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CURRENT ECONOMIC COMMENT BY DISTRICT

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by the Staff

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TABLE OF CONTENTS

SUMMARY i

First District - Boston 1

Second District - New York 5

Third District - Philadelphia 9

Fourth District - Cleveland 12

Fifth District - Richmond 16

Sixth District - Atlanta 20

Seventh District - Chicago 24

Eighth District - St. Louis 28

Ninth District - Minneapolis 31

Tenth District - Kansas City 34

Eleventh District - Dallas 37

Twelfth District - San Francisco 40

SUMMARY*

This month, reports from the twelve District Banks show faint signs of optimism--not that the recession has already bottomed out, but that it is approaching bottom. The unemployment picture is grim, and there is no quick solution in sight. But inflation is abating. Retail sales are weak, and the manufacturing picture is mixed, but the inventory correction which must precede recovery is occurring. While construction activity is very soft, mortgage rates are dropping and the new tax bill provides some additional incentive to get housing going again. Agriculture is likely to be a very strong sector in the months ahead. Bank loan activity is weak throughout the country, but savings inflows should provide the industry with large amounts of lendable funds once the recovery starts.

The picture in manufacturing is a mixture of good and bad. Post-rebate auto sales have been soft for all except luxury and imported car lines. However, some progress is reported in trimming auto inventories and auto manufacturers are starting to produce some models again. In contrast, both Chicago and Cleveland report that steel production has been strong. Demand has recently begun to slacken, but in the Cleveland District, the industry is still producing to rebuild its own inventories. Kansas City reports that its area's extractive industries are quite busy. Dallas, however, notes that oil refining is now operating well below capacity as a result of declining demand for oil and a shortage of available storage capacity.

There is a concensus that the inventory adjustment process is moving along well. In manufacturing, San Francisco reports that the firms in its

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*Prepared by the Federal Reserve Bank of Philadelphia.

area are over the worst of their cutbacks, while Richmond notes that the process may continue for another 3-6 months in its District. But whether it be 3 months or 6 months, the message from all areas of the country is that progress has been significant and that production consistent with current demand is likely to begin soon. In the retail sector the signals are less uniform. In general, there have been substantial inventory reductions, but in some lines of goods more trimming will be required. Consumer durables is one example offered by Cleveland as an area which still has substantial inventories.

Whether retail sales will rebound enough to move these durables in the near future is uncertain. Retail sales in March were weak in most areas of the country. An early Easter, cold weather, and in Philadelphia a major transit strike all combined to keep sales down. Yet many Districts report that their retailers see signs of rising consumer sentiment which make them cautiously optimistic about the future.

There are also hopeful signs in other sectors of the economy. Chicago, Kansas City and San Francisco all report strength in their agricultural areas--despite the declining prices of farm products. Residential and nonresidential construction are both still weak, but the signs are hopeful. Unsold inventories of structures are said to be manageable everywhere except in the Southeast and Far West. Atlanta and San Francisco both report that builders in their region are pessimistic about the chances for a quick recovery even with the new Federal tax incentives. Elsewhere, it is expected that construction can be a positive force in turning the economy around in the months ahead. Oddly enough, tourism and leisure seem to be one of the economy's strongest sectors. Cleveland, Atlanta, Kansas City, and Minnesota all mention that industries catering to the nation's taste for recreation have been remarkably resistant to the recession. Capital expenditure plans of industry have been much less buoyant. While the process of cutting capital spending may be stabilizing, the outlook everywhere is, as Boston phrased it, "lean."

Financial institutions throughout the country are facing the same basic problem. Money is flowing into these intermediaries at a record rate, but reinvestment alternatives are limited. By default, the funds are being used to build liquidity because loan demand is very weak. Virtually every District reports declining commercial and retail loan demand.

Inflation and unemployment also conform to the "good news/bad news" theme of these reports. There is widespread optimism that inflation is being brought under control. Many examples of growing industrial competition and price cutting are cited in the District reports. There are also scattered reports of restraint in the prices of new lines of seasonal consumer goods. Relatively few shortages still remain. Kansas City forecasts that declining raw agricultural prices may enable food prices to stabilize in the second half of 1975.

The news on unemployment is less cheerful. The best that any District Bank could say is that the situation is no worse. Unemployment in most areas is still rising. It is especially severe in New England, but even some urban areas of the Midwest are feeling the pinch. Scattered reports of rehirings and fewer layoffs create an impression that, at best, the indices may soon stabilize at their current high levels.

Overall, however, the central theme of the reports is one of hope--hope that inflation is slowing, that the inventory correction is nearing completion, and that lower interest rates may stimulate housing and business investment. There is also a suggestion that the "hope" itself is very important. While the reports relay skepticism that recent tax legislation will have any significant economic impact on the economy, there is some agreement that the psychological effect of fiscal stimulation on consumer and business confidence may be very important in turning the economy around.

FIRST DISTRICT - BOSTON

Although our directors express more optimism this month, they are cautious and anticipate no great surge of activity as yet. Some express grave misgivings about Federal fiscal policy fearing that the funding of the projected deficit will frustrate private borrowing-investment programs. Others are less concerned; they recognize that the deficit is a symptom of general malaise. For February the New England unemployment rate was 10.4 percent: Rhode Island's rate was 14.2, Massachusetts' was 11.0, and Connecticut's rose to 9.2 percent.

