

CONFIDENTIAL (FR)

CURRENT ECONOMIC CONDITIONS BY DISTRICT

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SUMMARY

This initial report of economic conditions in the 12 Federal Reserve Districts is based on information gathered from directors of the Reserve Banks, conversations with local bankers, businessmen and economists, regular monthly surveys of manufacturing and trade industries conducted by some of the Reserve Banks, and selected statistical measures of regional economic activity.

Reports from the Reserve Banks clearly indicate that the current overriding domestic concern is inflation. Businessmen contacted generally expect that prices will continue to increase at a rapid rate during the remainder of the year. There appears to be considerable skepticism regarding the ability of economic stabilization policies to achieve a significant reduction in the rate of inflation without generating an intolerable level of unemployment or a full-scale recession. Similarly, there is evidence of extensive concern about the persistence of strong upward wage pressures, despite some easing in labor markets. The wage-push problem is particularly acute in the construction industries. Some of the other major factors that are contributing to an underlying tone of pessimism regarding the business situation are prospects for a continued squeeze on corporate profits, concern about the tight liquidity position of some firms, the recent decline in the stock market, and domestic social unrest.

There appears to be no consensus as to whether the economy is actually in a recession--or when the floor of the current slowdown will be realized. Views range from expectations of a further and deeper deterioration in real economic activity to beliefs that recovery is

already in progress. The trucking strikes and lockouts have seriously disrupted business conditions in some areas, particularly in the Midwest. Several Districts noted that construction projects have been impeded because of steel shortages, and also because of widespread strikes in the building trades unions. There are also signs that some firms are postponing or stretching out capital spending projects where feasible.

FIRST DISTRICT - BOSTON

Discussions Monday (May 18) and last Friday with First District Reserve bank directors and other area business leaders failed to turn up any traces of a crisis mentality in the business community. Those participants, including representatives of banking, retailing, and a wide diversity of manufacturing activities, generally showed a restrained but marked bullishness.

The primary explanation for this outlook was found in the common tendency to focus on a two to three year period for planning purposes, while placing little or no emphasis on the adverse developments which may occur in the next two to three quarters. In short, the businessmen are focusing on the far side of the valley, having already discounted any reasonable downturn which might develop this year.

In support of this psychology, it may be noted that a common remark of both merchants and manufacturers was that volume is holding up well, but profits are off sharply. Nevertheless, no instances were found in which this had yet led to a curtailment of capital expenditure plans for the rest of 1970, and corroborating evidence of this is found in the observation of three different commercial bankers that business loan demand had risen to historic highs in the last week or two at their institutions. They also uniformly noted that current interest rate levels are in no way deterring commercial loan demand.

Very little mention of the depressed state of the stock market was noted among the business leaders contacted, suggesting that they tend to view it as a separate entity, with few potential

"spillover effects" on the course of real economic activity. Nor did the trucking strike elicit much comment as a depressing factor. Apparently, the wholesale and retail sectors have largely escaped any severe effects by means of a greatly increased reliance on the United Parcel Service, and in some instances, parcel post. Among manufacturers, serious truck strike effects seem to be highly spotty. As an example of firms which have been affected, the Cabot Corporation, large supplier of raw materials to the tire industry, reports increasing shipments problems.

The machine tool and producers' durable industries present a mixed picture. The Torrington Corporation, large manufacturer of ball bearings for automotive use, has definitely felt the decline in auto production, but reports that orders in farm equipment and two-cycle engines have risen more than enough to offset it. Layoffs have been negligible, and capital expenditure plans revised only slightly. The Norton Corporation reports a similar situation in its machine tool lines, but notes a definite softening of orders in its industrial abrasives division. On the other hand, Mr. Keyser of our board of directors reports a statewide softening of machine tool activity in Vermont.

The recreation industry in northern New England has experienced record levels of revenues all winter and thus far into the spring, although merchants in these areas as well as on Cape Cod do report some slack in advance bookings for the coming summer.

On the financial side, commercial banks report their deposit situation as largely stable, with no prospects for normal growth in

the near future. Such weakness as was reported seems concentrated in corporate CDs and individual demand deposits. Thrift institutions, on the other hand, are in a worse position, with May deposit losses already offsetting most of their March-April gains. One- to three-family residential housing sales have declined drastically over the winter in most of the New England urban areas, and apartment construction is also showing signs of letting down.

In summary, neither continued tightness in credit markets nor prospects for substantial declines in profit levels over the rest of the year have yet acted to dissuade the business community from its basic outlook. A marked letdown in consumer spending would probably do so, but no signs of one have developed to date.

SECOND DISTRICT - NEW YORK

In the Second Federal Reserve District, the Boards of Directors at the head office and at the Buffalo branch were solicited for their own and others' opinions regarding current economic conditions and the near-term outlook. In the summary, the responses showed substantial agreement concerning (1) a tendency for capital expenditures to be stretched out, where feasible; (2) no decline in inflationary expectations; and (3) an easing of the labor market in certain categories, but continued strong upward wage pressures.

