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CURRENT ECONOMIC COMMENT BY DISTRICT

Prepared for the
Federal Open Market Committee
by the Staff

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Summary*

In general, the District banks report continuing business expansion and a good measure of optimism about future prospects. With few exceptions, retail sales are reportedly doing well. Home building nationwide has fallen back from peaks earlier in the year, but remains very strong in selected areas. Commercial banks are experiencing good loan demand from consumers and small business, while demand from national corporations is more restrained. The employment picture appears to have strengthened a bit further, and expectations of further employment gains were variously noted. The agricultural situation was almost uniformly described as bright, with farm output, income and investment up.

Retail sales were said to be "particularly good" in Philadelphia; strong or improving in the Richmond, Chicago, Minneapolis and San Francisco and Dallas Districts, but only moderate or mixed in St. Louis, Kansas City, New York, and Cleveland. Atlanta and Boston report that the summer tourist season had been strong, but Boston said that vacationers had been "quite careful" with their money. Chicago noted a significant rise in domestic airline traffic.

There was some evidence of increased capital spending. Philadelphia District businessmen expect to increase plant and equipment expenditures within the next six months. Chicago reports that most District producers of capital equipment have been experiencing higher sales and orders, with good prospects for the future. New York also cited some evidence of a strong capital spending outlook for 1973, and Atlanta reported the announcement of several large commercial construction projects, including hotel and office buildings. A survey by Minneapolis found a significant increase in local firms reporting plant capacity as "less than needed".

*Prepared at the Federal Reserve Bank of New York.

Construction activity remains at a high level, but District trends are mixed. Atlanta characterized building activity in its District as being of boom proportion. A generally favorable construction picture is also reported by the Richmond and San Francisco Banks. St. Louis reports that while construction activity has apparently levelled off, it has done so at a relatively high rate. Similarly, though the Dallas Bank reports a decline since June, it notes that such activity remains well above last year's level. Cleveland states that residential contracts appear to have peaked in the May-June period and to have declined sharply in July.

The nationwide employment situation appears to have improved further on balance. Richmond reports increases in employment and hours worked per week, and both Richmond and Atlanta found shortages of labor in some areas of their Districts. New York noted shortages of skilled construction workers, and Chicago reported both an increase in help wanted advertising and inadequate supply of quality workers. The unemployment rate is down further in San Francisco. Some other reports pointed to little current change in the job market but, among these, Philadelphia and Dallas found some evidence pointing to future improvement.

Reports from some Banks indicated that concern over inflation remains strong. A number of New York's directors cited the inflationary implications of the large and widening Federal budget and of the heavy calendar of wage negotiations in 1973. Businessmen contacted by Philadelphia expected inflation to be more of a problem in the future. Encouragingly, however, Kansas City found evidence in the agricultural situation that the pressure would be off food prices for the remainder of the year. In this connection, most Banks discussing agriculture--Chicago, St. Louis, Kansas City, Dallas and San Francisco--all reported good agricultural prospects as a result of both higher prices and high production, though Richmond said the outlook in that District is for reduced crops and farm income.

FIRST DISTRICT -- BOSTON

Business conditions were generally described as good, if not exuberant, but no one was experiencing either a general building of inventories or heavy capital spending.

While our director from Martha's Vineyard reports that that resort area had a busy season, he noted that vacationers were quite careful with their money. Take-out places and moderately priced restaurants fared much better than the expensive restaurants. Higher consumer spending was evident, however, by the increasing numbers of vacationers with their own boats.

Our bank directors experienced different trends. A New Hampshire banker reported that his savings deposits were up 20 percent in August, while a director from a large Boston bank stated that his savings deposit flows have been stable for the last three months. Neither reported a softening of residential mortgage interest rates. Both banks were experiencing heavy business loan demand. In New Hampshire, this came from a seasonal buildup of shoe inventories. The Boston banker reported that loans to local businesses were stable and that his sharp growth in loans came from other areas of the country, mainly from real estate and REITs, finance companies, and some national businesses.

Business orders were reported as very good for carbon black (a raw material used in manufacturing tires), with a big pickup in the last ten days of August. Despite the good orders, the company may be forced to close a thermo-black plant in Louisiana because that plant has become unprofitable owing to a 100 percent increase in natural gas prices. The company cannot raise its prices because the company as a whole would not meet the Price

Commission's profit margin test. In part, this is because of the Commission's rule which does not allow the inclusion of interest payments in calculating costs. Since this firm is a major factor in this field, no other company producing thermo-black can raise its price either.

Professors Samuelson and Wallich, the two academic respondents contacted this month, both expressed concern over the possibility that the rapid second-quarter growth will be continued. Both were prepared to let interest rates tighten under the stimulus of a growing economy. Wallich noted that higher short rates would have the benefit of strengthening the dollar. He proposed a 6 to 7 percent ceiling on the rate of growth of the money stock.