Our directors report that banking is attempting to improve liquidity while engaging in moderate loan expansion programs. To some extent, big borrowers of quality have been able to liquidate bank loans; consequently, loans are down, and are concentrated with riskier customers. Certificates of Deposit and Federal Funds borrowing have been reduced as well. Bankers report seeking to expand consumer credit and short-term commercial loans which entail a minimum of long-term commitment. However, there seems to be no aggressive selling of loans; there is an attitude that if the customers do not materialize, the government securities market will provide an outlet for funds. The outlook is for the prime to drop maybe 50 basis points by mid-June; then, in the third or fourth quarter, it should move upward.

The directors are noticing a reduction of inventories taking place. Attempts to assess the situation for consumer goods lines in Connecticut reveal that the long pipelines between retailers and manufacturers are becoming "flatter." A director speculates that a rebound in retail sales will lead to factory orders.

Due to the reduction of inventories or acclimation to the slump, retailers are less pessimistic. However, this does not foreshadow optimism yet: A most successful major retailer in nondurables is planning a 4 percent dollar volume gain (from 1974) for spring and fall. Consumers are watching their purchases and seeking value for their money. Even supermarket chains are pursuing extensive promotions since they are only meeting their pessimistic projections.

A major New England electric utility is considering a public power takeover of its generating facilities. Before, this was unthinkable; now it is a viable option.

Capital goods suppliers respond that orders are weaker, deliveries stretched out, and the outlook is lean. One firm reports reducing its own capital outlays 20 percent from recent plans. There is no need for more capacity.

In summary, there is optimism based on a slower slide of indicators. Even directors that are beginning to sense that a foundation for recovery is being laid, expect a sluggish economy for 1975, as well as unemployment rates more than .5 percent above current levels.

Professors Houthakker, Duesenberry, Samuelson, Solow, Tobin and Eckstein were available for comment this month. They all agree that the economy has yet to hit bottom and that a credible recovery has yet to be assured. Monetary policy is the key to the rebound.

Houthakker feels that recent Federal fiscal actions may be too stimulative and too disruptive for private financing plans. He is advising that M_1 growth should average 5 percent, assuming that velocity observes its secular rate of decline. Once the recovery commences, inflation may be a real concern: He cites the European recovery and the rise in commodity price indices.

Duesenberry is reasonably content with recent policy. However, he is anxious to provide for growth of the monetary aggregates consistent with recovery: This may require temporary rates of expansion of 8 percent. He notes that household saving is heavily directed to passbook accounts and M_1 in the early stages of recovery; resisting expansion of the aggregates could frustrate investment and growth.

Samuelson senses a restoration of nerve, marking an end to the recession. But the weakness of basic demand in durables, construction, and investment goods requires continuing attention by the Fed. "It's too late to flood the market, but too early to fight the next inflation." He does not advocate exclusive interest in M_1 or M_2, but insists that the stimulative impact of monetary policy is measured by the performance of the economy.

Solow agrees that it is necessary for the Fed to support a recovery, and that fears of inflation must not paralyze accommodation. Most forecasts of recovery assume fairly aggressive monetary policy; a denial of this assumption threatens the existence of a rebound. At any rate, he also argues, there is too much slack in the economy to worry excessively about inflation.

Tobin also argues that there is such a long distance for recovery to go (once it gets started) that inflation should not be our major concern. He advises aggressive short-run monetary policy tapering off as the recovery gathers momentum; the Fed could explain that large growth rates of M_1 over some temporary period need not imply that we are locked into such a policy over the long haul. He finds it incredible that the prime is stuck above 7 percent and long-term rates are so high. Final demand is weak and there is a risk of a weak rebound leading to stagnation: "Turnaround is one thing, recovery is another." "People should derive little comfort in second derivatives when levels and first derivatives are so low." In his opinion, the economy is weak and much more stimulation is required for a return to well-being.

Eckstein sees the Fed playing the central role for recovery. A 6 percent money target is tantamount to resisting recovery. High interest rates and slow money growth undercut the rebuilding of private confidence; the Federal Funds rate may have to go below 4 percent and M_1 growth above 8 percent. He states that there is a real fear among businessmen that in 12-18 months, a money crunch may be necessary; a "swing away from stimulus now would be grossly premature," however. Once the economy regains its footing, a tapering of money growth is in order.

SECOND DISTRICT - NEW YORK

The overall impression that emerges from the responses of Second District directors and other business leaders that were contacted recently is a slowing down in the rate of decline in business activity, and that the economy might be approaching a "bottoming" point. Although retail sales, in real terms, continued below last year's levels. Retailers reported some improvement in the recent past, and, in general, were cautiously optimistic regarding the outlook for the second half of the year. Good progress toward the reduction of excessive inventories, at the retail as well as at the manufacturing level, has apparently been made. The majority of the respondents felt that most large cutbacks in business capital spending plans had already occurred. And there were scattered indications that housing activity might pick up in the coming months.

