

CONFIDENTIAL (FR)

CURRENT ECONOMIC CONDITIONS BY DISTRICT

**Prepared for the
Federal Open Market Committee
by the staff**

June 23, 1971

SUMMARY*

Reports in this Red Book generally confirm the slightly more optimistic tone of the two previous issues. Most districts report moderate improvement both in retail sales and in manufacturers' shipments and orders. Residential construction is very strong almost everywhere. Defense cutbacks continue. Demand for business equipment remains weak. Unemployment remains high with no present prospects for improvement. Employment generally is steady to slightly higher. Although a few scattered price declines were noted, one of the clearest impressions through the district reports is a strengthening of the inflationary psychology--in large part because of generous wage settlements. Authorized and wildcat strikes continue to hamper activity.

In the financial sector, a pickup in loan demand was noted in a number of districts--especially New York, Chicago, and San Francisco. Consumer and mortgage loan demand also is up. Savings inflows at banks have slowed, but remain at a high level. Interest rates charged by banks have firmed. Home mortgage rates are steady to higher--by a quarter percentage point or more.

Businessmen and bankers now have learned to refer to the rapid growth of the money supply, which they typically deem excessive and inflationary. One "verbose" academician, however, finds the rapid growth of the money supply to be eminently appropriate to conditions.

Increases in retail sales were reported in most districts, but higher prices account for most of the gain from last year. Stronger sales of autos, appliances, and home furnishings were noted in a

*Prepared at the Federal Reserve Bank of Chicago.

number of districts. A pickup in tourism was observed in the Minneapolis and Atlanta Districts.

The pace of the recovery appears to have moderated in the Cleveland District, but this partly reflects the beginning of the cutback in steel production as inventory buildups are completed. Districts commenting on the potential steel strike that may start August 1, expected a settlement or a relatively short strike.

Among the strongest sectors are residential construction and the industries that supply building materials and components. At the other extreme are defense industries and capital goods (other than utilities)--with machine tools severely depressed. In some districts--Richmond and Atlanta--strength in nonresidential construction was noted.

Business inventories, except for strike hedges, are generally under good control--a point emphasized by New York and St. Louis. Richmond finds some manufacturers' inventories on the high side.

A number of districts commented on farm income prospects. Drought conditions are hurting crops and cattle in the Dallas District, while growing conditions are favorable in the San Francisco and St. Louis Districts. Planted corn acreage is larger this year in the Chicago District, and crop prospects would be favorable, but for the spector of the corn blight. In general, it is expected that higher prices will boost farm cash receipts in the nation in the second half of 1971, but net farm income for the year may be lower than in 1970 because of rising costs.

FIRST DISTRICT - BOSTON

Compared with the growing uneasiness reported in May, some restoration of business confidence in the economic recovery is apparent this month, as May and June improvements in orders have offset the April downturns. Respondents continue to speak of the upturn in such phrases as "creeping" and "tenuous." However, First District financial conditions continue mixed and partly immobilized by unusual uncertainties over future developments.

May deposit flows into area commercial banks and thrift institutions were off from levels reported in the January-April period, but continued at relatively high levels, surpassing any of the five previous Mays. Commercial bank loan demand remains spotty and somewhat lackluster. Mortgage rates at New England mutual savings banks have remained largely stagnant with 7 1/2 percent continuing to be the most common conventional mortgage rate.

Wide extremes continue to appear between certain sectors of regional manufacturing: June reports show some recreational products (boats, campers) and certain lines of industrial machinery selling far above projections at the same time that machine tool producers continue to face severely depressed conditions. As a general rule, however, regional manufacturers seem to be just meeting their projections, and that only with considerable effort. Auto-related manufacturing is generally running at lower levels than had been expected earlier this year.

Professor Samuelson proved quite verbose this month on the matter of monetary growth, scoring economy-watchers generally for an

excessive preoccupation with short-term M_1 growth rates. Stating that quarterly growth rates reflect too short a period of time to mean much, Samuelson urged the system not to panic at the high M_1 growth rates recorded earlier this year. Samuelson stressed several factors to be kept in mind in the current formulation of monetary policy. First, it is only prudent behavior on the part of monetary authorities to "lean against the wind." In a sluggish recovery period this can only mean stimulating a considerably faster monetary growth than would be desirable over the long run. Further, inflation effects loom large in current M_1 growth figures, and will continue to do so over the rest of the year. Discounting these, an 8 to 10 percent rise in M_1 for the year would not seem unreasonable to Samuelson, particularly as velocity should remain steady to declining over this same period due to lower rate levels. Finally, Samuelson stressed that large precautionary demands for liquidity are inevitable in periods like 1967 and 1971, but it cannot be assumed they will later be translated into commodity demand.