Neither respondent found an economic reason not to raise the discount rate. Expressing surprise that the rate has not been raised already, Samuelson stressed his general philosophy of two-way flexibility for both reserve creation and discount policy. He would find no inconsistency in tightening now when economic conditions seem so favorable, but remained prepared to reverse this policy in the future in the event that prospects deteriorate.

SECOND DISTRICT -- NEW YORK

The views of this Bank's head office and Buffalo Branch directors on the economic situation and outlook remain about unchanged. On balance, the directors believe the recovery is continuing, and they remain reasonably optimistic about the outlook. The primary concern voiced about the future was the prospect for worsening inflation. It was stressed that the collective bargaining calendar for 1973 is heavy, the Federal deficit is large and widening, and that wage and price controls might be dismantled prematurely. On the brigher side, several directors cited evidence of a strong capital spending outlook for 1973, and there were a number of comments that indicated further improvement in the local employment picture.

The performance of retail sales were generally pictured as little changed from the recent past. Retail demand was described as strong in New York City, Rochester and Jamestown. One banker director did say his information indicated a somewhat mixed picture in the upstate area, but went on to attribute that to special local factors such as bad weather. Several directors also observed that retail sales are generally stronger in the suburbs than in the central cities, and that back-to-school buying had been encouraging.

Concerning prospective business plant and equipment outlays, several directors felt such outlays would rise rapidly in 1973. An upstate banker said he expected "very strong" capital spending on the basis of his bank's loan commitments for "pay out" in the first half of next year. A senior official of the largest upstate firm also expressed confidence that capital spending would show "an impressive gain", in part as a result of the ample availability of both external and internal funds. The president of a major oil company saw the possibility for an improvement next year in his industry's capital spending picture, following the drop that had occurred in 1972. Another director also foresaw continued rapid growth of capital outlays by municipal governments. On the other hand, one upstate banker stated that he did not look for a significant upgrading of existing capital spending plans, and an upstate manufacturer pointed to the current level of unused capacity, as well as to the uncertainties related to the election, as factors currently inhibiting the expansion of capital spending plans. Also, the president of a large metal producing firm stated he was "not bullish" with respect to plant and equipment spending in the metals industry, in part because of continued excess capacity and depressed profits.

The directors, with some exceptions, felt the current demand for commercial and industrial bank loans was not particularly strong. The major exception was the chairman of the board of a large New York City bank, who stated that there had been a substantial pickup in commercial and industrial loans at his bank since mid-year. An upstate banker reported some strengthening in connection with a continued rapid growth of capital outlays by municipalities. The New Jersey banker reported a good loan demand from local businesses, but noted that borrowings at his bank by national corporations has as yet remained modest. Also, several upstate bankers characterized current commercial and industrial loan demand as "quite soft". One of these bankers, however, said the current weakness might be seasonal, and that he was expecting a strengthening in demand in the coming months. The senior official of the largest upstate firm also felt loan demand was picking up, but not as rapidly as might be expected in the light of the pace of the economic recovery--a fact he attributed in good part to the current highly liquid positions of many large corporations. Similarly, an upstate manufacturer observed that current industrial cash flow seemed sufficient to fill normal financial needs. The president of the major oil company reported that bank credit to the petroleum industry had been declining since mid-1969, partly because of increased reliance of those firms on the commercial paper market.

The responses concerning the employment picture were encouraging. Continued strength was reported in the Rochester area, where there is now a shortage of skilled personnel, especially in the construction industry. A similar assessment was made by the New Jersey banker who, as an example, reported that his bank has had difficulties in obtaining people to build a new bank building. And, the president of the major metal producing firm noted that the employment situation in the coal industry has continued to improve.

Finally, broad concern was expressed by the directors over the outlook for wage and price inflation. References were made variously to the "unhealthy" Federal budget situation, to the heavy collective bargaining calendar for 1973 and the possible pace-setting effect of large wage settlements recently negotiated in Canada, to the prospect for higher gasoline and heating oil prices later this year as supplies run short, and to fears that existing wage and price controls might shortly be scrapped.

THIRD DISTRICT -- PHILADELPHIA

Area businessmen continue to be optimistic about the Third District economy. Production activity is continuing to increase. The employment picture is practically unchanged but is expected to be better in six months. Retail sales are brisk and expected to hold up through the fall. Seasonal doldrums which are said to be typical for September are holding bank deposits back. Loan demand from national borrowers is weak, but consumer, real estate, and small business loan demand is good. Business investment in inventory and plant and equipment is seen rising slowly in the months ahead. Over half of the businessmen contacted look for rising prices in early 1973.

