage of occupancy due to convention visitors is even higher in some of the large hotels in major convention cities, ranging up to 75 per cent.

The number of cities actively competing for state and regional conventions is rapidly growing. This trend has been encouraged by the attempts of city planners to revive downtown areas by recommending auditorium and exhibit facilities as complements to new and existing convention hotels.

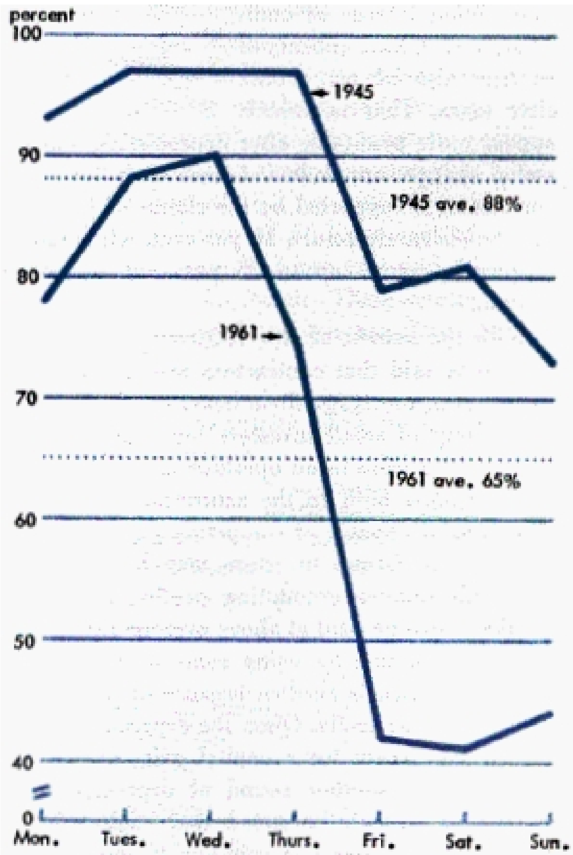
Given the attractiveness of the convention business, the two foremost questions facing the convention-seeking city are: (1) How can we estimate our convention market potential? (2) How can we finance new convention facilities?

To build an adequate convention-size hotel costs $15,000 to $23,000 per room. Because of higher costs, room rates in such hotels would have to be twice the established rates on similar motel accommodations. Consequently, cities desiring such facilities frequently: (1) encourage the larger hotels to add rooms and facilities to older buildings, at perhaps $10,000 per room; or (2) subsidize a new hotel,[2] generally built and managed by some national chain already prominent in the convention trade.

[2] Such subsidization commonly has been undertaken by interested civic or urban development groups. These groups accept secondary income debentures under a moderate mortgage covering approximately half the construction costs, and then persuade a national chain to guarantee the first mortgage payments in return for minimum rent of the facility. This rent payment may be used to service the debentures only after stipulated management fees are paid.

But smaller motels may continue to rise in downtown areas in competition for the normal commercial trade of older convention hotels. As the hotels lose occupants, their need for more conventions becomes apparent. The growing frequency of conventions in older properties, in turn, keeps out more of their normal trade. Since this normal trade finds newer accommodations at the same or only slightly higher rates, it may not return to the older hotels when the conventions are gone. This has been called the downtown

**Chart 3—Typical occupancy variations over sample weeks,* United States**




*Selected by Horwath and Horwath for typical hotels in cities of 300,000 plus population, annual survey "leeching market." An executive of a firm that specializes in heart-of-the-city motels has described this operation: "The idea is to throw up a hundred or so rooms across the street from the city's big convention hotel and operate them without frills. That way we can leech off the hotel's traffic the way the variety shop down the street leeches off the department store," (*Fortune*, July 1963, p. 213). Within its first four years this company has successfully constructed 20 downtown motels and has 35 more planned or under construction.

## III. ANOTHER ALTERNATIVE: RATE REDUCTION AND RENOVATION

### Difficulties in rate competition

One may ask why older hotels do not meet motel competition by lowering rates. Most established hotels are reluctant to discriminate between markets and cut weekend or other commercial rates because of their own and the industry's ethical code. Furthermore, it may be that only *renovated* facilities can hope to compete. But renovation itself poses problems: (1) Per unit investment cost for the renovated hotel might approach that of the new motel. (2) Because of structural problems the older building may be too difficult to renovate to permit offering a comparable product at less cost. (3) The investors themselves may be conservative and not willing to undertake additional risk, or alternatively mortgage lenders may be reluctant to speculate.