Views expressed by retailers regarding consumer spending were mixed, but, on balance, were somewhat more optimistic than in previous months. A senior official of a nationwide chain of department stores reported that, following a sluggish performance in the first two months of 1975, his firm's business had improved somewhat in March, possibly because Easter came early this year. While he did not expect a pronounced improvement over the near term, he was hopeful that sales would pick up smartly in the second half of the year, especially in the fourth quarter. An official of a high quality New York City department store with branches in the suburbs reported that sales over the Easter season had been much stronger than expected, and expressed "guarded optimism" regarding the outlook over the coming months. Similar sentiments were expressed by a number of other retailers.

The retailers, however, in general were not overly sanguine regarding the impact on consumer spending of the tax rebate provided for in the new tax bill. The chairman of a large New York City department store did feel that such rebates potentially might have strong psychological impact on consumer attitudes and provide some help to the retail business. Other respondents, however, were more restrained. One retailer noted that it might have some favorable impact on consumer spending, but that it was hard to determine to what extent. The Buffalo Branch directors felt that the restoration of consumer confidence was the key to increased consumer spending, and that the new tax bill would be only mildly stimulative despite expected widespread use for debt reduction.

Perhaps the most positive development reported by most respondents was rapid progress made toward reducing excessive inventories. At the retail level, the official of the nationwide department store chain reported that his firm's inventory had been reduced sharply and was not at a desired level, and indeed for certain lines somewhat below desired levels. He felt that this was true for the retail industry, generally, and that the firm's suppliers, at the wholesale as well as the manufacturing level, were also making good progress in that direction. Other retailers reported similar experiences. The chairman of a large New York City bank noted that industry had approached the problem of inventory reduction with "unusual vigor" once it was recognized. At the retail level, including the auto industry, the worst part of the problem should be out of the way by mid-year, while further reductions at the basic materials level are likely to continue for most of the year. A Buffalo Branch director felt that many industries have now reached their desired inventory levels, and that the process should be completed by mid-year or before. A senior official of another large New York City bank, who last month had stated that too many manufacturers were maintaining excessive inventory positions, now felt that, on the basis of conversations with his bank's directors and corporate clients, good progress toward reducing such inventories had been made since then.

Regarding business capital spending, the chairman of. the New York City bank mentioned above stated that major cutbacks in plans for such outlays probably have already been made. Such cutbacks were particularly pronounced among utilities and consumer goods related industries. Capital spending plans in basic materials industries have held up well, a situation he expects to continue given the inadequate capacity for the long run in these industries. The Buffalo Branch directors in general considered it unlikely that further large cutbacks in capital spending plans would occur. There already has been an intensive reevaluation of such programs, and projects which met the "more stringent" profitability tests would move ahead on schedule. The executive vice-president of a large New York City bank stated that the worst of the cuts in capital spending plans were "behind us." Such cuts were announced at the turn of the year when, in his view, the economic outlook appeared gloomiest. He felt that the atmosphere had now brightened, and that the capacity ceiling in a number of industries could be reached again rapidly.

Concerning home building activity, the Buffalo Branch directors did not see any signs indicating an early upturn in such activity, even though mortgages were more readily available at declining rates. In their view, the high cost of home ownership and the lack of consumer confidence were major deterrents to an upturn in the housing industry. Other respondents were slightly more optimistic. This attitude was best summed up by an official of a trade association who pointed to the "massive" inflow of funds into Second District thrift institutions and to the easing of mortgage loan terms, and reported that some, albeit quite limited, recovery in new commitments by these institutions was just getting under way. He also noted that the inventory of unsold new houses was smaller in New York State than in certain other parts of the country. Because of the latter situation, however, he felt that the $2,000 tax credit toward the purchase of a new house provided for in the tax bill would have only a limited impact on housing activity in this District.

THIRD DISTRICT - PHILADELPHIA

Economic activity remains unchanged again in April from March. Manufacturers report no change in new orders, shipments, and prices, and are optimistic for the outlook six months ahead. And, the manufacturing employment picture for late fall is more optimistic this month than it has been in quite some time. Unfortunately, however, retailers were severely damaged during the Easter season, and do not share the manufacturers' optimism for the next several months. Area banks report weak loan volumes and declining deposit levels. And, most express concern over the large Federal deficit and how it is to be financed.

Again this month, manufacturers in the Third District, responding to this month's Business Outlook Survey, report a general leveling in business activity in the region. While not yet heralding an end to the area's recessionary woes, the current survey does indicate a possible "bottoming out" in the steady decline the regional economy has been experiencing. In addition, 75 percent of the respondents expect the pace of business activity to pick up by October. And, new orders and shipments in their own firms are reflective of this general trend. Most manufacturers report "no change" in these key indicators in April, while 65 percent expect both new orders and shipments to increase by October. Despite a second month of new found optimism, however, capital investment plans six months out remain about the same. The outlook is still uncertain enough that manufacturers are not willing to alter current capital spending plans for the present.

Employment levels too remain flat in April. One half of the respondents report no change in the number of employees, and over three-fourths report no change in the length of the average workweek. However, over half of the manufacturers now expect to increase the size of their workforce by October. But with the size of the labor force continuing to expand, and with a new crop of graduates joining the workforce next month, unemployment in the region will continue to be a problem.