Most manufacturing firms in the Third District responding to the Bank's monthly business outlook survey report new orders and shipments are either constant or increasing. The survey also indicates that manufacturing activity is expected to rise for the next six months. Employment prospects are improving. A growing minority of firms have expanding payrolls. The six-month outlook is promising; 40 percent of the firms foresee increased hiring by spring. However, the majority of firms still foresee no particular growth in their payrolls. Over half of the firms surveyed are not changing the number of employees or the length of the average workweek, and they don't plan to do so in the next six months.

Retail sales have been "particularly good" since tropical storm Agnes, which kept shoppers at home earlier this summer. Sales have moved up nicely on a broad front and are expected to continue strong this fall.

Philadelphia bankers report that deposits are coming in slowly, but that this is normal for September. One banker stated that he could get all the time deposits he wanted by raising interest rates but that demand deposits were hard to increase. Business loan demand from large national borrowers is sluggish at the contacted banks; one banker attributed this to the large corporation's easy access to the commercial paper market. In contrast, loan demand from local businesses, real estate buyers, and consumers is reported strong.

Area businessmen are not contributing to inventory expansion; the number of firms reporting inventory increases is about equal to the number of firms cutting their inventories. However, six months from now half the responding businessmen expect to be increasing inventories, compared with 17 percent who plan decreases.

New plant and equipment expenditures within the next six months are expected to increase, but the number of firms planning such expenditures dropped slightly from last month's survey.

The responding businessmen expect inflation to be more of a problem in the future. The percentage of respondents expecting more inflation increased slightly from last month's survey. About one in five are paying and receiving higher prices this month; over half currently expect prices to rise within six months.

FOURTH DISTRICT -- CLEVELAND

Key indicators of economic activity in the District reveal some signs of hesitation in recent months. Nonfarm payroll employment declined slightly in June and again in July; the insured unemployment rate continued to improve in August, however. Residential construction contracts appear to have peaked in the May-June period, and declined sharply in July; non-residential construction remains sluggish. Our electric power indexes of manufacturing activity are reflecting temporary leveling tendencies or slower rates of increase in a number of metropolitan areas. The performance of the manufacturing sector should begin to improve as inventory building gathers momentum. Steel-industry economists see evidence of near-term improvement in their industry.

Preliminary returns from our monthly survey of manufacturers indicate that new orders, shipments, and backlogs continued to rise in August, but at somewhat slower rates than earlier in the year. Inventory accumulation continued for the fourth consecutive month, with the largest percentage of firms reporting higher stocks since early 1970. (Our survey has detected no decline in new orders in more than a year, no decline in shipments since the end of the recession, and no decline in backlogs since last autumn. Inventories, however, were being liquidated through the month of April.) Firms also reported little change in labor utilization in August, a lengthening in delivery time, and no easing in price increases.

An economist from a large retail concern headquartered in the District reported that areas producing consumer durables have experienced very strong department store sales in recent months, while areas specializing in producers' goods have had sluggish retail sales. In general, sales of sportswear, cosmetics, and household furnishings have been good, recreational goods mediocre, and air conditioning terrible. His opinion is that consumers are highly price conscious and appear to be displaying much resistance to price increases.

Several major machine tool companies in the Cleveland area indicate that orders are rising sharply, although they have a long way to go before reattaining previous peak order levels.

According to several steel-industry economists in the District, third-quarter shipments are registering only the normal seasonal pattern--a disappointment to some analysts who expected a pickup. Orders have not been outstanding. Steel ordering for heavy construction and industrial construction (still below normal) seems to have bottomed out. There are signs of a modest improvement, but the real strength from this sector is not expected to come until 1973. The economists say the order outlook from the consumer sector promises to be very strong for the fourth quarter. Some hedge buying in anticipation of a steel price increase on or after January 1 could occur over the next few months. According to one steel industry economist, competitive factors, rather than the Price Commission, have held down steel prices. The industry is in a position to raise prices on January 1 (when its self-imposed price freeze ends) if market conditions are favorable. The economists expect the steel industry to have a better year in 1973, with capital goods providing the stimulus and consumer goods demand about level with this year.

FIFTH DISTRICT -- RICHMOND

No important changes in current and prospective conditions in the Fifth District have occurred since the previous survey. Manufacturers report a slight decline in shipments and increases in new orders and backlogs. Increases are reported in employment and hours worked per week. Construction activity remains strong and the demand for all types of loans is up. In general, businessmen and bankers remain optimistic about the economic outlook for the District.

The diffusion of responses from District manufacturers indicates a slight decline in shipments, while new orders and backlogs are up substantially. Increases in both orders categories were reported by manufacturers in such important District industries as textiles, electronics, and steel. For the first time in several months, increases in manufacturing inventories were reported. Inventory levels relative to desired levels also increased, however, suggesting that some of the increase in inventories may have been unanticipated.

Retail sales continue strong in the District. Nearly three fourths of the banking respondents reported increases in general retail sales in their areas, and more than one half reported increases in automobile sales. Contact with several District retailers indicates that they continue to experience sales increases.