On the fiscal side, Samuelson welcomes any congressional spending overrides which will develop this year, as they will move us toward a more desirable full-employment deficit. He remains opposed to a personal tax cut, however, due to his views on the needs of the public sector. On the employment outlook, Samuelson cited a number of forecasts ranging from 6 1/2 - 7 percent unemployment later this year, and suggested that the lower end of this spread seems most likely to him.

Our other academic respondents were unavailable for comment this month.

SECOND DISTRICT - NEW YORK

The views expressed by the directors of this bank and the Buffalo branch, as well as by some large retailers, point to a continuing gradual increase in consumer spending, but very cautious inventory policies by businessmen. In general, most respondents looked for a slight easing in wage demands, but do not expect any marked change in the price picture. Opinions regarding the strength of the demand for business loans indicated some strengthening on balance.

With respect to consumer spending, all the Second District directors and retailers who expressed an opinion on the subject felt the upward trend was continuing. A number of the respondents, however, adopted a relatively cautious attitude towards the strength of retail activity. Thus, the treasurer of a large nationwide chain of retail department stores specializing in softwear felt that much of the rise in his firm's dollar volume reflected higher prices, with the physical volume of sales running only moderately above last year. He felt that official tabulations indicating increasing strength in consumer spending were somewhat exaggerated, and reported that his firm as well as other retailers he had spoken to had not as yet seen signs that consumer retail outlays were reaching such proportions. As a result, he felt that "doubt was cast" on some of the official statistics. Similarly, while the vice president of a large New York department store with branches in the suburbs reported a "healthy" rise in his firm's sales in dollar terms, he noted that higher prices accounted for a good

part of this increase. All of the Buffalo branch directors detected a continuing upward trend in retail activity, with a "spurt" in some areas related to seasonal factors. The New York bank directors, however, characterized the pick up in retail sales as "moderate" to "slow."

All of the respondents felt that businessmen were continuing to pursue cautious policies toward increasing their inventories, and that such building as was taking place was largely due to special circumstances. The chairman of the board of a large manufacturing concern reported that he knew of no company accumulating inventories with "speculative motives," but he thought that some accumulation was taking place as the result of special factors, such as anticipations of strikes and environmental protection measures--especially the spreading ban on phosphates and restrictions on the paper industry. The vice president of Rochester's largest firm also reported that strike-hedging purchases had resulted in a substantial increase in inventories at his firm. However, he also pointed to the trend among retailers to limit their inventories and to rely increasingly upon the ready availability of adequate stocks from jobbers and distributors. The retailers who were contacted indicated there had been a slight rise in their inventories in preparation for an expected increase in sales activity later on in the year.

The views of the directors regarding business loan demand seemed to indicate some strengthening. Thus, the presidents of three upstate banks and the chairman of a large nationwide manufacturing concern felt that the demand for this type of loan had increased in recent weeks, and one pointed particularly to the strength in the

mortgage area. And, while the chairman of the board of another upstate bank reported that his bank had not experienced any strengthening of loan demand, he noted that business loans are not a major part of his portfolio.

The respondents all continued to voice concern over the wage and price situation, although on balance the opinions expressed seemed slightly less pessimistic than a month ago. Thus, Buffalo branch directors reported some slowdown in the rate of wage increases, particularly among nonunionized concerns, and felt this trend might continue for the balance of the year. On the other hand, no significant change in the rate of advance of prices was evident to any of the Buffalo directors. One of the two New York City manufacturing executives on this bank's board saw inflation as continuing, but detected signs of an easing in wage increases. The other New York manufacturer saw a pattern of first-year wage increases averaging about 10 percent "less of a disaster" than previous increases, but "still a disaster" since he expected productivity to rise by only 3 percent to 3 1/2 percent in most industries.

THIRD DISTRICT - PHILADELPHIA

Businessmen and directors in the Third District are fearful that inflation will intensify rather than abate during the second half of the year. On balance, they believe that the recovery now underway will continue, but they see some weak spots in the economy. Retail sales in June are running ahead of the May level. Residential construction remains strong. But industrial demand, especially for capital equipment other than for utilities, is weak, report area manufacturers. Representatives from the steel industry think the odds have shifted in favor of not having a strike.

Businessmen and directors have become more pessimistic about the outlook for inflation. A recent poll of large manufacturers in the Third District shows that three out of four believe that prices paid by them will be higher six months from now. A year ago only about half of these manufacturing executives expected prices paid to be higher a half year ahead.

