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Housing Market Weakens Under High Prices

Survey Finds Average Prices of Houses in Minneapolis and Suburbs Have Risen 17% Since Start of Korean War; Sales Fall After Buying Splurge in Mid-1950

By OSCAR F. LITTERER

HIGH prices, building costs, and credit controls are having their effect on the housing market.

Not only has activity declined since mid-1950, while prices have continued to climb over a two-year period, but prices of houses and residential building costs are now giving signs of leveling off.

Since the outbreak of the Korean war, prices of houses in Minneapolis and surrounding suburbs have risen 17 per cent — from an average of $12,100 in the second half of 1949 to $14,200 in the first half of 1951 — whereas the number of sales has kept falling since the end of scare buying in July and August of 1950.

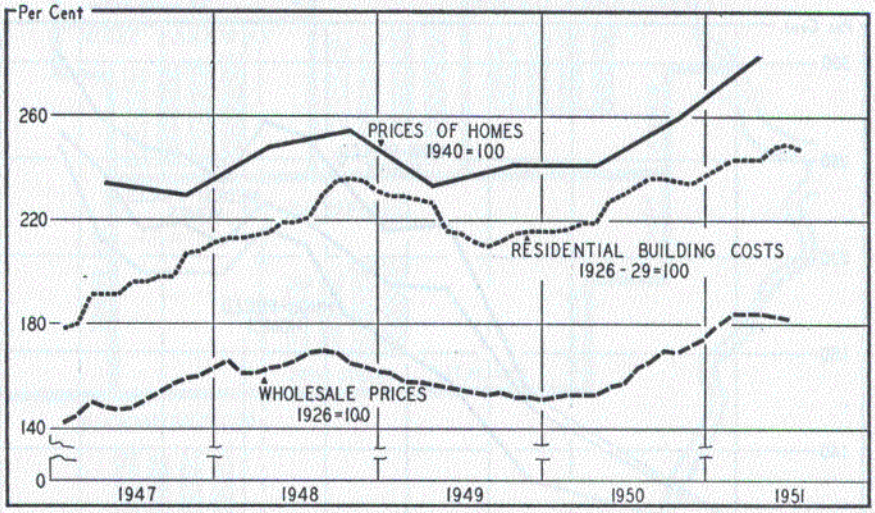
At the same time, the heavier demand for low-priced houses has given way to a greater demand for high-priced properties.

These are among chief findings of the fourth survey of prices and activity in the residential real estate market recently completed by the Federal Reserve Bank of Minneapolis in cooperation with the Minneapolis Board of Realtors. The period covered was from July 1, 1949, through June 30, 1951.

The survey, which sought to provide a measure of market prices and activity in the housing market, also revealed:

- During the first half of 1951, houses in the low-priced bracket sold at an increase of 203 per cent over 1940 prices, as compared with 171 per cent and 165 per cent respectively for medium- and high-priced brackets.
- During last year's inflation, houses in the low- and medium-priced brackets rose less in price (16 per cent) than those in the high-priced bracket (24 per cent), whereas in former inflationary periods low-priced houses led the rise.
- Prices of houses in the more desirable areas in Minneapolis rose 30 per cent in the survey period, as compared with 11 per cent and 9 per cent respectively for medium- and low-priced areas. In suburban areas, prices increased 14 per cent.
- Number of sales in low- and medium-priced brackets, for half-year periods, compared with immediately previous half-year periods,

CHART I PRICES OF HOUSES, BUILDING COSTS, AND WHOLESALE PRICES FROM 1947 TO JULY 1951



PRICES of homes, residential building costs, and wholesale prices have generally followed comparable trends. Even so, significant differences may be observed. For example, since 1950 prices of homes have risen faster than building costs.

Note: Prices of homes are for Minneapolis and immediate suburbs. Residential building costs are for the St. Paul-Minneapolis metropolitan area as compiled by E. H. Boeckh and Associates. Wholesale prices are for nation as compiled by U. S. Bureau of Labor Statistics.

averaged 12 per cent more in the first half of 1950, 10 per cent less in the last half of 1950, and 23 per cent less in the first half of 1951. Similarly, in the high-priced bracket, a 10 per cent gain in the first half of 1950 was followed by drops of 7 per cent and 9 per cent in subsequent half-year periods.

- Activity in the housing market declined most in the suburbs, where it had been exceptionally high the first half of 1950.
- In other Minnesota cities, behavior of residential real estate prices was generally comparable to the rise in Minneapolis and suburbs.

Prices Rise Despite Credit Restrictions

Following the outbreak of the Korean war, people rushed to buy existing houses and build new houses before the supply of building material became scarce, just as they rushed to buy other types of merchandise The greater activity in the market boosted the prices on houses.

In an attempt to restrain the demand for new and existing houses, a series of control measures were quickly drawn up. The first of these measures was introduced on July 19, 1950, when terms on FHA mortgage loans and on VA insured or guaranteed mortgage loans were tightened. On October 12, 1950, Regulation X became effective, setting up minimum down payments and maximum maturities on conventional mortgages made on houses built after August 3, 1950. The terms were designed to limit the demand for houses so as to reduce the activity in home building.

It was announced that the goal of the control measures was to reduce the construction of new dwellings from 1,400,000 units in 1950 to approximately 850,000 units in 1951. More recently, the National Production Authority has placed restrictions on the use of steel, copper, and aluminum in the building of new houses.

Since last fall, prices of houses have risen, according to general observation. Several questions remain: How much have prices of houses risen since they leveled off from a previous wave of inflation in 1949? Secondly, has the demand for low-priced houses continued strong or has demand shifted to medium- and high-priced houses? Finally, how much has activity in the housing market dropped with the rise in prices?

Results of the fourth survey by the Federal Reserve Bank of Minneapolis on the trend of prices and activity in the housing market provide some pertinent information on these questions.

Survey Revealed Further Rise in Prices

Following a decline in residential real estate prices during the first half of 1949, prices again turned up slightly during the latter half of the year and remained stable during the first half of 1950, as may be observed on Chart I. Prices again rose sharply following the outbreak of the Korean war.

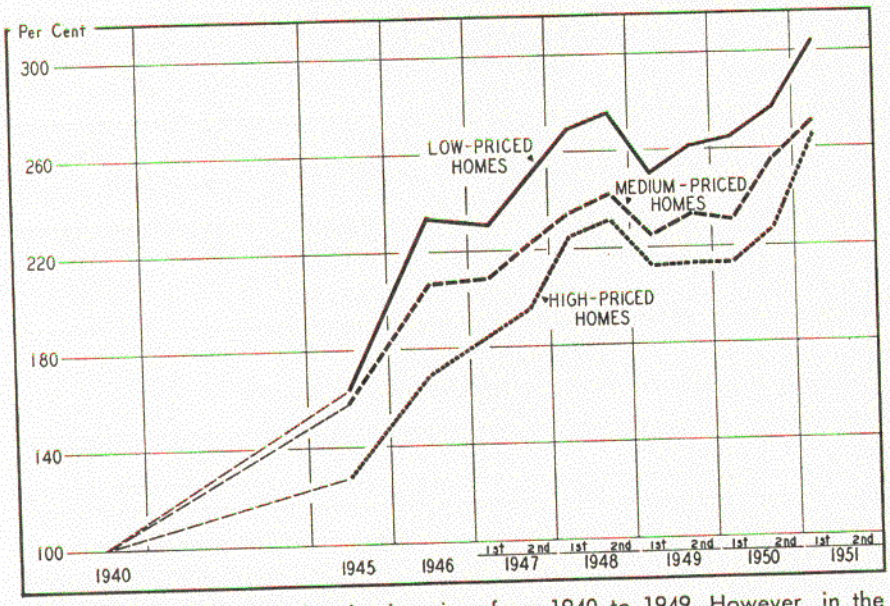
In the first half of 1950, houses sold in Minneapolis and surrounding suburbs averaged $12,100 and those sold in the latter half of the year averaged $13,000, this representing an increase of over 7 per cent. In the first half of 1951, houses sold averaged $14,200, which was another increase of 9 per cent. On the basis of these average figures, residential real estate prices have risen by 17 per cent since the first half of 1950.