Increases in employment and hours worked per week were reported by District manufacturers. Trade and services respondents indicated an increase in employment but no change in hours worked per week. On balance, responses from manufacturers show an increase in wages paid and a decrease in prices received. More than one fifth of the manufacturing respondents reported declines in prices received. Several respondents mentioned a shortage of both skilled and unskilled labor in their localities.

Reports from District bankers, while showing increases in both residential and nonresidential construction, indicate that the pace of the advance in construction activity has slowed some, compared with the previous reporting period. Even so, approximately one third of the banking respondents report increases in construction in their areas.

In general, reports from bankers indicate that loan demand remains strong. More than one half of the banking respondents reported increases in the demand for business, consumer, and mortgage loans.

Crop prospects, as of August 1, were generally not as good as those in 1971. The outlook for reduced crop production reflects both smaller acreages for harvest and lower yields per acre. Total cash receipts from farm marketing during the first half of 1972 were 4 percent above a year ago, but the gain was only half the size of the national increase. To date, the 1972 flue-cured tobacco marketing season has been marked by strong demand, good quality tobacco, and unprecedented record-setting prices.

Businessmen and bankers in the District are optimistic about the economic outlook. Nearly 80 percent of the banking respondents believe that business activity in their area will increase in the immediate future.

SIXTH DISTRICT -- ATLANTA

Businessmen generally report that spending and production are advancing. Business sentiment is bullish. One of the leading sectors is construction, especially in Florida and Atlanta.

According to one report, "there has never been a housing boom to compare with the current statewide boom in Florida". There have been a number of large projects announced such as a 31,500-acre community development in southwest Florida, a $600 million residential-hotel-industrial complex to be build on 2,700 acres south of Orlando near Disney World, and two beachfront condominium projects in northeast Florida totaling $16 million. Building permits in the Miami area are reported to be running 20 percent over previous record levels.

The construction outlook is strong elsewhere, especially in Atlanta where several large projects have been announced, including a 1,200-room hotel, an $80 million planned community, a 600-unit high-rise condominium, two fifteen story office buildings, a large second-home and resort community, and a community of 950 single-family homes. Commercial construction is also setting the pace in New Orleans where two skyscrapers have recently been announced, one to be the tallest in the southeastern addition. The mobile home industry reports to be booming throughout the District.

All indications are that the summer tourist season was very strong outside Miami. Most central Florida attractions had good attendance, and most of these attractions are planning to expand their operations. Opryland near Nashville projected that its first season attendance would be one million, but it had an attendance of 0.7 million by Labor Day and is planning to spend $3 million on increased entertainment. The Tennessee Walking Horse Festival this year was attended by 133,000 versus 123,000 a year ago. In Knoxville, it is reported that a company has bought land with the idea of building another large amusement park. Oddly enough, a study by the state of Florida following the Democratic convention found that "delegates spent virtually no money on activities which are followed at typical conventions and their presence kept away the usual summer tourists." Large numbers of vacant hotel and motel rooms have been reported, and many of the so-called "glamour night spots" have reported a low average summer season.

There have been a number of new plant announcements, the largest being a $280 million oil refinery in Pascagoula, Mississippi. When a plastics plant recently opened in Jackson, Mississippi, the company announced that it would be adding a facility twice the size of its new plant. Other recent plant announcements include a mobile home plant in north Florida, a plastics plant in Nashville, a plumbing fixtures plant in Knoxville, and a cement plant in the Miami area.

There is a labor shortage in several areas of the District, evidenced in central Florida by an increase in help-wanted advertising on television and radio.

SEVENTH DISTRICT -- CHICAGO

The view that a vigorous business uptrend will continue through mid-1973, with possibly slower growth in the second half of the year, is becoming increasingly common in the Seventh District. Employment continues to edge up, and unemployment is becoming less burdensome, except for some centers in Michigan. While some manufacturers are not satisfied with the degree of improvement in their orders, we do not know of any sectors where demand is weakening. (Apartment building in the Chicago area may be an exception.) Retail sales appear strong, both hard and soft goods, but savings inflows to financial institutions remain at a high level.

Help-wanted ad volume in major newspapers has increased substantially this year but remains well below the levels of the late 1960's. Some employers find the supply of quality workers to be inadequate. Night shifts are hard to staff, despite the offer of premium pay. Many employers are hard pressed to satisfy standards for "affirmative action" in hiring more women and minority group people in the face of company policies to hold down total employment. Companywide ceilings on total employment, particularly for "overhead" types, are common. Adding employees requires more "red tape" than in other upswings. Aside from arbitrary ceilings, requirements for new hirings include: (1) approval at a higher level of management, (2) written justifications, and (3) more frequent reports on the employment status of individual departments. Partly because of price controls, manufacturers are prepared to let delivery times lengthen rather than incur the costs associated with additional hirings of recruits of doubtful quality.