In rare cases all these barriers are overcome and an older property does successfully renovate its interior by accepting the depreciated hull at zero cost and spending $4,000 to $5,000 per room. However, hotelmen say that if this is done operators have found it wise to rate the room in terms of the true renovation cost. This will result in a rate significantly lower than that for new facilities, necessary to compensate for the prestige and convenience of the newer hotel or motel. Customers apparently only begin to return to a renovated hotel room when it can be bought for significantly less than the new.

Frequently older hotels have responded to the revenue problem caused by lower occupancies by raising rates and only partially renovating. In these instances the practice seems to accelerate decline. To add to their difficulties, they have to compete with new subsidized convention hotels able to operate at rates below the dictates of full cost of construction or with new motels with lower initial costs.

### The industry viewpoint toward demand

The opinion that hotel or motel occupancy is "derived," that is, dependent upon the size of the community business sector, the need for conference space, and the pattern of travel routes and special events, has generally led the industry to view its demand as fixed. An accommodation is not easily "divisible," i.e., the customer takes only one a day, and the amount he gets is fixed when the room is built. The cost of construction is high. Likewise capital costs and fixed operating charges are high, while variable costs are relatively low. For all these reasons, except in the case of "induced" convention demand, the industry generally feels that the number of people it serves cannot be significantly increased even if prices are lowered. Moreover, the smallness of variable costs relative to fixed financial costs of construction, purchase, and operation makes it difficult for current investors to lower prices very much.

This double-pronged problem of the difficulty of hotel renovation and the rigidity of hotel prices has served to encourage the construction of new motels. Now where oversupply has become evident, rates on older hotels may give way, but often rate concessions come too late. An earlier adjustment might have forestalled the motel construction which was encouraged by the rate structure established by the hotels.

Even if industry management returns to postwar rate-consciousness, considerably more hardship may have to occur before the industry modifies its predilection for "grand hotels" and "grand motels" based on the assumption that the traveling public requires prestige and luxuries away from home. The American Automobile Association has preached moderation in room rates for many years, but this year it has inaugurated the practice of recommending a category of less expensive accommodations in its guidebooks in response to public demand. Hotel and motel associations believe that recent revision of tax treatment for expense accounts has seriously cut into demand for premium facilities. This suggests that a sizeable number of tourists and commercial travelers seek some middle ground in accommodations between the deluxe facilities they find overpriced and substandard "economy motels."

Another indication that such a demand exists is the expansion of the three largest motel franchise chains offering good to excellent accommodations at moderate prices. Currently operating a total of 70,000 rooms, they plan to open 53,000 more by 1965. Their occupancy rates are 10 to 20 per cent higher than the average for their respective areas. This success has promoted at least one chain to test the possibility that considerably greater demand could be met if the industry were to design drastically different facilities offered at much lower rates. They are experimenting with smaller prefabricated mobile units on stilts that can be

TABLE 2—NUMBER OF ROOMS, ACTUAL AND POTENTIAL, IN MINNEAPOLIS AND ST. PAUL HOTELS AND MOTELS, 1958-1965

| Minneapolis Downtown | 1958 Existing | 1958-63 Additions | 1963 Existing | 1963-65 Additions Planned | 1965 Estimated Total | 1958-65 Change |
|---|---|---|---|---|---|---|
| Hotels | 3725 | 1543 | 5268 | — 100 | 5168 | |
| Motels | 96 | 351 | 447 | 150 | 597 | |
| Total | 3821 | 1894 | 5715 | 50 | 5765 | 50.9% |
| Third Class Hotels* | 1020 | — 100 | 920 | — 400 | 520 | |
| Other Hotels† | 1612 | —1612 | 0 | 0 | 0 | |
| Total Minneapolis Downtown | 6453 | 182 | 6635 | — 350 | 6285 | —2.6% |
| Minneapolis Fringe Motels | 783 | 591 | 1374 | 750 | 2024 | 158.5% |
| Total Minneapolis | 7236 | 773 | 8009 | 400 | 8309 | 15.8% |
| St. Paul Downtown | | | | | | |
| Hotels | 790 | 100 | 890 | 800 | 1690 | |
| Motels | 0 | 0 | 0 | 200 | 200 | |
| Total | 790 | 100 | 890 | 1000 | 1890 | 139.2% |
| Third Class Hotels* | 385 | — 250 | 135 | 0 | 135 | |
| Other Hotels† | 530 | — 530 | 0 | 0 | 0 | |
| Total St. Paul Downtown | 1705 | — 680 | 1025 | 1000 | 2025 | 18.8% |
| St. Paul Fringe Motels | 167 | 272 | 439 | 300 | 739 | 342.5% |
| Total St. Paul | 1872 | — 408 | 1464 | 1300 | 2764 | 47.6% |
| Total Twin Cities | 9108 | 365 | 9473 | 1700§ | 11073 | 22.7% |

