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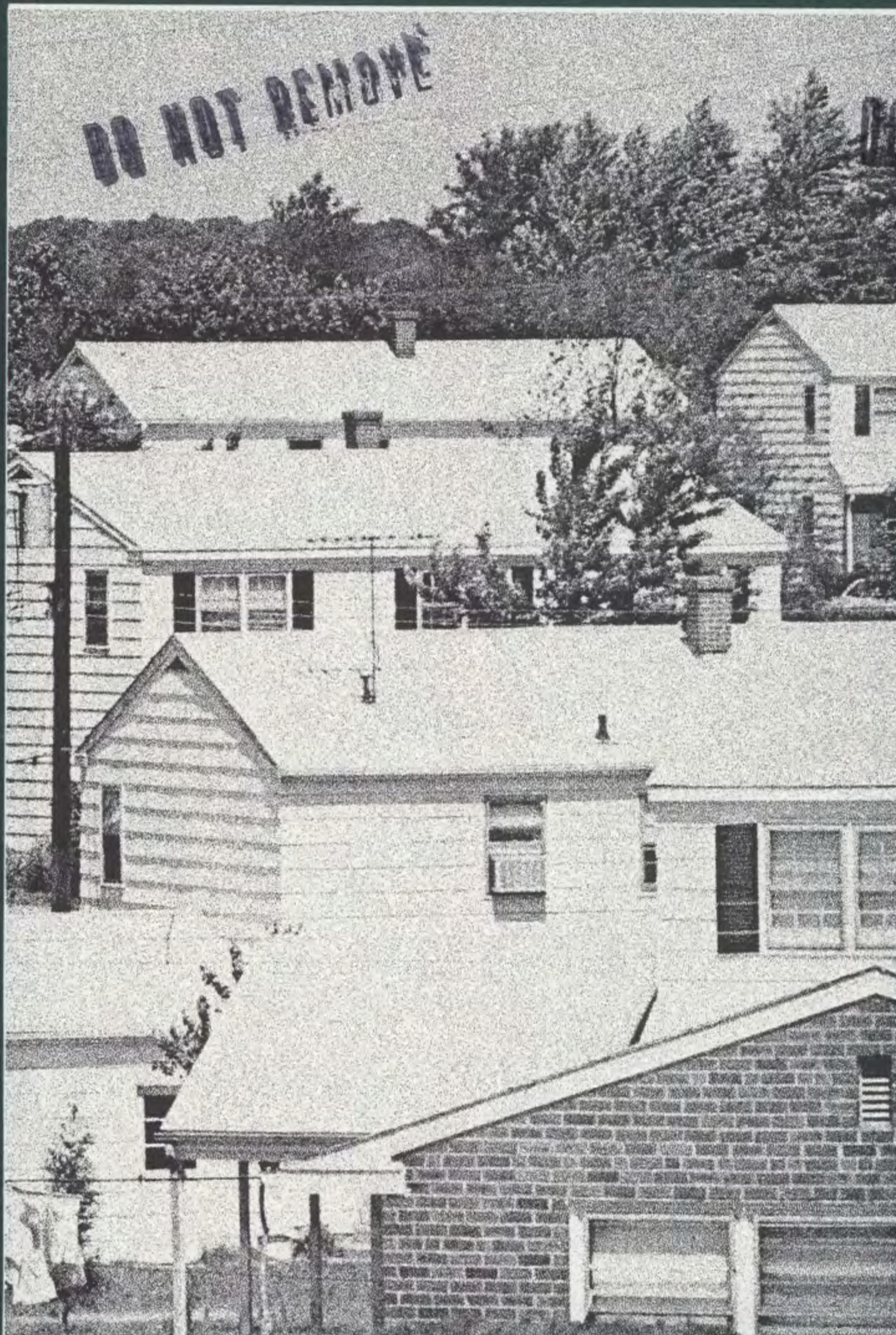

Special Economic and Housing Outlook Issue

February 1980

Title News is published monthly by the American Land Title Association, 1828 L Street, N.W., Washington, D.C. 20036. Telephone (202) 296-3671.

TITLE NEWS

Volume 59, Number 2

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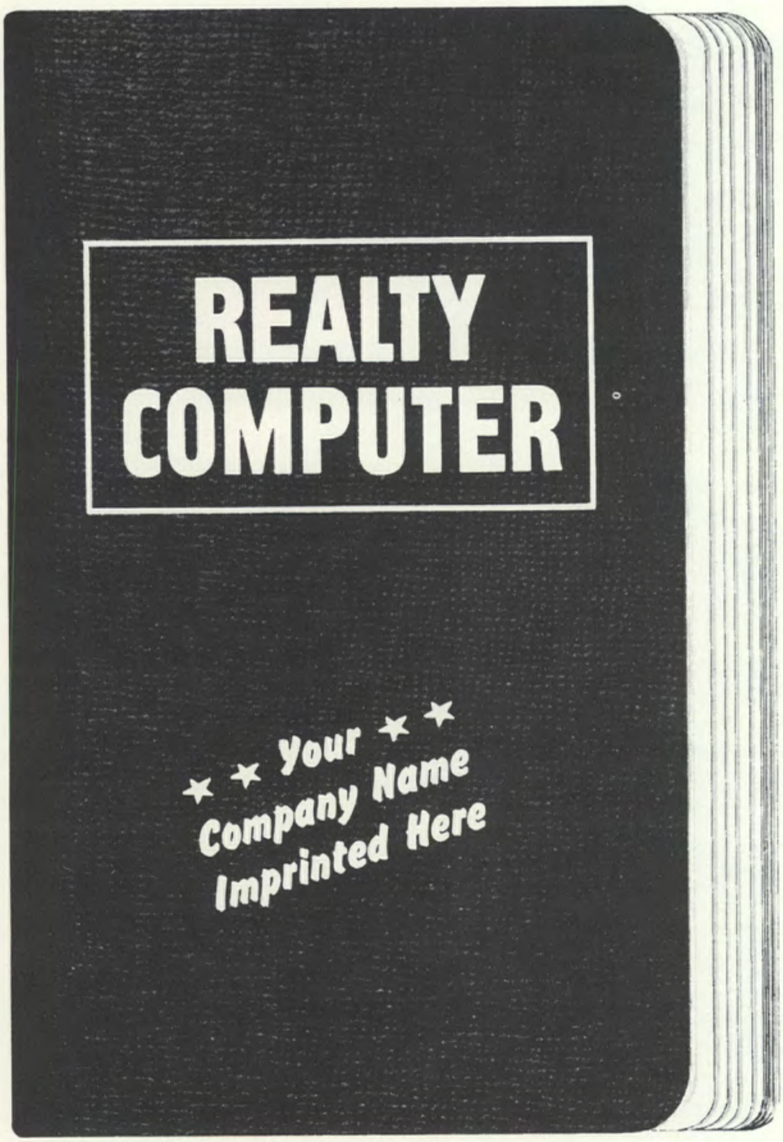

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A Message From the Chairman, Title Insurance & Underwriters Section . . .

The arrival of the new year marks the beginning of a decade of opportunity for the title insurance industry. To meet the challenge of the 1980s, it is up to all of us in the industry—from the chief executive officer down to the recently hired file clerk—to do our utmost to ensure that our efforts are continually directed towards improving the quality of service to our customers—the purchasers of title insurance—and carrying on our industry's long-standing tradition of consumer-oriented service in facilitating the prompt, safe and efficient transfer of real estate.

Public acceptance of and trust in our services is essential to the future growth of our industry. Without this trust, we can expect only skepticism and criticism of the value and utility of our services. Accordingly, our highest priority in the coming decade must be to eliminate any doubt in the public's mind that the competitive efforts of our industry serve the consumer's interests. It is for this reason that the problem of controlled business looms so large on the industry's horizon.

The groundswell of criticism directed at the growth of controlled business arrangements in the title insurance industry has reached flood-tide proportions. This criticism cannot and should not be ignored. All of us have witnessed the alarming frequency with which real estate brokers, mortgage lenders and other participants in the real estate settlement process have obtained financial interests in title insurance agencies or have established new title agencies of their own as a means of profiting from their ability to influence the consumer's selection of a title insurance service provider.

The long-term implications of the widespread growth of such controlled business arrangements—both for the consumers of our services and for our industry as well—are clear. From the consumer's standpoint, controlled business arrangements will inevitably lead to higher prices and lower quality service. From the standpoint of the title insurance industry, such arrangements will inevitably lead to a situation where business must be bought, rather than earned, and where competition will serve primarily the interests of producers of title insurance business, rather than the interests of the consumer.

All members of the American Land Title Association have a stake in ensuring that this problem is addressed and remedied—whether at the state or at the federal level—as soon as possible.

I am proud that our Association has gone on record clearly and forthrightly as opposing the growth of controlled business in its recently published white paper, *The Controlled Business Problem in the Title Insurance Industry*. This paper is required reading for all industry executives. It summarizes the views that have been expressed about controlled business by federal agencies, state regulatory authorities, and knowledgeable industry observers, and articulates in a most persuasive manner the anti-consumer and anti-competitive consequences of such arrangements. In addition, the Association sponsored an informative seminar in Washington, D.C., on the problem of controlled business which, judging from several articles that appeared in the press about the issue, has helped focus public attention on the problem and the need for timely regulatory or legislative action.