Some businessmen reportedly are deferring or stretching out capital spending plans where this is feasible. Apparently there is a growing uneasiness about existing capital spending plans. One machine tool manufacturer with a fairly large national business has recently suffered a decline of more than one-third in new orders. Spending plans that are being completed as originally contemplated include those where the firms have "no choice"; namely, programs that are already in process, particularly if these have long lead times, and programs that are connected with pollution control. In western New York, for instance, 65-70 percent of the current capital spending by the food processing industry is government mandated under air and water pollution programs.

Most of the directors expressed the belief that businessmen were either as concerned about inflation as they had been, or increasingly so. One director noted a growing fear and puzzlement over whether the Federal Reserve System and the Administration "mean business" in the fight against inflation. Another director observed that industry fears wage and price controls and has consequently raised its profit margins.

As for consumer psychology, several directors indicated that consumers seemed to expect inflation to continue. There was a difference of opinion as to whether this worried consumers or whether it had been accepted as a way of life. At the same time, almost all of the directors who commented on consumer psychology saw evidences of conservatism in consumer spending. One director suggested that recent stock market developments could be expected to have a significant psychological effect on such spending.

There was general agreement that businessmen are more concerned about the expected continuation of inflation than they are about a recession. There were varying opinions about when the "floor of the valley" would be reached, but apparently most directors did not think the slowdown would be very deep. A few of the directors noted that industry's principal concern has to do with the squeeze on profits, since increasing costs cannot be easily passed on in a sluggish period.

Conditions in the labor market are very uneven, to judge from the directors' remarks. Some directors noted that it had become more difficult for college graduates to find jobs in certain categories; e.g., as engineers and physicists. Moreover, unskilled help is apparently in easy supply. However, qualified skilled labor continues to be tight. Particular note of this was made with regard to the Buffalo and Rochester areas.

Some of the directors observed that despite the easing in some labor markets, there was no detectable easing of upward wage pressures. Special comment was made regarding the steep demands by the building trades unions in the Rochester area. These reportedly stem from the very generous settlements obtained last year by the same trades in the Buffalo area. Note was made of wage increases granted by some businessmen in their lowest paying job categories.

THIRD DISTRICT - PHILADELPHIA

The business slowdown in the regional economy is now in its seventh month, according to a recent poll of business opinion. Results from the May business outlook survey show that most manufacturers canvassed in the Third Federal Reserve District are experiencing either no change or actual declines in sales and new orders. Moreover, sales for April did not live up to expectations, indicating the current slump is somewhat more pronounced than anticipated earlier. However, area executives polled see no further deterioration of business activity in the immediate months ahead.

In addition, optimism remains high for regional activity over the longer term. Since January, a majority of manufacturers polled have held rising expectations for the second half of 1970. At latest count, more than two out of three area industrialists see a pickup in the economy during the fall and winter of 1970.

Underlying this bullish outlook is an expected jump in both new orders and sales by yearend. Despite this anticipated acceleration in business activity, a majority of area manufacturers do not expect to add to their payrolls over the next six months. In addition, only one in four plans an increase in capital expenditures during the next half year.

The outlook for prices remains inflationary. Better than three out of five respondents, unchanged from a year ago, expect the upward trend for prices to continue for the balance of the year.

The expectations of area economists for the second half of 1970 parallel those of manufacturing executives. The consensus view

of business and bank economists in the Third District, according to a recent poll, is that the current downturn in business activity is bottoming out and that by fall the economy will be expanding once more. Prices, say regional economists, will continue their upward climb, but at a modestly reduced rate as the year progresses.

Comments on the current scene by members of the board of directors are varied. Two members, a banker and a utilities executive, indicate that sentiment among their associates has become rather gloomy in recent weeks. The gloom stems from the view that the current dip in the economy will develop into an all-out recession. Another cause of this gloom is the feeling that inflation cannot be stopped without a serious recession.

Two industrialists on the board, however, do not share this pessimistic sentiment. One indicated that he saw some further slowing in the pace of business activity, but believed that a recession would be avoided largely because of a pickup in consumer spending. The other industrialist expected no further declines in the volume of business. He indicated, though, that he was less certain about the economy and more confused now than at anytime in his experience. Further, this industrialist is skeptical about the ability of current policy to make much headway against inflation.

All board members expressed concern over declines in the stock market. Some pointed to the gloomy psychology it is creating; others are concerned by the possibility of financial failures; still others are concerned that a market decline of current magnitudes might further undermine consumer spending. In a related point, one board member

expressed serious concern over the taut liquidity positions of many corporations.

Basically, the business opinion in the Third District reflects the view that the economy has slowed more than expected several months back, and at best only modest reductions in the rate of inflation can be expected by the end of 1970. Also, there is much concern about developments in the financial sector.