*Class C buildings carried on Convention Bureau lists as referable housing only when demand is heavy, many without bath.

†Class C and D buildings, many in blighted areas and slated for removal, 90 per cent without bath.

§Comprises 800 rooms currently under construction, 1500 proposed, including: St. Paul Hilton, 500; Airport, 250; other St. Paul, 500; other Minneapolis, 150; loss or conversion, —500. This is not a complete sampling of intentions to build in any sense.

assembled easily and can be operated in downtown locations for about $5 a night for two people —approximately half the cost of traditional rooms.

## IV. A CASE STUDY: MINNEAPOLIS AND ST. PAUL

It may be interesting to look at one metropolitan area in the Ninth district to highlight the effects of changes in demand and supply of accommodations. Table 2 shows the actual changes in number of accommodations from 1958 to 1963, as well as estimates for 1965.

By 1965 the shift in travel modes and tastes will have accounted for a total of 2800 rooms on the fringes of both cities. The construction of downtown motels up to 1963 has been small — 350 rooms, all in Minneapolis. To date about 1650 hotel rooms have been built downtown. Much of this construction is related to new Minneapolis convention facilities and represents either new rooms added to older hotels or entirely new hotels and motor hotels with new meeting and convention space. By the same token, almost all the projected building of downtown accommodations to be completed in 1965 is related to convention facility expansion in St. Paul.

Interestingly, in both cities the demolition of old hotels or their conversion to other uses has just about equalled the number of downtown additions to date. However, since these older properties were replaced by vastly superior facilities, these new additions to the stock of downtown accommodations may have to rely primarily on convention visitors for their occupancy. This is especially true in view of the very marked increase in fringe motel accommodations.

As Table 3 shows, our sample area has been moderately successful in bringing in more conventions. But it also indicates that, granting our assumptions, the 1966 convention goals of the two cities will have to be set much higher than in 1962.

Since most state associations are already meeting regularly in the two cities, growth must come primarily from national and regional conventions. Both cities have based their expectations and auditorium plans on breaking into this market, as evidenced by Minneapolis' expenditure of $5 million on its new auditorium, and St. Paul's announcement that a 500-room Hilton Convention Hotel will be built there, and that the city's public exhibit space may also be expanded by a $17 million program. These expenditures will make their facilities comparable to the best in the United States, as evidenced by the comparison (Table 4) with Miami, where facilities are thought to be among the nation's finest.

The Twin Cities area will probably rank among the top ten centers in the country. Table 5 is a

TABLE 3—CONVENTION GROWTH, MINNEAPOLIS-ST. PAUL, 1952-1962

| Year | State Conventions | Regional Conventions | National Conventions | Attendance (thousands of persons) | Expenditure (thousands of dollars area attendance only) |
|---|---|---|---|---|---|
| 1952 | 238 | 211 | 74 | 243 | $16,208 |
| 1957 | 235 | 245 | 73 | 296 | 20,279 |
| 1958 | 238 | 224 | 82 | 276 | 19,408 |
| 1959 | 214 | 231 | 77 | 302 | 20,818 |
| 1960 | 270 | 231 | 94 | 323 | 22,022 |
| 1961 | 261 | 228 | 83 | 310 | 21,821 |
| 1962 | 276 | 236 | 95 | 348 | 25,596 |
| 1966 (est.)* | 295 | 285 | 179 | 506 | 45,700 |

*An estimate for the number of conventions required in 1966, based on the assumption that average occupancy is 73 per cent and that the 3,044 rooms added since 1958 rely on conventions for 80 per cent of their business.

Source: Chamber of Commerce Bulletins, attendance and expenditures estimated.