Residential real estate prices, residential building costs[1], and wholesale prices[2], in broad outline, have followed comparable trends, as may be observed at a glance on Chart I. The previous high points in the three series were reached in the latter part of 1948. A short period of declining prices and costs ended in 1949, although residential real estate prices and building costs reached a low point in the middle of the year, while wholesale prices reached a low point at the end of the year. Since June 1950, the three series again have risen sharply, reflecting the general inflationary situation.

More careful study of the three series revealed some differences among the trends. Residential real estate prices continued to rise sharply in the first half of 1951. However, the houses sold in May and June provided some evidence that prices were leveling off. Likewise, residential

CHART II PRICES OF MINNEAPOLIS HOUSES IN 1940 AND IN 1945 TO JULY 1951

1940=100

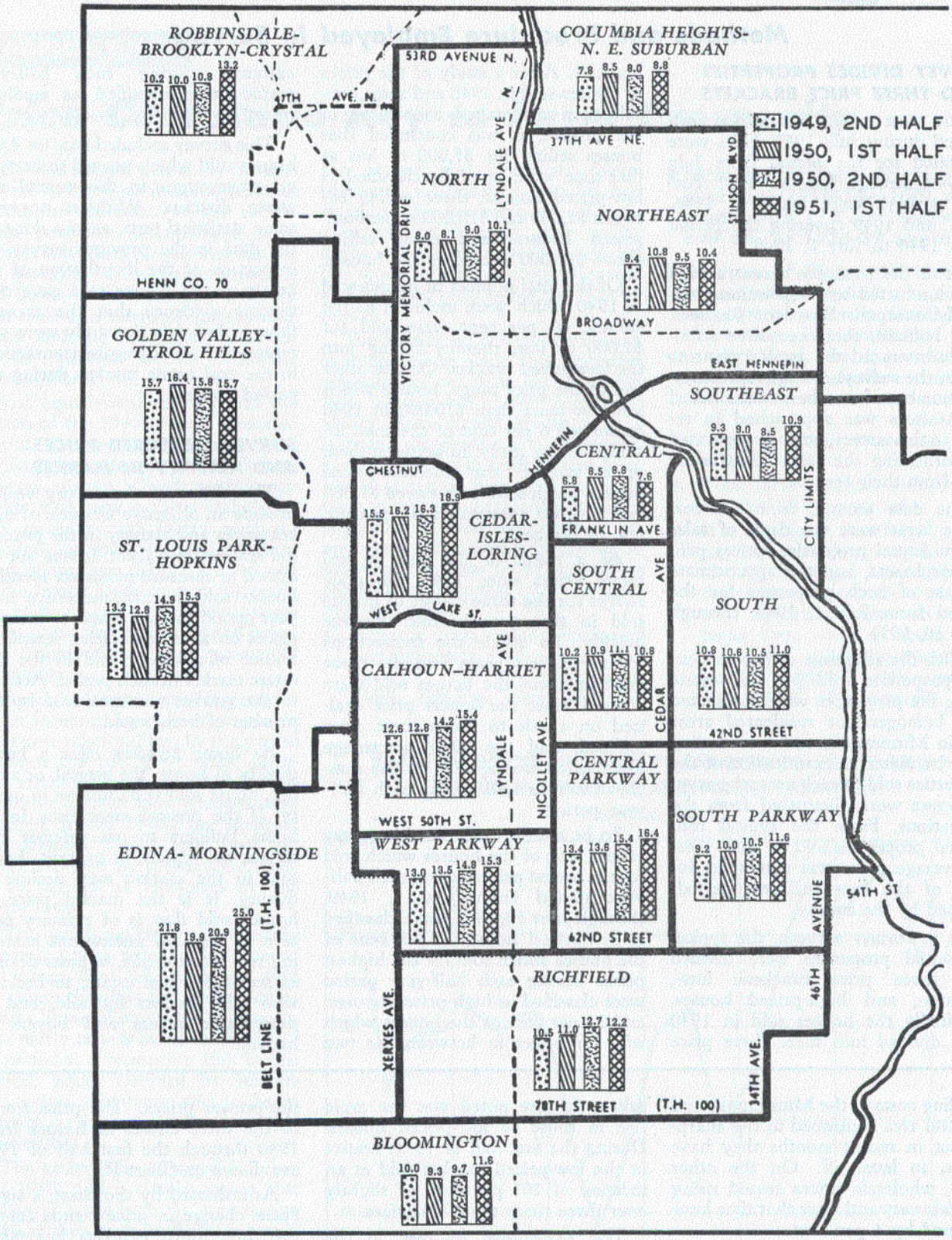


LOW-PRICED houses led the rise in prices from 1940 to 1949. However, in the strong inflationary movement which began during the year 1950, low- and medium-priced houses rose less in price than high-priced houses.

[1] Residential building costs for Minneapolis and St. Paul area compiled by E. H. Boeckh and Associates.

[2] Index of wholesale prices compiled by U. S. Department of Labor, Bureau of Labor Statistics.

AVERAGE PRICES (IN THOUSANDS) OF HOUSES IN MINNEAPOLIS AND SUBURBS, JULY 1, 1949, THROUGH JUNE 30, 1951



SOME DISTRICTS portrayed on this map, which shows price range in each real estate district for the two-year period covered, showed little increase — such as the South district, which had an average price of $10,800 in the second half of 1949 and $11,000 in the first half of 1951. In contrast, the Calhoun-Harriet district average price rose from $12,600 in 1949 to $15,400 in 1951. (Bars indicate average price of all properties sold in each of the districts by six-month periods.)

Methods and Procedure Employed in Survey

SURVEY DIVIDES PROPERTIES INTO THREE PRICE BRACKETS

The most recent survey was conducted during July 1951. Data were compiled for the period from July 1, 1949, through June 30, 1951. Former surveys were made in 1946, 1947, and 1949 covering the period from 1940 to July 1, 1949.

As in the past, the recent survey was conducted in cooperation with the Minneapolis Board of Realtors. In a bulletin, their executive secretary announced the bank's plans to repeat the survey. A large representative number of members of the Board of Realtors was approached in regard to this survey, and all cooperated by furnishing the essential information from their records.

The data secured from the real estate firms were the dates of sales of residential properties, prices paid by purchasers, and the approximate address of such properties for the period from July 1, 1949, through June 30, 1951.

With the addresses of the residential properties sold by real estate firms, the properties were segregated into homogeneous residential areas within Minneapolis and surrounding suburbs. After an examination of the properties sold in each area, the atypical cases were eliminated from the tabulations. From the typical residential properties sold in each area, an average price was computed for each of the four half-year periods covered by the survey.

As in former surveys, the typical residential properties were divided into three price brackets: low-, medium-, and high-priced houses. Originally the houses sold in 1940 were divided into these three price brackets. After a study of the prices of houses sold in 1940 and some consultations with realtors cooperating in the project, it was concluded that houses selling for $5,000 or less at that time were generally classified as low-priced houses; those selling between $5,000 and $10,000 as medium-priced houses; and those selling above $10,000 as high-priced houses.

Of the total number of houses sold in 1940 which were included in the survey, 60 per cent were sold for $5,000 or less, thereby falling into the low-priced bracket. On the other end of the price range, houses which sold for more than $10,000 in 1940 comprised 6 per cent of the total included in the study. In between these price ranges, the medium-priced houses which sold for between $5,000 and $10,000 constituted the remaining 34 per cent.

As a result of the rise in real estate prices since 1940, the price ranges for the three classes of houses sold in that year became obsolete quickly. To divide the transactions for subsequent years into the three price brackets, the houses sold were arrayed from the lowest price realized on a sale to the highest price realized, and the 1940 percentage distribution was applied to the sample of houses sold during each half-year period.

To be more specific, in this survey 60 per cent of the houses which sold for the lowest prices during each half-year period from July 1, 1949, through June 30, 1951, were classified as low-priced houses; 6 per cent of the houses which sold for the highest prices during each half-year period were classified as high-priced houses; and 34 per cent of the houses which sold for prices in between the two extremes during each half-year period were classified as medium-priced houses.

This survey included data on 4,086 houses sold which proved to be typical transactions in the several real estate districts. Without applying some statistical tests, as was done on the data in the previous survey, an inspection of the distribution of the prices of the houses sold gave convincing evidence that the transactions included in the study were representative of aggregate transactions in the real estate market during the period covered.