Among directors, inflationary expectations have intensified within the last several weeks. One director says that the rapid growth in the money supply is laying the foundation for serious inflation problems later on. Another director pointed to the unrelenting demands of labor for higher wages as a reason for thinking inflation may get worse. Still another director indicated that "Congress is running wild" with the budget. Several directors also noted rising inflationary expectations among business associates and people in their communities.

On balance, area businessmen are confident that the recovery from last year's recession will continue, although gradually. Our latest polling of large manufacturers in the Third District shows that for June twice as many firms are experiencing increases in sales and new orders as are registering decreases. However, some weaknesses are still apparent. Several directors say that while the demand for consumer goods is holding up, industrial demand is flat. Orders for capital equipment other than for utilities are stagnant, according to one director.

Residential construction, in contrast, remains strong. Directors report that housing is booming in their areas. Other directors indicated strength for mobile homes as well. Business economists in the Philadelphia area expect housing starts to stay at the 1.9 million unit level for the balance of the year.

Reports from area department stores indicate that retail sales in June are bouncing back from their lackluster performance in May. Merchants expect further gains in the third quarter and are hopeful about the fourth. Wearing apparel is especially strong. Small appliances and hardware items are also moving well. Increases in home furnishings, such as carpentering, are likely, according to retailers. One department store executive says he sees some bright spots for large appliances as well.

According to representatives of the steel industry in the Third District, the betting now is that there will not be a strike. These representatives say that both management and labor realize that the final package will have to be close to the 9 percent wage settlement in the aluminum industry. "Why strike about a settlement that

is already known," they reason. In the absence of a strike, these sources estimate that it will take until the first quarter of 1972 for steel inventories to be brought back into line with final demand.

FOURTH DISTRICT - CLEVELAND

The pace of the recovery in the district appears to have moderated recently, partly reflecting developments in the steel industry. Manufacturing activity is showing signs of moderating, but residential construction continues to expand more vigorously in the district than in the nation. New car sales have rebounded at about the same pace as in the nation, but gains in overall retail sales have not measured up to the national performance. Our directors remain pessimistic about prospects for curbing wage-push inflation.

Among the more significant recent developments in the district, the insured unemployment rate, which had been relatively steady from late December through April, began to rise sharply in May and was still rising as of early June. Steel mills are already beginning to lay off workers, and unemployment is rising noticeably in steel-producing areas, such as Pittsburgh, Wheeling, Youngstown, and Canton.

Economists from three major steel companies in the district agreed that July would be a very poor month for their firms, even though it is the last month prior to a labor contract expiration. New orders have dropped in recent weeks, shipments will peak in June, and raw steel production is being sharply reduced. The economists attribute at least part of the weakness in their industry to the fact that customers placed orders for delivery before price increases became effective on certain products (some in Mid-June and others on July 1).

Moderating tendencies in the district's manufacturing sector are also evident in the behavior of our indexes of manufacturing output, which have been tapering off in some metropolitan areas in recent months or have actually turned down in other areas. Our survey of manufacturers indicates that new orders and shipments have been increasing at decreasing rates in recent months. Reporting firms expect further modest gains in new orders and shipments during June, along with continued reductions in backlogs and inventories. The latest survey also shows no easing in the rate of increase in prices paid; in fact, the majority of the respondents expect the rate of inflation to accelerate somewhat in June.

Inflationary expectations remain a matter of serious concern to some of our directors, especially in view of what they consider to be labor's "exorbitant" wage increases. One director noted "no industry wants to be the first to suffer a long strike in order to break the back of labor's wage demands."

FIFTH DISTRICT - RICHMOND

Our regular survey of businessmen and bankers suggests no major new trends in the Fifth District economy. In general, responses of survey participants indicate a continuation of the gradual business recovery, with some evidence that consumer spending may be strengthening. Retail sales, especially sales of automobiles, are reported as rising, and banking respondents indicate sizable increases in consumer loans. Bankers also report improved demand for other types of loans. The construction sector remains strong, and employment generally appears to have stabilized. Manufacturers report further increases in shipments but little change in new orders and backlogs.

In manufacturing, a number of respondents reported an increase in hours worked per week, and a few reported that employment was up from the previous period. In general, however, the responses suggest little change in the overall employment situation. Several respondents commented on increased unemployment resulting from large numbers of college and high school students temporarily entering the labor force. Cutbacks in defense-oriented industries and installations apparently continue to affect employment in some areas. On balance, manufacturing respondents indicate a decline in inventories, although inventory levels still appear to be higher than desired. Two large furniture manufacturers reported that new orders and backlogs of orders were down from the previous reporting period.