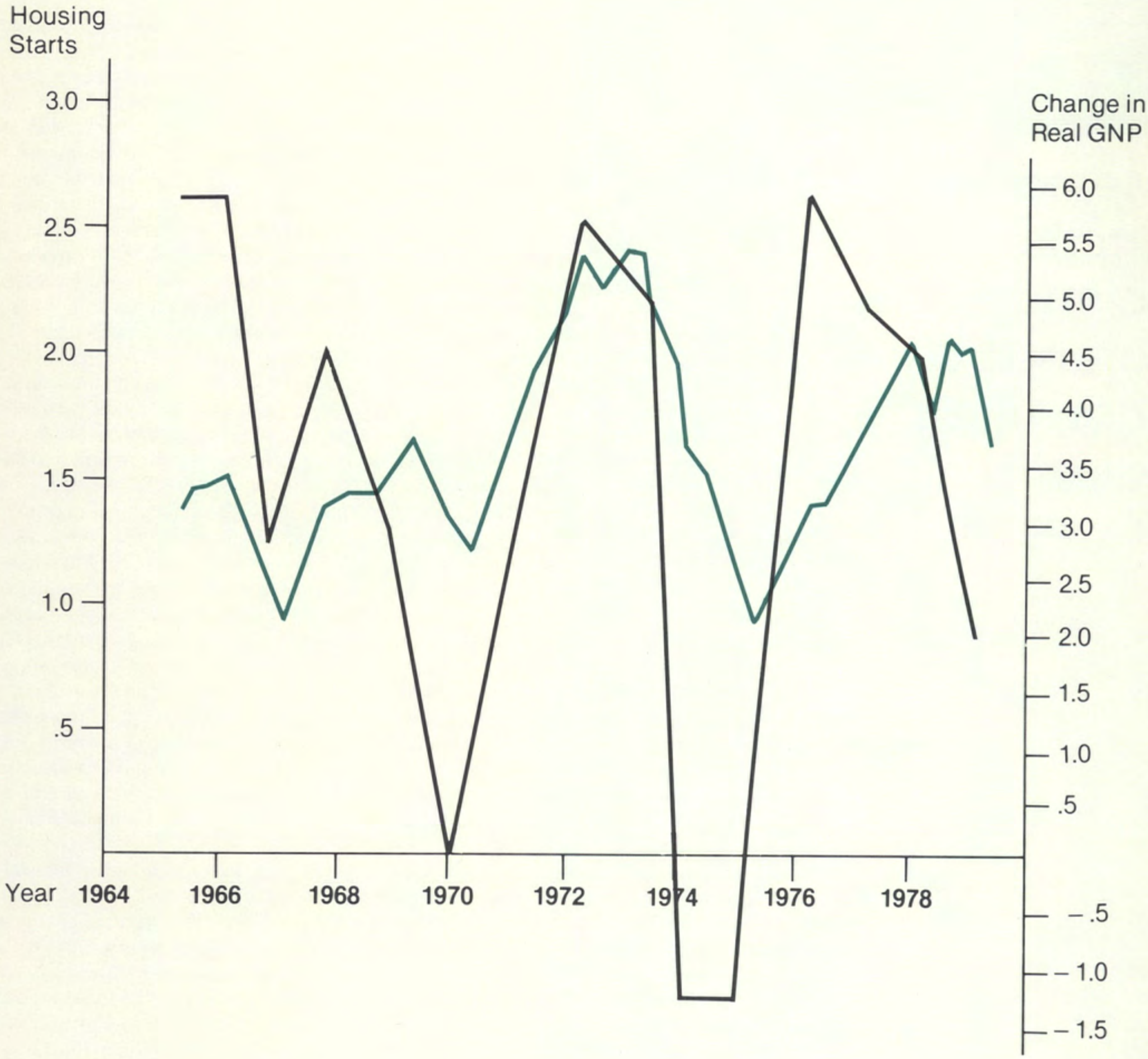
But while public awareness of the long-term consequences of controlled business is a *sine qua non* for any regulatory or legislative action, it is equally important for all members of the title insurance industry to understand and appreciate the long-term adverse consequences to our industry if the problem of controlled business is not resolved. Whatever short-term benefits may accrue to title insurance entities that participate in controlled business arrangements are far-outweighed by the lasting adverse consequences to the structure of our industry and the vigor of competition that presently exists if those real estate professionals who are in a position to influence the consumer's selection of a title insurance service provider are permitted to benefit financially from that selection.

During the coming year, federal and state regulatory and legislative bodies will address the controlled business problem. All of us who believe in the future of our industry and who have worked so hard to make title insurance an essential element in all real estate transactions have an obligation to think long and hard about the long-term implications of the growth of controlled business and to support the Association's efforts at the federal level, and similar efforts being undertaken at the state level, to obtain reasonable and effective prohibitions on controlled business.

Fred B. Fromhold

Fred B. Fromhold

FIGURE 1
HOUSING STARTS AND CHANGE IN REAL GNP



The colored line represents housing starts. The black line represents change in real GNP. The scale for housing starts runs along the left side of the graph. Real GNP Scale is at right.

Source: The Congressional Research Service and *Economics Indicators*, a Joint Economic Committee Publication, 1964-78.

Real Estate, Inflation and Mr. Volcker

by Mark R. Policinski

It is obvious that the Federal Reserve Board's new monetary policy of restraining growth of the money supply by controlling the level of bank reserves rather than controlling interest rates has precipitated an interuption in the strong growth of the real estate market. Indeed, Fed Chairman Paul Volcker's antidote for burgeoning inflation has led to a slow down in the real estate industry which is inextricably linked to the health of the title industry.

"Because inflation is generally viewed as the number one problem facing the economy today, it is also the major threat to the real estate industry."

The long-run prognosis, however, is hopeful. The Fed's policy is a first step towards actually improving that market by helping to eliminate the boom and bust pattern that has plagued it for years.

The cycle of the real estate market does not operate independently of the overall economic cycle. In fact, the underpinning of a healthy real estate market is a strong economy. The two are so closely related that in general, periods of growth or contraction in the real estate market mirror expansion and recession in the economy.

This relationship is illustrated in Figure 1 which graphs housing starts—a good indicator of housing market activity—and real GNP growth. It is clear from Figure 1 that the relationship between starts and real GNP change is positive and strong. As the economy expands, housing starts increase. In periods of economic decline, housing starts decrease. This same relationship, though lagged and less tight, exists between real GNP and new commercial and industrial construction.

Because inflation is generally viewed as the number one problem facing the economy today, it is also the major threat to the real estate industry.

Inflation and the Boom

It is true that at first glance and in the short run, the high rate of inflation of the past three years with its deleterious effects on the economy, did not harm the real estate market. Some observers even argue that the real estate industry is boosted by periods of high inflation. They argue that as high inflation continues, the escalating costs of housing, which dampens demand, is more than offset by two factors.

First, if high inflation continues, buyers look upon housing not just for personal value but as a hedge against inflation. People can do only two things with their money. They can spend it or they can save it.

In times of high inflation, most savings options open to the average person result in a negative real rate of return. Savings accounts at the bank, savings and loan institution or credit union pay interest rates far below the current rate of inflation. Although certificates of deposit pay higher interest, they still pay a negative real return and lock in a person's savings for a longer length of time. Money market certificates, which have a real return approaching zero, have minimum deposit requirements which exclude many savers from this option.

In the face of such bleak prospects for real rates of return on money saved and with the expectation of continuing high inflation, people therefore save less of their income, especially in financial assets, than they would in less inflationary times. Instead, they will consume more, borrow more and tend to shift money into real assets such as houses, gold or antiques.

Second, inflation, when combined with the progressive tax code, erodes real spendable income even farther.

If inflation is running at eight percent and a beneficent employer gives his employees an eight percent pay increase to offset inflation, on the face of it, they should be in good financial shape. But, things are not always what they appear to be.

The eight percent pay increase is taxed. In fact, it is taxed at a very high rate because it is an addition to income. A taxable income of $18,000 has a marginal tax rate of 24 percent. Therefore, after a pay raise of eight percent, the net after-tax raise is a good deal less than the rate of inflation. The employee still has not caught up with inflation.

Because of this feature in the progressive tax code, deductions from income are important and almost cherished.

Combining these two factors, in times of high inflation and inflationary expectations, the rational person will look for an investment that is not eroded by inflation but instead, actually out-performs inflation. This investment should provide a tax shelter for some portion of income. Obviously, there is no investment open to the majority of Americans that fits the bill better than a real estate purchase.

Therefore, in the short run, while inflation is just starting to pick up steam and the economy continues to grow at acceptable rates, inflation may offer

Mr. Policinski is an economist with the Joint Economic Committee of the U.S. Congress.

some strength to the housing market. However, as inflation grows, its effects are sure to slowly and eventually decrease economic activity.

Inflation and the Bust

There is obviously merit in the argument that inflation has improved, on balance, the real estate market. This is clear from the strong performance of the market even though in recent years the economy has suffered from an all-time low savings rate and inflation-induced taxes, which have reached a staggering rate. In 1979 alone, inflation-induced taxes totalled approximately $17 billion.[1]

". . . in the short run, while inflation is just starting to pick up steam and the economy continues to grow at acceptable rates, inflation may offer some strength to the housing market. However, as inflation grows, its effects are sure to slowly and eventually decrease economic activity."

The very data that supports the theory that recent inflation has benefitted the real estate industry now spells an impending downturn in the housing cycle because of inflation.[2]

One of the data that supports the two conflicting theories of inflation's effect on the real estate market is reduced savings.

As previously stated, high inflation and expectations of continued inflation reduce the return to savings and, consequently, people are willing to save a smaller portion of their income than they normally would. Statistics on household savings over the inflationary period of 1977-79 bear this out.

Before inflation reached double-digit levels, the savings rate of households was between six and seven percent. Then, in 1977 and 1978—the years in which inflation started its upswing and the public first perceived it to be out of control—the rate fell to 4.9 percent. By the end of 1979, the adjusted annual rate registered 3.7 percent in October and 3.3 percent in November, marking a near record low for personal savings.

The amount of saving done in an economy has a direct impact on both the demand and supply of real estate ventures—most particularly in the housing market.

On the demand side, people generally want to save some portion of their income as protection against financial distress. The low savings rates show that the public may have reached or, might soon reach, the position where they will be unwilling to devote more of their income to consumption. Consequently, they will be less willing to assume higher mortgage payments caused by escalating housing prices. High inflation finally will have taken its toll on people's willingness to purchase mortgages and the demand for housing will fall.

In addition, there is a crucial relationship between national savings and interest rates. Only that portion of the nation's income that is saved can be used for investment and by the government to cover its deficit. As that portion decreases, so do funds available to the investment sector.

The law of supply and demand mandates that if the quantity supplied of an item decreases, then the price for that item increases. Therefore, as the supply of savings, or loanable funds, shrinks, the price, or the interest rate, increases. As interest rates rise, so do home mortgage costs. Eventually, the potential buyer will be unable to afford the mortgage payment.

Furthermore, as interest rates rise, savers tend to withdraw their money from ordinary passbook accounts, which legal ceilings on interest rates make uncompetitive with U.S. Treasury Bills. Thus, the ill effects of the nationwide reduction in savings are compounded for the housing industry, as whatever saving is still being done tends to shift away from mortgage-oriented financial institutions. Fortunately, this time around, the new money market certificates have prevented some of this shifting.

Interest rate increases also negatively affect the home builder who must finance his construction costs. He will reach a point at which he cannot afford the high interest payments to carry his loan until the home is sold. The supply of new housing consequently will fall.

Another way that inflation has brought an end to the real estate boom is with its effect on income. Obviously, inflation reduces real income. In addition, it combines with the progressive tax code to increase taxes. Consequently, inflation reduces real spendable income (income adjusted for inflation after tax). Under these circumstances, people simply do not have as much money on which to live and the demand for mortgages falls.

Clearly, inflation is not merely an economic term that only affects government statistics. It affects every decision made by producers, consumers, savers and lenders. It affects the behavior of individuals in the economy. And, its perverse effects have led us to another recession.

The inflation rate has almost tripled in the past three years. The 1979 rate of 13 percent was the highest in 30 years. Income is eroded, taxes are increased, profits are overstated and therefore overtaxed, new productive investment is slowed and personal savings is at a record low.