SURVEY MEASURED PRICES AND ACTIVITY IN MARKET

The object of the survey was to provide an objective measure of market prices and activity in the residential real estate market. It was not designed to measure prices on identical houses sold in each successive half-year period; rather, it was to measure prices on a representative sample of houses offered and sold in the real estate market in each period. Activity in the market was measured by the number of houses sold.

As home builders offer a better quality of house, the typical, or average, house sold will improve in quality. If the present emergency forces home builders to use inferior materials, the typical, or average, house sold in the market may decline in quality. It is the market price of houses sold that is of primary concern to financial institutions extending real estate credit, to firms dealing in residential real estate, to builders who offer houses for sale, and to prospective sellers and buyers of houses.

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building costs in the Minneapolis and St. Paul area continued to rise sharply, but in recent months they have begun to level off. On the other hand, wholesale prices ceased rising last February and since that time have declined by 4 per cent.

High-Priced Houses Now in Greater Demand

In reviewing the trend of residential real estate prices since 1940, a salient feature noted was the rapid rise in those of low-priced houses. During the first half of 1951, houses in the low-priced bracket sold at an increase of 203 per cent, or slightly over three times the 1940 prices.

The percentage increase in the prices of houses in the other two classes was not quite as great. Houses in the medium- and high-priced brackets sold at an increase of 171 per cent and 165 per cent respectively of the prewar prices. The price trends of the three classes of houses from 1940 through the first half of 1951 are shown on Chart II.

As indicated by the chart, a significant change in price trends among the three price brackets has taken place during the past two years. In the recent wave of inflation, houses in the low- and medium-priced brackets rose less in price than those

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AGRICULTURE

Price-Cost Ratio Key to Farm Prosperity

IT IS well known that many farmers were in a serious financial position during the depression of the 1930's. Farm price-cost relationships were unfavorable, farm production was cut by generally unfavorable weather, and farmers were carrying a heavy debt load as a result of unfavorable prices and the inflationary excesses of the postwar period following World War I.

It is equally well known that the decade of the 1940's was a favorable period for farmers generally, and particularly so in the Ninth Federal Reserve district. Good weather together with new farming techniques and methods and better seed accounted for greatly increased farm production; farm debts were reduced to the lowest levels in over 30 years; the costs of carrying debt—interest rates—were down sharply; and price-cost relationships were unusually favorable.

As is true for any business, prosperity in farming depends on favorable price-cost relationships. In the period between the two great wars, price-cost relationships were generally unfavorable and net farm incomes were pinched. In the 1940's the situation was reversed. Today, farm costs and prices received by farmers are nearly in balance as measured by the parity ratio.

The parity ratio is the relationship between prices received by farmers for things they sell and prices paid for things they buy for production or family living plus interest and taxes. The parity ratio is based on the 1910-14 period as representing 100. In this period, prices received by farmers and prices paid were said to be in balance or in a generally favorable relationship.

The parity ratio averaged 100 during 1950, which simply means that price-cost ratios were the same during 1950 as they were in the base period of 1910-14.

Currently this ratio is approximately 104, and it may stay around this level at least until 1952 crop production is known. In general, therefore, the present and immediate future price-cost relationship may be said to be on the favorable side. This is apparent considering that parity ratios were in the low fifties during the worst of the depression period and averaged only 86 for the 1935-39 period.

The banker, as well as the farmer, is interested in what this price-cost relationship means in terms of net farm income, and of debt repayment ability. Some actual figures from a large and progressive group of record-keeping farmers in southeastern Minnesota at certain periods is shown in the accompanying table. From this it is possible to make a number of observations about trends in capital investment on these farms, as well as changes in expenses and earnings over the years.

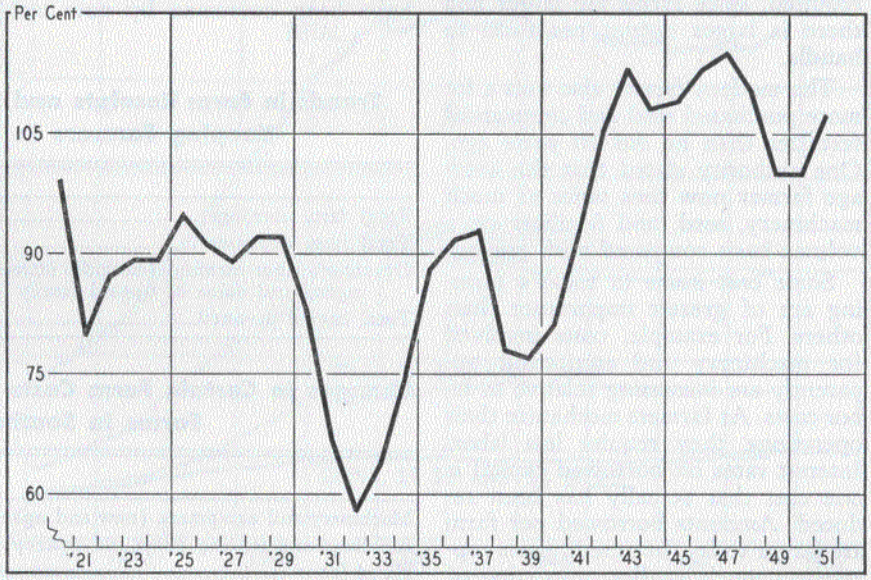
1. Average gross earnings increased approximately 4 times from 1930 to 1950, and 2½ times since 1940. Earnings were high because of good prices and large output.
2. Total farm expenses trebled during this 20-year period.
3. It is significant that farm operating costs with this group of farms in 1930 averaged only 19% of capital investment. By 1940 annual operating costs on these farms were equal to about one-fourth the capital investment, and by 1950 annual costs approximated 37% of investment.

Farm parity ratio is currently near 104 (1910-14=100), compared with 113 last February, and 86 for 1935-39 average.

Because of high cash costs in present-day agriculture, farmers can pay for a farm in a short time—but could lose it in a short time, too, if production fails or prices decline sharply.

RATIO OF PRICES RECEIVED BY FARMERS TO PRICES PAID, INCLUDING INTEREST AND TAXES, 1920-1951

1910-14=100



PRICE-COST relationships were generally unfavorable to farmers during the period between the two great wars, but they have been very favorable since 1940.

Source: "Agricultural Statistics, 1950"

Costs Are Growing Share of Capital Investment

It may be concluded, therefore, that costs are relatively much more important in today's farming compared with 10 and 20 years ago.

Many costs in modern farming are fixed in that they are incurred regardless of production output. For example, expenses for machinery, fuel costs, seed, fertilizer, etc., are incurred with no assurances as to the level of output or exact prices to be received except for minimum support prices on some products.

In brief, the trend toward mechanization and high cash costs in today's farming makes the farmer more vulnerable to production failure and to price change. The modern farm is rapidly assuming more of the characteristics of many urban industries. Actually, in many cases, the capital investment on farms is higher compared with small urban industries.

Machinery and Equipment Costs Have Quadrupled

Costs for machinery and equipment (new and upkeep) on the average farm in southeastern Minnesota almost quadrupled in the last 10-year period. Part of this is due to higher machinery prices, but most of it is because farmers now use more machinery. Also, more machinery is required, since farms are larger and there is larger output per farm to handle.

The modern farmer also uses a lot more purchased seed and commercial fertilizer than he did 10 years ago. One authority stated that the average farmer now uses twice as much machinery, seed, and fertilizer on a volume basis compared with prewar.

Some cost items in today's farming are of greater importance than others. For example, costs involved for machinery and equipment apparently are increasing relative to labor costs. As farmers mechanize their operations, they require less labor. Interest rates on borrowed capital is one cost that actually has been reduced. Amounts borrowed per farm are larger today, but credit costs represent a much smaller proportion of total costs compared with prewar years.

In extending credit to farmers, the banker should look more carefully than ever at the cost side of the farm account book. Itemization of costs and estimates of costs in relation to per acre or unit of output may indicate whether a sound loan can be made.

Generally, cost items such as fertilizer, improved seed varieties, and essential machinery are very good buys these days. They are essential to profitable farm operations, and the banker will usually find it advisable to go all the way in financing such purchases for the average farmer.

The banker, however, is primarily interested in costs in relation to net income. Net farm income is a banker's margin of safety in extending credit. It is indicative of the ability to repay a loan.

The job facing the country banker is to be able to judge the expenses and earnings of a farm customer intelligently. Right now, of course, with prices high relative to costs, he has less to worry about than would be the case if the price-cost ratio was around 86, as it was in the 1935-39 period.