Obviously, the tight policy on new hires is a major factor favoring large increases in productivity. These conditions presumably will change if the general upswing continues at the rate anticipated.

The prospective rise in the minimum wage would not affect starting pay in most District industries, except for retailing. (Not all retailers would be affected.) However, a substantial rise in the minimum wage is expected to "ratchet" pay scales for relatively low-pay jobs that are above the minimum.

Gas, electric, and telephone utilities report strengthened demand for their services. There is little threat of electric power shortages in this region, in the short run, but prospective supplies of fuel oil and gas for heat appear to be inadequate. A large Michigan utility has warned "interruptable" industrial customers that they will receive no gas in the fourth quarter of 1972, and possibly not in the first quarter of 1973.

Attitudes toward price and wage controls vary greatly by industry. Truckers claim that they are in a wage-price squeeze. Oil firms warn of "incipient" shortages of both gasoline and home-heating oils, partly because of price controls. At the other extreme, the chief executive of a large Chicago-based airline thinks that the controls were an absolute good, and have made it "possible for his firm to move from large deficits to a modest profit". Incidentally, domestic airline traffic is now well ahead of last year, after a pause in May. A fairly steady annual growth of 9 to 10 percent in passenger seat miles is foreseen for the rest of the decade.

Most producers of capital equipment report higher sales and orders and good prospects for the future. Outlays for pollution control have top priority and sometimes displace other items in capital spending budgets. Some District firms are negotiating sizable deals with the USSR. Russians are among the large attendance at the ten-day international machine tool show that opened in Chicago on September 5. (Officials believe this show to be the largest industrial exposition ever held in the United States.) Foreign demand for a variety of types of producer equipment has improved, with the United Kingdom the only soft spot among major nations.

Among the sectors that are not participating in the rise in capital spending are petroleum, the railroads, and industrial construction. There is little likelihood of a pickup in these sectors in the remainder of 1972 or in early 1973.

Apartment building has slowed significantly in the Chicago and Indianapolis areas in 1972. (More apartment buildings would be built in Chicago suburbs if zoning restrictions were relaxed.) In Detroit and Milwaukee, on the other hand, apartment building has strengthened relative to single-family homes in 1972. Overall, residential construction is strong. Where permits have declined, it is lack of effective demand rather than credit stringencies.

EIGHTH DISTRICT -- ST. LOUIS

Economic activity continues to advance in the Eighth Federal Reserve District, according to a selected group of business representatives. Factory output continues to show moderate gains for a wide range of products. Retail sales have risen further in recent weeks on a seasonally adjusted basis. Construction has apparently leveled off but at a relatively high rate. More firms reported moderate increases in employment in recent weeks than heretofore. Some businessmen reported plans for increased investments next year but pointed out that current profit levels are not sufficient to provide incentive for major investment programs. Farmers continue to view the current year's prospects with optimism, as higher gross and net incomes are in prospect.

Sales at most major District department stores have continued to increase moderately on a seasonally adjusted basis. Increases are being recorded throughout all departments. All the gains in the St. Louis metropolitan area, however, are at stores located outside the central city. Sales at central city stores have not increased during the current upswing in economic activity.

An increasing number of firms report moderate gains in number of employees. Specifically mentioning additions to their labor force were agricultura supply, chemical, and corrugated paper manufacturers. The unemployment rate has declined to relatively low levels throughout the District with the exceptions of St. Louis and some small areas in southern Indiana.

Construction continues at a very high level throughout the District with the exception of the St. Louis SMSA. Businessmen in St. Louis report that excessively high labor costs are inhibiting new commercial construction in the area. Home building has generally stabilized but at a relatively high level throughout the District.

While most of those interviewed believe that we have passed the trough in new investment, few major investments are reported by larger manufacturers. A representative of a corrugated paper and box board firm reported that this industry is operating at capacity, but little new plant investment is contemplated at current profit levels. Other businessmen also expressed the view that the low level of profits in relation to sales was inhibiting new investment. Most of the Eighth District investment in new plants is outside the St. Louis SMSA. The metropolitan areas and the smaller cities and towns in the southern portion of the District are attracting most of the new manufacturing plants. Commercial expansion in St. Louis is generally limited to investments in new shopping centers in the outlying areas.

Agricultural conditions remain favorable to producers, weather conditions have been satisfactory, crop prospects are generally good, and prices are sufficient to provide for profitable incomes to efficient producers. Many cotton farmers have already contracted their 1972 cotton crop at higher prices than they received in 1971. Meat animals are selling at relatively high prices, the quantity of feed available is adequate, and the potential profits from feeding are excellent. Farm supply industries are increasing their sales to farm customers as a result of the higher farm incomes.