The effect of these inflation-induced problems on the overall economy are: Unemployment at six percent as we *enter* a recession, slow or nonexistent real economic growth for the decade, the weakest dollar in our history, productivity growth at zero, ballooning trade deficits and a loss of American prestige around the world.

If the real estate market is to flourish, it must be supported by a strong economy. If inflation is the number one problem in the economy, then inflation is also the greatest threat to the real estate market.

"The overriding point of the Volcker plan is to slow the rate of money creation in order to slow inflation. Interest rates are high not because money is tight but rather because inflation is high and expectations are that it will remain high."

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[1] *The Joint Committee on Taxation estimate.*

[2] *The downturn will not be as severe as that which occurred during the last recession when housing starts fell from 2.4 million in 1972 to 1.2 million in 1975—a 50 percent decrease. Reasons for the moderation of the expected decline are the introduction of money market certificates which have kept funds in mortgage lending institutions, the milder recession, a better housing inventory balance, and innovations in mortgage-backed instruments. However, many forecasters still see housing starts in the 1.3 to 1.5 million range for 1980.*

Volckernomics

It is clear that Volcker took the October 6 initiative in order to fight inflation. There are essentially four points to the Volcker monetary plan—all of which are directed towards reducing inflation. They are:

- The rate of money creation will gradually be slowed over time (this actually was a reaffirmation of an established policy.)
- The discount rate was increased by one percent.
- An eight percent set-aside was established on Eurodollars.
- The Fed would no longer concern itself with manipulating interest rates, but instead target its actions to the growth in the money supply.

Immediately after Volcker unveiled his arsenal against inflation, the press predicted dire consequences such as a credit crunch, a drop in the real estate market, a longer recession and a stock market drop. The reason behind these dire prognostications was essentially that interest rates would be increased.

Fundamental to comprehending the total effect of the Volcker plan is an understanding of what determines the rate of interest. Essentially there are two costs that combine to make up the market or "nominal" interest rate. These are the real cost plus the inflation cost.

Relatively speaking, a large supply of money will mean a lower real cost. The inflation cost is determined by the anticipated loss in value of loaned money based on inflationary expectations over a period of time.

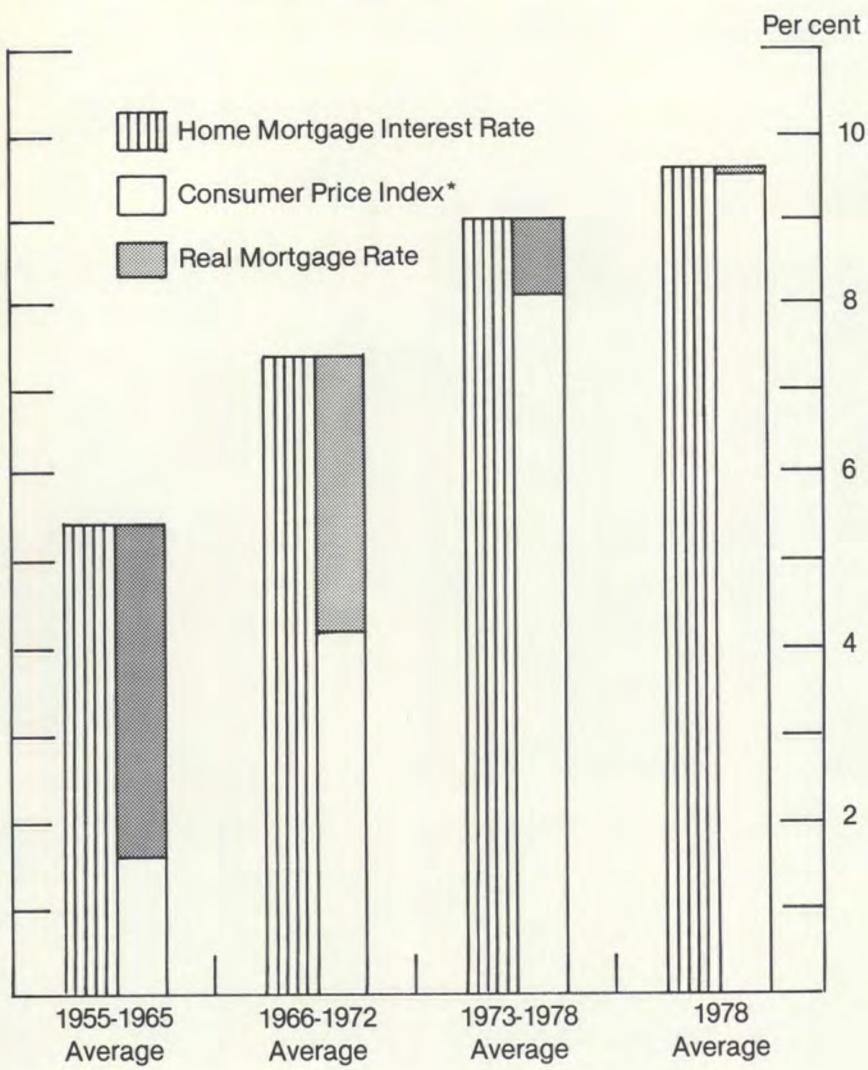
Volcker's actions acted in opposite ways on these two determinants. By increasing the discount rate and establishing a reserve requirement on Eurodollars, the real cost of borrowing was *raised*. Because inflation and expectations of continued inflation will not and cannot improve in the short run—three to six months—the nominal cost of interest rose the same. Therefore, interest rates increased because the Fed's actions increased the real rate of interest. This is what caused the initial increase in interest rates.

However, in the long run—a year and out—if the Fed sticks to its policy of gradually slowing the rate of money creation, the expected inflation rate and the inflation component of interest rates will fall because the basic cause of inflation is excessive money creation. It is the additional creation of money in excess of economic growth that causes inflation. This excess money creation leads to the classic example of too much money chasing too few goods.

The overriding point of the Volcker plan is to slow the rate of money creation in order to slow inflation. Interest rates are high not because money is tight but rather because inflation is high and expectations are that it will remain high.

A study of the real interest rate, the inflation rate and the mortgage interest rate over the last 25 years provides a clear example of why inflation, not tight money, is behind today's high interest rate.

FIGURE 2
HOME MORTGAGE INTEREST RATE AND INFLATION



*Annual rate of change.

Source: Federal Reserve Board

Figure 2 shows what portion of the mortgage interest rate was due to inflation between 1955 and 1978. In the ten-year period of 1955-65, the real rate of interest was about three percent. In general, this normally is the real rate of interest. Then, as interest rates rose over 1965-78, the real rate of interest declined, thus the inflation component of the nominal rate of interest became dominant.

The nominal rate of interest rose because of the money that was created to pay for the Vietnam War, the Great Society programs and escalating government programs to fight unemployment in the 1970s.

This acceleration in the money supply

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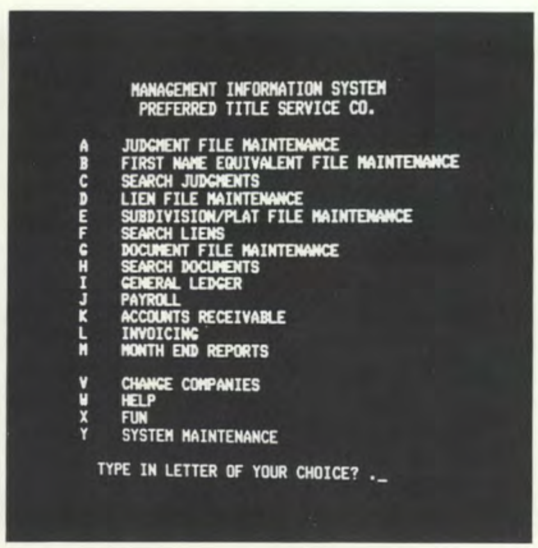

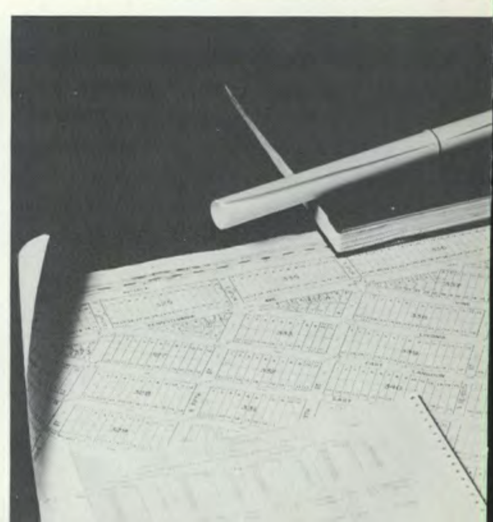

"The amount of saving done in an economy has a direct impact on both the demand and supply of real estate ventures—most particularly in the housing market."

was coupled with the deceleration of the average rate of growth in the economy. The result is that the rate of inflation rose to unheard of heights. It is clear from the chart that in 1978 the mortgage interest rate was almost entirely made up of the inflation premium.

Two additional points must be noted about the Volcker plan. First, it is important to note that it calls for a gradual reduction in the rate of money supply growth. The reduction in the rate of growth must be gradual to prevent throwing the economy into a prolonged recession.

Second, Volcker also seeks to constrain U.S. banks from borrowing Eurodollars—dollars on deposits in foreign banks, especially in Europe—for relending to customers in the U.S. The effect of these borrowings is to remove control of the money supply from the Federal Reserve, therefore bypassing Fed efforts to conduct monetary policy.

The eight percent reserve requirement will increase the cost of using these funds, thereby allowing the Fed more control over the money supply. This will increase the effectiveness of the Fed's anti-inflation policies.

Will Volckernomics Succeed?

Gradually reducing the money supply is not entirely an innovative way of fighting inflation. One of Volcker's predecessors, Arthur Burns, tried the same policies with little success. External shocks to the system such as the Arab Oil Embargo of 1973 and the serious recession of 1973-75, forced the Fed to change its tack. The result has been the ever-increasing rate of inflation and the continued boom and bust pattern in the real estate market.

Although the highly unstable situation in the Middle East and the coming recession may force Volcker away from his plan, some things are working in his favor.

Americans increasingly demand that Congress be more responsible in its spending of their money. If Congress can succeed at bringing spending under control, then the Fed will feel less pressure to cover deficits by printing money.

There also is a growing recognition that savings is a crucial element in our economy. The greater the amount of savings done in the economy, the more funds that are available for investment and the less pressure there is on the Fed to create money.

"The inflation rate has almost tripled in the past three years. The 1979 rate of 13 percent was the highest in 30 years."

Finally, there is the simple fact that Volcker has turned the Fed around to concentrate on the money supply rather than interest rates in its handling of the economy. This shows that Volcker may be a shade more committed to seeing through his policy of gradual reduction in the money supply.

If Volcker's policy is given a chance by Congress and international developments, it will be a first step in a successful initiative to fight inflation, which has been the chief cause of the boom and bust pattern in the real estate market in recent years.