Farmers Less Vulnerable to Production Hazards

Fortunately, the farmers of today have less to worry about with regard to crop production than formerly.

Many of the hazards of farming have been overcome by new techniques and know-how. Mechanization, use of fertilizers, and improved seed varieties and livestock breeds mean that the farmer today is in better position to have favorable production experiences year after year compared with that of a generation, or even 10 years ago.

For example, the wet, cold springs that have occurred in several recent years here in Minnesota posed a serious problem. With only a few days of sunny, warm weather the farmers with their mechanized equipment were able to get the crop planted on time even though some may have worked 24 hours a day doing it.

The modern farmer is therefore less vulnerable to production hazards, but he is peculiarly vulnerable to price decline. Total farm operating costs today are high in relation to previous periods. They are sharply higher in relation to capital investment than ever before. Once these costs go up, they are slow to come down. They are said to be "sticky costs."

Just a few "bad" years could, therefore, cause heavy financial losses. If costs were not recovered, the modern farmer would soon have a situation where his costs exceeded his equity investment.

One authority said recently that a farmer nowadays can pay for a

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Trends in Farm Receipts and Expenses on a Group of Record-Keeping Farmers in Southeastern Minnesota

	1930	1940	1950
Total farm earnings	$ 4,780	$ 7,423	$19,512
Total farm expenses	4,537	5,598	14,212
Operator's labor earnings (excludes interest on capital and value of unpaid family labor)	243	1,825	5,300
Total capital invested	25,562	24,044	37,768

Changes in Certain Farm Costs During the 1940's for a Group of Farms in Southeastern Minnesota

	1940	1950	% Increase
Machinery and equipment (new and upkeep)	$ 968	$ 3,741	386%
Buildings and fencing (new and upkeep)	436	1,548	355
Hired labor	404	891	220
Taxes and insurance	276	656	238
Feed bought	600	1,972	329
Total operating costs	5,598	14,212	254

BANKING

Money Circulation Up, with Other Indicators

THE RECORD high levels which have prevailed recently in payrolls, employment, retail sales, and prices are being reflected in another economic indicator—the volume of money in circulation.

From an all-time high of $28,952 million in December of 1946, the amount of money in circulation had described a slight downward trend, but a significant reversal occurred last year.

Since the post-holiday return flow in January of this year, coin and currency outside the Treasury and the Federal Reserve banks has increased by $1,100 million—a rate of expansion reminiscent of World War II, when circulation trebled in less than five years.

The rapid increase in the volume of money in circulation is not an unexpected development, for changes in the demand for currency and coin ordinarily accompany changes in the economic indicators—payrolls, retail trade, etc.

Some observers speculate that part of the increased demand for currency may originate with individuals who do not care to have their receipts and expenditures recorded in bank accounts. Such records might be useful to the authorities as evidence in the prosecution of tax evaders and black market operators.

Lending further support to this theory is the disproportionate increase in the circulation of $10 and $20 bills, for banks must report withdrawals or deposits of larger denominations.

Reserve Banks Forced to Ration Coins

Most of the increase in currency in circulation is that of Federal Reserve notes. These notes, which are liabilities of the Reserve banks, constitute about 85 percent of the total of money in circulation.

The remainder of total circulation is coin and currency for which the Treasury is responsible. (A rise in the volume of Treasury currency, as well as increases in gold and Reserve bank credit, is a source of bank reserves.)

Although coins are a minor part of the total money supply, the post-Korean increase in demand for coins has seemingly been insatiable. In July the Mint delivered 50% more coins than in the same month a year earlier. In spite of this extra production effort at the Mint, the demand for coins, especially pennies, has been so great that the Reserve banks have found it necessary to institute rationing.

High levels of retail trade together with the growing use of coin-operated devices such as vending machines and parking meters have doubtless been an important factor in the shortage of coins. Reflecting the severity of the situation, the director of the Mint has recently issued a plea that all small coins "now hiding" be returned to circulation.

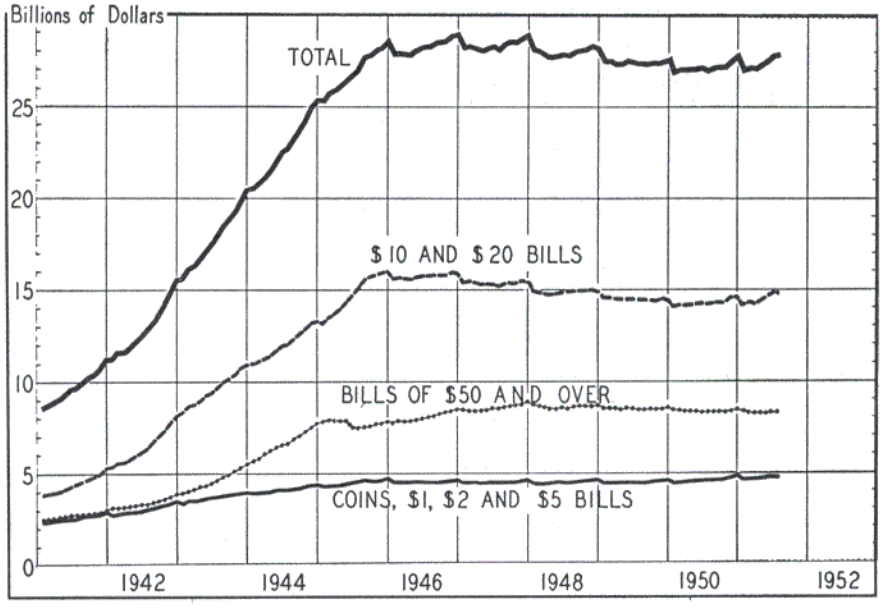
- ***High level of business activity—as seen in payrolls, employment, retail sales—reflected in near-peak money movement.***
- ***Postwar decline reversed as rate of expansion approaches that of war years.***
- ***Heavy demand for coin necessitates rationing by Reserve banks.***

Demand for Currency Can Influence Reserves

Changes in the demand for currency and coin assume particular importance to bankers in connection with the need for reserve funds. As such, they are sometimes an important source of demand for reserve bank credit.

A dollar added to circulation diminishes bank reserves by a like

MONEY IN CIRCULATION BY DENOMINATIONS
Outside Treasury and Federal Reserve Banks



BETWEEN early 1941 and 1946 the volume of money in circulation tripled, with the increase in higher denominations of currency being greater than the other denominations of currency. Since 1946 the total had declined until recently.

amount and, although deposits are similarly reduced, the reserve ratio of the issuing bank falls.

In an earlier day such changes in the demand for currency were an important determinant of short term interest rates which, in turn, elicited appropriate changes in the direction and volume of gold flows. In more recent years, because of the accessibility of reserve bank credit, such fluctuations have been of much less importance.

In view of the prospect for a continued high level of economic activity arising from the defense program, it appears that the present high level of money in circulation will continue and probably climb, especially in the event of a general price rise.

CURRENT BANKING DEVELOPMENTS

ALL asset and liability accounts on the consolidated balance sheet of Ninth district member banks increased in August. The consolidation of city (weekly reporting) banks with country banks obscures some divergent changes, however. The most important instances of divergence were in connection with the items cash and due on the asset side and deposits on the liability side.

Cash and due items increased by $15 million at the country banks, while at the city banks these items declined by $8 million.

Total deposits displayed a pattern similar to that for cash and due, the rise at country banks being more than enough to offset the decline at the city banks. The latter group report that withdrawals from the accounts of individuals, partnerships, corporations, and state and local governmental units exceeded deposits by the U. S. government and other banks by $12 million.

Time deposits at Ninth district member banks rose $3 million in August.

Loans and discounts, after three successive months of decline, increased by $13 million in August. Both city and country banks participated in the rise.