TABLE 4—COMPARABLE AUDITORIUM EXHIBIT SPACE, CURRENT AND PROPOSED

| | (Square Feet) | |
|---|---|---|
| City | Largest Area | Total Area |
| Minneapolis (current) | 30,500 | 40,500 |
| Minneapolis (1965) | 100,000 | 165,000 |
| Miami (current) | 108,000 | 173,000 |
| St. Paul (current) | 50,000 | 50,500 |
| St. Paul (proposed) | | 173,000 |

very rough estimate of how much additional Twin Cities convention business is required if 80 per cent of the new accommodations downtown must be filled from this source. It relies on a modest expansion of state and regional meetings at current averages for both number of out-of-town delegates and number of days stay, but derives its real potential from larger national conventions.

industry have generally resulted in higher rates in older hotels and higher rates in newer buildings. In some areas there are signs of overbuilding for luxury accommodations, and in others signs of unmet demand for moderately rated rooms. In almost all areas, at certain times of the week and in certain months, a room still cannot be had. In downtown areas, new hotels have been eminently successful and have justified their particular subsidizers, although often at the expense of older convention hotels. These older hotels often fail because of lower occupancy when rates are not cut, and from lack of improvements when rates are cut and revenue is lost. Some of the smaller ones have improved greatly and have managed successfully to lower both costs and rates, but they represent exceptions to the general case.

TABLE 5—NUMBER OF CONVENTIONS NEEDED TO PROVIDE 80 PER CENT OF NEW HOTEL OCCUPANCY IN DOWNTOWN MINNEAPOLIS AND ST. PAUL:

| | Minneapolis | | | | St. Paul | | | | Twin Cities | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | State | Region | Natl. | Total | State | Region | Natl. | Total | State | Region | Natl. | Total |
| 1962 | 178 | 186 | 70 | 434 | 98 | 50 | 25 | 173 | 276 | 236 | 95 | 607 |
| Add: | 7 | 24 | 46* | 77 | 12 | 25 | 38* | 75 | 19 | 49 | 84 | 152* |
| 1966 | 185 | 210 | 116 | 511 | 110 | 75 | 63 | 248 | 295 | 285 | 179 | 759 |

*The limited state and regional expansion is based on 4-day conventions averaging 360 out-of-town delegates (current average), so that required additions come from national groups based on 12 Minneapolis 5-day conventions averaging 3,500, the remainder in 5-day conventions averaging 1,000 delegates. Of course, any other combination of groups and days might be imagined.

Under these estimates total convention revenues in the Twin Cities would be approximately doubled. If this expansion is regarded as a reasonable civic program to correct a long overdue imbalance, then the respective civic organizations will have to make significantly greater expenditures of money and effort. Suppose a reasonable cost of promoting this additional business is 5 per cent; then perhaps four to five times the present promotion budgets may have to be invested.

## V. FINAL COMPETITIVE ADJUSTMENT

### The current direction of adjustment

Returning to the national picture, the workings of these diverse markets and the responses of the

Among downtown motel additions, the end is not yet in sight and rewards appear to be too great to deter new investment. For them new convention business increases the displaced regular customers who switch from hotels and this helps to make the downtown motel investment formula a success. Since these motels may not contribute financially to promote auditoriums or conventions on the grounds that such business goes directly to hotels, it has been suggested in some communities that a civic rooms tax be assessed and devoted to convention promotion, while property taxes might be cut for older hotels which do support large convention space. Greater convention contributions by businesses, and increased civic promotion, where the city's potential warrants it, may also be justified.

### Summary and conclusion

As with many other businesses, the anatomy of innkeeping has changed drastically since the war and continues to vary from place to place. In general, the industry has tended to split into two sectors, geographically separate and commonly characterized by different styles of construction. The operating and investment arithmetic of the two characteristic styles tend to be somewhat different, and the downtown traditional buildings have not adjusted in every case through renovation and pricing. By reaching out for convention business, the downtown hotels can often fulfill their private purposes and at the same time contribute to the survival and redevelopment of the downtown area. However, in the final analysis, specific operations and investments will continue to be judged on the basis of individual operating data and these may show completely different results from the generalities sketched so briefly here.

