CRAIG SWAN
University of Minnesota

Recovery for Homebuilding?

HOUSING STARTS SEEMED POISED for substantial gains during the second half of 1970 following a depressed level of activity during the first half of the year. From January to June total private housing starts were at an average annual rate of 1,266,000 units, compared with rates of 1,467,000 units for the year 1969 and 1,357,000 units for the fourth quarter of 1969. Month-to-month movements in housing starts have a large erratic element and should be interpreted with care. While starts for July through September have shown wide variation, they have all been above the monthly rates for January to June and have averaged 1,506,000 units (annual rate). If one looks at factors influencing housing activity, virtually every indicator points toward continuation of recovery during the rest of the year from the apparent trough in housing starts in the first quarter of 1970.

The Availability of Mortgage Credit

At the same time that demand is sustained at a high level by low vacancy rates and current population trends, prospects for the availability of mortgage credit are encouraging.

Following large outflows in January, savings flows into financial intermediaries rose dramatically in the second quarter (see Table 1). Because of their preliminary nature, the quarterly figures should be used with caution. Nevertheless, two-quarter averages reflect very large increases. The net increase in savings at mutual savings banks and savings and loan asso-

Table 1. Acquisitions of Financial Assets by Households, First Quarter 1969 through Second Quarter 1970[a]

Seasonally adjusted annual rates in billions of dollars

	1969				*1970*	
Type of asset acquired	*1*	*2*	*3*	*4*	*1*	*2*[b]
Savings deposits at financial intermediaries	18.1	13.3	3.8	4.6	10.5	19.3
Commercial banks	6.6	5.4	−0.8	2.0	7.9	5.7
Mutual savings banks	3.8	2.7	1.5	2.4	1.6	4.2
Savings and loan associations	7.7	5.2	3.1	0.2	1.0	9.4
Selected credit market instruments	25.9	9.1	32.1	19.8	22.3	24.7
U.S. government securities	16.1	2.1	24.1	10.1	9.1	7.6
Corporate and foreign bonds	4.8	5.3	4.7	4.7	9.2	14.7
State and local obligations	5.0	1.7	3.3	5.0	4.0	2.4

Source: Board of Governors of the Federal Reserve System, "Flow of Funds, Seasonally Adjusted: 2nd Quarter, 1970, Preliminary" (Aug. 13, 1970; processed), pp. 4 and 8.

a. Data include acquisitions by personal trusts and nonprofit organizations.

b. Preliminary.

ciations during the first half of 1970 was at an annual rate of $8.75 billion, compared with an annual rate of $3.7 billion during the last half of 1969. The increase was most dramatic at savings and loan associations, as savings flow more than tripled from an annual rate of $1.75 billion to $5.85 billion.

That savings deposits increased in 1970 after dwindling for a year is due to several factors. Higher minimum denominations on Treasury bills and special agency issues have made it impractical for many individuals to purchase these securities directly. Declining market yields have at the same time made them less attractive, while increases in regulatory ceilings on deposit yields have enhanced the appeal of savings deposits. Another major contributing factor to large savings inflows has been the high rate of personal saving in the spring of 1970. On seasonally adjusted data, the rate was 7.5 percent in the second quarter of 1970 as against 6.0 percent for the year 1969. This high rate of savings has enabled households not only to step up their acquisition of savings deposits, but also to maintain their acquisitions of direct credit market instruments at the unprecedented rates of 1969. Households have even accelerated their acquisition of those instruments, such as corporate bonds, whose yields have remained high. Savings inflows to financial intermediaries would gain substantially more should long-term security yields again decline.

Improved savings flows during the first half of 1970 will result in an expansion of mortgage lending in the second half of the year. At the end of June mortgage loan commitments outstanding at savings and loan associations were up 48 percent from their low at the end of January. As Table 2 demonstrates, experience in the spring of 1970 is in distinct contrast to that of late 1966 and 1967, when savings and loan associations applied a large part of increased savings flows to the reduction of their outstanding borrowings from the Federal Home Loan Banks. This difference is the result of actions by the Federal Home Loan Bank Board to limit repayments on advances and to encourage savings and loan associations to use new funds to expand mortgage lending. Specific measures taken along these lines are the conversion of short-term advances into long-term advances and steps to reduce the interest rate on advances outstanding. At the beginning of 1970 short-term advances accounted for 89

Table 2. Savings Capital, Mortgage Commitments, and Federal Home Loan Bank Advances at Savings and Loan Associations, Selected Months 1966–67 and 1970

Millions of dollars

Year and month	*Net change from previous month*		Outstanding FHLBB advances[a]
	Savings capital	*Mortgage commitments*	
1966–67			
October	−56	−151	7,249
November	614	−92	7,084
December	1,732	−114	6,935
January	184	149	6,340
February	763	264	5,800
March	1,457	344	5,175
Total	4,694	400	...
1970			
January	−1,417	−74	9,852
February	205	77	9,937
March	1,595	226	9,745
April	207	446	9,860
May	753	469	10,008
June[b]	1,812	96	10,236
Total	3,155	1,240	...