At the reporting banks for which a loan breakdown is available, the commercial, industrial, and agricul-

(Continued on Page 218)

Assets and Liabilities of Twenty Reporting Banks

(In Million Dollars)

	July 25, 1951	Aug. 29, 1951	Sept. 12, 1951	$ Change July 25-Aug. 29
ASSETS				
Comm., Ind., and Ag Loans	$ 322	$ 320	$ 328	— 2
Real Estate Loans	110	111	112	+ 1
Loans on Securities	11	14	14	+ 3
Other (largely consumer) loans	159	162	168	+ 3
Total Gross Loans & Discounts	$ 602	$ 607	$ 622	+ 5
Less Reserves	8	8	8	....
Total Net Loans & Discounts	$ 594	$ 599	$ 614	+ 5
U. S. Treasury Bills	34	35	41	+ 1
U. S. Treasury C. of I.'s	18	24	22	+ 6
U. S. Treasury Notes	140	136	138	— 4
U. S. Government Bonds	301	300	301	— 1
Total U. S. Govt. Securities	$ 493	$ 495	$ 502	+ 2
Other Investments	134	132	131	— 2
Cash and Due from Banks	457	449	502	— 8
Miscellaneous Assets	15	17	17	+ 2
Total Assets	$ 1,693	$ 1,692	$ 1,766	— 1
LIABILITIES				
Due to Banks	$ 296	$ 298	$ 347	+ 2
Demand Deposits, Ind., Part., Corp.	828	816	878	— 12
Demand Deposits, U. S. Govt.	58	63	37	+ 5
Other Demand Deposits	147	139	132	— 8
Total Demand Deposits	$ 1,329	$ 1,316	$ 1,394	— 13
Time Deposits	233	234	234	+ 1
Total Deposits	$ 1,562	$ 1,550	$ 1,628	— 12
Borrowings	3	12	8	+ 9
Miscellaneous Liabilities	19	20	21	+ 1
Capital Funds	109	110	109	+ 1
Total Liabilities & Capital	$ 1,693	$ 1,692	$ 1,766	— 1

Assets and Liabilities of All Ninth District Member Banks*

(In Million Dollars)

	July 25, 1951	Aug. 29, 1951	$ Change July 25, 1951 Aug. 29, 1951	$ Change Aug. 30, 1950 Aug. 29, 1951
ASSETS				
Loans and Discounts	$ 1,186	$ 1,199	+ 13	+ 194
U. S. Government Obligations	1,316	1,325	+ 9	— 231
Other Securities	273	274	+ 1	+ 7
Cash and Due from Banks & Res.	864	871	+ 7	+ 54
Other Assets	34	35	+ 1	+ 2
Total Assets	3,673	3,704	+ 31	+ 26
LIABILITIES AND CAPITAL				
Due to Banks	335	341	+ 6	+ 31
Other Demand Deposits	2,183	2,192	+ 9	+ 1
Total Demand Deposits	2,518	2,533	+ 15	+ 32
Time Deposits	891	894	+ 3	— 20
Total Deposits	3,409	3,427	+ 18	+ 12
Borrowings	3	13	+ 10	— 2
Other Liabilities	27	29	+ 2	+ 3
Capital Funds	234	235	+ 1	+ 13
Total Liabilities & Capital	$ 3,673	$ 3,704	+ 31	+ 26

*This table is in part estimated. Data on loans and discounts, U. S. government obligations, and other securities are obtained by reports directly from the member banks.

Balances with domestic banks, cash items, and data on deposits are largely taken from semi-monthly reports which member banks make to the Federal Reserve bank for the purpose of computing reserves.

Reserve balances and data on borrowings from the Federal Reserve banks are taken directly from the books of the Federal Reserve bank. Data on other borrowings are estimated. Capital funds, other assets, and the other liabilities are extrapolated from call report data.

amount and, although deposits are similarly reduced, the reserve ratio of the issuing bank falls.

In an earlier day such changes in the demand for currency were an important determinant of short term interest rates which, in turn, elicited appropriate changes in the direction and volume of gold flows. In more recent years, because of the accessibility of reserve bank credit, such fluctuations have been of much less importance.

In view of the prospect for a continued high level of economic activity arising from the defense program, it appears that the present high level of money in circulation will continue and probably climb, especially in the event of a general price rise.

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Time deposits at Ninth district member banks rose $3 million in August.

Loans and discounts, after three successive months of decline, increased by $13 million in August. Both city and country banks participated in the rise.

At the reporting banks for which a loan breakdown is available, the commercial, industrial, and agricul-

(Continued on Page 218)

Assets and Liabilities of Twenty Reporting Banks

(In Million Dollars)

	July 25, 1951	Aug. 29, 1951	Sept. 12, 1951	$ Change July 25-Aug. 29
ASSETS				
Comm., Ind., and Ag Loans	$ 322	$ 320	$ 328	— 2
Real Estate Loans	110	111	112	+ 1
Loans on Securities	11	14	14	+ 3
Other (largely consumer) loans	159	162	168	+ 3
Total Gross Loans & Discounts	$ 602	$ 607	$ 622	+ 5
Less Reserves	8	8	8	....
Total Net Loans & Discounts	$ 594	$ 599	$ 614	+ 5
U. S. Treasury Bills	34	35	41	+ 1
U. S. Treasury C. of I.'s	18	24	22	+ 6
U. S. Treasury Notes	140	136	138	— 4
U. S. Government Bonds	301	300	301	— 1
Total U. S. Govt. Securities	$ 493	$ 495	$ 502	+ 2
Other Investments	134	132	131	— 2
Cash and Due from Banks	457	449	502	— 8
Miscellaneous Assets	15	17	17	+ 2
Total Assets	$ 1,693	$ 1,692	$ 1,766	— 1
LIABILITIES				
Due to Banks	$ 296	$ 298	$ 347	+ 2
Demand Deposits, Ind., Part., Corp.	828	816	878	— 12
Demand Deposits, U. S. Govt.	58	63	37	+ 5
Other Demand Deposits	147	139	132	— 8
Total Demand Deposits	$ 1,329	$ 1,316	$ 1,394	— 13
Time Deposits	233	234	234	+ 1
Total Deposits	$ 1,562	$ 1,550	$ 1,628	— 12
Borrowings	3	12	8	+ 9
Miscellaneous Liabilities	19	20	21	+ 1
Capital Funds	109	110	109	+ 1
Total Liabilities & Capital	$ 1,693	$ 1,692	$ 1,766	— 1

Assets and Liabilities of All Ninth District Member Banks*

(In Million Dollars)

	July 25, 1951	Aug. 29, 1951	$ Change July 25, 1951 Aug. 29, 1951	$ Change Aug. 30, 1950 Aug. 29, 1951
ASSETS				
Loans and Discounts	$ 1,186	$ 1,199	+ 13	+ 194
U. S. Government Obligations	1,316	1,325	+ 9	— 231
Other Securities	273	274	+ 1	+ 7
Cash and Due from Banks & Res.	864	871	+ 7	+ 54
Other Assets	34	35	+ 1	+ 2
Total Assets	3,673	3,704	+ 31	+ 26
LIABILITIES AND CAPITAL				
Due to Banks	335	341	+ 6	+ 31
Other Demand Deposits	2,183	2,192	+ 9	+ 1
Total Demand Deposits	2,518	2,533	+ 15	+ 32
Time Deposits	891	894	+ 3	— 20
Total Deposits	3,409	3,427	+ 18	+ 12
Borrowings	3	13	+ 10	— 2
Other Liabilities	27	29	+ 2	+ 3
Capital Funds	234	235	+ 1	+ 13
Total Liabilities & Capital	$ 3,673	$ 3,704	+ 31	+ 26

*This table is in part estimated. Data on loans and discounts, U. S. government obligations, and other securities are obtained by reports directly from the member banks.

Balances with domestic banks, cash items, and data on deposits are largely taken from semi-monthly reports which member banks make to the Federal Reserve bank for the purpose of computing reserves.

Reserve balances and data on borrowings from the Federal Reserve banks are taken directly from the books of the Federal Reserve bank. Data on other borrowings are estimated. Capital funds, other assets, and the other liabilities are extrapolated from call report data.

BUSINESS

Consumer Sales Resistance Continues

ATTRACTING most attention in the business world recently have been lagging consumer purchases and rising stocks of merchandise.

This situation has developed in recent months in the face of a continuation of growing personal incomes and minimum unemployment.

Consumers have displayed noticeable lack of fear that shortages are imminent such as characterized the buying sprees of mid-1950 and early 1951. Instead, they have limited buying and funnelled a larger percentage of personal incomes into savings.

The national picture characterizes developments in the Ninth Federal Reserve district, as revealed by regional statistics.