FOURTH DISTRICT - CLEVELAND

Economic activity in the District has been disrupted during the past six weeks largely because of trucking strikes and strikes against several major rubber companies. Widespread campus disturbances in the District have forced a number of universities to close and undoubtedly have had an adverse impact on business conditions in local areas. This Bank's regular monthly survey of about 70 large manufacturing companies in the District reflected the softening in nationwide industrial activity last fall and early winter. Signs of a bottoming were evidenced in the survey taken in April, but the May survey revealed sharp setbacks during the month of April in key series such as new orders and shipments and a marked deterioration in employment and the workweek, presumably because of work stoppages. The District's insured unemployment rate, which had been edging moderately upward (from 1 percent last October to 2 percent in late March), jumped one percentage point during April to 3 percent.

At a meeting of about 40 business economists, held at the Bank on May 15, there were mixed reports concerning recent price behavior. The majority maintained that wage-cost pressures, in the face of slack demand, are so great as to make it easy to "pass on" higher prices. Some economists, however, reported "under the table" discounting and price rebates, which presumably are not being recorded in the official price indexes. Specifically, an economist from a major rubber company said his firm's price index for tires, based on actual transactions prices and reflecting the mix of consumer purchases, had risen during the past year only about one-third

as much as the BLS price index for tires. Economists from the chemical industries reported recent weakness in chemical prices and noted that few chemical products were selling at list prices.

Other points of interest emerging from the meeting included a report by an economist from a large machine tool company in Cleveland that his firm was living off backlogs, that business booked in April was only one-quarter of what they would normally receive at this time of the year, and that they had not yet booked a single new order in May. Economists from two major auto companies believed the worst of the cutback in new car sales and production was over and that, following leveling tendencies in the second and third quarters, sales would recover later in the year. Economists from the steel industry expect the current favorable trade balance in steel to deteriorate later in the year, with a strong increase in imports and an easing in exports. On the other hand, the steel industry should soon begin to feel the effects of hedge buying in anticipation of a possible strike next year.

Among the comments received from this Bank's directors at a joint board meeting held on May 14, there were reports that markets for auto components and consumer electronics are becoming softer. One director said that one industry in which his firm is a major factor, flat glass, is--and would remain--in the doldrums until auto production and construction show improvement, but he was not optimistic. Several directors emphasized that the demand for coal is the greatest since World War II; stockpiles are low and there is difficulty in receiving supplies. (This implies continued upward pressure on coal prices,

which have risen considerably during the past year; also "brownouts" are likely this summer.) One director, the dean of a graduate school, reported that this year's graduates are harder to place. The market for Ph.Ds, especially mathematicians and statisticians, is suffering, reflecting the cutback in Government grants and other financial support for education. Directors from large banks said they are struggling to maintain their deposits, while directors from country banks were experiencing rising time deposits.

Some recent conversations of this Bank's officers within the District in recent days indicate that businessmen expect corporate profits to be off sharply in the second quarter because of the trucking strikes and the slack in business. Some of the businessmen contacted expect a minor recovery in profits in the ^{third} ~~second~~ quarter, but do not look for any major improvement before the final quarter of 1970.

FIFTH DISTRICT - RICHMOND

Production, Sales, and Inventories. District survey respondents, except for those in certain trades and services, indicate declines recently in retail sales—particularly automobiles. This continues a slackening trend evident in this District throughout the current year. Manufacturers also report declines in shipments, new orders, and backlogs of orders. This situation apparently pervades both durable and nondurable lines and remains typical of the District's largest industry, textiles.

Inventories are reported to be substantially unchanged from the previous month in manufacturing as well as in retail trade. Manufacturers, however, report higher levels of inventories than they desire, while retailers report inventory levels to be somewhat depleted.

Employment and Unemployment. Employment is reported to have declined in the District during the past month, in manufacturing as well as in trade and services. The decline continues a generally weakening employment situation existing since January. Hours worked per week have been reduced further, and initial claims for unemployment insurance apparently continue high. On the other hand, District businessmen indicate that good employees are still scarce in both the skilled and unskilled categories.

Wages and Prices. District manufacturers report increases in both wages and prices over the past month as they have consistently done for the past year. Businessmen in trade and services indicate an even more pronounced upward tendency. Scattered indications of price declines have appeared in the textile and furniture industries.

Construction. Residential construction activity in the District remains severely depressed. Nonresidential construction, however, is reported to have increased slightly—a reversal of previous months' reports.

Loan Demand. District bankers report that the demand for mortgage loans increased significantly during the past month. A number of bankers, however, indicate reluctance to accommodate this demand due to statutory rate ceilings and other factors. Business loan demand is reported to have increased somewhat over the past month as well, while consumer loan demand is apparently unchanged.

Outlook. Uncertainty pervades the economic outlook among District businessmen and bankers due to both economic and noneconomic factors, including domestic social unrest and recent developments in the Vietnam War.