Demand for credit is rising somewhat faster at District financial firms than the inflow of savings. As a result, there is upward pressure on interest rates. Some increases have already been reported in the prime rate. None of the larger banks have raised the rates paid on savings, but bank representatives report that the supply of available funds for lending has declined and rates on savings may be raised at any time in order to increase the savings inflow. Rates on mortgages have remained fairly stable, but longer term rates did not decline so precipitously as short-term rates during the recession.

NINTH DISTRICT -- MINNEAPOLIS

The economic outlook for the Ninth District appears bright, according to bank directors and area manufacturers. Continued high retail sales expectations are reported by bank directors, who also describe the one-year results of the New Economic Policy as beneficial to their respective areas. Aided by the policy and greater demand for farm products, the District's agricultural sector is experiencing greatly improved income and optimism as well as increased investment. The results of our latest quarterly industrial expectations survey suggest continued expansion in District manufacturing activity.

Bank directors unanimously believe that retailers in their respective areas are expecting very good sales for the rest of 1972. Although a temporary slowdown occurred in August (two directors cited unusual weather conditions as the cause), most directors report that retailers' optimism has increased in the past four to eight weeks.

Directors from nonurban areas explain this stronger outlook partially as a result of strengthened income and overall financial situations in the agricultural sector. But two local developments are also seen as contributing factors: the construction of a large open-pit iron ore mine in upper peninsula Michigan and a gathering momentum in the development of fossil fuel production in southeastern Montana.

An improving business climate or noticeably rising general confidence is extensively reported by directors, most of whom feel that the past twelve months' experience with the New Economic Policy has been a major factor in creating this situation. Price-wage controls have apparently had noticeable effects throughout the District, and most directors feel that in their areas the greater effect has been on wages. According to a director from La Crosse, Wisconsin, restraint on the advance of labor costs has promoted greater economic activity locally and, without it, some significant cutbacks would have occurred.

Agriculture has also been aided by the New Economic Policy, states a director from Billings, Montana. Since farm product prices were not controlled, increased demand was allowed to pull them upward considerably while the policy restricted the advance of agricultural input prices.

Agricultural developments have been especially encouraging recently, according to all directors from agricultural areas. Regional beef markets demonstrated their strength, as prices received for feeder and partially fattened cattle held steady at very high levels despite an August decline in the price of fattened cattle. In addition, the price of wheat, another important District product, has risen rapidly, which increases the value of much District wheat help over from last year's production and a large crop now being harvested. A director from a wheat-producing area reports that, since the beginning of Russian purchasing, the price received by farmers for lower protein wheat has advanced from $1.16 per bushel to $1.46; for higher protein wheat, from $1.38 to $1.88. Throughout the District, wheat yields this year apparently are near last year's record highs.

Agriculture also appears to be the main beneficiary of another part of the New Economic Policy: according to three bank directors, the investment tax credit has greatly stimulated the purchasing of farm machinery and equipment this year. A director from South Dakota does not feel that investments induced by the tax credit have been confined to agriculture, yet urban directors are not able to identify any they feel have been significantly encouraged by it. Those reporting major construction projects in their areas, however, feel that investment related to these projects may have been accelerated.

Continued expansion in District manufacturing activity is foreseen by respondents to our third-quarter industrial expectations survey. The value of goods sold by District manufacturers surpassed last year's level by 9.5 percent in the second quarter and is expected to increase at a slightly faster rate during the last half of this year before recording a 7.5 percent gain in the first quarter of 1973. Durable goods producers were more optimistic than they were in the previous survey, but manufacturers of nondurables did not significantly revise their earlier sales expectations.

District manufacturers' favorable sales outlook is also reflected in their attitudes toward the adequacy of their inventories and plant and equipment. In the current survey, 20 percent of the respondents considered their inventories "low", 10 percent termed them "high", and the remaining 70 percent described them as "about right". One year earlier, 23 percent referred to their inventories as "low" and 11 percent "high". In addition, considering anticipated sales gains, 27 percent termed their plant and equipment capacity as "less than needed" and 12 percent regarded them "excessive". These percentages were reversed in the survey conducted in the third quarter of 1971 but, in both surveys, about 61 percent of the respondents felt their plant and equipment were "about right".

TENTH DISTRICT -- KANSAS CITY

The strength in consumer spending which was reported in the most recent GNP data does not appear to be uniformly reflected in the performance of a number of Tenth District large department stores. Reports of strong recent sales were less frequent than were reports of only modest to little improvement, with poor weather or discount competition usually cited as reasons. On the price front, retailers were about equally divided in their reports of further price increases from their suppliers, although even those who have experienced such increased reported that both competition and price controls have served to restrain the degree to which they could pass these on to their customers. During the month ended August 15, the index of prices received by farmers advanced to a new high, a factor which should underscore the sharp rise in Tenth District farm income reported in the last Red Book. However, the softness that has prevailed in slaughter cattle markets up until last week may dampen some of these gains despite the strong uptrend in grain prices. Loan demand continues strong at Tenth District member banks, and the general consensus of those banks interviewed is that the present level of loan demand will hold steady or increase somewhat over the remainder of the year. Unlike the near consensus which emerged last month in conversations with Tenth District manufacturing firms reporting much improved sales, discussions with a number of large department stores in the Tenth District elicited mixed opinions. With one exception, all respondents reported that sales were up, but the degree of recent improvement varied from city to city. Generally speaking, the Kansas City and Oklahoma City sales picture was stronger than was the situation in Denver. In Omaha, a large national outlet reported very strong sales while a local independent reported sales below a year ago--the only respondent to do so, citing strong competition from new shopping centers which has hurt their sales.