Housing the Decade of the 1980s

by Michael Sumichrast and Ronald G. Shafer

To many homeowners—and especially home buyers—today's spiraling home prices are unbelievable. "Can prices possibly continue to rise?" they ask.

The answer, according to most experts, is that they can and they will. Barring such cataclysmic developments as a depression or a war—or an end to inflation—here is the outlook:

• The rapid rise in housing prices will slow in the early 1980s and then pick up steam again, increasing steadily through the rest of the decade.

"The 1980-1981 period shows a degree of moderation, to be followed by rapid increases in prices through 1984."

• The median price of a new home should reach $100,000 nationwide sometime in the 1984-85 period. By 1989, the median price will climb to more than $156,000, up 146 percent from $63,750 in 1979.

• The median price of existing homes will reach $100,000 in about 1986 and near the $140,000 mark by 1989—up more than 140 percent from the 1969 median price of $58,000.

• Mortgage rates—and here is some good news—should peak in 1980 at between an average 12 percent and 12.5 percent and then gradually decline. Mortgage rates, however, probably will hover just above or just below 10 percent for most of the decade. But rates may dip below 9 percent once more late in the 1980s when housing sales are expected to reach record highs.

• Housing starts will average close to 2 million units per year, a feat never before accomplished. In the 1980s, a record 19.3 million new homes are expected to be built in the U.S., up 10 percent from 17.6 million in the 1970s. (See Table 1.) Of the 1980s total, a record 14.8 million, or 77 percent, will be single family houses. (See Table 2.) Production of condominiums and townhouses also will increase sharply.

• Sales of existing homes will rise to record levels in the 1980s. By 1989, annual sales will hit 7.2 million, nearly double the record 3.8 million sales of 1979.

The Facts Behind the Figures

The basic factors that sent home prices soaring in the 1970s will accelerate in the 1980s. It clearly will be a decade of homeownership, for the following reasons:

• Booming Demand: The millions of people who were born in the post World War II baby boom are coming of home-buying age. They will continue to buy homes as they upgrade their living standards. Thus, they can be expected to boost housing demand until well into the 1990s.

Other demographic factors will fuel the demand as well. One of the most important findings of housing researchers is that the U.S. Bureau of Census grossly underestimated the number of new households that will form through the 1980s because they underestimated the number of single individuals who will form households.

All of a sudden we have discovered there are a great number of single individuals acting as households and, as we have shown, more and more of them are buying homes. This swelling singles group includes young people who increasingly are marrying at an older age, divorced people and widowed people. Also, a new blip is turning up on the household radar screen—single people of opposite sexes who are living together, a group that lenders call "single-couples."

The traditional husband-wife type of households accounted for less than 30 percent of the increase in households be-

Table 1
TOTAL HOUSING STARTS BY DECADE
1950-1990

Decade	Total Housing Starts	% Change
1940-50	7,153,000	
1950-60	14,666,000	+ 105.0
1960-70	14,065,000	− 4.1
1970-80	17,631,000	+ 25.4
1980-90	19,300,000	+ 9.7

This article is an excerpted chapter from the revised third edition of The Complete Book of Home Buying *by Michael Sumichrast, chief economist, National Association of Home Builders, and Ronald G. Shafer, a feature editor,* The Wall Street Journal. *It is reprinted with permission of Dow Jones & Company, Inc.,* The Complete Book of Home Buying, *© 1980. All rights reserved. The book is available at bookstores or through Dow Jones Books, P.O. Box 455, Chicopee, Mass. 01021.*

Table 2
SINGLE FAMILY STARTS BY DECADE
1050-1990

Decade	Total Number of Single Family Units	% Change
1940-50	6,272,000	
1950-60	12,867,000	+105.1
1960-70	9,230,000	− 28.3
1970-80	11,420,000	+ 23.7
1980-90e	14,821,000	+ 29.6

e = estimate

tween 1970 and 1975. In the past, married couples accounted for the increase in households.

• The Attitude that Housing Is an Investment: The gradual transformation of homeownership from a predominately shelter concept to one of investment due to escalating real estate values adds to housing demand. So does the need to obtain tax shelters as inflation drives up incomes. Compared to renting, especially during times of high inflation, owning will look increasingly advantageous.

• Disappearing Lending Taboos: It is becoming easier for minorities, women and single persons to qualify for mortgage credit. Past lending carriers are coming down, and this widens the market base. Another factor is that lenders are taking a more liberal view of a spouse's income in calculating the earning power of home buyers.

"One of the most important findings of housing researchers is that the U.S. Bureau of Census grossly underestimated the number of new households that will form through the 1980s because they underestimated the number of single individuals who will form households."

• New Kinds of Mortgages: Innovative mortgage instruments, such as graduated-payment mortgages, also broaden the home-buying base by reducing initial mortgage payments.

• Wider Homeownership Choices: The condominium concept spreads the appeal of homeownership to traditional rental circles. Condominiums, townhouses and cooperatives are especially appealing to the young and older households, the mainstay of the rental market. They permit owners to reap the benefits of homeownership without being overcome with ownership chores.

Inflation and Housing

Another factor in the housing market of tomorrow will continue to be inflation. There is little chance that the rate of inflation will drop to the one percent and two percent annual rises we had during the Truman and Eisenhower administrations. But inflation should tail off from the double-digit rates of 1979 and 1980 to as low as a 5.2 percent annual rate towards the end of the 1980s.

The cost of building a home is inevitably going to go up—probably to about $82 a square foot by 1990 from nearly $40 in 1979—because all the materials that go into construction will cost more. In fact, some home-building costs are likely to increase more than the overall inflation rate. For one reason, many of the materials used to build houses require great amounts of energy to produce, and energy costs are certain to climb sharply. In addition, local governments are constantly adding new requirements that make new homes more expensive. New environmental requirements will continue to push up the prices of land, and so will efforts to curb growth in some areas. Since they aren't making any more land, land costs will continue to climb anyway.

Inflation also will boost the prices of existing homes as well. And if local requirements limit new construction in some areas, that will limit the supply of homes in those areas at a time when demand is booming thus pushing up prices for existing homes. In any case, prices of used homes in prime locations will shoot up faster than new-home prices.

Of course, we all would be better off if both inflation and home prices didn't keep going up so much so fast. Inflation, by eroding the value of our money, is a great danger to our standard of living and to our economic system. If the United States succeeds in slowing inflation, income and prices should rise more slowly. Housing prices also wouldn't go up so fast. But this is all relative. The relation between income and home prices would be about the same as it is today. What would happen would be that we would have a great deal more stability, and we would be better able to figure out what's coming than we can today.

In any case, the outlook is that home prices, on average, will continue to go up faster than the rate of inflation. While year-to-year price changes vary, it appears that, on average, single-family homes will continue to increase in value by 10 percent to 15 percent a year.

". . . the outlook is that home prices, on average, will continue to go up faster than the rate of inflation."

The Question of Affordability

A key factor in the housing equation, of course, is whether consumers can afford to buy increasingly costlier homes. If prices get out of reach for large numbers of buyers, then demand could slacken and prices would either rise at a slower pace or even drop. That could happen in some places, but don't count on it. Despite the soaring prices in the 1970s, home sales were higher than ever. That is likely to continue in the 1980s.

How can that be? For one reason, two-thirds of U.S. households already own a home, and they can use the profits from one home to buy another. In addition, average family incomes will continue to increase in the 1980s, probably at a slightly faster pace than the rate of inflation. There will continue to be more two-income families who can afford to make their housing dreams come true. And those baby-boom children reaching the prime home-buying age will be upwardly mobile. They can expect their incomes to rise and, with the trend toward smaller families, they will be able to spend more of their incomes for housing.

While it is of little consolation to today's home buyers, incomes generally have nearly kept pace with rising home prices. Back in 1960 the median new-home price was only $16,650. But the median family income was only $5,620. By 1978, the median new-home price had jumped 235 percent to $55,700; the med-

(continued on page 15)

Image Offers Income Protection

Every hour, 56 workers nationwide suffer disabilities that will prevent them from being able to work for at least three months. Of these, 34 will still be disabled after six months and 21 will be unable to return to work for at least a year, according to the Bureau of Labor Statistics and the Society of Actuaries.

Because employee disabilities drain a firm's profits, employers find themselves in the uncomfortable position of having to decide whether to continue supporting a non-productive disabled employee as well as his replacement, or protect company profits by termination when he most needs income. Of course, if the boss is disabled, the future of the entire firm can be in jeopardy.

Since 1972, the ALTA Group Insurance Trust has sponsored the IMAGE program, an income protection insurance plan designed to eliminate these problems. Available to ALTA member firms at group rates, IMAGE transfers the financial responsibility for a disabled employee to the insurance company, freeing company profits for productive use.

With a maximum benefit of $1,000 per month, IMAGE can be used to insure up to 50 percent of regular monthly earnings. IMAGE pays up to age 65 for disability caused by an injury; for illness it pays for up to five years or to age 65, whichever comes first. After age 65, benefits are provided on a more limited basis up to age 70.

The IMAGE plan gives member firms the kind of protection they need—income protection for the employer and employees and resulting profit protection.

Information on the IMAGE income protection insurance plan is being mailed to ALTA member firms. Further details may be obtained by contacting Vickilynn Buckley at ALTA's Group Insurance Trust office, 209 S. LaSalle St., Chicago, Ill. 60604 or by calling collect (312) 346-1221.

Anybody for Deficits?

"Recessions justify deficits to get the economy moving again; recoveries justify deficits to keep recoveries going; good times justify deficits to ward off the downturn that is predicted to be around the corner. Signs can be found upon which to predict a recession."—Economist Paul Craig Roberts.

Housing—(*from page 13*)
ian income had gone up 214 percent to $17,640. Similar ratios hold true for existing homes.

In relation to income, home prices are slightly higher than in 1960 and far cheaper than before 1940. (See Table 3.)

If incomes continue to rise as expected, this will be enough to make housing at projected prices attractive. But rising homeownership costs, energy costs and other expenses will squeeze family budgets even more in the 1980s. The question is whether people's disposable income—how much they have left after taxes—will be sufficient to offset these sharp increases. Even if we assume that gross incomes will be able to keep up with the prices of goods and services the more fundamental question is whether "real" incomes, adjusted for inflation, will.

"The second question is whether or not we will be able to stop the government from taking a larger and larger share of our disposable incomes in the future. If not, then we as a society are facing a major housing problem."

For the United States the 1980s will be a decade of austere re-examination of many of the values and needs of a maturing industrial society. This will be the result of several major factors: One is the lack of long-term capital investment in the past 20 years to rejuvenate our productive industrial capacity; the second is the need to redirect our national resources to alternative energy programs.

Gasoline costs are expected to rise to $3-4 a gallon. At such levels, we will clearly have to sacrifice many things that we now take for granted and shift our resources to pay for heating, cooling, electricity and transportation.