Construction continues to be a major source of strength in the district economy. A majority of the banking respondents reported an

increase in both residential and nonresidential construction in their areas. One brick and tile company reports sales at a 15-year high, with production running three months behind orders. A manufacturer and distributor of food products reported substantial construction of new plant facilities in process. One banking respondent noted a sharp increase in apartment construction in his area, which he attributed to a rush among contractors to get construction loan approval before anticipated interest rate increases.

The outlook for business expenditures on plant and equipment in the district does not appear to be bright. Most respondents indicated that current plant and equipment capacity was adequate or more than adequate.

Wildcat strikes by coal miners in Virginia and West Virginia had a temporary effect on some local areas in the district. But respondents in most areas continue to report increases in both general retail sales and automobile sales. A large majority of the bankers polled indicated stepped-up consumer loan demand, with some reporting sizable increases in their outstandings.

District cash receipts from farm marketings during January-April were 4 percent below those in the same period a year ago, compared with a national decline of 3 percent. An 8 percent decrease in district livestock receipts more than offset an 8 percent increase in receipts from crops.

Respondents' opinions on the outlook for the near-term future are mixed. Approximately one-third of the bankers in the survey expressed the opinion that the level of business activity would rise in

the immediate future, while the remainder believed that it would remain unchanged or decline. Prospects for increases in business investment in fixed plant and equipment are rated low, although respondents remain generally optimistic about prospects for residential construction and for consumer spending.

SIXTH DISTRICT - ATLANTA

Reports of leading businessmen and bankers indicate the recovery is continuing but at a slow pace. The outlook has turned mixed, after being optimistic. One Alabama businessman describes the economy of his area as continuing a slow, barely perceptible growth. Another businessman reports growing uneasiness about the sluggishness of recovery. Yet another speaks of a more confident atmosphere. Announcements of plant expansions continue, but a few plant closings and sizable layoffs have cropped up. Construction is strong, with some exceptions.

On balance, there is little vigor in manufacturing. Some companies in Tennessee are reported to be operating on only a four-day week, and even then inventories are piling up. An Alabama industrialist reports that manufacturing is the "weak spot" in the Alabama economy. A north Florida banker, who has been reporting strong economic gains in his vicinity, now describes activity as being on a plateau.

There have been a number of layoffs and plant closings in recent weeks. Between 500 and 750 workers have been idled by an aluminum company, reportedly because of stockpiling before the recent labor negotiations. A textile mill employing 1,000 in Alabama is scheduled to close, but an effort is underway to try to find a buyer to take over the operation. About 300 workers are being laid off in Alabama because a vending machine manufacturing operation is closing. A spinning plant in Georgia has idled 200 and is anticipating another 200-man layoff, allegedly because of air pollution problems and foreign competition. An engineering firm in Tennessee is laying off 120 workers because of

reduced aerospace research and rising costs. On the other hand, it has been reported that some firms that did not recruit at the University of Tennessee in the spring are planning to return this fall.

New plant announcements have been slow but steady. They include an electric motor plant in Mississippi, a carpet dyeing and finishing plant in Georgia, a mobile home plant in Georgia, a plant to manufacture leisure wear in Tennessee, and three plants to separate sulphur from oil produced in Alabama and Florida. Several plant expansions are occurring at a variety of businesses in Tennessee.

Outside of manufacturing, there are signs of economic strength. South Florida tourist business is vigorous. Long distance calls and telephone installations in Alabama are increasing strongly. Air traffic has picked up in the Tampa area. Retail sales are generally reported good, with one merchant noting that consumers have started to charge more of their purchases, presumably an indication of increased consumer confidence.

Construction activity is generally reported to be strong. Jackson, Mississippi, for example, is experiencing a high level of activity, and two large motel complexes have been announced recently. A shortage of skilled labor is anticipated in that area. A large residential and industrial complex has been announced for an area northeast of Atlanta. The northern Gulf Coast of Florida is experiencing a motel and condominium building boom. Residential construction is brisk in the Auburn, Alabama, area. Builders there are planning to construct speculative houses in the \$23,000 to \$27,000 class because they are moving much faster than homes in the \$35,000 to \$45,000 class. Another residential recreation project is going to be built

on a lake in east central Alabama. A \$15 million condominium is planned for St. Petersburg. Counter to the generally favorable construction news, condominiums are reported to be overbuilt in south Florida, and construction is reported to be at a very low level in Lake Charles, Louisiana, where some announced projects have not as yet commenced.