Capital Spending. Survey respondents in manufacturing, particularly nondurable goods, indicate plant and equipment capacity to be in excess. Respondents in trade and services report their capacity to be inadequate. Both groups, however, apparently plan further increases.

Reserve bank directors confirm this consensus and report that, even in some instances where current capacity is more than adequate, spending plans are not being curtailed and are even being increased in certain cases due to a general feeling that inflationary conditions will continue.

Inventory Investment. Manufacturers report current inventory levels to be excessive, but businessmen in trade and services feel they are too low. Reserve bank directors indicate a similar mixture

of opinion. Adjustments are apparently still going on, and some respondents indicate that, while the largest share of inventory reduction has already passed, few significant increases are being planned.

General Conditions and Consumer Spending. There is a consensus among District bankers that further declines are ahead for general business activity in the District. Moreover, Reserve bank directors indicate that consumer spending plans are being adjusted downward somewhat, reflecting largely a feeling of uncertainty over the future course of the national economy.

SIXTH DISTRICT - ATLANTA

The mood of our directors varies from pessimism to optimism. If any consensus exists, it is that business activity in the Sixth District will continue to weaken slightly. Many major economic indices should drift downward or mark time for the next two months at least.

In the pessimistic vein, a leading department store recently informed us that their sales are even with a year ago, but only because of the addition of branches; unit sales, of course, are lower. The store reported that labor costs were up 8 to 10 percent and profits were off. They were pessimistic about future department store sales and did not anticipate a quick economic recovery. A telephone survey of department stores indicates this conclusion is shared by many retailers throughout the Southeast.

According to directors' reports, retail sales in some areas have been adversely affected because of a diversion of purchasing power to private schools which have sprung up in response to integration orders. Lumber mills in many areas have not been operating at profitable levels, and one major mill is planning to close down operations for three to six weeks to adjust inventories. A recovery in this industry is anticipated by the end of the year. The coal industry in Tennessee is also stymied at the Mine Safety Act, with which the industry claims it is impossible to comply.

The temporary closing of oil leasing in the Gulf because of oil-slick problems continues to cause a slump in the Louisiana Gulf Coast area. The outlook for the immediate future is pessimistic. Difficulty in obtaining insurance will also continue to hold up

construction in the wake of Hurricane Camille. Also, a strike by 2,600 workers at Gulf States Power is hamstringing new construction in Baton Rouge and other areas served by this utility.

The employment outlook remains bleak at the large number of military and aerospace installations in the South. Financial districts of major metropolitan areas are expected to continue to experience a reduction in employment occurring throughout the brokerage business, and there has been some reduction in employment at a large bank.

A recent canvass of institutional mortgage lenders indicates pessimistic outlook for single- and multi-family housing starts. Atlanta and Miami were the only moderately bright spots.

Higher prices of vegetables, peaches, and other agricultural commodities may be in prospect because of lower crop estimates and delayed plantings. Production estimates of citrus fruit, however, remain bullish despite a mild drought.

On the optimistic side of the ledger, many new plant locations and large-scale construction projects have been reported recently. For example, central Alabama will be receiving a modular home plant, a poultry plant, and a foundry for production of parts for automobiles and other products. In southern Louisiana, a new chemical plant has been announced and a large addition to an existing plant is planned. In the Birmingham area, a rash of construction projects has been announced. In the New Orleans area, plans for a new shopping center and another large motel have been announced. Potential public construction in that area includes a large bridge, an airport, and a stadium.

One director has reported a sizable increase in new orders because of a revival of capital projects that had been postponed last year.

A real bright spot in our District has been the Orlando area, where construction should continue to boom as Disneyworld gains momentum. Construction will soon be commencing on a very large residential project south of Orlando.

If a tentative wage settlement is ratified by ground workers of National Airlines this week, it will provide a stimulus to activity in southeast Florida in the coming weeks.

SEVENTH DISTRICT - CHICAGO

In published statements and private conversations a deep mood of pessimism prevails in the Seventh District. Developments in Southeast Asia and the Middle East, racial strife, student unrest, high interest rates, the decline in the stock market, the squeeze on profits, the persistence of price inflation, rising unemployment, "unreasonable" labor demands, and strikes (especially the truckers' strikes) are likely to be mentioned in any discussion of recent trends and future prospects. Probably some decisions are being delayed pending clarification of current uncertainties. Whatever the "facts" may be, a correspondent writes, "Men's thoughts control their actions."

One of the problems in drawing a consensus by citing individual views on developments at the present time is that for every assertion an antithetical view could be offered. Some advocate price and wage controls; others regard such controls as anathema. Some demand that the Federal Reserve System ease credit, others insist that policy should have remained highly restrictive. Some worry over rising unemployment; others believe a "shakeout" is essential. Some expect a continuing decline in real activity through 1970; others are sure that the low point is past or near at hand. Some bankers think loan demand remains as strong as ever; others believe demand has eased.