—RICHARD NEWCOMB

# Current conditions . . .

The new year began and is progressing in a general mood of optimism. The significant strength exhibited by the national economy during the fourth quarter of 1963 appears to have given additional momentum to the current expansion. Production, employment, and income all achieved new levels during December, and fragmentary data suggest that they advanced further during January. These improvements, in turn, imply a continued expansion of household spending and accordingly a favorable production and investment climate.

Business financial conditions are also conducive to expanded business spending. Profits continue to be favorable while cash flows are running at record levels.

Turning to the district economy, one can make no neat conclusion about the short-term economic outlook. Both nonagricultural employment and construction activity have been and promise to be higher than seasonally expected. By contrast, personal income in December was somewhat below the November level. This dip reflected primarily a fall in farm income, although nonfarm income was also slightly lower.

District financial data indicate that bank credit expanded at an extra-seasonal rate during December. The expansion, however, was concentrated almost solely in investments with loans holding fairly steady after allowance was made for seasonal factors. This expansion of credit did not continue into January; indeed during the first part of the month, both loans and investments declined with the fall in loans exceeding seasonal expectations.

*The following selected topics describe particular aspects of the district's current economic scene:*

## CONSTRUCTION

At the beginning of the year retail sales and nonagricultural employment invariably slump following the holiday season, and occasionally this decline may be more than seasonal. The exceptionally cold weather last December did close down some outdoor projects which would have been continued into January.

Nevertheless, from its peak last September, district nonagricultural employment, within broad limits, has followed its normal seasonal contraction. The number of workers on payrolls declined more in November and December than in the same period during past years. According to preliminary estimates, the contraction in January was considerably smaller than usual. The overall picture shows a seasonal contraction that at its maximum, typically reached in February, should not exceed and may be even smaller than the average for recent years.

The construction industry is the focus of much of this seasonal economic contraction. Although new techniques and materials have enabled some construction to continue in cold weather, construction put-in-place still falls off sharply during the winter. In February of recent years, construction employment has been 30 per cent below the annual monthly average and 45 per cent below the peak in August. While nearly 120,000 workers were in the district construction industry in August 1963, the number is expected to drop to about 70,000 in February 1964—a decrease of 42 per cent from last summer's peak.

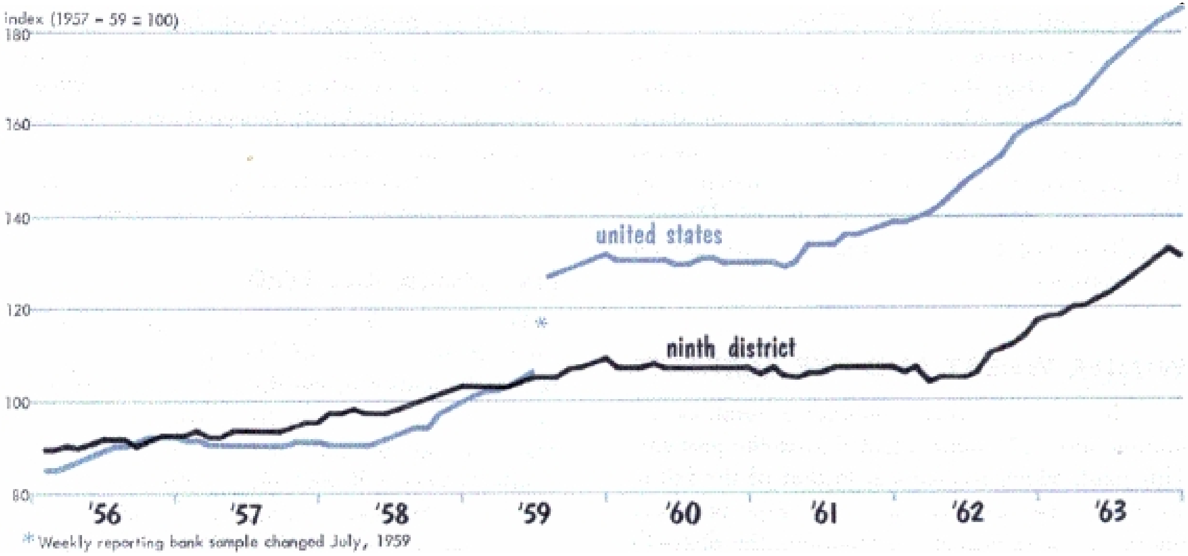
The number of dwelling units in the district authorized for construction by building permit, a leading indicator of home building, was higher during the last three months of 1963 than during the summer due to another surge in the building of apartments. The units authorized in multifamily residences were up 16 per cent, while single family houses were off 7 per cent. The total number of dwelling units authorized during the last quarter of 1963 was 2 per cent higher than during the same period of a year ago. In general, the data on housing starts reflect a continuation of the demand for new housing experienced in 1963.