Strength in furniture sales figured prominently in most reports of improved overall sales. Inventory behavior at the retail level still remains conservative. No stockpiling appears to be in evidence, as inventory investment is reported keeping pace with the current level of sales. Most respondents expressed optimism regarding the prospects for sales during the remainder of the year. When asked about price increases from suppliers, the replies were about evenly divided among those who reported further price increases and those reporting that their suppliers were holding the price line. Even in those cases where supply prices had been raised, those firms indicated that their ability to pass these increases on to their customers was constrained by their local competitive situation or by current price regulations.

The index of prices received by farmers advanced to a new high during the month ended August 15. Since then, grain prices have been generally stronger--reflecting large sales to the Soviet Union as well as growing demands elsewhere--while livestock prices have averaged lower until very recently. Slaughter cattle prices, in particular, have been unusually soft, falling almost $5 per hundredweight from early July to late August with only a moderate increase in slaughter rates. Cattle prices so far in September have been stronger. Although cattle prices will probably remain reasonably stable, showing perhaps some firmness between now and the year-end, hog prices are expected to decline seasonally from the near-record high levels that currently exist, as the volume of marketing increases this fall and winter. Thus, the recent abatement of wholesale meat prices, together with the prospects for some further decline, likely will remove most of the pressure on food prices during the remainder of the year.

Loan demand continues strong at Tenth District member banks. Among larger banks, where detailed data are available, demand is especially strong for business real estate and consumer instalment credit. Tenth District weekly reporting bank statistics show this strength, and it is confirmed by interviews with banks throughout the District. Several banks report increases in loan commitments particularly to finance companies. In Kansas City, grain sales to Russia have also produced increased commitments. Commitments for real estate construction, agriculture, and international trade are also reported to have increased at one Denver bank. In response to the strength in loan demand, some banks have instituted changes in lending policies. A respondent in Tulsa and one in Denver report preferences for lending at shorter maturities. Another Denver bank is attempting to hold real estate loans at their current levels in order to increase loans in other lines. The general consensus of those banks interviewed is for the present level of loan demand to hold steady or increase somewhat over the remainder of 1972. In order to obtain additional loanable funds, many District banks have also become more aggressive in their attempts to attract CDs. In one instance, a bank in Oklahoma City has set its rates above those obtainable in money market centers. While the aggressiveness partly reflects the strength of loan demand, it is also in response to weakness in demand deposits that has produced outflows in total deposits.

With only one exception of the banks contacted, the prime rate now prevailing is 5 1/2 percent with about half of the respondents having raised the rate in the last week of August. The lone exception carries a prime rate of 5 3/4 percent which is justified on the basis of local loan demand.

ELEVENTH DISTRICT -- DALLAS

Most of the major indicators of economic activity within the District were weaker in July but were still well ahead of their year-earlier levels. The Texas industrial production index edged downward from June, and the District unemployment rate rose slightly. Moreover, construction activity in the District was well below its peak reached in May. Department store sales continued to improve, however, and a survey of executives of large retail stores in the District indicated that they are optimistic about business conditions in the near future.

Nearly 90 percent of the large District retailers that responded to our questionnaire indicated that they expected their sales to be better during the second half of 1972 than in the corresponding period of 1971. Moreover, a third saw their sales being much better in 1972. At the same time, over 35 percent said they expected to increase their work force moderately in the next six months (after allowance for usual seasonal change). The majority of those responding also expected their profits to be higher in the last half of 1972, compared with 1971.

Looking back over the past six months, 93 percent of these firms noted higher sales in 1972 than in the corresponding period in 1971 and sales at one third of these stores in 1972 were much higher than in 1971. For the majority of these firms, "big ticket" items were more important in the past six months than in the same period last year. Profits were also higher during the first half of 1972 at three fifths of the responding firms, with about 15 percent recording much higher profits than during the similar period in 1971.