The truckers' strikes and lockouts had a deep impact in the Seventh District in April and May, particularly in the Chicago area. Output of steel, autos, appliances, radio-TV, machinery and equipment, and many other goods has been slowed--some plants are closed completely. Some construction projects using structural steel have been virtually at a standstill. Some retailers have been unable to obtain certain

goods. In the Chicago area, it is estimated that 125,000 workers are out of work currently because of the strikes, in addition to about 40,000 truck drivers.

Increasing uncertainties have entered the capital goods picture. Most statements of construction machinery producers indicate sales to distributors have been good, but one large producer reports inventories piling up at the dealer level. Among capital goods, machine tools have been hard hit by order declines. Machine tool output has not declined as much as orders, but some surplus capacity has developed. As a result of rainy weather, crop plantings have been delayed and farm machinery sales continue weak.

Construction declines are largely confined to single-family homes. Carpenters have become more readily available, but most building trades continue in short supply. Mortgage money is believed to have eased "dramatically" in the Detroit area.

Orders for major household appliances have improved in recent months. Demand for certain consumer residential goods, including motorcycles, golf carts, and bicycles is excellent--pressing capacity to the limit in some cases.

Although output schedules for autos indicate a strong revival in May and June, pessimism in automotive centers has been spreading. Perhaps this reflects the failure of retail sales to confirm expectations of improving demand.

Developments in the steel industry are so clouded by the truck strikes that generalizations on order trends are not possible, but a short-term increase in output is certain when the strikes are settled.

Job markets have eased in all major areas, but there has been no significant improvement in the supply of trainable younger workers. The easing of supply of college graduates has been dramatic. Summer jobs for undergraduates are scarcer than at any time in recent years. Many experienced executives are seeking jobs, partly as a result of the "fine combing" of white collar staffs. A student seeking summer work at a large automotive firm was asked, "Why do we want trainees when we're firing vice presidents?"

Complaints over "tight money" are widespread. Increased concern is expressed over the "liquidity squeeze," especially in small- and medium-sized businesses. Payments frequently are delayed, but there has been no significant rise in outright defaults or bankruptcies. Comments on the strength of loan demand vary from bank to bank. This may reflect varying degrees of emphasis on the means by which potential customers are discouraged.

A large bank states its "average cost of money" is 8-1/4 percent. Banks are not now able to raise CD money at ceiling rates. The common view of lenders and borrowers is that interest rates will either remain high or rise somewhat. However, there are indications that some corporate bond issues are being postponed and are awaiting more favorable conditions.

District analysts who emphasize the "money supply" expect the decline in activity to last at least through the third and probably the fourth quarter.

Of course, there are many who believe the decline in the stock market presages a much more severe drop in general business than is yet apparent.

EIGHTH DISTRICT - ST. LOUIS

A select group of knowledgeable persons in the Eighth Federal Reserve District, including directors at the head office and Louisville branch of the St. Louis Reserve Bank, officials of larger business firms and newspaper financial editors, was questioned with respect to their views concerning the economic outlook. Their comments point to some further decline in business activity in the near future, with an occasional expression of doubt as to the extent of recovery of business profits in the longer run.

Of greatest concern at the moment for most firms are the contracts which are being negotiated with labor unions and the anticipated higher wage settlements. The business representatives almost unanimously indicate that they will be unable to pass on all of the rising labor costs to consumers. A continuation of the profit squeeze of the first quarter of this year is therefore expected.

There are no indications of major layoffs of workers by those interviewed, except in the construction industry. Some firms are, however, reducing wage and salary costs by failing to replace workers who retire. A slackening in demand for labor is also indicated by the slowdown in demand for June college graduates. One business school dean reported a slowdown in growth of both job opportunities and in starting salaries compared with other recent years.

Excluding stockbrokers, pessimism appears greatest in the automobile, chemical, construction, and defense industries in the Eighth District. Concern for their profit outlook in the immediate future and to a less extent in the longer run indicates some decline

in demand for investment funds in these industries. A number of smaller industries which are associated with residential construction, notably furniture and fixtures, likewise view the outlook with little optimism. The breweries, food, and feed industries have apparently been little affected by the current economic slowdown and have made little change in their long-run spending plans. One representative of these industries remarked that his company was "looking across the valley" to a recovery later in the year.

Great concern was expressed by a number of people for the major downward movement in the stock market. Several accredited this movement to restrictive monetary policies, which they believe were necessary to bring the rate of inflation down to a more moderate level. In some responses, and especially in the case of our own board members, a need for continued moderation in the rate of growth in the stock of money was indicated despite the problems involved in reducing demand to more sustainable levels.

Farm land prices apparently continue to decline in the predominantly agricultural areas of the Eighth District. Estimates of price declines during the first year run as high as \$50 to \$100 per acre on land that previously sold for \$500 to \$1,000 per acre.