That reassessment will include home buying. Yet despite difficulties, especially for first-time buyers, the outlook for homeownership remains bright.

The Housing Crystal Ball

Looking into the housing crystal ball, here is how the future of housing looks:

- Homeownership will continue to increase. The desire to own a home will not fade. By 1990, about 69 percent of all households will own their own homes, up from about 65 percent in 1980.
- Single-family houses will continue to appreciate at a faster clip than other types of housing. It is quite possible that current spread between the prices of new and existing homes will narrow in some areas—currently existing homes are, on average, about 20 percent cheaper than new homes. But if construction is restrained by cost, or environmental or political reasons, used-home prices will move closer to new-home prices.
- Tomorrow's houses won't be much different than today's in materials and styling. They will probably be slightly larger, but we have about reached the peak size for median living area. With the trend to smaller families, more space won't be needed.
- Homes located close to major cities will be in growing demand. This is because of the increasing costs for fuel and energy for transportation, plus the desire to live close to work and urban entertainment.
- Condominiums and townhouses will become an increasingly important part of the housing market. They will provide an affordable housing alternative for many of the surging numbers of young people entering the housing market. They also will benefit from a move to denser housing to save energy. Production is projected to add 175,000 to 200,000 units annually in the 1980s. Of those, about 35 percent will be conversions from rental units.

"Another factor in the housing market of tomorrow will continue to be inflation. There is little chance that the rate of inflation will drop to the one percent and two percent annual rises we had during the Truman and Eisenhower administrations."

- Mobile homes will grow in popularity. By the late 1980s annual production should be rolling at around 350,000 units. The main attraction, of course, will be low prices. The trend toward increasing prices on used mobile homes is expected to continue in the 1980s—making mobile homes more attractive to more people.
- Privately built rental apartments will continue to face major problems. These problems range from a lack of economic feasibility—rents aren't high enough to attract builders—to stormy landlord-tenant relations. Because of such problems, privately built rental apartments will decline in actual numbers, apartments will become scarcer and rents will go up more sharply than they did in the 1970s.

Renting will become more and more expensive as we progress in the decade and the advantages of homeownership—even without considering the tax benefits—will increase. This will create a serious national problem. It also will raise the question of fairness of the tax benefits for one type of housing accomodation to another.

- The financing of homes will be expanded to include more types of mortgages and sources of money. A variety of mortgage instruments with changeable

Table 3
NEW-HOME PRICES AND INCOME

Year	Median Price	Median Family Income	Price-to-Income Ratio
1900	$ 4,881	$ 490	9.9
1940	6,558	1,300	5.0
1960	16,652	5,620	2.9
1978	55,700	17,640	3.2

Sources: National Association of Home Builders and U.S. Census Bureau

Housing, Recession and 1980

by Thomas R. Harter

There is a certain amount of relief in being in a recession. At least now we can look forward to a renewed economic expansion. Before, everyone was preoccupied with the late-arriving recession. Unfortunately, the expansion's arrival, in any readily discernable form, may be as elusive as the recession itself.

"Overall, non-residential construction values in 1980 are likely to be higher than in 1979. While this reflects a substantial inflationary gain, it also reflects some increase in the real level of activity."

This mild recession will probably be followed by an equally mild expansion; many of the negative factors dragging on the economy are either sufficiently exogenous, such as OPEC-induced inflationary pressures, or are firmly esconced, like government regulations, and will continue to adversely affect the economy, in general, and the housing market, in particular, long after the economy bottoms out and the expansion resumes.

While housing retained some degree of strength through January of this year because of prior commitments, factors such as growing unemployment, sagging income, and sizeable debt promise to humble the high-buying spirits of most consumers, will, in turn, also humble the housing market—at least for awhile.

Inflation, which has had an important psychological impact on consumption and investment throughout the 1970s, should continue as the major economic problem of 1980. The rate of price increases, however, should slow from 1979's levels. The consumer price index, which has risen at an annual rate of more than 13 percent during much of 1979, should increase at a rate closer to 10 percent during 1980. The improvement in the rate of inflation will result mainly from an expected slowdown in the level of economic activity, in general, and in the residential real estate market, in particular.

The great unknown in this forecast is the likely action of OPEC with regard to oil prices and the continued inflationary pressure those price increases will cause. Even the Fed's seemingly successful crusade to tighten money availability cannot solve inflation problems that are related to prices set by an international cartel. We are likely to face the doubly dismal prospect of significantly reduced economic activity while inflation continues at, or near, double-digit levels.

Economic activity will be reduced substantially in 1980. Real economic growth, as measured by the gross national product (GNP), should be close to zero percent. This full-year average hides the likely occurrence of two consecutive quarters of negative real growth in the first half of 1980, which will be offset by a slow resumption of real growth in the second half.

The zero percent real economic growth means that the monetary value of all goods and services will grow only because of price increases. There will be no growth in the physical level of goods and services produced. This phenomenon is easily seen in the residential construction area. Housing starts during 1980 are expected to total only 1.5 million units, compared with the 1979 level of 1.75 million. Such a decline in housing starts represents a 14 percent drop in the level of physical activity. At the same time, the dollar value of new residential construction is expected to fall only about 4 percent, as the average house price climbs 10 percent relative to 1979's level.

The unemployment rate should make some real progress toward seven percent after mid-year as production slowdowns and curtailments give rise to growing layoffs and as the absorption of new entrants and reentrants into the work force slows. Do not be too surprised if the unemployment rate approaches eight percent as a general economic expansion resumes; residual employment strength in the service industries will yield to heavy layoffs likely throughout the auto, steel, construction, and other manufacturing industries. With this dimming employment picture will come a slowing, and perhaps an actual decline, in personal income. Real income, which has already been on a lengthy decline, will continue to fall for several more months before recovering as inflation is slowed.

Consumer spending will reflect this protracted income slump, as the abundant levels of consumer installment debt become more and more of a drag on consumers' diminishing real incomes. Look for rising delinquencies in the installment credit area, but not nearly so much

Dr. Harter is vice president and chief economist, Mortgage Bankers Association of America, Washington, D.C.

for mortgages. People, for the most part, know where their financial priorities lie. In recent years, this has been in their house equity.

The weakening stance of the consumer will also be reflected in the housing and mortgage markets, but perhaps less than might traditionally be expected. Sales of new and existing housing may be off 15 to 20 percent from 1979's levels, as interest rates, in general, maintain a relatively high level. These rates will contribute to some degree of disintermediation and to the further suspension of both marginal and interest-sensitive buyers from the market.

"The low point for residential construction is most likely to occur in March and April. For 1980, the level of housing starts is expected to fall between 1.4 million and 1.5 million units."

While housing starts have continued in excess of 1.7 million units in recent months, such a level of production is not likely to continue as sales volumes fall. Forward commitments to builders should, however, allow starts to remain at relatively high levels through January. However, after January, we should expect a significant decline in new housing construction with the annual rate of starts falling to 1.3 million by February 1980. The low point for residential construction is most likely to occur in March and April. For 1980, the level of housing starts is expected to fall between 1.4 million and 1.5 million units. However, with the strong likelihood of some type of special assistance program for home financing, the starts volume could reach 1.6 million units during 1980.

While the 25 percent drop expected in the level of housing construction between 1980 and peak-year 1978 is alarming, it becomes less so when compared to the 1974-75 housing bust, which saw construction activity fall between 50 and 60 percent.

Following the general economic trend, as well as the housing market, nonresidential activity is also likely to suffer a slight setback during 1980. Retail space construction will slow during 1980 as residential activity falls; however, there is still a lot of catch-up to be done in the retail area. The expected decline in retail sales will, however, cause some curtailment in the construction of new retail facilities. Similarly, warehouse facilities are also likely to see reduced activity as inventory levels stabilize.

Industrial real estate activity will also be reduced although not as extensively as in previous recessions. Inventory levels have remained in line with sales volumes and, thus, the inventory excesses of the previous recession do not exist today. Because of the relatively good inventory to sales relationships, goods for sale will be more closely related to current production and capacity utilization will not fall to as low a level as would otherwise be the case. With higher capacity utilization, industrial expansion will not slow as much as it would with inventory excesses, as was the case in the 1974-75 recession.

The real boom area in the non-residential markets lies in the area of office buildings. The postwar baby boom that has spawned the strong residential demand has also given rise to a tremendous demand for office space. The explosion of white-collar workers demand housing on-the-job, as well as for households. Activity in office space is not likely to decline, but rather will continue to expand although at a reduced rate of growth.

Overall, non-residential construction values in 1980 are likely to be higher than in 1979. While this reflects a substantial inflationary gain, it also reflects some increase in the real level of activity.

Even with this outlook of declining real residential construction and moderating real non-residential construction activity, mortgage bankers will not see much of a retreat in loan volumes from 1979's record levels. In 1979, long-term mortgage loans originated by mortgage bankers totaled between $50 and $54 billion. This represents $43 to $45 billion in 1- to 4-unit residential loans and $7 to $9 billion in income property loans. On a volume basis, 1979 was a record year for mortgage bankers. However, the slightly more than 18 percent increase in 1979's origination volumes over those of 1978 is largely the result of substantial gains in loan amounts due to inflation.

Real loan demand in 1980 will experience a decline for mortgage bankers, as well as other lenders. However, inflationary pressures should keep the dollar volume of activity relatively strong. Origination volumes for 1- to 4-unit residential mortgages should be in the neighborhood of $44 to $46 billion, while income property originations range between $8 and $10 billion. Thus, long-term mortgage originations in 1980 are not likely to be significantly different than achieved in 1979. However, the expectation that 1980's origination volume will approximate that of 1979 is totally based on inflation, as real levels of activity decline.

The lion's share of 1980's weakness will appear in the early part of the year, with the coincident bottoming out of both the economy and the housing markets. However, as 1980 moves into mid-year, things should look considerably brighter: unemployment, after peaking following the economy's trough, will be on its way back down to lower levels; and incomes, real as well as nominal, will move up. Also, the reduced demand for mortgage credit will bring lower mortgage interest rates over the course of 1980. Not only will mortgage rates decline, but so will interest rates in general. A slowdown in real economic activity, together with a slight improvement in the rate of inflation, will result in weaker credit demands throughout the economy. The reduced demand for credit and a slightly lower inflation rate will combine to allow interest rates to fall over the course of the year.

With the return of economic stability and growth will come a return of consumer's high-buying spirits. This is especially true for housing, as recession-induced, pent-up demand is afforded an outlet in the marketplace.

". . . the reduced demand for mortgage credit will bring lower mortgage interest rates over the course of 1980. Not only will mortgage rates decline, but so will interest rates in general."