Two prominent businessmen report growing concern over the inability to lick inflation.

SEVENTH DISTRICT--CHICAGO

In the past month or so the gap between the most optimistic and the most pessimistic forecasts of total activity for 1971 in this district have tended to narrow, moving toward a middle ground. Prospects for either a second slide-off in activity or a vigorous upsurge appear to have faded. Continuance of the gradual uptrend, dampened by the steel inventory reduction after August 1, is now the general expectation.

Also in recent weeks, sentiment has jelled more firmly in the view that price inflation is not subsiding significantly, and indeed, may accelerate. Inflation psychology is credited with a role in the strengthening of long-term interest rates, which are supposed to incorporate an allowance for the potential reduction in the purchasing power of the dollar.

Reports of purchasing agents in the Chicago area in recent months have indicated a continued moderate rise in orders, shipments, and inventories. Order backlogs have stopped declining, but no building is evident. Profit margins are believed to have continued to deteriorate on average through May. Employment continues to edge down for these firms on average. Increases in prices paid to suppliers are almost as common as a year ago, while decreases are rare. This general picture also is reported by certain small companies that have been good pacesetters for general activity in the past.

The improvement in business activity largely reflects developments in consumer goods and residential construction. In the case of motor trucks, sales of light trucks (often really family vehicles) are

much stronger than sales of heavy trucks. Demand for farm machinery picked up in the late spring from a very low base. Among the consumer goods for which business has improved in recent months are floor coverings, furniture, and some types of appliances, large and small.

A 142-day strike ended in mid-June at plants of a major laundry appliance producer. A major construction machinery producer was shut down because of a strike at a vital parts plant.

Output of "raw steel" declined in the first half of June. Mill shipments doubtless will be lower in July than in June, contrary to earlier expectations. Many steel customers are said to have hedged their requirements less fully than in prior pre-strike periods. This may reflect both the belief that no long strike will develop, and the fact that steel "chew-up" has failed to meet expectations. Steel order books for the August-September period are virtually empty.

Producers of business equipment now are highly receptive to proposals for a more open trade policy with Iron Curtain countries, even though this means exporting technology in the form of whole plants and systems.

Current reports on auto sales are difficult to evaluate. Ten-day delivery reports are strongly influenced by the timing of incentives and other special factors. Production for June is scheduled at a high 800,000 units, but some plants have been shut down for inventory adjustments, and closedowns for model changeovers will begin shortly.

Residential construction, of course, is booming with permits in the Chicago area double last year's level in recent months. Record construction of housing for the second half of 1971 seems assured, on the basis of existing financial commitments. Doubts for 1972 are

increasing, however, partly because of the uptrend in interest rates, and partly because of vacancy rates in some apartment areas. Break-throughs in modular construction of housing (union relations, etc.) are believed to be at hand.

Grain prices have increased sharply in the past two weeks because of the growing corn blight scare. Planted corn acreage is up at least 6 percent, but the blight has now been identified, in a variety of forms, in all district states--including the Illinois, Indiana, Iowa Corn Belt. Clear indication of significant damage is still lacking, but some grain traders are gambling on a heavy crop loss.

Business loan demand is increasing more than had been expected a few weeks ago. Some bankers view the recent trend in loans as a return to a more typical seasonal pattern. Banks are more aggressive in seeking CD money, partly because of an anticipated further rise in loans, but also because of a slower inflow of funds to passbook and consumer certificate accounts. Virtually all major banks now expect stable, or higher, long-term interest rates. Continued heavy total demand for funds, growth in the monetary aggregates, and continued price inflation are offered as reasons for this view.

EIGHTH DISTRICT - ST. LOUIS

Businessmen in the Eighth District indicate that the upward economic trend of recent months is continuing and they are "reasonably optimistic" about business prospects for the rest of the year. However, many businessmen expressed concern that inflation will continue unabated. Retail and manufacturing sales, production, and construction continue their upward advance from the autumn trough. Financial agencies are pessimistic as to loan demand, but report that they must continue to pay high rates for funds in order to attract savings. The outlook for agriculture and related industries is more promising now that weather conditions have improved.

Representatives of major retail outlets in the district report continuing increases in sales. Some feel that the recent rise in sales volume reflects a less apprehensive consumer attitude with respect to the economy. None indicated a relaxation of the more stringent inventory policies initiated last year, despite their belief that sales will continue to be strong through the fall.

The trend of manufacturing sales and production remains basically unchanged from last month. Manufacturing respondents indicate employment is holding steady and foresee no significant increase in hirings in the near future. The machine tool business still has not recovered from its recent slump.