NINTH DISTRICT - MINNEAPOLIS

Although indications of softening in the Ninth Federal Reserve District are not as apparent as in the rest of the nation, various pieces of quantitative and qualitative evidence suggest that the rate of District economic growth has at least slowed down. At the same time, however, there does not seem to be any diminution in the inflationary psychology of area residents. Consumers apparently are cutting back on their level of consumption, and scattered instances of businessmen either postponing or at least stretching out some of their capital expenditures are being noticed. Currently, a number of construction workers in the District are on strike and indications are that most of these strikes will last for awhile. Information relating to the Teamsters' strike is very sketchy, but it appears that some firms are beginning to be affected.

During the go-around at the last meeting of the Board of Directors of the Federal Reserve Bank of Minneapolis, the directors generally felt that business conditions were softening. As evidence of these observations, the directors cited such things as unemployment increasing in their areas, retail sales becoming sluggish, businessmen hesitating to build up inventories, and an almost universal observation of slowing in auto sales. In addition, one director was aware of a case where a steel company supplying the auto industry has cut back its orders of iron ore pellets. One director, on the other hand, observed that lumber and wood products manufacturers in western Montana have become

optimistic in their expectations of sales during the latter half of this year. These producers were severely affected by the downturn in housing construction, but not expect their sales to increase with the anticipated upturn in housing.

In spite of the business slowdown, the directors felt that inflationary psychology has not abated in their local areas, but that recent events in Indochina have not had a discernible separate effect on inflationary psychology. They also felt that people are concerned not only with the effect of inflation, but also with all other areas of unrest in this country. One director addressed himself to the discriminatory impact of inflation. Although he was careful to point out that the problem was also due to other factors, he felt that farmers are feeling the ill effects of inflation while not sharing in the benefits. For example, he said that while farmers recently have had to pay more for input items, the prices of their products have not increased accordingly. As a result, the profits of farm operations have fallen off.

Scattered pieces of information suggest that area businessmen may be postponing or at least stretching out their capital expenditures. During the first three months of this year, the valuation of building permits issued for nonresidential building in the Ninth District were about 9 percent below the comparable year-earlier period. After adjusting for cost increases over the past year, this implies that nonresidential building activity is about 16 percent below a year ago. In addition, one director was aware

of a manufacturing firm in his area that has set back the letting of contracts from 60 to 120 days. Also, a Minneapolis-based milling and food related conglomerate reported recently that they had cut back their capital expenditures. During the current fiscal year they expect to spend about \$5 million for fixed capital, an amount down substantially from the \$8.2 million spent last year. Two cases were cited at the recent directors meeting, however, which are expected to lead to increasing capital expenditures. In one case, it was stated that a railroad based in the Ninth District would have to expand its capital expenditures to take advantage of the economies of scale inherent in a recent merger of four lines. In the second case, a copper producer in the Upper Peninsula of Michigan has undertaken a housing program which, when completed, will double the size of the town in which the mine is located. The ostensible reason for the new program was to shorten the commuting time of workers, for a number of their employees are now commuting daily from points 50 to 100 miles away.

Major construction contract negotiations are underway in two sections of the District. In Minnesota about 10,000 to 12,000 workers are currently out on strike and about 15,000 to 20,000 workers are directly affected. Although some disputes have already been settled, the majority of union contracts expiring this spring are still in the process of negotiation. In general, completed negotiations call for wages to increase by more than 50 percent over the next two years. The strikes still in progress are expected to continue throughout the next three to four weeks.

In the highway and heavy construction sectors, the carpenters and Teamsters have settled, but the operating engineers appear to be a long from settlement. According to a recent newspaper article, operating engineers in Minnesota reportedly turned down an offer that would increase their wages by 55 percent over the next two and a half years presumably because of union dissatisfaction regarding the timing of the increases. In the building construction trades, a number of strikes are still in progress and probably will not be settled for at least three to four weeks.

In South Dakota, contract negotiations are underway in Sioux Falls and Rapid City, the only unionized areas in the state. All building construction has been shut down in Sioux Falls as a result of a strike by the operating carpenters are in the process of negotiating new contracts, but are still working. The unions are requesting wage increases of about 15 to 20 percent per year over the next three years as opposed to the 10 percent to 12 percent per year increase received at the time of the last settlement three years ago.

TENTH DISTRICT - KANSAS CITY

Consensus Based on Discussions with Members of the Board of Directors. Perhaps the most pervasive comments revolve about construction industry wage settlements. The extremely high national rate of wage increase is mirrored in the District, but of more significance, current and emerging wage demands will probably give a new lift to the national spiral. Construction is at a standstill in some areas of the District, as new wage bargaining proceeds. Excessive increases in construction costs are an important part of the reason for the reduced volume of new construction awards, which will show up in reduced construction activity six months or so hence. Even now, it is reported, there is a virtual absence of small construction projects of \$750,000 or less.