Sources: *Federal Reserve Bulletin*, Vol. 53 (October 1967), pp. 1782 and 1795, and Vol. 56 (August 1970), pp. A38 and A51.

a. Figures are for total advances outstanding, end of the month, and include small amounts of advances to members other than savings and loan associations.

b. Preliminary.

percent of all advances. By the end of June they had fallen to 68 percent of the total. In March the Federal Home Loan Bank Board asked its district banks to limit the rate on advances to 7.75 percent. The Emergency Home Finance Act of 1970, passed in July, provides $250 million to the Federal Home Loan Banks to subsidize interest rates on advances to savings and loan associations.

Another important source of strength for home mortgages has been a continued high rate of acquisitions by the Federal National Mortgage Association (FNMA). In the first half of 1970 FNMA purchased home mortgages at an annual rate of $5.4 billion, accounting for 49 percent of the net increase in home mortgages. Federal budget estimates in January indicated that acquisitions would be maintained at about the same rate for the rest of the year.

Table 3 shows how equations presented in the first issue of *Brookings Papers on Economic Activity* have tracked experience during the first two quarters of 1970. Results for 1969 differ slightly from those presented in the earlier paper due to subsequent revisions in the data on housing starts and savings deposits. In line with earlier projections, equation estimates for 1970 incorporate information about mortgage purchases by the Federal National Mortgage Association. While high for the first quarter and low for the second, the equation estimates are slightly below actual experience when averaged for the half year.

Table 3. Estimated and Actual Values for Private Nonfarm Housing Starts, First Quarter 1969 through Second Quarter 1970

Seasonally adjusted annual rates in thousands of units

Year and quarter	*Actual starts*[a]	*Estimated starts*
1969 1	1,621	1,546
2	1,497	1,547
3	1,410	1,427
4	1,328	1,222
Year	1,464	1,435
1970 1	1,229	1,283
2	1,262	1,152
Half-year	1,246	1,218

Sources: Actual starts from U.S. Bureau of the Census, *Housing Starts*, C20-70-3 (March 1970), and *Economic Indicators* (August 1970). Figures for private nonfarm housing starts for 1970 are derived by subtracting the 1969 figures for farm units from the figures for total private starts. Estimated housing starts are based on equations presented in Craig Swan, "Homebuilding: A Review of Experience," *Brookings Papers on Economic Activity* (1:1970), pp. 53–54.

a. Starts for 1969 have been revised by the Census Bureau from those reported in *ibid.*, Table 2, p. 54.

Mobile Homes

An unexpected weakness on the housing scene thus far in 1970 has been mobile home shipments, which are not included in the statistics on housing starts or residential construction expenditures. Shipments had risen almost without interruption after 1966, and in 1969 were 30 percent ahead of 1968 and 90 percent ahead of 1966. But in the first five months of 1970, they fell 7 percent below the same period a year earlier.

This drop in shipments occurred at a time when most observers were expecting continuing increases: Housing starts were at low levels and mobile homes sell at about half the cost of comparable space in a conventionally built home. In fact the recent increases in sales of mobile homes attracted so many new firms that there were reports of substantial price cutting this spring.[1] The President's 1970 report on housing goals projected a 24 percent increase in mobile home shipments this year.[2] Explanations for the drop in shipments include a possible shortage of sites and the effects of the general economic slowdown and increase in unemployment. According to a recent study by the Department of Housing and Urban Development, mobile home owners tend to be young, semiskilled or skilled workers. Increases in unemployment may have discouraged potential buyers and potential lenders.

Discussion

SEVERAL PARTICIPANTS OFFERED reasons why mobile home sales have been disappointing in the first half of 1970. These included lack of sites, increased zoning regulations against them, reduction in the armed forces and in employment at defense bases, and increased availability of conventional housing.

James Duesenberry and Thomas Juster mentioned some reasons why the outlook for homebuilding might not be so buoyant as Swan implied. Duesenberry contended that rationing of mortgage credit had probably

1. "Mobile-Home Shipments Lag; Firms Blame Economy, Too Many Rivals, Too Few Parks," *Wall Street Journal*, June 19, 1970.

2. *Second Annual Report on National Housing Goals*, H. Doc. 292, 91 Cong. 2 sess. (1970), p. 23.

been less intense in 1969 and early 1970 than in previous periods of credit squeeze. Instead, higher interest rates were doing more of the market-clearing than they did in former times. As a result, there may be smaller backlogs of potential homebuyers who were kept out of the market by rationing. Hence, increased inflows into thrift institutions cannot be automatically translated into increased homebuilding activity. The stimulus may depend on declines in mortgage interest rates, and there is at present no basis for confidence that these rates will fall sharply. If people's expectations of rising costs for homes should evaporate, that would further hold down demand.

Thomas Juster said that survey data on buying plans for single-family homes continue to suggest no great exuberance of demand in that area. These data showed a marked decline in the demand for single-family housing from 1967 through 1969; it has begun to turn up, but is still below 1967 and 1968 levels.