Business investment continues to rise slowly, and respondents indicate that investment this year will be slightly above last year's dollar volume but less in real terms.

Both residential and industrial construction continue to expand throughout the district. Construction in St. Louis county, the largest county in the district, set a record in the first five months of this year, according to the public works director. Total construction in the first five months of this year reached \$81 million, exceeding the previous record set in 1969 by \$5 million and the 1970 total by \$26 million. Housing construction is likewise reported to be vigorous in other metropolitan areas of the district.

Loan demand has apparently lagged behind other economic indicators in the Eighth District. The decline in business loan demand at commercial banks, which began last December, seems to have ended. However, no substantial increase in commercial loan demand is expected until the end of the third quarter. One respondent stated that the prime rate is too low in light of the high rates paid on deposits, and anticipates raising the prime rate in the near future.

Despite the rise in construction, loanable funds at savings and loan associations in the St. Louis area continue to be available with little change in interest rates. This is due to the extremely rapid flow of deposits into these institutions in recent months. One savings and loan association official expressed concern about the possibility of higher market interest rates, which in view of the ceiling on rates paid, may lead to a slower rate of growth in deposits.

The outlook for agriculture and farm-related business has picked up in recent weeks. The earlier adverse weather conditions, which required many crops to be replanted, have generally improved, and farmers are now more optimistic. Increased agri-business sales were reported. Herbicide sales were especially strong, in part reflecting increased crop acreage.

Progress of government efforts to curb inflation has been disappointing to most respondents. They are concerned about recent large wage settlements which they feel set dangerous precedents for future wage negotiations. Many businessmen expressed concern about the recent acceleration in the rate of growth of the money stock. One respondent stated that this rapid growth of money will cause inflation to be an "uncomfortable yoke for some time to come."

NINTH DISTRICT - MINNEAPOLIS

Although directors of this bank have not experienced any significant increases in wholesale prices in their businesses over the past month, they are not optimistic in expectations of future costs and prices. Capital spending plans among district businessmen, while still relatively bearish, do not seem to have changed since the beginning of the year. Retailers did not experience any significant rise in consumer spending in the past few weeks but are still optimistic in their sales forecasts. Meanwhile, tourist activity, which is beginning to expand seasonally, is expected to rise about 6 to 10 percent this year over last.

Contrary to what would be expected because of the significant rise in the wholesale price index during May, the directors of this bank were generally unaware of any significant price changes in their businesses over the past month. Among industries with recent price increases are packaging materials, wholesale groceries, construction, and raw materials used in manufacturing heavy equipment. A number of directors, however, were able to cite cases where prices had actually declined over the past month--most notably, ready-to-wear clothing and apparel industries. One director felt that these recent reductions, primarily caused by an increase in foreign competition, were large enough so that retail clothing prices this summer will not be higher than they were last year. Wholesale cattle prices also have slipped in the past few weeks.

The directors did not view these recent price reductions as indications of curtailment in inflation; the prevailing opinion still seems to be that prices will continue to rise. In the construction

industry, for example, increases in steel are expected later on this summer, and another general round of price rises are anticipated after January 1 of next year. One director, who is the president of a utilities firm, said that, "purchasing agents, with few exceptions, continue to think of rather large price increases as a way of life. When anticipating future outlays, the big question is whether to build in expected cost increases of 7 to 10 percent."

Manufacturers in the Ninth District apparently have not changed their expectations regarding capital spending plans. Investment throughout the district is at a reduced level, but this is the result of decisions made as early as 1969 and not because area businessmen have recently reduced their anticipations.

Consumer spending has not changed in the past few weeks, although retailers continue to be optimistic. The directors felt that auto sales in the district were doing a little better than earlier in the year, despite a tendency for consumers to buy lower-priced units. Department store sales also appear to have picked up, largely because of the recent changes in fashions.

It is still early in the season, yet tourist operators throughout the district are already expecting an increase in summer tourist travel. A number of directors have noticed a significant increase in campers and trailers on the road, and advance reservations at resorts and motels suggest that tourist activity in the district will rise about 6 to 10 percent this year.

Mortgage interest rates in the Twin Cities have become slightly more restrictive in the past few weeks. Whereas government-insured mortgages in the Twin Cities were down to around 7 percent plus 2 points

to the seller as recently as a month ago, a minimum of 3 points is now being charged to the seller. A number of lenders also have raised conventional mortgage rates to 7 3/4 percent from the 7 1/2 percent which prevailed three weeks ago.