The magnitude of wage increases in construction, and in other industries as well, is causing many to doubt the validity of attempting to bring wage-cost inflation under control by monetary and fiscal policies. There is a strong belief that stabilization goals can be accomplished only if the unbridled power of labor unions is curbed. In this connection, it was noted that some local memberships in their push for large gains have effectively overthrown the guidance of national leaders. It was interesting, too, to hear that the top construction company in the United States last year is a nonunion firm.

Retail sales are reported in the range of from firm to down by varying amounts. Where sales were reported weak, it was indicated that the public is deeply concerned about the prospect of recession.

Despite excellent production prospects, producers of farm crops are discouraged by low prices for many of these crops. Bankers in the

High Plains report that increasing numbers of farmers, particularly wheat farmers, are quitting because of low prices and restricted average allotment programs. The attrition appears to be substantially higher than the average for other recent years caused by the changing structure of the industry. The livestock sector continues to remain relatively favorable. However, the impact of higher livestock prices is expected to be offset by increasing costs, resulting in little change in net farm income measured in current dollars. Consequently, net farm income measured in real terms is likely to be down.

The 8-percent increase in net farm income in 1969, combined with efforts of farm producers to increase efficiency by going to larger equipment and other technological improvements, has caused purchases by farmers to increase. Farm machinery dealers report sales of farm equipment to be unusually good. They are fearful, however, that to a considerable extent current sales are being made at the expense of normal future sales. Conversation with farm purchasers indicates that they are buying now because they expect equipment prices to rise substantially as new union contracts are negotiated. Farm implement people expect Walter Reuther's death to make bargaining in the farm machinery industry more difficult.

It is apparent that most Board members do not believe that a recession will be an acceptable route to the goal of price stability. While they probably would not argue that the economy is in recession, the course of developments and the sharp April rise in unemployment tend to strengthen the view that the economy is headed in that direction.

Banker members of the Board are concerned with the continuing effort to limit overall credit growth by restricting growth in the banking system. They believe that this already has gone too far in squeezing bank liquidity. Moreover, they argue, monetary policy is forcing too much banking outside of banks and this is potentially dangerous. The resort to commercial paper financing by business firms is cited as an obvious example. The removal of interest rate ceilings on large CDs would be a step in rectifying some of the current difficulties and potential problems in this regard.

ELEVENTH DISTRICT - DALLAS

Continued inflation is the major concern of Eleventh District board members surveyed at a mid-May meeting in Dallas. A recession is considered possible by a number of the board members, but this prospect is causing less concern than inflation since there is a widespread belief among the directors that a recession would be short and mild. A liquidity crisis is mentioned as a possibility by only one-third of the respondents, and the odds attached to this outcome are relatively low. With this overall economic outlook, the board members expected sales to show no increase or only a small increase in 1970, while profits are expected to decline. One director thought there might be a fall of more than 5 percent in both sales and profits.

Every board member reported that employee wages in their firms were being increased in 1970. This direct experience with higher wage costs may be one reason for the almost unanimous concern with inflation, ahead of other economic problems. The smallest wage increase (4 percent) was cited by an academic leader, while the largest (10 percent) was mentioned by a banker. The nonbanking businessmen mentioned 6 percent most often as the wage adjustment they were making this year.

The respondents were unanimous in their view that the Federal budget would operate with a deficit this year. Apparently, the Administration's forecast of a budget surplus is not accepted within the business and financial community, although a few directors thought the deficit might be small.

Despite some concern about a mild recession, acknowledgment of higher labor costs, and a generally poor outlook for profits this year, there were no reports of employment cutbacks by the bankers and businessmen interviewed and no indication that employment cuts were currently being considered. In fact, plans for very modest expansion of the labor force were noted by a couple of respondents. This reported maintenance of employment levels is consistent with the aggregate data for the Eleventh District, which show total employment still edging upward. The increase in employment, however, has not been sufficient to absorb all of the new labor force entrants in the District states. Thus, there has been an increase in unemployment in the Eleventh District since the end of 1969, and unemployment insurance activity is at a considerably higher level.

The respondents to our survey did note some softening in planned plant and equipment spending. More than half indicated that their January expectations had been revised downward; the estimates of the magnitude of the downward revision were vague but apparently indicated, in most cases, trimming around the edges rather than wholesale slashing. An executive of one major manufacturing concern did indicate that planned plant and equipment spending was undergoing a "substantial" cutback.

The Texas industrial production index edged up in March, but has generally flattened since the beginning of 1970. Increased demand for petroleum and petro-chemical products has helped to strengthen the economy in both Texas and other District states. Oil production in the Eleventh District has remained near record levels throughout the spring, usually a period of seasonal slack.