There is still, and will continue to be for years to come, a very large segment of the population that will pursue housing at every opportunity. The inflation psychology, which has proved a great motivator for house purchases, will not be eliminated by a therapy of mild recession. So, with any respite in mortgage interest rates, improvement in fund flows to lenders and confidence to consumers, one of the consumer's first stops on their return to the marketplace will be the housing market. Thus, the rebound in housing, slated for the last half of this year, may well outpace the slower than normal recovery expected throughout the general economy.

Fed Will Continue Current Monetary Policies

by Paul Volcker

The last time I met with the Washington press *en masse* was on the evening of Oct. 6. At that time, I outlined the elements and objectives of certain policy initiatives adopted by the Federal Reserve that day.[1] Today, the occasion is not so extraordinary. But the time does seem appropriate, three months later, for some accounting of what has—and has not—been accomplished by the measures then undertaken, and how that approach fits into the more general economic and financial landscape.

". . . we know now that overall economic activity held up during the summer and fall, despite pronounced adjustments in the auto and housing industries."

The inflation rate is quite obviously about the same now as in September—nor could we reasonably have anticipated improvement over that relatively short period. Contrary to most expectations, we know now that overall economic activity held up during the summer and fall, despite pronounced adjustments in the auto and housing industries. Nevertheless, the tendency to project declines "next month" or "next quarter" is still evident, and, for all their quality of *deja vu,* these projections reflect realistic awareness of the vulnerabilities built into the economy after one of the longest periods of business expansion on record.

The vulnerabilities, both on the side of inflation and business activity, have now been increased by the economic and financial fallout from the Iranian situation and by the partly related matter of oil pricing and supply. Perhaps it would be more to the point to insist that the economy will remain vulnerable to forces like these so long as we remain so heavily dependent on imported oil, and recent events only underscore the need to come to grips with that problem. The reactions to oil prices and to the events in the Middle East in psychologically sensitive markets for precious metals, and to some extent in markets for other commodities and for foreign exchange, have interrupted the more favorable movements induced by the October actions. They are only the latest illustration of the extent to which we have permitted ourselves to become hostage to our energy dependence.

If I cannot yet record more striking progress in those areas, I can say that looked at from a different focus—that of our immediate objectives in taking the Oct. 6 actions with respect to monetary and credit developments—the overall results have been remarkably in line with intentions. Specifically, there has been a clear and significant moderation in the growth of money and credit. September to December growth in M_1,[2] for instance, has been well within the interim target of 4.5 percent or lower set by the Open Market Committee in October, and virtually all the aggregates have subsided markedly from the excessive pace of the spring and summer.

There may well be an element of coincidence in that performance. We did not believe in October, and I do not believe now, that the new tactics of monetary control are so precise as to avoid some sizable fluctuations on a month-to-month or even a quarter-to-quarter basis. Nor, for that matter, is very short-term precision in regulating the money supply necessarily desirable, given the complexities and uncertainties of domestic and international factors bearing on the demand for money and economic performance.

But, after all the caveats, I cannot help but be encouraged by what has happened on the monetary and financial front. To be sure, there was a period of turmoil and unsettlement as the markets appraised and adjusted to the new approach. Perhaps reactions were exag-

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Mr. Volcker, chairman of the Board of Governors of the Federal Reserve System, made these remarks before the National Press Club in Washington, D.C. on Jan. 2.

[1] *On Oct. 6, 1979, the Federal Reserve Board announced a new effort to restrain the growth of the money supply by controlling the level of bank reserves, rather than by controlling interest rates.*

[2] *M_1 is currency and demand deposits.*

gerated at first, but at least they reflected appreciation of the seriousness with which we approached the problem of containing inflation. Now, banking and financial markets appear to be functioning in an orderly way. Indeed, against the background of the events in the Middle East, it is worth pondering just what the state of financial markets, domestically or internationally, would be today had monetary and credit expansion not been brought under control.

Our policy, taken in a longer perspective, rests on a simple premise—one documented by centuries of experience—that the inflationary process is ultimately related to excessive growth in money and credit. I do not mean to suggest that the relationship is so close, or that economic reality is so simple, that we can simply set a monetary dial and relax. Changes in spending and saving habits, the shifting characteristics of different financial instruments having some of the characteristics of money, and the inflationary process itself, all affect the observed relationship between money and economic activity. The increased openness of our economy in general, and the growth of international financial markets in particular, has long since ended illusions of autonomy in policy. Spending and tax policy, a whole range of government regulatory policies, and the behavioral patterns of business and labor all affect the performance of the economy, and the relationship between money, inflation and economic activity. But, with all the complications, I do believe that moderate, non-inflationary growth in money and credit, sustained over a period of time, is an absolute prerequi-

". . . against the background of the events in the Middle East, it is worth pondering just what the state of financial markets, domestically and internationally, would be today had monetary and credit expansion not been brought under control."

site for dealing with the inflation that has ravaged the dollar, undermined our economic performance and prospects, and disturbed our society itself.

In looking back at events since Oct. 6, I cannot help but be encouraged by the un-

derstanding and broad base of support for our actions that has emerged. In one sense, of course, policies of restraint are never calculated to win popularity contests. All of us would like to see interest rates as low as possible. But what is impressive to me is the growing understanding that the exceptionally high levels of interest rates are ultimately an outgrowth of the inflationary process itself. We are learning that money creation cannot substitute for the productivity, savings, and resources we need to support economic growth but rather, in excess, will only impair prospects for sustained growth. Indeed, I am acutely conscious that the question I receive most frequently is not "Why did you do it?" but rather, "Will the Fed stick with it?"

My own short and simple answer to that question is yes.

I do not intend to qualify that answer.

But I do want to be clear—clear about what the "it" is that we intend to stick with. There are two analytical points that seem to me essential to that understanding.

"It," in the sense of our Oct. 6 actions, is restraint of the money supply, reducing its growth over time toward levels consistent with price stability. There is really nothing new about the concern of monetary policy with the monetary aggregates. What is new is the method we are using to control the rate of monetary growth, which we believe, in present circumstances at least, provides greater assurance that our goals can be reached.

For a number of years, the Federal Reserve developed the practice of focusing attention in its daily operations largely on short-term interest rates, not to the exclusion of concern about the money supply but rather in the expectation that changes in those interest rates would influence the demand of the public for money. However, in recent years, institutional, technological and market forces have rendered the relationship between interest rates and money balances substantially less predictable. Moreover, the significance of a particular level of interest rates is more difficult to interpret during a period of accelerating inflation. Banking and other institutions grew accustomed to only relatively small and predictable policy and interest rate adjustments. Money always seemed available at a price not very far removed from before. As a result, more aggressive lending policies

". . . assuming the downward adjustment in economic activity so widely predicted for 1979 does occur in 1980, historical patterns would suggest some moderation in interest rates would naturally accompany this process."

may have developed—policies that could only be sustained over a long period by accelerating increases in the money supply.

Ultimately the Federal Reserve was not prepared to validate those increases. That was the background for one important element in our Oct. 6 actions. We changed our operating procedures in a manner to emphasize control of the supply of money by means of restraining the volume of reserves available to support deposits in the banking system. In turn, this approach necessarily implies less direct influence over movements of interest rates.

Against the pattern of large credit and money growth in earlier months, the immediate result was sharply higher interest rates and lower stock prices in the weeks immediately after Oct. 6 as institutions, in effect, moved to cut the suit to fit the cloth. In more recent weeks, perhaps partly in reaction to calmer appraisals of the balance of credit demands and supplies, some market interest rates have moved significantly below the earlier peaks. This took place during a period when money growth was comfortably within our intentions. Yet, no sooner did some interest rates fall than questions arose whether the Fed was in some sense backing off.

What should be clear in the context of our new operating procedures is that interest rates can and will respond to credit demands, to economic conditions, and over time to inflationary expectations without any change in the basic thrust of a monetary policy directed toward bringing the growth of money and credit toward sustainable, non-inflationary levels. Indeed, assuming the downward adjustment in economic activity so widely predicted for 1979 does occur in 1980, historical patterns would suggest some moderation in interest rates would naturally accompany this process.

The basic point is that whether, when, and to what extent interest rates move lower will depend basically on market forces as they reflect trends in economic activity, and over time, inflation. If rates do move lower, that eventuality should not be misinterpreted or misconstrued as a weakening of our resolve to contain inflation. Indeed, the prospects for sustaining declines in interest rates beyond any cyclical adjustment will ultimately reflect the success of the fight against inflation. In that context, lower interest rates would not only be appropriate in facilitating recovery, they would be evidence of a healthier economic situation and certainly consistent with a stronger dollar internationally.

Progress in our efforts, I must point out, will not be reflected in the price data for the next few months. Those statistics are bound to reflect cost and price trends already built into the economy, the new oil prices, and not least (in the case of the consumer price index) the higher level of mortgage rates reached in the fall. Lags in turning the price statistics are inevitable. Meanwhile, in judging our policies, our results against our intentions—indeed in judging the prospects for inflation over a period of time—I would urge you to keep at least one good eye on the money supply ball. That is "it."

My second point is an outgrowth of the first. Specifically, if money is "it," we must be able to define and measure it. In a world of rapid financial innovation, ever changing laws and regulations, and heightened interest rate sensitivity by individuals and businesses, there is a widespread consensus that our current statistical measures are not adequate. But capturing the essence of the reality of money in a simple statistic or two in the midst of institutional change is a difficult process; in a sense we have a moving target.

The Federal Reserve has had this matter under study, with the help of outside experts, for some considerable amount of time. We will be prepared to publish new definitions of the monetary aggregates shortly. They may not be the last, for the pace of financial innovation, if anything, seems to be accelerating. We have no choice but to recognize that the Congress has not finally resolved important questions related to A.T.S. and NOW accounts.

All of this will, inevitably, pose problems of communication and understanding. Some of the new Ms may rise more slowly, while others may rise more rapidly, than present measures relative to GNP. We will proceed as carefully and as intelligently as we can in changing definitions and explaining differences. But, in the final analysis, reality is too complicated to pick out a single figure at this single point in time that can fully capture the essence of money and will not behave somewhat differently than the numbers relative to economic activity.

"Progress in our efforts . . . will not be reflected in the price data for the next few months. Those statistics are bound to reflect cost and price trends already built into the economy . . . and . . . the higher level of mortgage rates reached in the fall."

All of this raises the specter of misinterpretation of our actions and objectives. To avoid confusion, we will need the help and understanding of all of you that follow and help interpret the numbers.

Beyond this maze of technical and definitional questions lies the more fundamental question: Is restraint on the money supply really adequate—or for that matter really necessary—to deal with inflation? Theory and experience permit only one answer—it is necessary, and in concept, it can do the job. But the real question, the harder question, is how fast, with what pain, at what cost to other objectives in the short run—and here the answers, as you know, are not so simple. They depend crucially on other forces and other policies—and whether those forces are working at cross purposes or as part of a consistent, coherent pattern.