But, for area retailers the news is not as optimistic. Early Easters are always damaging to department store sales. But, a transportation strike by employees of the local transportation authority severely hampered Easter sales in downtown stores. And, unusually cold weather compounded the situation. Retailers report dollar sales down from the same period last year. And, the outlook for the remainder of the spring season is rather bleak.

The value of construction contracts in the Third District has declined 37 percent over the last year (the national average has declined 23 percent). The largest factor in this overall decline in the region has been a decrease in the value of residential construction contracts of 28 percent since this time last year. During the same period, nonresidential contract values have declined by only 1 percent. However, with the construction industry experiencing ever rising prices, the decline in construction in the District is likely to be even more severe.

And while rising prices are not limited to the construction industry, area manufacturers report some easing of inflationary pressures. Nearly two-thirds of the manufacturers report "no change" in the prices they pay for raw materials and the prices they receive for finished goods. And, manufacturers look for a continued easing of inflation during the next six months.

Area bankers report weak loan volumes despite a moderate easing in overall loan policies. And, all of the major banks surveyed report a general decline in overall deposits this month. With the end of the quarter statement due March 31, many banks increased their CDs outstanding significantly in order to lower loan-to-deposit ratios. However, most banks expect to continue to increase their CDs throughout April. Several banks also mentioned shifts in the composition of their portfolios. Banks appear to be interested in shortening their municipal positions and in shifting to more governments. In addition, most bankers expressed some concern over the large Federal deficit the credit markets would be forced to absorb and its effect on interest rates. And, one particular bank noted great difficulty in securing approval from its Board to purchase $25 million worth of 14-month bills. The Board expressed reluctance in extending itself out that far at this particular time.

FOURTH DISTRICT - CLEVELAND

In general, economic activity in the District continued to decline in March. Signs of falling prices and more price competition are increasing. Retail sales of durable goods remain weak, but sales of nondurables are improving. There is considerable evidence of inventory liquidation at both retail and manufacturing levels. Near-term prospects for a recovery in capital spending are not particularly encouraging. Increased deposit inflows have put financial institutions in a better position to help promote recovery in residential construction.

In the consumer sector, new car sales weakened significantly last month, following a surge in February. Car sales in Ohio were depressed, partly because a bill was proposed in the state legislature that would have suspended the sales tax on motor vehicles until June 30. Legislators debated the bill during most of March before finally defeating it.

One of our directors in the consumer recreational business commented that revenue from TV and radio advertising is up substantially. Consumer spending for recreation has been exceptionally good.

Some major retailers in the District report scattered signs of a pickup in soft goods. Sales of big-ticket items remain poor with little prospect of recovery until early next year, according to one source. An executive with a major department store said that he is encouraged by somewhat better than expected sales around Easter, and by collections above estimates in recent weeks. An economist with a department store chain believes that retail sales, except for household goods, bottomed out in January and February. He sees progressive strengthening in sales of soft goods and a completion of inventory liquidation of these goods by May.

Continued weakness in appliance and furniture sales is expected until next spring, because of a 9 to 12 month lag between recovery in housing and recovery in household goods. All retailers report excessive inventories of appliances and furniture. Liquidation is not expected to be completed until July or August, according to one source. The treasurer of a financially troubled retail chain said that it has had difficulty building inventories of summer merchandise because its suppliers have held back credit. All firms contacted say that retail prices definitely are moderating--some fall merchandise will be priced below current levels, and price increases for other lines will be much smaller than last fall.

According to purchasing agents in the Cleveland area, production cutbacks were more widespread in March than in previous months. Lower prices became more pervasive, with 40 percent of firms paying lower prices and only 5 percent paying higher prices. (The higher-lower percentages were roughly equal in February.) Our own Survey of District Manufacturers confirms the continued weakening in business during March. For the month of April, firms expect some moderation in the rate of decline in new orders, shipments, backlogs, and employment, but an accelerated rate of inventory liquidation. Auto firms have started to recall some workers, and some automotive suppliers report a pickup in business.

Steel companies report a dramatic decline in new orders. Several major steel firms emphasized that their customers are rapidly liquidating steel inventories. The run-off is expected to continue throughout the second quarter and possibly beyond. Steel shipments will drop sharply this quarter. One firm estimates a decline of 20 to 25 percent from the first quarter. Production, however, will not decline as much because steel mills still need to rebuild their inventories.

The situation in the capital goods sector is mixed, and the outlook is uncertain. An executive with a large industrial machinery firm believes it may step up its capital spending somewhat in light of the more favorable investment tax credit, ITC. Its customers are expected to place orders previously deferred because of expectations that the tax credit would be liberalized. One of the area's major electric utilities said the increase in the ITC is unlikely to increase its spending plans this year. Several of our industrialist directors expressed the view that an acceleration in depreciation allowances would do more to stimulate capital spending than the higher ITC. A highly-regarded economist in the machine tool industry does not expect the ITC to stimulate capital goods much this year, and he continues to forecast no recovery in real capital spending during the second half. His own firm booked four new orders for machine tools in March, whereas cancellations had exceeded new orders during the previous four months. Another machine tool firm said new orders continue to be depressed, but offers to bid on contracts are increasing. A director reports excellent business in his capital goods firm which produces equipment for oil exploration and drilling and coal mining machinery.

