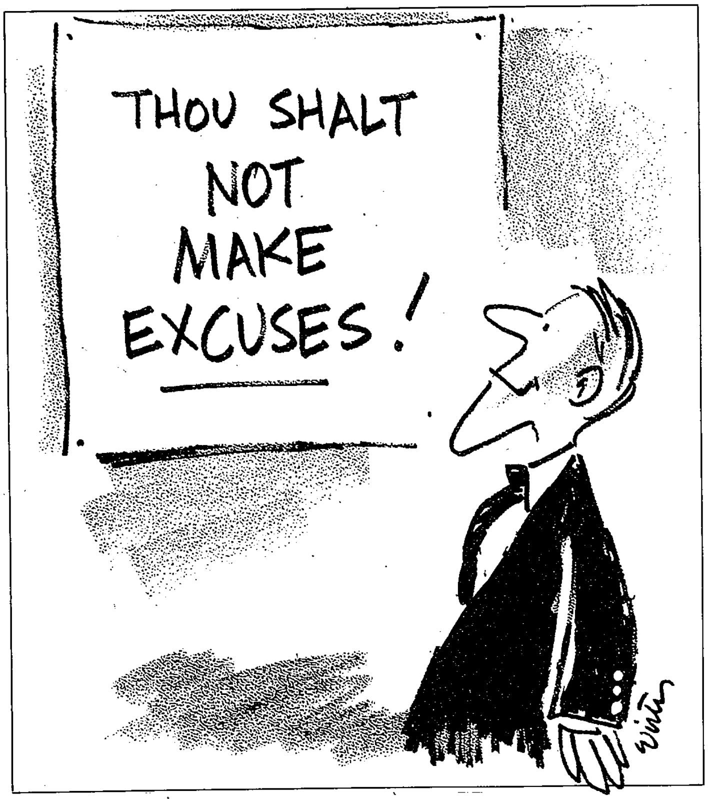

'Evidence of boom all around us'

By JAMES A. ALIBER

The following remarks were made during a speech given by Aliber at the Detroit Economic Club's Economic Forecast Luncheon.

James Aliber is chairman of the board and chief executive officer of First Federal Savings of Detroit as well as a director of several metropolitan organizations.

My assignment today is to discuss what is currently going on in the housing and mortgage markets, and what is likely to be happening in the next 6-12 months.

It is certainly no news to this audience that there has been a tremendous boom in housing during the last few years. Ever since the recession period of 1973-1974 ended, housing has generated one set of great growth statistics after the next.

Evidence of this boom has been all around us. In our own community we see it as we drive around the outlying suburbs of Farmington, Sterling Heights, Troy and Canton Township, to name just a few. And within walking distance of this building, new single-family dwellings, conventionally financed, have been selling at a brisk pace.

Not only has there been a boom in numbers of housing starts and sales, but also in values. Are there any of us that haven't been amazed at the prices placed on the homes we live in, or the price of housing when we've been in the market?

Just for a moment, I'd like to preview some of the key indicators which reflect the performance of this segment of the economy. The total number of sales of existing single-family houses in 1978 was 3.9 million, and through August of this year, the annual rate was the same. This represents a 144 percent increase in the sales of existing units over those sold in 1970.

THE DOLLAR value of these sales in 1978 was $217 billion, and in 1979 through August the annual pace of sales was running at $255 billion. To put this gigantic figure into perspective, you should recognize that the total amount of corporate debt in public hands amounts to about $260 billion. In 1970, total existing home sales were just over $41 billion, therefore the 1979 sales level is 522 percent over the 1970 volume.

During the 1970s, the average sales price of existing single-family homes has gone from $25,700 to $66,300, a 160 percent increase. The American home has turned out, for most families, to be the best investment they have ever made.

Recognition of this phenomenon has encouraged more people into the housing market at a younger age. And for those who already owned a home, the increased equity generated by the increased value could be leveraged into a bigger and more expensive home.

This growth in volume and value would not have occurred as readily if it had not been for a very accommodating and ample mortgage market. During the last four years when the biggest part of this growth was taking place, interest rates were relatively stable, funds in good supply and mortgage terms were very attractive.

In 1976 and 1977, the average interest rate, including fees and charges, on existing and new homes averaged 9 percent. In 1978, the average rate increased about one-half of 1 percent and continued to climb gradually until it reached 11 percent last September.

THE BORROWER'S WILLINGNESS to take on debt during the latter stages of this period, at interest rates in excess of 10 percent or more, seemed to be the result of inflationary expectations. If the rate of inflation was close to or exceeded long-term debt rates, there wasn't much penalty in borrowing at these levels. Besides, with home values going up so fast, the return on the investment was still very attractive, and if one waited, the thinking went, the price of the home would only go higher.

Consequently, American families went on a home-buying binge that lasted four years.