Department Store Sales — An over-all summary of the nation's August 1951 department store sales—counted in terms of the number of dollars worth of goods sold—found them below August 1950 by about 5 percent. The number of units of goods actually sold must have declined even more than the dollar figure indicates, because prices generally are now higher than a year ago.

The Ninth district's sales were down more during August than those of any other district in the country, running about a tenth below a year ago. But this decline is easily overemphasized.

In the first place, comparisons are the victim of this twist in current business history: two waves of scare buying after this country's entry into the Korean war in 1950 boomed July-August sales and December-January sales. Comparing August 1951, a "more normal" buying month, with its high-tempo counterpart of 1950, sales could only be expected to move "down."

On the other hand, taking the first seven months of this year (which shared alike of winter boom and spring slump), sales for the country as a whole were somewhat above the same period of last year. While this district took exception to the rest of the country, it failed to match last year's sales volume by only 1 percent.

Secondly, the August-to-August comparison that found Ninth district stores down about a tenth over-all didn't prevent better than four out of every ten stores from showing increases. The decline was not generalized.

Purchases, therefore, of the kind of goods department stores sell are maintaining their pace, although the fits and starts of scare buying have put more severe ups and downs in their course. Apparently city purchasers contributed more to the splurges than did country purchasers.

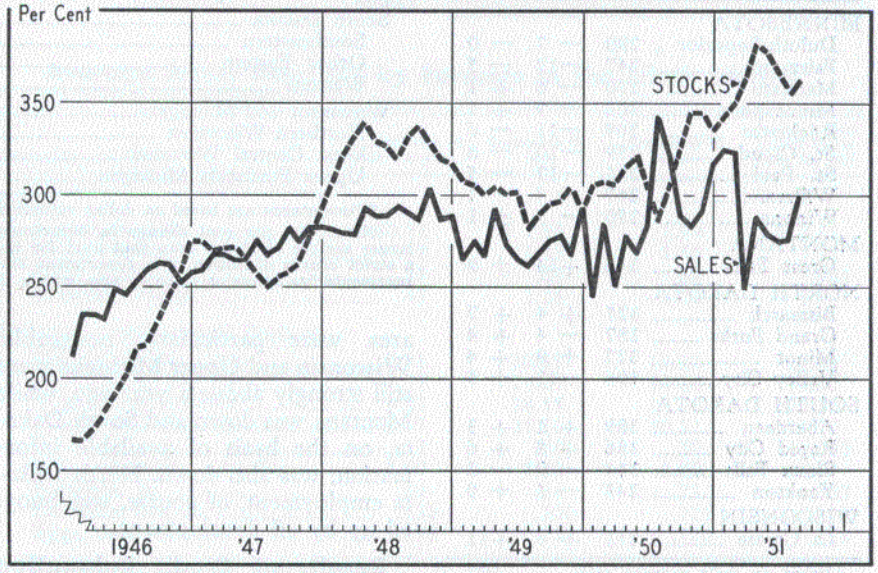
Just why does the Ninth district compare less favorably than other districts? Possibly it is because the district had a bigger scare splurge, the effect of which was to cause a more pronounced lull while stored-up goods were going into consumption. Or possibly the greater increase in defense activity in other parts of the country—relative to the number of persons spending money on goods—may also have been a factor. The record crop predicted this year, which might otherwise have leveled out these differences by the year's end, has run into harvesting problems.

- ***Department store sales in Ninth district during August ran one-tenth below a year ago. Four out of 10 stores, however, showed increases.***
- ***Merchants appear to be bringing inventories into line with sales.***
- ***August employment did not recover from the July seasonal decline in district's large cities.***
- ***Relaxation of consumer credit apparently did not stimulate sales.***

Department Store Stocks—The erratic behavior of department store sales in recent years has made it difficult for merchants to maintain a balance between sales and stocks. In the early postwar years, depleted inventories were rapidly replenished.

NINTH DISTRICT DEPARTMENT STORE SALES AND STOCKS

Adjusted Index, 1935-39=100



DURING the postwar period, department stores have been striving to bring inventories into a more correct relationship with the rapidly changing sales picture.

Stocks increased more rapidly than sales until stores felt that supplies were adequate to meet the demand.

The tremendous buying sprees which occurred in mid-1950 and early 1951 destroyed this balance. Furthermore, the course of future inventory needs had to be predicted on a very uncertain base. As a result, stocks increased substantially while sales declined. If the trend which has existed since April is any criterion, merchants are following a policy of reducing inventories until they are in line with sales.

Employment — The substantial margin by which Ninth district non-agricultural employment exceeded year-ago levels has been whittled down in recent weeks. Figures from the larger cities in the area indicate that employment did not recover from the seasonal decline which occurred in July. In Minneapolis, St. Paul, and Duluth, non-agricultural employment was approximately 440,441 in July and only 439,320 in August. This largely reflects curtailed activities in the construction industry and in the manufacturing of nondefense metal products.

July employment differences by area were particularly noticeable. Wisconsin and Upper Michigan were still strongly above a year ago, while Montana was down and South Dakota, on the basis of available information, was also down. North Dakota employment, of course, was buoyed up by oil development.

Results of Credit Relaxation Effective July 31, terms of credit under Regulation W were eased. Automobile buyers were allowed three months longer to pay. Appliance purchasers were given lower down payment requirements, an extension of the time required to pay the balance, and the choice of using trade-ins as down payments.

From the evidence so far, the response by consumers to these changes has not been marked. More dollars worth of goods were sold by Ninth

Index of Department Store Sales By Cities

(Unadjusted 1935-39=100)

	August[1]	Percent Change[2] August	Jan.-Aug.
MINNESOTA			
Duluth-Superior	290	— 7	— 0
Fairmont	247	—17	— 5
Mankato	270	— 6	+ 1
Minneapolis	302	— 9	+ 1
Rochester	205	—11	— 6
St. Cloud	259	—10	— 8
St. Paul	223	—17	— 5
Willmar	267	— 4	— 1
Winona	250	— 7	+ 1
MONTANA			
Great Falls	344	+14	+ 9
NORTH DAKOTA			
Bismarck	325	+ 4	+ 7
Grand Forks	287	— 4	+ 4
Minot	322	+ 9	+ 4
Valley City	196	—12	+ 5
SOUTH DAKOTA			
Aberdeen	389	+ 1	+ 3
Rapid City	386	+ 8	+ 6
Sioux Falls	314	— 9	— 2
Yankton	245	— 6	+ 9
WISCONSIN			
La Crosse	251	+ 5	+11

[1] Based on daily average sales.

[2] Based on total dollar volume of sales. Percentage comparison is with the same period a year ago.

Ninth District Business Indexes

(Adjusted for Seasonal Variation—1935-39=100)

	Aug. '51	July '51	Aug. '50	Aug. '49
Bank Debits—93 Cities	391	401	383	340
Bank Debits—Farming Centers	476	463	474	413
Ninth District Dept. Store Sales	299p	276	321	269
City Department Store Sales	314	285	356	281
Country Department Store Sales	284p	266	285	257
Ninth District Dept. Store Stocks	362p	354	302	290
City Department Store Stocks	327p	329	271	245
Country Department Store Stocks	390p	373	327	326
Country Lumber Sales	152	150	195	158
Miscellaneous Carloadings	133	136	137	127
Total Carloading (excl. Misc.)	119	115	117	111
Farm Prices (Minn. unadj.)	262	273	226	289

p—preliminary

Sales at Ninth District Department Stores*

	% Aug. 1951 of Aug. 1950	% Jan.-Aug. 1951 of Jan.-Aug. 1950	Number of Stores[1] showing Increase	Decrease
Total District	93	101	123	142
Mpls., St. Paul, Dul.-Sup.	89	100	4	21
Country Stores	100	103	119	121
Minnesota (City and Country)	89	99	34	58
Minnesota (Country)	95	98	31	40
Central	94	89	3	4
Northeastern	97	101	3	2
Red River Valley	95	94	1	5
South Central	100	102	9	6
Southeastern	92	99	6	7
Southwestern	91	99	9	16
Montana	104	106	21	17
Mountains	101	107	7	4
Plains	105	105	14	13
North Dakota	102	106	23	25
North Central	94	109	2	8
Northwestern	108	106	5	2
Red River Valley	99	103	8	8
Southeastern	101	109	5	7
Southwestern	130	117	3	0
Red River Valley-Minn. & N. D.	98	101	9	13
South Dakota	96	102	12	17
Southeastern	91	101	1	7
Other Eastern	103	103	7	7
Western	103	103	4	3
Wisconsin and Michigan	104	106	32	22
Northern Wisconsin	102	105	7	6
West Central Wisconsin	102	107	16	14
Upper Peninsula Michigan	108	106	9	2

*Percentages are based on dollar volume of sales. [1]August 1951 compared with August 1950.