In the District's construction sector, the decline in residential construction contracts resumed in February, following some improvement in January. Nonresidential building remains depressed. Construction firms in the region are said to be hungry for business, a report that tends to be confirmed by more competitive bidding for public projects. Recently, Ohio awarded the contract for a new bridge to a firm whose bid was almost 25 percent below state engineers' estimated cost. Last month, other bids below estimates were reported for road construction, school remodeling, and a recreation center. One banking director in southern Ohio reported that a home builder, anticipating a recovery in demand by late spring, has started 50 homes without any sales contracts so far.

In the financial area, banks report that demand by residential construction builders for new loan commitments has been unchanged. Limited improvement is expected during the second quarter. Some banks that adopted restrictive loan policies for residential construction last year say funds are now available. Ohio's 8 percent usury ceiling on mortgage loans is discouraging some state-chartered banks from lending. Several large S&Ls in Cleveland report excellent deposit inflows in March. But more deposits are in the form of passbook savings and short-term certificates, as savers expect higher yields in the months ahead.

FIFTH DISTRICT - RICHMOND

Results of the March survey of Fifth District businesses suggest a marked slowing of the current decline in business activity. There is not yet any indication of a turnaround, but the bottom of the decline may be coming into view. Among manufacturers surveyed, inventories were essentially flat over the February to March period, while backlogs of orders declined further and new orders made their best showing in recent months. Inventories remain above desired levels, but the mild optimism noted last month seems to have grown even stronger in March. Among retailers surveyed, sales weakened slightly after showing some improvement in February; but the inventory picture improved somewhat, although half the respondents feel current inventory levels are excessive. Banking conditions have changed little in the past month; loan demand remains depressed and bank liquidity continues to improve. In the agricultural sector, land preparation for spring planting is lagging behind normal because the recent heavy rains and generally wet weather for the past several weeks have brought farming operations to a near standstill in many areas of the District.

Of the manufacturers responding to our survey, approximately one-fourth report increases in shipments and in the volume of new orders during March. While this does not represent a turnaround as such, it suggests some moderation of the pervasive weakness exhibited in recent months. Almost one-half of the respondents indicated further declines in backlogs of orders while the diffusion of responses indicates little or no change in inventory levels. Sixty-eight percent of the manufacturers still view current inventory levels as excessive. But, of those, almost 50 percent feel their inventory adjustment will be completed within three months, and 86 percent expect inventory levels to be brought into line within six months. The responses reveal further declines in the number of employees and in hours worked per week, but the number of manufacturers reporting lower employment and a shorter workweek declined from about 60 percent last month to about 40 percent at the end of March. The relative softness displayed by prices received by manufacturers continued and apparently is spreading to prices paid, although in the latter case the movement is less pronounced and could prove tentative. Over 50 percent of the manufacturers still feel current plant and equipment capacity is excessive, but almost 85 percent view current expansion plans as about right. The lessening in pessimism noted last month appears to be turning to mild optimism. Over 50 percent of the manufacturers surveyed expect the level of business activity to improve over the next six months, and over half foresee an improvement in the level of production in their own firms over that time period.

The survey of District retailers also suggests some moderation in the rate of decline of business activity, although not to the extent indicated by the manufacturers. The dollar volume of sales showed little change during March as sales of big ticket items relative to total sales remained weak. Responses reveal some further declines in inventories, although half the respondents still view current levels as excessive. Of those retailers with excessive inventories, however, 75 percent feel the adjustment will be completed within three months. Employment among retailers surveyed declined in March, but employee average hourly earnings continued to rise. Price increases continued, but were not quite so widespread as in recent months. As a group, the retailers remain cautiously optimistic, expecting that, at worst, business activity will remain the same over the next six months and that the decline may be near an end.

Fifth District banking conditions seem to have changed little since the last Redbook summary. Loan demand remains depressed and banks are apparently continuing their efforts to improve their liquidity. Several banks in the District have expressed a gloomy outlook about the prospects for recovery in the economy before year-end, and are planning accordingly. There is some concern about the retarding effect on recovery which would result from rapidly rising long-term interest rates. As has been the case for nearly a year now, special attention is being given to the loan credit review process.

Business loans at weekly reporting banks continued to decline in March, having fallen about 4.5 percent since the beginning of the year. Lending has recently increased only in the chemical and wholesale trade industries. Consumer loans continue their steady decline and have fallen by 6.8 percent since the beginning of the year. Agricultural credits have increased in the past four weeks, but not as much as during the same period last year. Only in South Carolina has business lending turned upward.

Holdings of CDs seem to have leveled off during March after experiencing a slow decline since early in the year. Net purchases of Federal Funds by District member banks for the first three weeks of the month are about 20 percent below the average level so far this year. Borrowing at the discount window declined for the ninth straight month, with reserve city bank borrowing falling to zero.