TENTH DISTRICT - KANSAS CITY

According to a survey of bank directors and other area businessmen, economic activity in the Tenth District is continuing to proceed at a moderate pace. Consumer spending remains steady, while construction activity continues to be quite buoyant. The employment situation is still rather soft, and no marked improvement is expected during the summer months. Farm income in the district is expected to improve somewhat over the months ahead due to a firming of farm prices and a larger volume of farm marketings. However, the prospect of firm prices at the farm level, together with anticipated increases in marketing and processing costs in the food industry, suggest that food prices will increase in the period ahead. With respect to prices in general, most respondents expressed concern over the continuation of strong inflationary expectations and felt that the current upward movement in prices would not be moderated significantly throughout the year.

Retail sales in the district are generally advancing at about last year's pace or slightly better. A variable pattern exists within the district, with retail sales showing good growth in Denver, while the rate of increase of sales in Omaha, Oklahoma City, and Kansas City is reported to be not much different from a year ago.

Residential and nonresidential construction activity is still generally vigorous throughout the district. Building activity remains quite strong in Denver, Tulsa, and Oklahoma City, but heavy construction has slowed somewhat in Omaha. In Kansas City, home builders

expressed concern that the recent rise in interest rates might act as a depressant to future building activity.

The employment picture is still less than satisfactory as many reports indicate a large shortage of summer jobs. However, wage demands of organized labor remain high. In Denver, operating engineers and teamsters settled with the concrete mix firms for an 18 percent wage increase during the first year of their contract and a 38 percent increase over the next three years.

District cash receipts from farm marketings in the first quarter of 1971 were up slightly over the same period of last year. Crop receipts accounted for all of the gain, as livestock receipts fell somewhat below year-earlier levels. During the remainder of this year, livestock receipts in the district are expected to rise moderately above year-ago levels due to the likelihood of a larger volume of fed cattle marketings, and to stronger prices resulting from increased consumer demand for beef and a cutback in U. S. pork production. Crop receipts for the rest of the year also may show improvement over year-ago levels. The recent decision by the President to rescind shipping restrictions on grain exports to Communist Bloc countries is expected to lend support to grain prices. However, feed grain prices may fluctuate widely until fall in view of the uncertainty about the impact of the corn blight disease.

The net result of these anticipated changes in livestock and crop prices suggests that the index of prices received by farmers will likely remain firm in the months ahead. If this analysis is correct, further rises in food prices are indicated, as higher marketing and processing costs in the food industry seem certain. Hopefully, food

prices will not rise as much as the 5 percent increase posted last year.

Loans at district banks continue to grow at the moderate pace of recent months. Construction and consumer loan demand remain strong, while business loan demand was most often described as "steady" or "up slightly." The recent move toward a higher prime rate by some banks in the nation was not unexpected by district bankers, most of whom thought that interest rates would continue to climb somewhat in the months ahead, with the prime rate being about 6 percent at year end.

Deposit inflows remain strong at district banks, particularly in the category of consumer time and savings accounts. Only a slight rise was reported in the larger denomination time and savings accounts, as banks appear to be adjusting the rates they pay on these deposits only enough to prevent outflows and not to attract new funds.

ELEVENTH DISTRICT - DALLAS

The economy in the Southwest is still somewhat weaker than a year ago in the opinion of economic analysts with the Southwest regional office of the U. S. Department of Labor and with the district states' Labor Commissions. However, a slim majority felt that the situation would improve by year end. But these analysts generally did not expect the current rate of inflation to change much by year end. Most expect area prices to increase about the same as nationally, and for these price increases to be mainly in consumer durables and services. In addition, they also anticipate moderate increases in both short and long interest rates over the balance of the year.

Most of the respondents view the present level of employment as about the same as it was at the end of last year. But a few analysts reporting on New Mexico and Oklahoma felt that the situation has worsened in their states. About half indicated that the unemployment problem in their region was concentrated in relatively few areas. Counties with defense industries or Indian reservations and counties in southwestern New Mexico and in southern Texas are feeling the pinch in particular. For the district as a whole, defense-related industries were cited as industries in which unemployment problems were most severe. However, a number of other industries were also reported as suffering high unemployment in the different district states, including transportation equipment, electrical equipment, general services, and construction.

Moreover, the outlook for employment in the Southwest is not particularly promising. Only about half of the respondents felt that the situation would improve somewhat by year end, with the others anticipating no change or some further increase in unemployment. Also, everyone thought the outlook for summer employment is particularly bleak.