Note: The per cent change in department store sales from a year ago is computed on a larger sample of stores than that used for the index. Some of these stores do not come within a strict census denfiition of a department store, but use of the larger sample provides a more representative figure on sales by area within the district.

district furniture stores during August than during July—by about 25 percent—but sales were still some 15 percent short of last August's high mark.

Instalment sales held the same proportion of the total sales this August that they held last August, although instalment sales picked up more from July levels than did either cash or charge account sales. For Ninth district appliance dealers, the proportion of total sales formed by instalment sales averaged about 45 either July 1951 or August 1950.

END

PRICE-COST RATIO KEY TO FARM PROSPERITY

Continued from Page 213

farm in a short time, but he can also lose it in a short time if production were to fail. Moreover, the progressive nature of the income tax structure is often disadvantageous to the farmer who may have a very large income one year and a much smaller income the next.

Future Farm Prospects Look Reasonably Bright

Fortunately, the demand situation for agricultural products appears reasonably good. Full employment with well distributed earning power puts a substantial floor under farm prices. Also, the various farm programs tend to give price and income protection to farmers in event of unusual or sharp price declines.

On balance, it would appear, therefore, that in spite of relatively high costs and vulnerability to price decline, the farmer of today is in a reasonably strong economic position.

On the other hand, as agriculture becomes even more commercialized, increased emphasis will be placed on management in relation to cost control and the ability to secure a net return.

The modern banker must therefore be in position to analyze a farm business intelligently. More than ever before he needs certain benchmarks to judge the managerial ability and the credit risk of his farm customers.

Several benchmarks for judging management efficiency may be listed briefly as follows:

Size of business: Labor and equipment can be used more efficiently on moderately large farm units.

Labor efficiency: Earnings are usually highest on those farms where the workers are busy week-in and week-out throughout the year.

Crop organization and efficiency: The farmer who can consistently procure crop yields above the average is usually a superior credit risk.

Livestock efficiency: High earnings are usually associated with efficient livestock production. A trip or two to a customer's farm is usually enough to know whether he is above or below average in his livestock management program.

Control over expense: Costs in modern farming are becoming greater right along. Some farmers put more into machinery and buildings than the farm justifies; others put in too little.

In conclusion, it may be said that the country banker who familiarizes himself with farm management techniques and know-how is in an excellent position to judge credit risks accurately. In addition, he is in position to provide a real service to his customers and to the community.

END

MONEY IN CIRCULATION UP, WITH OTHER INDICATORS

Continued from Page 215

tural loans continued to decline. All other categories (loans on securities and real estate and to consumers) increased. The increase in consumer loans, the first in seven months, is particularly significant, since August was the first month of relaxed consumer credit regulations under the amendments to the Defense Production act, effective July 31.

Government security holdings were up $9 million last month, which, incidentally, was the first month since November 1950 that the banks expanded loans without liquidating securities, net. At the reporting banks, increased holdings of certificates and bills offset the decline in notes and bonds by $2 million. The opposite direction of change in note and certificate holdings suggests that these banks accepted the Treasury offer of certificates in exchange for the 1¼% Treasury notes which matured on August 1.

Almost all of the $10 million rise in borrowing during August occurred at the city banks.

Deposit turnover in August was at an annual rate of 16.1 from 15.1 in the preceding month. END

Average Prices Received by Farmers in the Ninth District*

Commodity and Unit	September 15 1937-41 Avge.	September 15 1950	September 15 1951	Parity Prices[1] United States Sept. 15, 1951
Crops				
Wheat, bushel	$0.72	$ 1.95	$ 1.99	$ 2.41
Corn, bushel	.57	1.32	1.56	1.75
Oats, bushel	.25	.65	.69	.981
Potatoes, bushel	.47	1.26	1.23	1.80
Livestock and Livestock Products				
Hogs, 100 lbs.	8.53	20.45	19.27	21.30
Beef Cattle, 100 lbs.	7.73	24.35	29.24	19.80
Veal Calves, 100 lbs.	9.22	28.55	33.38	22.10
Lambs, 100 lbs.	8.15	25.10	30.31	21.70
Wool, lb.	.27	.60	.70	.567
Milk, wholesale, 100 lbs.	1.60	3.20	3.80	4.79
Butterfat, lb.	.30	.64	.73	.767
Chickens, live, lb.	.133	.200	.221	.313
Eggs, doz.	.198	.332	.506	.528

* Source: "Agricultural Prices"—September 28, 1951.

[1] The term parity as applied to the price of an agricultural commodity is that price which will give to the commodity a purchasing power equivalent to the average purchasing power of the commodity in the base period, 1910-14.

HOUSING MARKET WEAKENS UNDER HIGH PRICES

Continued from Page 211

in the high-priced bracket, while in former periods of rising real estate prices, low-priced houses led the rise in prices. From the last half of 1949 through the first half of 1951, the low- and medium-priced houses increased by 16 per cent, while the high-priced houses increased by 24 per cent.

The smaller rise in prices among low- and medium priced houses since July 1950, as may be noted on the chart, may be due to the restrictions placed on real estate credit. The larger down payments required and the shorter maturities of mortgages undoubtedly excluded some potential buyers from the market, especially the lower-income buyers from whom the demand for low-priced houses comes. The average prices of houses sold in selected periods from 1940 to date are given in the accompanying table.

Prices of Houses in Desirable Areas Rise Most

As was pointed out in reporting results of the previous survey, even during a period of great demand for shelter purchasers of residential properties were quite selective as to particular sections within the metropolitan area. Prices of houses in the more desirable areas (areas designated as high rent areas in the 1940 census) rose noticeably more than those in the less desirable areas.

In a period of declining real estate prices, prices of houses in the more desirable areas declined only slightly more than those in the less desirable areas. Buyers continued to be selective in regard to location even when the more urgent demands for housing had been satisfied.

These differentials in price movements provide some evidence that houses in the more desirable areas tend to retain their values better than those in the less desirable areas.

From the second half of 1949 through the first half of 1951, prices of houses in the high rent areas of Minneapolis increased by 30 per cent, in the medium rent areas by 11 per cent, and in the low rent areas by 9 per cent. In the suburban areas surrounding Minneapolis, which cut across high, medium and low rent areas, prices of houses increased by 14 per cent from the second half of 1949 through the first half of 1951.

The average prices of houses sold during half-year periods from the last half of 1949 through the first half of 1951, by real estate districts, has been presented in the form of bar graphs on Chart III.

The range of residential real estate prices among the several districts may be observed at a glance.

Market's Activity Slowed As Prices Increased

In the previous period of rising residential real estate prices—that is, from the first half of 1947 through 1948—the peak of activity in the real estate market was reached approximately one year before the peak in prices. During 1947 the number of houses sold rose sharply, and the high point occurred during the fall of that year. In 1948 and in the first half of 1949, the number of sales made by representative members of the Minneapolis Board of Realtors declined steadily.

In the recent wave of residential real estate prices, activity in the real estate market reached a peak in July and August 1950. In the first half of 1950, sales of low- and medium-priced houses averaged 12 per cent higher than in the latter half of 1949. Sales of high-priced houses averaged 10 per cent higher.

As the first wave of scare buying in July and August 1950 receded, the upward trend of activity in the real estate market was quickly reversed. In the last half of 1950, sales of low- and medium-priced houses were down 10 per cent and sales of high-priced houses were down 7 per cent, as compared with sales in the first half of the year.

Part of the decline may have been seasonal, but sales in the first half of 1951 declined even more. As compared with sales in the latter half of 1950, sales in the low- and medium priced brackets dropped by 23 per cent and in the high-priced bracket by 19 per cent.

As to districts, activity in the real estate market dropped off most in the suburbs. In the first half of 1950, activity in the suburbs was exceptionally high, but it fell off sharply in the latter half of the year and declined more in the first half of 1951.

In the low rent areas in Minneapolis, sales of houses rose materially following outbreak of the Korean war, but they fell off sharply in the first half of 1951. In the medium- and high-rent areas, sales have fallen off since the latter half of 1949.