The District's farmers indicated on March 1 that their total crop plantings in 1975 would be only a little larger than last year. There would be major acreage changes from 1974 for some crops, however. Cotton acreage, now expected to be down 55 percent, shows the biggest decline. But growers' plans for increasing soybean plantings 8 percent will more than offset the cutback in cotton. Moreover, intended tobacco acreage is up 15 percent, while acreage seeded to winter wheat last fall was 11 percent larger.

Total cash receipts from farm marketings in January were 10 percent below a year ago, with declines in crop and livestock receipts about equal.

SIXTH DISTRICT - ATLANTA

The District economy continues its adjustment to its steep economic decline. Layoffs and temporary plant closings are still reported in many parts of the District. Attempts at inventory realignment are most often cited by businessmen as the reason for these layoffs. Some companies have already made adjustments and are beginning to hire back workers. Capital spending cancellations may be near an end, since few cutbacks were reported in the past month. Construction activity in the residential area remains bleak because of the large housing overhang in many areas, particularly in multifamily structures. Construction is likely to lag instead of lead any general economic recovery. Reports from many parts of the District again confirm the surprising tourist boom.

Layoffs continue, but are now being matched by rehires in many parts of the District. Several paper mills have closed their doors temporarily. A Florida paper plant closed its craft mill for a two-week period in mid-March because of economic conditions. About 600 workers were idled. A Louisiana paper company has also laid off a number of workers temporarily in an attempt to work off inventories. A huge Louisiana aluminum and chemical plant has temporarily furloughed workers in order to bring inventories in line with demand. A Tennessee chemical plant is also laying off around 250 workers because of inflated inventories. Textile firms have not yet recovered. Textile plants in southeast Tennessee and in Georgia continue to operate with reduced work forces and shortened workweeks. The Alabama Power Company has recently released nearly 1,800 people and has let another 700 jobs go unfilled. The biggest portion of those released were construction workers.

Steel fabricators are beginning to feel the drop in demand for their products. One fabricator is slashing prices to move inventories. The company's representative indicates that he can buy raw steel at about two-thirds the price of last year.

Many businesses are now reporting prospects as looking up. Apparently inventories have moved back in line for these companies. In Tennessee, appliance and furniture manufactureres are beginning to call back workers. In fact, one report from an eastern Tennessee furniture manufacturer indicates that production schedules have been increased to replenish inventory stocks. The lumber industry has been hard hit by the economic decline, but a number of people in the industry think that the slump in sales and prices has bottomed out and that a recovery, while it will be slow, is now in sight. Recalls in auto assembly plants in the Atlanta area have given some strength to that area's economy. Several local area economists have mentioned that they are besieged by calls from businessmen wondering when the turnaround in their particular industries will be over. An optimistic interpretation of this development might be that businessmen will actively expand production and employment as the first concrete signs of recovery develop. This might aid the economic rebound.

This is the first time in several months that there were no reports of further cutbacks or cancellations in capital spending plans. In fact, several new developments have been announced. These include: A $35-million ammonia plant in Mississippi; a $30-million oil storage capacity expansion plant in Louisiana; and a $10-million addition to a Louisiana chemical plant. In Mississippi, $2.5 million provided from the Emergency Employment Appropriations Act has been allocated for the Tennessee-Tombigbee Waterway Project. It is estimated that an additional 1,000 construction workers will be brought in by the end of the year to work on this project. It has been cited as the largest earth-moving project ever to be undertaken in the continental U. S. Several other smaller plants have been announced, and new contracts let for District manufacturers.

Everyone seems set for a pickup in housing activity which has not as yet developed. The forces behind the housing picture are mixed within the District. Reports indicate that funds are much more readily available as large savings inflows occur at S&Ls. However, the housing overhang, partly among multifamily units, remains substantial. The apartment and condominium market seems to be the most overbuilt, particularly in the southeast Florida area. The issuance of building permits for new dwelling units is the lowest since these areas became known as Standard Metropolitan Areas. However, at least in single-family housing, there are some signs of improvement. One large Florida home builder has cut prices by as much as 10 percent in order to stimulate sales. Atlanta's largest condominium builder has recently reduced prices on selected units; within 10 days most of these units sold. A representative of the New Orleans area S&L industry says that half of the inventory of new houses at the beginning of the year is now sold.

Mortgage rates have apparently declined more sharply in this area than in other parts of the District. The tax credit for the purchase of new homes was mentioned by only one director. He expected little stimulation for home building from this credit. One final note of optimism was viewed by a South Florida banker, who thought that the stock of unsold condominiums in this area, which are now available for sale, is generally smaller than realized. Many units are tied up in litigation and will have to be refurbished before they are sold, and other units will have to be completed. As a result, the condominium situation is not as serious as believed. Reports from District bankers, however, generally indicate that single-family housing is most likely to recover much more quickly than most multifamily construction.

The tourist boom continues. The previously reported tourist boom in Florida has buoyed retail sales in the area; apparently, the boom is more general, however. Reports from the New Orleans area indicate that, within the last three months, tourist and convention business has been well above normal. Downtown New Orleans hotels are running at about 70 percent occupancy rates. Tourism is again flourishing in Tennessee, also. Registrations at Tennessee welcome stations are nearly 10 percent above levels of 1973--the last good tourist year. Camping business is also booming. A recent camping show held in Atlanta produced record sales volumes of camping items. A recent boat show in the Orlando, Florida area produced sales in the first day which exceeded the whole week of the show in 1974.