I have already referred to the disturbances related to energy prices and supplies. What has happened in that area in the past month or two has at best set back the timetable for visible and sustained relief from inflation by a quarter or two, while complicating the process of business adjustment. But predictable effects of that kind would be mild relative to the domestic and international strains implicit in still further spiraling of international oil prices—a process that ironically has seemed to be encouraged not by any current shortage, but by uncoordinated stockpiling out of fear and uncertainty. But therein lies an opportunity—if we only fully seize it. Catalyzing support for the long-term effort toward conservation and developing alternate energy supplies, is one dimension. But even more immediately, no work seems to me more crucial today than the renewed efforts among consuming countries in the International Energy Agency (IEA) and other forums to find coordinated means for relieving market pressures here and now.

Energy is, of course, not the only source of concern. The agenda of needed and possible actions—public and private—to restrain costs, to improve productivity, to shed excessively costly and redundant regulations is as familiar as it is difficult. I will comment on only one element of that long agenda now—the

(continued on page 26)

Names in the News . . .

Fred Fromhold

Marvin New

ALTA officer, **Fred B. Fromhold,** was promoted to chairman of his company, Commonwealth Land Title Insurance Co. President of Commonwealth since 1971, Fromhold will continue responsibilities as chief executive officer.

Fromhold is chairman of the ALTA Title Insurance and Underwriters Section and a member of the Executive Committee. He is a former member of the Association's board of directors.

Fromhold succeeds **Jesse B. Williams** who is retiring after 34 years in the title industry. Williams had been with Commonwealth since it acquired Louisville Title Insurance Co. of which he was president. Williams became Commonwealth's chairman in 1973.

Succeeding Fromhold as president of Commonwealth is **David C. Woodward** who additionally was named chief operating officer. A native of Birmingham, England, Woodward has served as president of Leasco Europa, Ltd., formerly a Reliance Group Subsidiary concerned principally with computer leasing in Western Europe.

Commonwealth also announced that as of January **Marvin H. New** has rejoined the company as vice president for new business development for the company's eastern Pennsylvania operations. New is a member of ALTA's board of governors.

He began his title insurance career with Commonwealth 40 years ago and served in a variety of executive level positions before leaving the company in 1966. Immediately prior to his recent return to Commonwealth, he was an officer of Industrial Valley Title Insurance Co.

Edward E. Millman was appointed assistant controller of Commonwealth. He joined the company in 1979 after serving as assistant controller for Container Transport International, Inc. Millman is a member of the American and Pennsylvania Institutes of Certified Public Accountants.

F. Linton Sloan Jr. was named Commonwealth's assistant counsel for Florida and the Caribbean and will work from the company's Orlando, Fla., office. Also new at the Orlando office are the promotions of **Charles L. Decker** and **Frederic P. McDowell** to assistant vice presidents.

In St. Louis, Mo., **Robert D. Lutz** was named agency and customer service representative for Commonwealth's operations in St. Louis county.

Security Title and Guaranty Co., New York, N.Y., announced the promotion of **Paul Neustadt** to associate general counsel. Neustadt is a vice president of the company.

Robert Lutz

John O'Driscoll

Mel Kensinger was named president of American First Land Title Insurance Co. Kensinger's appointment is in conjunction with the recently approved divestiture/reorganization of First Life Assurance Co., American First Title & Trust Co. and American First Land Title Insurance Co.

Kensinger is a former member of the ALTA Board of Governors. He comes to his new position from Fidelity National Title Insurance Co., Denver, Colo., where he served as senior vice president.

Industrial Valley Title Insurance Co. (IVT), Philadelphia, Pa., announced the promotion of **James J. Norton** to senior title underwriter and director of administration and settlement operations. A senior vice president since 1971, Norton will carry out his duties from the company's main office.

Another new IVT chief officer is **Kenneth M. Revallo** who was appointed treasurer. He has been with the company since 1972 as controller and accounting supervisor. Succeeding him as controller is **George J. Craig.** Craig directs accounting and personnel functions.

Debbie Golkin

Richard Bennett

John J. O'Driscoll was promoted to director of branch operations for IVT. O'Driscoll joined the company in 1967 and has been a senior vice president since 1979.

Francis J. Gross Jr. was appointed director of county and intrastate operations. He manages the county title plant in Norristown and coordinates title commitments throughout Pennsylvania.

The area under Gross's directorship excludes Philadelphia and Delaware county,which is the responsibility of **Anthony R. Angelo,** the new director of plant operations for these areas. Angelo oversees all operations in the searching and production of title certificates on properties in Philadelphia and Delaware counties.

Debbie Golkin joined District-Realty Title Insurance Corp. and will handle new business developments in the District of Columbia.

Richard F. Bennett was appointed senior vice president in charge of operations for Chelsea Title & Guaranty Co., Atlantic City, N.J. Bennett has been in the title insurance industry for over 30 years.

Harry Bernstein

Laurence Calinda

At USLIFE Title Insurance Company of New York, **Harry J. Bernstein** was named counsel of the Floral Park office. Coming to this position with 17 years of experience in real estate law in the title field, Bernstein coordinates USLIFE Title legal and underwriting operations for Nassau County.

Laurence E. Calinda, a vice president of Title Insurance and Trust Co., Los Angeles, Calif., was appointed assistant division manager of the Los Angeles/ Ventura division. He coordinates all internal operations, including the title processing and searching functions.

Randolph Farmer

Carl Hall

Lawyers Title Insurance Corp. announced several promotions of officers in its Richmond, Va., headquarters and a number of appointments and promotions in branch offices.

H. Randolph Farmer was promoted to vice president and director of public relations and advertising. He has served as director of public relations and advertising since 1968 and, prior to this promotion, was assistant vice president. Farmer is a member of the ALTA Public Relations Committee.

Alfred Watterson

Martin Loria

William J. Kelley was promoted to vice president and treasurer. **Forrest N. Parker** and **Venable L. Stern Jr.** were promoted to assistant vice presidents. Parker is a systems administrator and Stern is a methods administrator.

Albert W. Stalnaker III is now assistant vice president—personnel, and **Hugh D. Reams Jr.** is an associate counsel—claims.

Timothy Whitsitt

Milton Zentmyer

News from outside of the Richmond, Va., headquarters includes the election of **Carl B. Hall** as Alabama state manager. Hall has been Lawyers Title's Alabama state counsel since 1969.

Alfred V. Watterson was elected Pennsylvania state counsel. Watterson is a 20-year veteran of the title insurance business, most recently serving as branch counsel for the company's Pittsburgh office.

Martin A. Loria of Boston, Mass., and **Timothy J. Whitsitt** of Bethesda, Md. have been elected branch counsel and assistant branch counsel, respectively.

Milton L. Zentmyer was elected senior title attorney for Lawyers Title's Englewood, Colo. branch office and **Donald R.**

Donald Williams

Michael Cieslak

Williams is the new senior title attorney in the Richmond, Va., branch office.

Seven new branch office managers were elected for locations across the country. The new managers are **John R. Johnson** in Atlanta, Ga.; **Lester G. Peyton** in Cleveland, Ohio; **Theodore P. Gennett** in Atlantic City, N.J.; **Robert D. Dacey** in Burlington, Vt.; **Karen S. Rutherford** in Marion, Ohio; **Deanna L. Allensworth** in Sandusky, Ohio, and **Peter R. Coyle** in Woodbury, N.J.

Louis R. Preveza was elected assistant vice president—sales in the Boston, Mass., office of Lawyers Title, and **Peter W. Keyes** was elected assistant branch manager of the company's Miami, Fla., office.

Chicago Title Insurance Co., Chicago, Ill., announced the promotion of three assistant secretaries and the appointment of an assistant vice president. The three assistant secretaries, **Michael Cieslak** of Chicago, Ill., **Robert Gorman** of Rockford, Ill., and **George Nold** of Belleville, Ill., have been promoted to pricing officer, agency operations officer and title operations officer/assistant secretary, respectively.

Charles Schiereck Jr. was promoted to an assistant vice president of the company and transferred to Waukesha, Wis. from the Milwaukee office. He had been a title operations officer.

Other news of members of the Wisconsin Division of the Chicago Title Insurance Co. includes the promotion of **Richard F. Cimpl, Roland L. Huber, Elizabeth Bierworth** and **Karen A. Sather.** Cimpl, a 30-year veteran of the title insurance industry, was named an assistant vice president and will continue his duties as a customer services officer. Huber was promoted to national account officer, responsible for selling and servicing national accounts. He was formerly a public relations officer. Bierworth is now a title operations officer, moving from the position of supervisor of OPTICOM-systems operations. Sather was appointed to the newly created position of communications coordinator. Formerly a customer services representative, she is now responsible for communications, advertising and marketing staff support services to members of the Wisconsin division.

TA and Trans Announce Accord

T. A. Title Insurance Company of Newton Square, Philadelphia, Pa., entered a reinsurance agreement with Transamerica Title Insurance Co. of San Francisco. Under the new agreement, which is expected to facilitate the growth plans of T. A. Title, Transamerica will act as exclusive reinsurer for high value title insurance policies issued by the Philadelphia company.

According to company President William Cotter, T. A. Title plans to expand operations throughout Pennsylvania and the Delaware Valley. Its agreement with Transamerica will continue over a five-year period.

The exclusive reinsurance agreement represents Transamerica's first extended exposure to eastern title insurance markets.

Lawyers Acquires 2

Lawyers Title Insurance Corp. acquired two title companies which formerly were its agents.

Lake County Title Co. in Painesville, Ohio, is now Lawyers Title's Painesville branch office. Branch manager is Herbert H. Davis Jr. who served as president of the acquired company for 26 years.

The second Lawyers Title acquisition is in Anchorage, Alaska, where the former Lawyers Title Insurance Agency, Inc., is now the company's subsidiary. This acquisition includes Valley Title & Escrow Co. in Palmer, Alaska, and Lawyers Title Company of Oregon in Portland. Both are wholly owned subsidiaries of Lawyers Title Insurance Agency, Inc. The agency's president is Ronald G. Bridge.

Sumichrast—*(from page 15)*

interest rates and geared to different types of buyers will compete with the traditional fixed-rate mortgage. The traditional thrift institutions alone won't be able to supply the large increases that will be needed in mortgage funds and a bigger share of mortgage funds will come from life insurance, pension and retirement funds.

• There are two distinct periods of slow and rapid increases in prices in the 1980s. The 1980-1981 period shows a degree of moderation, to be followed by rapid increases in prices through 1984. In the 1985-87 period, again we will very likely experience moderation to be followed by another round of sharp increases towards the end of the decade.

This is because of slow growth in these two periods with recession slowing prices. Then, as we get out of the recessions, another push in prices is likely to follow.

The median price of a new home should reach $100,000 sometime in 1984-85 period, $125,000 in 1987 and over $150,000 in 1989.

The median price of existing homes should reach $100,000 in 1986, and cross the $136,000 mark in 1989—a 144 percent increase for the 10 year period.