Price Trends Similar In Smaller Communities

Previous surveys of residential real estate prices were confined to Min-

Residential Real Estate Prices, by Price Bracket, in Minneapolis and Surrounding Suburbs, from 1940 and 1945 to July 1, 1951

Year	Low-Priced Homes	Medium-Priced Homes	High-Priced Homes	All Homes
1940	$ 3,400	$ 6,500	$12,700	$ 5,000
1945	5,500	10,300	16,300	7,800
1946	7,900	13,500	21,500	10,700
1947				
First Half	7,800	13,600	23,600	10,800
Second Half	8,500	14,500	24,900	11,500
1948				
First Half	9,100	15,400	28,600	12,400
Second Half	9,400	15,900	29,500	12,800
1949				
First Half	8,500	14,700	27,000	11,700
Second Half	8,900	15,200	27,100	12,100
1950				
First Half	9,000	15,000	27,100	12,100
Second Half	9,400	16,600	28,900	13,000
1951				
First Half	10,300	17,600	33,700	14,200

neapolis and surrounding suburbs. As a result, no inference could be drawn from the data as to the trend of real estate prices in other communities. In this survey, some data were secured on the prices of houses sold in a number of other urban areas. Prices of houses sold in 33 different cities and towns in Minnesota, which were approved for FHA insured mortgages from July 1, 1949, through June 30, 1951, were tabulated.

The sample of houses approved for FHA mortgages in Minneapolis reflected a smaller increase in prices than the trend of prices described on the basis of the data secured from members of the Minneapolis Board of Realtors. For instance, the increase in prices of houses approved for FHA mortgages from the last half of 1949 through the first half of 1951 was 13 per cent, whereas on the basis of the large sample of transactions secured from real estate dealers, the increase was 17 per cent.

FHA mortgages are made largely on low-priced houses. As was pointed out previously, low- and medium-priced houses have risen less in price than high-priced houses.

In St. Paul, Duluth, and seven intermediate cities of Minnesota with populations ranging from 15,000 to 30,000, prices of houses sold and approved for FHA insured mortgages from the last half of 1949 through the first half of 1951 increased by 22 per cent. In 17 small cities of the state with populations between 5,000 and 10,000, the increase in price over the same period averaged 18 per cent.

In contrast to these percentage increases, comparable data for six Minnesota cities with populations ranging from 10,000 to 15,000 revealed an increase of only 6 per cent.

In Minneapolis and surrounding suburbs, during a period of rising real estate prices, it was observed that the percentage increase in real estate prices varied significantly from one homogeneous real estate district to another. A similar variation in the percentage rise in real estate prices apparently existed between cities in different size groups.

Furthermore, the small percentage increase in real estate prices obtained for cities with populations ranging between 10,000 and 15,000 may be due, in part, to houses sold and approved for FHA mortgages which were not representative of the trend of housing prices in these cities. All houses sold and approved for FHA insured mortgages in these communities were included in this study, so that it is not a question of an error in sampling.

In general, prices of houses in Minneapolis and in smaller cities of Minnesota from the last half of 1949 through the first half of 1951 rose by 17 per cent. However, the percentage increase varied significantly between cities in different size groups. END

National Summary of Business Conditions

INDUSTRIAL production continued somewhat below first-half levels in August and September, reflecting mainly reduced output in consumer goods industries. Consumer buying has been at somewhat higher levels than in early summer and distributors' inventories apparently have been reduced further. Prices generally showed little change after mid-August. Bank loans to business, mainly for defense and agricultural and other seasonal purposes, expanded over this period.

INDUSTRIAL PRODUCTION — The Board's index of industrial production in August was 218 per cent of the 1935-39 average, as compared with 213 in July and an average of 222 for the first half of the year. Preliminary indications point to little change in September.

Durable goods production increased in August but remained below the June rate. Activity in munitions and producers equipment industries generally expanded, despite work stoppages in an important machinery industry. Output of consumer durables showed little change from the reduced July rates.

In the latter part of September steel mill operations were scheduled at 102 per cent of capacity as compared with a rate of 98.5 per cent in July and August. Output of copper and some other nonferrous metals was considerably reduced as a result of a labor dispute in late August and early September, and in mid-September aluminum production was curtailed somewhat owing to power shortages.

Passenger car assembly for the third quarter was close to the authorized level of 1.2 million units.

Output of textiles, leather products, and paperboard in August showed smaller increases than usual for this season. Chemicals production rose further, and output of most other nondurable goods continued in large volume.

Bituminous coal mining expanded in August and early September. Peak levels of output of crude petroleum and iron ore continued.

CONSTRUCTION — Value of construction contracts awarded declined somewhat in August, reflecting decreases for most types of public construction. Private awards showed little change. The number of housing units started in August was 85,000, about the same as in July but almost two-fifths below August 1950. Value of work put in place on industrial construction projects continued to rise in August and was double year-ago levels.

EMPLOYMENT — The labor market showed little change during August. Employment in non-agricultural establishments, after adjustment for seasonal factors, continued at the earlier high level of 46.6 million persons. The average work week in manufacturing industries remained at the moderately reduced July level and average hourly earnings were maintained at peak rates. Unemployment declined somewhat in August to slightly less than 1.6 million persons, the lowest since October 1945.

DISTRIBUTION — Seasonally adjusted value of sales at department stores rose about 3 per cent in August to a level of 319 per cent of the 1935-39 average, but during the first three weeks of September sales showed a less than seasonal rise. Sales at most other retail outlets also increased slightly in August, and in early September automobile sales were stimulated by prospects of price advances. Value of department store stocks, seasonally adjusted, declined in August to a point 10 per cent below the spring peak.

COMMODITY PRICES — Wholesale commodity prices have generally shown little change since mid-August. Prices of textile materials have declined further, but during the past 10 days raw cotton prices have advanced as producers have restricted marketings at present prices. Among finished goods, prices of shoes, carpets, and sheets have been further reduced, while wholesale prices of new passenger cars were raised about 5 per cent in mid-September, following revision in federal ceilings.

The consumers price index in August was unchanged from July. Slight declines in prices of foods and housefurnishings were offset by increases in rents and in prices of apparel and miscellaneous goods and services.

BANK CREDIT — Bank credit rose moderately during August and the first half of September, reflecting some seasonal borrowing by businesses. Loans to food manufacturers and commodity dealers to finance the distribution and processing of crops began in the August-early September period and loans to finance direct defense contracts and defense-supporting activities, particularly loans to metal manufacturers, expanded further.

Deposits and currency held by businesses and individuals increased considerably in August and early September. This reflected both expansion in bank loans and a continuing shift of deposits from government to private accounts prior to the receipt of mid-September income tax payments.

SECURITY MARKETS — Common stock prices in the second week of September reached the highest levels since April 1930 and then declined somewhat in the third week. Yields on U. S. government securities and high-grade corporate bonds showed little change. Holders of the 3 per cent Treasury bonds called for payment September 15 and the 1¼ per cent notes which mature October 1 were offered an exchange into an 11-month, 1⅞ per cent certificate of indebtedness.

SOCIAL SECURITY COVERAGE FOR SELF-EMPLOYED

● Our attention has been called to the fact that bankers and businessmen have received inquiries concerning recently adopted amendments to the Social Security act. At the request of the Social Security field office, 1015 Metropolitan Life building, Minneapolis, the following information is given:

Effective Jan. 1, 1951, many thousands of self-employed individuals and partners in the Ninth Federal Reserve district were covered under the Old-Age and Survivors Insurance provisions of the Social Security act for the first time. Under the recently amended Social Security law, net income from self-employment will count toward Social Security benefits if it is $400 or more a year. Farm owners and certain professionals are excluded.

These net earnings, which are taxable at 2¼ per cent, are to be reported on federal income tax Form 1040C after the end of this calendar year and by March 15, 1952. Maximum net wage reportable for Social Security purposes is $3,600.

Old-Age and Survivors Insurance benefits under the Social Security law will be paid to insured self-employed individuals upon retirement at 65, or to their survivors in the event of death, just as insured workers in industry and trade are now receiving such payments.

Descriptive literature in regard to this new coverage provision of the self-employed under the Social Security act, as well as insurance benefits payable upon retirement or death, is available to interested persons from any of the 28 Social Security field offices.