SEVENTH DISTRICT - CHICAGO

Although general business activity continues to decline in the Seventh District, there are signs that the rate of decline is slowing. Job and product markets are much more competitive and prices of various industrial products have declined. A heavy snowfall on April 2 disrupted transportation and output in Chicago and southern Michigan for a day or so. Output schedules for autos, appliances, and some other consumer goods have been raised moderately and tentatively from very depressed levels, mainly because rapid inventory liquidations resulted in stockouts of certain products. Weakness in capital goods is spreading. The farm sector remains relatively strong. Residential construction appears to be heading for a modest revival. Most analysts project some growth in real GNP in the third quarter, helped by slower inflation, inventory reductions, and more stimulative monetary and fiscal policy. Most "monetarists," however, see "the turn" delayed for at least one or two additional quarters. Many businessmen and lenders are concerned that steps to bolster activity will accelerate the inflation rate later this year or next year.

Output of autos, trucks, appliances (both large and small), and some materials and components is scheduled to rise moderately in the next month or two, less because of stronger demand than because of inventory reductions that left some gaps. Producers of certain products, for example, fasteners, small metal parts, and certain home furnishing materials, report very spotty demand with improvement in some areas, while others are severely depressed. Demand for some construction equipment associated with home building, very weak last year, has increased in some cases.

Despite scattered improvements, virtually all industries are operating at reduced levels, most far below capacity, with no sign of an early reversal. Steel mills, which continued to operate at effective capacity throughout 1974, began to cut workweeks and lay off workers in March.

Last year's severe shortages are only a fading memory except for natural gas, fertilizer, and a few special items, mainly components for heavy capital equipment. Lead times have been reduced sharply, deliveries are more dependable, and complaints of poor quality are less frequent. Products such as metal fasteners, paper, motors, and electronic components, which often sold at premiums last year, are now discounted--heavily in some cases. Certain bolts that brought $35 per thousand last summer are now readily available at $8.50. Market prices of some electronic components were cut in half in the first quarter.

Much price cutting takes the form of negotiated discounts or changes in terms of trade, with list prices unchanged. Such adjustments are said to be more prevalent than in the past because of fears that price controls will be reinstated. Manufacturers and large retailers are "putting a squeeze" on suppliers. Price escalators have largely disappeared and prices for future delivery are being quoted on a firm basis for longer periods. However, in many sectors higher prices are likely to hold. Prices of many types of components and finished equipment are 15 to 25 percent or more higher than a year ago. An insurance company reports that its price index on auto parts is up 40 percent from a year ago.

Strength in capital goods, which sustained many District centers through 1974, is ebbing rapidly. Demand for equipment for mining, offshore drilling, petro-chemicals, and pollution control is still very strong. Markets for farm equipment will be more competitive because producers are rapidly rebuilding badly depleted inventories. Output of railroad equipment continues at a high level, but many freight cars are in storage. Only open hopper cars are now in short supply. Builders of large vessels for the Great Lakes, although operating at high rates, say order backlogs are disappearing. Oil companies say that the end of depletion and changes in tax treatment of foreign earnings will reduce exploration budgets. Producers of various capital goods report cancellations of orders as well as postponements and stretchouts. Reduced demand for products and reduced cash flow are cited as reasons. A producer of construction and materials handling equipment says, however, that the "explosive" rate of order cancellations that started late last year has moderated. Producers of components for equipment report that the decline in orders, very sharp in late 1974 and early 1975, has leveled off--even reversed in some cases. A number of companies say that European orders have held up better than domestic business. Some believe that the dollar is now substantially undervalued relative to various other currencies. There is no evidence that the increase in the investment tax credit (to 10 percent) has affected sales of equipment.

The decline in employment and the rise of unemployment continues in most centers, but probably at a slower pace. Factory work layoffs continue and many companies are trimming office workers and executives--often by forcing early retirement. Total employment is not being sustained, as in the past, by the service sectors. Many utilities are reducing staff, and jobs in finance and retail trade are not expanding significantly. The City of Detroit has announced a 25 percent staff reduction to help balance its fiscal 1976 budget.

Large general merchandisers, other than "discounters," were disappointed with March sales--far below last year after adjustment for inflation. The early Easter clearly didn't help. Retailers' inventories are reported to be in good shape after reductions starting in late 1974.

Although construction contracts and building permits in the District remained at very low levels through February, there are reports that improved availability of credit is beginning to activate transactions. Savings inflows at S&Ls have been very favorable. These institutions have been able to repay debt and are actively seeking mortgages. Developers of various residential and commercial projects are coming out of hibernation after 6-8 months. Rapid release of impounded water and sewer funds would help construction activity.

EIGHTH DISTRICT - ST. LOUIS

Eighth District businessmen generally expressed more optimism than heretofore about the prospects for an economic recovery later this year. Although department store sales remain weak, unemployment high, and general economic conditions relatively depressed, some signs of recovery were observed. Most of those interviewed believe that economic activity has bottomed out. Despite the low level of construction, building representatives are generally optimistic. Funds continue to flow into thrift institutions at a rapid rate, and interest rates have declined from their peaks of last year.