Compared with a year ago, almost three fourths of these retail firms indicated that the present level of their inventories was greater. Current inventory levels were categorized as too high, however, by almost half of the firms surveyed, while 40 percent said their inventories were about right. Nevertheless, disregarding seasonal influences, 43 percent of these firms revealed they planned on increasing their inventories over the next six months. In response to a question on inventory procedures, well over half of these retail firms said that their inventory practices had changed over the last five years. Of this group, slightly less than half indicated that these changes meant lower inventory sales ratios while about 30 percent said that their inventory procedure changes had led to higher inventory sales ratios.

In assessing the impact of last year's currency realignments, one fifth of those responding noted substantial increases in the prices of their imported merchandise, while two thirds reporting that the prices of imported goods had increased moderately. Two thirds of the managers of the firms surveyed said they also expected retail prices to increase somewhat in the next six months, but none said they expected substantial increases.

The seasonally adjusted unemployment rate for the states in the District rose moderately in July despite an increase in total employment. Decreases in employment in both durable and nondurable manufacturing apparently were responsible for the rise in the unemployment rate. The seasonally adjusted Texas industrial production index also declined in July but still remained 10 percent above its year-ago level. All industry sectors share in the decline, as only a few individual industries showed month-to-month increases. Among those declining the most were the transportation equipment, food and kindred products, and apparel goods industries.

Total construction activity also fell sharply in July for the second consecutive month, as both residential and nonresidential building declined. Construction activity appears to be reaching more sustainable levels after reaching a peak in May and still remains well above last year's level.

District oil producing states continue to produce at maximum levels. New Mexico has made some revision in its market demand pro-rationing system in light of the continuing full production situation. The maximum production schedule has also encouraged drilling operations, particularly in Texas and Louisiana. The strong demand for gasoline from increased car sales and lower efficiency of car engines, due in part to anti-pollution equipment, has put pressure on refining capacity.

The upland cotton harvest in the southern ranches of the District is proceeding well ahead of last year's rate. Total production for the five District states is projected at 5.5 million bales, over a third higher than last year's crop, from a 12 percent increase in acreage. Both domestic and world prices of cotton are beginning to weaken, as total production is expected to exceed consumption this year. District crops in general are looking very good, and significant increases are expected for nearly all crops. Cattle on feed in Texas and Arizona on August 1 totaled nearly 2.7 million head, about one-fourth higher than last year. Reflecting these improved conditions, District farm income is expected to reach a record high this year.

TWELFTH DISTRICT -- SAN FRANCISCO

According to our directors, economic activity in the Twelfth District continues to grow at the rates established in recent months, and no slowing is foreseen in the rest of this year. Among the more important sectors in stimulating this advance are retail sales--including automobiles--construction, and agriculture. As a result, unemployment rates have been lowered still further. Bankers report steady loan demand and little change in interest rates.

Consumer spending is strong throughout the District. In Tacoma, retail sales in July equaled the previous 1968-69 peak despite a local unemployment rate of 10 percent. Southern California merchants are described as experiencing much better business than in 1971, and they expect continued improvement in the rest of 1972. Automobiles, in particular, have benefited from the greater consumer spending. In Tacoma, the number of automobiles sold was 13 percent above the same period in the previous year and, in Los Angeles, dealers describe their sales as excellent. Some dealers had a "sell-out month" in August for 1972 models, and they are going into the new-model year with low inventories and optimistic expectations. Both domestic and imported cars are sharing in these gains.

Agricultural prospects similarly are good in most District states. Livestock prices are expected to remain high, and the only problem for ranchers appears to be a shortage of feeder cattle in some areas. Potato prices are reported at being at an "all-time high", and good crops are being harvested in Idaho and Washington. Above-average prices exist for other vegetables and fruit crops. In some cases, the prices reflect smaller plantings, and in others, such as fruits, the higher prices are due to smaller crops caused by bad weather. Good yields are in prospect for such crops as wheat, corn, and sugar beets.

Lumbering activity remains high in the Pacific Northwest, as the leveling-off in national construction activity is being offset by stronger demand for wood products from other sectors of the economy. The continued strength in the timber industry has been an important factor in lowering unemployment, especially in Washington.

Construction in most parts of the District remains at a generally high level. There are, however, variations by region and by type of construction activity. Residential construction is buoyant in most areas, and in some cities, such as Salt Lake City, is at record levels. One exception is Alaska where a decline in residential construction has occurred, but this has been offset by more commercial projects. Commercial construction, with the possible exception of office buildings in some cities, is continuing to rise. Government construction is strongest for highways but relatively weak for public buildings and schools. Apartments are the only construction category which appears to show signs of weakness. Our directors in the Los Angeles area, Idaho, Spokane, and Portland report various signs of overbuilding. Vacancy rates are climbing, and in one city several savings and loan associations have stopped making loans for apartment construction. The overall consensus is that construction will maintain its current levels for the rest of 1972.

Little change has occurred in District banking conditions. Loan demand especially for business loans remains strong, and moderate increases in deposits, with a few exceptions, are reported. Some bankers expect a slight increase in interest rates but not a major change.