At the same time, drilling activity has been rebounding from a 27-year low. Construction contract activity in the District showed renewed strength in the first quarter of 1970, compared with either the year-earlier period or the fourth quarter of 1969. Nonbuilding construction contracts were up considerably, bouyed by two very large contracts; nonresidential contracts also showed a sizable increase. A seasonal expansion in construction employment has occurred this spring, although the gain came earlier and was somewhat less than usual.

Department store sales in the Eleventh District through early May were up moderately in dollar value, but less than the amount required to offset inflation. Sales in early May appeared somewhat stronger than has been the case for the year as a whole so far.

Agricultural activities throughout most of the Eleventh District are progressing under generally favorable weather conditions. Cash receipts from farm marketings in the District states were up substantially in the first two months of 1970, compared with year-earlier levels.

Loan demand in the Eleventh District remained sluggish in April, as total loans at weekly reporting commercial banks declined contraseasonally. With both time and savings deposits increasing, District banks added considerably to their holdings of securities, particularly municipals. Time deposits have increased recently due mainly to the sale of large CDs. Some tightening in District bank reserve positions in April is reflected in the increase in weekly average net Federal funds purchased and in discount window borrowings, compared with the March levels.

TWELFTH DISTRICT - SAN FRANCISCO

General. There is no consistent pattern of views and anticipations regarding economic conditions in the Twelfth District. Moderate growth in business characterizes the District generally, including both Washington, one of the hardest hit sections, and Arizona, previously showing the greatest growth. Declining output and employment in some parts of Oregon are continuing and spreading, while both buoyant and depressed conditions are reflected in various areas of Southern California.

Random Notes by Industry. Reports on recent agricultural conditions vary from "agricultural disaster due to weather" and "agricultural recession" to "excellent growing conditions and bumper crop prospects."

Logging and lumber mills continue slow, with outlook favorable until mid-1971. The layoff rate has been reduced at one large aerospace firm, but is becoming manifest in a limited way in some other industries. In education, wages are "high" despite heavy demand for the scarce new positions. Severe gasoline price wars are evident in many locations, aggravated by the introduction of new types of gasoline.

Housing generally continues in short supply with construction depressed, while apartment vacancy rates vary from low to very substantial. Industrial and commercial construction is "fairly active" in Utah. One manufacturer reports a volume market and good prices. Another reports a profit squeeze; he was "forced to raise prices against a soft market; the raise was accepted as unavoidable" (except for the attempted cut in distributors' margins).

Summary for Selected Economic Aspects. Employment - New jobs are becoming less easy to find, actual cutbacks in total employment are occurring in an increasing number of firms as a part of cost-reduction programs. Significant expiration of unemployment compensation benefits is expected in June and July in one area.

Strikes - Both current and anticipated labor difficulties were mentioned.

Wages - Wage conditions vary from constant to rising. There is even wider anticipation—except in strictly agricultural communities—of future wage boosts.

Other Costs - Increasing costs of purchased goods were mentioned, but one respondent writes that "dealers...are selling equipment at below cost to reduce inventories."

Prices - Prices on the respondents' own products vary from "recently strengthened markedly" to "started declining about 30 days ago." Higher posted prices and competitive price-cutting left one industry's average retail price higher on balance; expectations are for hardening prices. Despite a slowdown in one area, a strong upward price trend was noted. In another, upward pressures are expected to continue with the rates of increase "diminished from those of recent experience."

Profits - In one industry expecting both wage increases and employment cutbacks, "a number of companies have announced that they expect slow improvements in net earnings as 1970 proceeds."

Market Psychology - In one sensitive-commodity industry, "the psychology of buyers and sellers has changed recently" (in a

deflating direction): "the tendency of buyers is to go increasingly to a hand-to-mouth basis."

Sales - Sales reports vary from "curtailed" through "constant" to "up." Higher new orders and lengthening delivery time were noted in one community. In the Portland zone retail sales "have reflected a definite improvement within the last 30 days," in contrast to the more general expectation in that zone of even more softening in retail sales.

Inventories - Both higher and lower inventories are reported.

Plant and Equipment Investment - Both high and low levels of capital spending, as well as "no change," are reported, with cutbacks more frequently mentioned.

Credit - According to the banker respondents, "ample" to "adequate" credit is available. Users of credit vary in their judgments on this score from "a little easier to obtain," through "very difficult, but not substantially more so than a year ago," to "very tight for agricultural loans from commercial bank sources."

Bank liquidity short of distress was noted. Expansion of several retirement communities is currently being held up for lack of funds. A continuing increase in overdue or delinquent receivables was reported, partly attributable to strike-induced delays. A large international conglomerate indicated that accounts receivable have slowed from 70 to 80 days; the very substantial costs involved could not be passed on.

Policy - In one community the impotence of monetary policy and the need for wage and price controls had become the subject of

common discussion on the street. Elsewhere the lack of needed wage-price guidelines was noted, with the "unconscionable increase in inflationary conditions in services" emphasized.