This, of course, would not matter as long as "income" will be sufficient to offset these huge increases. Whether it will is, of course, a question. But even if we assume that incomes will be able to keep up with the prices of all goods and services, the more fundamental question remains whether or not "real" incomes, adjusted for inflation, will.

The second question is whether or not we will be able to stop the government from taking a larger and larger share of our disposable incomes in the future. If not, then we as a society are facing a major housing problem. Fewer and fewer people being able to afford homes—even if their gross income continues to increase.

If we assume, as we did in one of the scenarios run, that "real disposable" per capita income will continue to be positive, rather than negative and will average out for the period at about 1.65 percent annually, then this will be enough to make housing at projected prices attractive unless the real gain is eroded by more taxation.

This item is crucial for the well being of the home building industry. If the current trend toward higher and higher shares of government revenues continues, people will not be able to buy homes.

10 Hottest Housing Spots

Ten areas of the country have been forecast to be the most active housing markets for 1980 in a recent survey by Tiger Investors Mortgage Insurance Co. of Boston, according to the United Press International. The survey bases its prediction on building permits and interviews.

The ten areas are Terre Haute, Ind., with an expected 30 percent increase in housing starts over 1979; Anaheim, Calif., with a 22 percent increase; Wheeling, W.Va., with an 18 percent increase; the Davenport, Iowa, Quad Cities area, with an increase of 16 percent; the Greensborough-Winston-Salem, N.C. area, with an increase of 15 percent; Boise, Idaho, an increase of 15 percent; San Diego, Calif., an increase of 14 percent; Duluth, Minn., an increase of 10 percent, and Philadelphia and St. Louis, each with a 10 percent increase.

The survey also revealed a slight shift in the members of the home buying market. ■

Timber Shortage Carries Dire Implications

An impending lumber shortage in the United States threatens to further boost already rising prices of building a new home in the 1980s, according to Vondal S. Gravlee and Merrill Butler of the National Association of Homebuilders.

In an article appearing in the *National Journal* early this year, Gravlee and Butler, who at the time were 1979 president and president-elect respectively of their trade association, warn that a receding supply of softwood timber promises to pose a major national problem similar to our experiences with fossil fuel shortages. They report an anticipated quadrupling of timber costs over the next decade, such that the cost of lumber for constructing a single house will soar from $9,000 to $36,000.

Gravlee and Butler imply that the trend towards diminishing supplies of softwood timber is reversible and attribute the situation, to some degree, to unwise domestic policies concerning timber production.

They compare the shortage to the pattern of the energy crisis in that oil, a natural resource that the United States once produced self-sufficiently, is now imported in large quantities. In the case of lumber, we have found ourselves considerably dependent upon another foreign supplier—Canada—whose prices are escalating.

To further aggravate the problem, they predict that the demand for timber will rise. "Based on projections that the United States will need about 2.2 million new housing units a year throughout the 1980s . . . total demand for softwood lumber is expected to increase by more than 50 percent by the turn of the century."

The authors proceed to point out that lumber, unlike oil, is a renewable resource, which means that a shortage can be mitigated and escalating prices controlled by replacement.

The causes of the predicted shortage are fourfold. Firstly, the national forests, which contain 51 percent of our standing softwood timber, are not suitably productive. Less than one-fourth of our annual lumber needs are supplied by the national forests. Gravlee and Butler attribute this to the waste resulting from consumption by insects, diseases and fires as well as to inefficient milling and logging procedures.

In the south, large tracts of potentially rich timber-producing land are neglected. An additional cause that the article pinpointed is that much of the land designated for multiple use by Federal Wilderness Review studies, which includes lumber production, is the focus of environmental dispute and therefore not available for timber production at this time.

Secondly, the nation's private forests, although on average more productive than the national forests, have declined in productivity during the last 10 years.

Thirdly, because of current demand for wood in other parts of the world and export tax incentives, U.S. lumber producers find it more profitable to export than to sell to builders here. The United States is the largest exporter of softwood logs in the world.

Meanwhile, this country imports nearly one-third of its needed lumber supply from Canada. "The United States has one of the world's largest supplies of standing softwood saw timber, making our current reliance on Canadian lumber about as logical as having Saudi Arabia import oil to meet its energy needs, or Kansas to import wheat," the authors wrote.

The fourth cause for the diminishing availability of lumber is tied to our dependence on Canada. Canada's supply of accessible lumber is depleting quickly.

The authors believe that certain changes in federal timber policy will alleviate the shortage. These changes which, according to Gravlee and Butler, should be seriously pursued goals, include measures to increase the annual lumber harvest from the national forests, incentives to stimulate timber production on private lands, and removal of export tax incentives for lumber trade.

Volcker—(from page 21)

need for prudence in our fiscal decisions.

I know a strong case can be made for well-structured tax changes—but only at the right time. If we have learned anything in these recent years, I hope we have learned the consequences of undertaking policies that, with the best will in the world, anticipate the worst in terms of the business outlook and weigh lightly in the balance potential inflationary consequences of budget deficits. Most of all, I hope we resist temptations that could arise simply to pump fresh purchasing power into the economy at the first sign of recession. It would forestall altogether subsequent opportunities for a coherent tax reduction program—a program that can be earned by expenditure restraint over time—to help deal with the urgent underlying problems of productivity and costs. The discipline shown by the administration and the Congress in resisting the temptations to move too early on the tax question has been reassuring.

In the final analysis, economic performance is conditioned by the nature of our expectations and our understanding. Over the past decade or more, one expectation that has come to be almost universally shared is that prices would move higher—and so long as that expectation is held it tends to become a self-fulfilling prophecy. Meanwhile, insidiously our real economic performance, in the sense of productivity growth, has deteriorated. The one problem has contributed to the other.

To break that cycle, we need to change expectations. One indispensable element in the process is singularly in the domain of the Federal Reserve—we must have a credible and disciplined monetary policy that is characterized by sustained moderation of growth in money. Alongside that policy we need to understand that real growth will depend on real performance—most of all to promote productivity, savings and investment. When those approaches are built into our expectations and into our decision making, then our present intentions can more easily become tomorrow's realities. We would truly have in place the elements of "sticking with it," not just in 1980, but for many years beyond.

Here We Come 1980

According to the U.S. Census Bureau, the United States starts the decade of the 1980s with an estimated population of 221,895,548.

TIPAC Advisory Trustees Meet

Title Industry Political Action Committee (TIPAC) state advisory trustees met in regional meetings last month in Phoenix, Ariz., and Washington, D.C., to discuss an agenda including the 1980 authorization and solicitation program as well as TIPAC goals. Rep. Morris K. Udall (D-Ariz.) spoke at the Arizona gathering. Rep. Christopher Dodd (D-Conn.), pictured at the podium in the photo above, addressed the Washington meeting. Washington participants were also given a Federal Election Commission update by Harry Diffendal, commission executive assistant. In the photo below, Diffendal (right) confers with TIPAC State Advisory Trustee Richard Flora of Delaware.


Title Data Inc.
Subdivision
Section
Names

Calendar of Meetings

March 9-12
National Association of Corporate Real Estate Executives
Walt Disney World
Orlando, Florida

March 12-14
American Land Title Association
Mid-Winter Conference
Hyatt on Hilton Head
Hilton Head, South Carolina

April 17-20
North Carolina Land Title Association
Sheraton Hotel
Myrtle Beach, North Carolina

April 24-26
Arkansas Land Title Association
Camelot Inn
Little Rock, Arkansas

April 27-29
Iowa Land Title Association
Gateway Convention Center
Ames, Iowa

May 1-3
Oklahoma Land Title Association
Hilton Inn, West
Oklahoma City, Oklahoma

May 1-4
New Mexico Land Title Association
Inn of Mountain Gods
Mescalero, New Mexico

May 8-10
California Land Title Association
Silverado Country Club
Napa Valley
Napa, California

May 8-10
Texas Land Title Association
Hyatt Regency at Reunion
Dallas, Texas

May 15-17
Tennessee Land Title Association
Fairfield Glade
Knoxville, Tennessee

June 1-3
Pennsylvania Land Title Association
Buck Hill Inn
Buck Hill Falls, Pennsylvania

June 8-10
New Jersey Land Title Insurance Association
Seaview Country Club
Absecon, New Jersey

June 13-14
South Dakota Land Title Association
Holiday Inn of the Northern Hills
Spearfish, South Dakota

June 19-21
Land Title Association of Colorado
Wildwood Inn
Snowmass Village, Colorado

June 19-21
New England Land Title Association
New Hampshire

June 26-28
Michigan Land Title Association
Sugar Loaf Mountain Resort
Cedar, Michigan

June 26-28
Oregon Land Title Association
Sun River Lodge
Bend, Oregon

June 27-29
Illinois Land Title Association
Marriott Pavilion Hotel
St. Louis, Missouri

July 10-13
Idaho Land Title Association
Elkhorn at Sun Valley
Sun Valley, Idaho

July 11-12
Utah Land Title Association
Holiday Inn Park City
Park City, Utah

July 17-19
Wyoming Land Title Association
Laramie, Wyoming

July 31-August 6
American Bar Association
Honolulu, Hawaii

August 7-9
Montana Land Title Association
Edgewater Inn
Missoula, Montana

August 14-16
Minnesota Land Title Association
Sunwood Inn
St. Cloud, Minnesota

August 15-16
Kansas Land Title Association
Ramada Inn
Topeka, Kansas

September 6-9
Indiana Land Title Association
Sheraton West Hotel
Indianapolis, Indiana

September 7-9
Ohio Land Title Association
King's Island Inn
Cincinnati, Ohio

September 7-10
New York State Land Title Association
Kutsher's Country Club
Monticello, New York

September 11-13
North Dakota Land Title Association
Holiday Inn
Fargo, North Dakota

September 17-19
Nebraska Land Title Association
Holiday Inn-Old Mill
Omaha, Nebraska

September 17-19
Washington Land Title Association
The Alderbrook Inn
Union, Washington

September 25-26
Wisconsin Land Title Association
Playboy Club
Lake Geneva, Wisconsin

September 26-28
Missouri Land Title Association
Almeda Plaza Hotel
Kansas City, Missouri

October 14-17
American Land Title Association
Honolulu, Hawaii

October 24-26
Palmetto Land Title Association
Myrtle Beach Hilton
Myrtle Beach, South Carolina

October 26-29
Mortgage Bankers Association
San Francisco, California

October 30-31
Land Title Association of Arizona
Westward Look Resort
Tuscon, Arizona

November 5-8
Florida Land Title Association
Don Cesar Hotel
St. Petersburg Beach, Florida

November 7-13
National Association of Realtors
Anaheim, California

November 16-21
U.S. League of Savings Associations
San Francisco, California

December 3
Louisiana Land Title Association
Royal Orleans
New Orleans, Louisiana

American
Land Title
Association

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