The dollar value of contract awards made for public construction projects — another leading indicator — began to slacken off in the district in early 1962, and since May 1963 it has been materially lower than in the preceding months. The decline in these contracts reflects the gradual phasing out of missile base construction. Defense installation activity was at a peak in South Dakota in February 1962. The construction phase of the missile base complex in Montana and North Dakota rose to a peak in early 1963 and then tapered off. Construction employment in these states fell sharply as the bases were completed, a decline that will continue to be felt in a number of communities in the western half of the district.

Contract awards for commercial, industrial, and institutional building in the district fell off in the latter half of 1963. The total dollar amount of these awards made in October and November was down more than 25 per cent from a year earlier. But unlike the pattern in federal defense projects, the trend of these awards may turn up at any time, and preliminary information indicates that this has in fact occurred during December in North and South Dakota.

The rapid growth in the supply of funds for mortgage loans has stimulated construction activity. Commercial banks, reporting weekly to the Federal Reserve bank, began to increase in the

Weekly reporting commercial bank real estate loans in the Ninth district and United States, 1956 to 1963




district their mortgage lending in mid-1962 and the amount of credit extended rose sharply in 1963, following a national trend (see chart). Assuming that these trends noted in weekly reporting commercial banks reflect the loan developments in most banks, one can conclude that a growing supply of mortgage credit has thus been made available in urban centers of all sizes.

The district outlook for construction activity is not so buoyant as for the nation. The building of missile bases added materially to the volume and most of it has been completed. On the basis of current information, residential, commercial, industrial and institutional building appears to be following the national trend. The U. S. Department of Commerce has projected housing starts in 1964 at 1,640,000 units, up slightly more than 50,000 or 3 per cent from 1963. Construction in other fields is expected to be even stronger. As compared with 4 per cent in 1963, a gain of 7 per cent is projected for commercial, industrial and other types of construction.

## BANK CREDIT

Total credit at district member banks rose $28 million in the period from November 27 to December 25. This gain was considerably better than the average change of the past four Decembers and about equal to the increase during the same weeks of 1962. Loans declined $2 million, about average for the period, while investments advanced $30 million to provide the extra-seasonal spurt in total credit.

The upward credit thrust of December did not continue into the new year. Over the three weeks ended January 15 total loans and investments declined $17 million, about average for the period. Loans dropped $13 million, somewhat more than might be anticipated on the basis of past seasonal patterns, while security holdings fell only $4 million.

Total credit advanced sharply during December partly because of an unusually large flow of deposits into the district. Over the four weeks ended December 25 total deposits at district member banks rose $109 million. Demand deposits advanced $85 million, largely at city banks, while time and savings deposits, continuing their climb of past months, gained $24 million.

Deposits continued to expand in the first half of January. Over the three weeks ended January 15 total deposits advanced $54 million, an above average gain for the period. Time and savings deposits accounted for most of the change — up $44 million, principally at city banks. Demand deposits moved $10 million higher to account for the remainder.

## WINTER WHEAT AND RYE ACREAGES

Ninth district farmers planted a total of 2.7 million acres of winter wheat during the past fall. This total, which is identical to that of the fall of 1962, is 7 per cent below the average plantings for the 1958-62 period. In Montana, the district's leading winter wheat state, planted acres were down 3 per cent from a year earlier, while South Dakota farmers expanded acres by 4 per cent. Seeded acreages of winter wheat were reported for the first time in North Dakota this year and totaled 46,000 acres. Total U. S. plantings were up 2 per cent from a year earlier.

Total rye plantings were up 23 per cent in the district. Much of the acreage expansion occurred in North Dakota, where the increase amounted to 25 per cent to total 552 thousand acres. Rye seedings in South Dakota were up 5 per cent, while Montana and Minnesota farmers cut rye acreages by 28 per cent and 9 per cent, respectively.