On Saturday night, October 6 of this year, the great housing boom of 1976-1979 came to an abrupt end. Led by Chairman Volcker, the Fed's action caused interest rates to increase quickly to levels that have discouraged mortgage borrowing, and caused the postponement of home-purchasing decisions.

The higher level of interest rates has also slowed the rate of savings growth at savings and loan associations. Savings deposits are the backbone of mortgage credit. During the 1976-79 period, new savings increases nationally averaged over $45 billion per year at savings and loan associations. That growth, together with loan repayments and loan sales, made it possible for savings and loans to have record lending years.

Since October, the rates on Money Market Funds, T-Bills and municipal bonds have become more attractive than most of the accounts offered by banks and savings and loans, causing savings flows to dry up. Mortgage lenders had no option except to push up the lending rates and to make lending terms less attractive in order to ration available mortgage credit.

Conventional mortgage rates climbed to a national average of about 14 percent. As a result, applications for home loans at these rates dropped to the lowest level in years.

There are two reasons for this: First, many prospective buyers cannot qualify to meet the higher monthly payments caused by the higher interest rates; and second, many of those who could qualify seem to be deciding to wait for mortgage rates to come down.

Those families who have to buy because of job transfers or another immediate need for housing have turned to loan assumptions and land contracts to avoid the high conventional loan rate.

Unfortunately, however, these financing methods by themselves cannot be expected to keep the housing market healthy. The results are already showing up in lower sales of existing homes, a reduction in new housing starts, and for the first time since the recessionary period of the mid-70s, an actual reduction in the price and value of homes.

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Aggressive retailing key to 1980, retailer says

By THEODORE A. BINTZ JR.

The following remarks are the text of a speech given by Bintz at the Detroit Economic Club's Economic Forecast Luncheon.

1980 will certainly be a challenge, if not a hurdle, for the retail industry in Detroit. The uncertainty that was so much a part of the 1979 scenario will continue to plague Detroit area retailers in the coming year.

Inflation will definitely task Detroit business.

Even if stores in the Detroit area experience an actual increase in sales dollars in 1980, the number of transactions will continue to slide, in tandem with the economics of our Motor City economic base.

Although we are anticipating a slow-down in the Detroit retail world for 1980, there are some bright spots.

1. The memory of the last recession in 1974-75 has caused retailers to be more cautious in their planning for 1980. Retailers in recent years have become more prepared to make changes with a keen sense of urgency and innovation.

2. Inventories are being monitored by retailers more closely, to prevent sluggish stocks from backing up the pipeline.

3. Many stores today have installed electronic point-of-sale equipment to track sales and accounts receivable with improved accuracy. This electronic revolution is most significant because retailing is comprised of day-to-day figures.

4. A plus for existing Detroit retailers is that the expansion of selling space will be relatively modest in 1980 in contrast to prior years. What this means is that the existing retail managements can concentrate on intensifying the productivity of their existing space.

5. Retailers are also the indirect beneficiaries of the fact that there has been major declines in the discretionary dollars channeled to the recreational vehicle sphere. In recent years, boats, campers, snow mobiles and the like had been competing for the same consumer dollars as stores pursue.

And now, what are the current economic indicators predicting for the next 12 months? Our Hudson economists forecast that the slow-down of 1980 will not be as bleak as the recession of 1974-75, although retailers will be under tremendous pressures throughout the beginning of the year.

For some, it will be a year of challenge. For others, it will be a year of crisises.

Retailers who can accept change as a reality as well as an opportunity will discipline themselves and their organization to securing more market share of the existing dollars available. 1980 is going to be the year of the *active* merchant. 1980 is going to be the year for innovation in all aspects of running a store.

WHY I'M ADVOCATING a well-conceived creativity premised upon the fact that retailing is "fashion" and "fashion is change," whether it be soft or hard goods.

Let's talk about some of these changes.

1. No market today reigns as the only influence on what is "in" and what is "out." Paris, Milan, New York and California — plus a host of other creative centers — offer a choice for all merchandise. The astute merchant will need to be even more skilled on when to move things in — and when to get on to the next trend.

2. Consumers in 1980 will be less likely to replenish their closets and homes with "old standbys." Rather, demand will have to be created by the retail industry for new-styled "I can't live without it" merchandise.

3. In the technological arena, creative retailers will find new ways to streamline variable costs of doing business. For example, utilizing computers to marshall heat-light-air-conditioning can make a significant overall reduction in energy usage and potential expense. Continued advancements in point-of-purchase equipment and the integration of more sophisticated back-office systems can alleviate the tremendous strain and expense of manhours traditionally required to move our industry.

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Theodore Bintz was named the eighth president in the 97-year history of the J.L. Hudson Co. in 1978. He also is a director of several metropolitan organizations.