Those that expected some improvement in the unemployment situation felt that it would be selective, likely to occur principally in construction, manufacturing, trade, and state and local governments. Those anticipating no change or a worsening in unemployment emphasized the anticipated growth in the labor force. They pointed out that the labor force had increased substantially since a year ago, reflecting in part returning veterans, entering youth, and migration. Moreover, it is anticipated that virtually every labor category, with the exceptions of unskilled and agricultural labor, will increase between now and year end.

Most did feel, however, that the impact of unemployment had fallen less on minority groups in past months than it had in other periods of economic slowdown. But they thought that the outlook for minority group employment was no better or worse than that for workers as a whole.

District economic indicators available since the last issue of the Red Book continue to evidence a mild upturn. Registrations of new passenger cars in Dallas, Fort Worth, Houston, and San Antonio were 8 percent lower in May than in April, but continued to be 9 percent greater than the same period a year ago. Department store sales were 9 percent

higher in the four weeks ended June 12 than for the corresponding period a year before, and 8 percent higher on a cumulative basis this year than for the same period last year. The Texas Railroad Commission, however, reduced Texas oil production allowables from June's allowable of 75.4 to a factor of 68.7 percent for July. New Mexico also cut her production allowable for her southeast fields from 80 barrels to 70 barrels a day per well.

Agricultural conditions in the Eleventh District remain somewhat precarious. Recent rains have failed to totally break the drought in Arizona, New Mexico, and Texas, and arrived too late to aid the small grain crops. Range and cattle conditions in the four western states remain substantially below the ten-year average due to drought stress. The outlook depends largely on the adequacy of water supplies, both irrigation and rainfall. Arizona and New Mexico both face possible water shortages, but at this time irrigated crops throughout the district are progressing well.

TWELFTH DISTRICT - SAN FRANCISCO

Economic activity is continuing to expand moderately according to reports from bankers and businessmen in the Twelfth District. Some sectors, such as lumber and plywood, are experiencing an expansion in demand, while other industries, particularly aerospace, are facing the prospect of further declines. Consumer spending is a source of support, being generally about 10 percent higher than the same period a year ago. Demand for bank loans is also reported as higher in most areas.

Retail sales are growing at a reasonable rate in most areas of the district. There are variations between areas, but a 10 percent gain over last year is common. Part of this increase is due to higher prices, but much is due to vigorous promotional efforts. In the Seattle-Tacoma area, aggressive sales efforts by local department stores have stimulated more buying, despite the continued low level of local business generally. Similarly in southern California, the larger chain stores through heavy promotion are managing to increase sales, while smaller merchants are having difficulty even in maintaining sales levels. Sales of large appliances are showing only a slight improvement, with consumers remaining cautious and buying selectively.

Automobile sales reflect this mixed picture. In total, sales are somewhat higher, but not all types of cars are doing equally well. The greatest increases are being registered by domestic compact and foreign cars. In one southern California market, foreign cars make up 40 percent of the total. Full-sized cars are not doing well. In

consequence, car sales are described variously as "slow" or "lagging" by some, and as showing a "marked increase" by others. Many buyers apparently have been turning to used cars, for which the demand seems to be quite strong.

The construction market is continuing to expand, especially for new residential housing. One Oregon banker described housing as "a bright spot on the horizon." The demand for mortgage loans remains strong, although mortgage rates have risen approximately 1/4 percent, and further rises might occur. Commercial construction is also strong in such areas as San Francisco. On the other hand, rising construction costs caused one large food processing company to hold back on planned capital expenditures.

Industrial activity continues to show weakness. In southern California, there is concern over the decline of the aerospace industry. Prospective strikes in the steel, copper, and metal industries are also a dampening influence for some manufacturers. A large oil company has experienced a smaller sales volume in recent months, with lack of demand for gasoline and jet fuels being most important in lowering sales. However, this company expects that the projected recovery of the economy in the second half of this year will stimulate gasoline sales.

In contrast, higher lumber and plywood prices have been stimulating the timber industry in Oregon and Washington. Similarly, there are also good prospects in district agriculture. Cattle prices are holding up, and in Oregon the weather has been favorable for most crops.

The overall expansion in the economy is apparent in the rising demand for loans. Bankers throughout the district report stronger demand for most categories of loans--business, personal, and mortgage. Mortgage rates are somewhat higher, and many banks report paying higher rates on time deposits in both the CD and open-account categories. Some expect a higher prime rate. Some banks also are taking actions to restrict loans, screening loans more closely and setting more restrictions on future mortgage commitments. Therefore, despite weakness in some areas and industries, demand for finance is higher as a reflection of the gradual expansion of the district economy.