SEEDED ACREAGES OF WINTER WHEAT

(1,000 acres)

| | Average 1958-62 | Crop of 1963 | Crop of 1964 |
|---|---|---|---|
| Minnesota | 29 | 19 | 12 |
| Montana | 2,237 | 2,087 | 2,024 |
| North Dakota | n.a. | n.a. | 46 |
| South Dakota | 643 | 595 | 619 |
| 4 States | 2,909 | 2,701 | 2,701 |
| U. S. | 42,424 | 42,047 | 43,014 |

SEEDED ACREAGES OF RYE

(1,000 acres)

| | Average 1958-62 | Crop of 1963 | Crop of 1964 |
|---|---|---|---|
| Minnesota | 93 | 102 | 93 |
| Montana | 62 | 50 | 36 |
| North Dakota | 401 | 442 | 552 |
| South Dakota | 239 | 197 | 207 |
| 4 States | 795 | 791 | 888 |
| U. S. | 4,313 | 4,434 | 4,697 |

## LIVESTOCK ON FEED

The January 1 cattle on feed report issued by the U. S. Department of Agriculture indicates that the total number in the district is down 16 thousand head or 2 per cent from that date last year. The sharpest decrease, 4 per cent, occurred in South Dakota followed closely by a 3 per cent decline in Minnesota. The number of cattle on feed in Montana and North Dakota was up 10 per cent and 3 per cent, respectively, reflecting abundant feed and forage supplies in those states. A decline of 1 per cent was indicated in the number of cattle on feed throughout the 28 major cattle-feeding states.

LIVESTOCK ON FEED

| | Minn. | Mont. | N.D. | S.D. | 4 States |
|---|---|---|---|---|---|
| | | | (1,000 head) | | |
| Cattle | | | | | |
| January 1, 1963 | 497 | 71 | 161 | 332 | 1,061 |
| January 1, 1964 | 482 | 78 | 166 | 319 | 1,045 |
| Sheep | | | | | |
| January 1, 1963 | 206 | 90 | 122 | 265 | 683 |
| January 1, 1964 | 181 | 92 | 117 | 261 | 651 |

Sheep on feed in the district totaled 651,000 head on January 1, a drop of 5 per cent from January 1, 1963. The only state to show an increase was Montana. Minnesota, North Dakota, and South Dakota indicated respective declines of 12 per cent, 4 per cent, and 2 per cent in the number of sheep on feed. The 26 major sheep feeding states reported 3.6 million head on feed, a drop of 11 per cent below a year earlier.

## PIG CROP REPORT

The number of hogs and pigs on district farms December 1 was down 3 per cent from a year ago. In Minnesota, where more than 60 per cent of the district's swine are produced, the decline amounted to 6 per cent. That decrease, plus a 1 per cent decline in numbers in South Dakota, more than offset 11 per cent and 12 per cent increases in North Dakota and Montana.

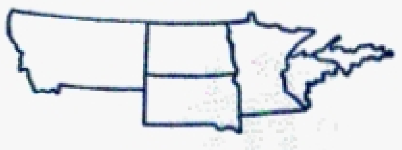
The total pig crop (pigs born from December 1962 through November 1963) amounted to 10.3 million head, about the same as for the corresponding period a year earlier. The only state reporting a decrease in the year's pig crop was Minnesota, down 1 per cent, while Montana and the Dakotas reported increases.

The fall (June-November) 1963 pig crop was 2 per cent below that for fall 1962 (see table). Again, Minnesota with a fall pig crop of 2.8 million head reported the only decline among district states. For the United States the fall pig crop amounted to 42.7 million head, a decline of 4 per cent from 1962.

**JUNE-NOVEMBER PIG CROP**

| | | (thousand head) | |
|---|---|---|---|
| | Average 1957-61 | 1962 | 1963 |
| Minnesota | 2,589 | 2,898 | 2,792 |
| Montana | 107 | 128 | 139 |
| North Dakota | 174 | 188 | 211 |
| South Dakota | 774 | 957 | 958 |
| 4 States | 3,644 | 4,171 | 4,100 |
| U. S. | 40,950 | 44,544 | 42,723 |

Reports on spring farrowing plans indicate a continuing decline in hog production in the district. A total of 793,000 sows are expected to farrow between December 1963 and May 1964, as compared with 852,000 during that period last year. This represents a 7 per cent districtwide decrease, with the sharpest drop (10 per cent) expected in Minnesota. Spring farrowing intentions for the U. S. indicate a 6 per cent reduction.



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