Department store representatives are still rather pessimistic. Despite the early Easter, March sales at major Eighth District outlets were not much above last year's level; thus the real volume of sales was down. Retailers continue to report reduced sales of big-ticket items. However, inventories are being reduced to minimum levels and a turnaround in consumer demand could bring a quick increase in orders to manufacturers. Car sales have also sagged in the post-rebate period, although imported automobiles are apparently selling fairly well.

General manufacturing activity is difficult to gauge as representatives of some industries reported worsening of conditions and of others, improvement. Automobile manufacturing activity, for example, has improved, as manufacturers expect an upturn in car sales in the spring and summer months. One clothing manufacturer reported the closing of some operations, while another was increasing its workday. Still another reported current orders for the fall season down considerably, but was fairly optimistic that sales will pick up substantially in late spring since retailers have reduced inventories below optimal stock levels. A plywood company reported operations at high levels with increased sales. A manufacturer of paint and coating felt the bottom of the decline had been reached, but sales were 14% below a year ago. A substantial drop-off in synthetic fiber sales was reported, while sales of synthetic rubber and freon have increased. Manufacturers of small farm implements and garden tools were highly optimistic, with operations at very high levels and a high sales volume in prospect.

Several manufacturers are more optimistic than heretofore about future conditions, even though sales at the moment do not justify that optimism. Expansionary government policies are no doubt contributing to the belief that the economy is currently at or near the bottom of the recession, and that a substantial recovery will soon begin.

No major changes in business investment plans were reported as a result of the recent tax concessions. As a general rule, firms expect to implement their earlier spending plans which were quite expansionary. Some, however, expressed the view that part of their spending plans hinged on adequate financing at reasonable rates which may be difficult to obtain in view of the level of prospective government borrowing in the capital markets.

Unemployment continues up, reflecting the growing labor force and a moderate decline in the employment level. Some improvement has been registered for employment at automobile plants, but some other industries report plant closings and further layoffs.

An increase in housing sales and new housing starts was reported. One builder stated that March was his best month since a year ago. The tax credit recently passed for new home purchases is expected to help clear existing housing inventories; however, areas such as St. Louis, with a relatively small inventory of homes, will not be helped much by this action.

Funds continued to flow into S&Ls at a relatively high rate in March. The increase in savings so far this year has put downward pressure on interest rates. Since mid-March, however, mortgage rates have remained at about 8 1/2 percent. S&Ls are reluctant to lend at lower rates since lower rates received would require a change in policies with regard to rates offered on CDs. They are reluctant to make this change while considerable uncertainty remains concerning the effects of government financing on credit markets.

Loan volume at commercial banks continued to decline in March reflecting weak demand, and a further decline occurred in interest rates. The volume of business loans declined, on balance, although some increase was noted late in the month. Consumer installment loans also continued to decline, reflecting the decline in sales of big-ticket items such as cars, televisions, and furniture. The level of time deposits at banks was little changed, as a small increase in consumer-type savings deposits was about offset by a decline in other time deposits.

NINTH DISTRICT - MINNEAPOLIS

Early 1975 brought a deterioration in District economic activity, and the immediate prospects are for a further decline. District unemployment rose markedly in the first quarter and is expected to climb even higher. District residents were not very optimistic about the economic outlook. These developments affected consumers' outlays, and retailers reported small first quarter sales gains. However, contrary to the general trends in the District's economy, resort owners had a good winter, and look for business to remain strong. Also, savings inflows at S&Ls improved, though a rapid recovery in District housing construction is not foreseen.

Even though the District's unemployment rate has not risen as far and as fast as the nation's rate, District joblessness increased conspicuously in early 1975. The District's seasonally adjusted unemployment rate was 6.4 percent in January/February, contrasted to 5.8 percent in the fourth quarter of last year. Other District indicators point toward further rises in unemployment. District initial claims for unemployment insurance in the first quarter were up 41 percent from a year ago, and help wanted advertising in January/February was down 31 percent.

The attitudes of District residents reflected the softening in the economy. According to results of a newspaper poll taken in early March, 58 percent of the respondents described the United States economy as "pretty bad" and 19 percent used the term "very bad." With regard to future economic activity, 54 percent anticipated "pretty bad times" and 14 percent expected "very bad times" over the next twelve months. One encouraging result from the survey, however, was that the percentage of respondents anticipating "pretty good times" during the next twelve months increased from 19 percent in early January to 26 percent in early March.

Adverse economic developments made District consumers reluctant to spend. Major Minneapolis/St. Paul area retailers reported a lackluster first quarter. Sales gains in dollar terms were not large, and in some instances unit sales were down from twelve months earlier. Large appliance sales were particularly hard hit, while do-it-yourself merchandise sold quite well. This year's long winter and early Easter adversely affected spring clothing sales. Furthermore, much of the sales activity that existed did so as a result of price reductions--which in turn cut profit margins.

Interestingly, discount stores did better than department stores, and stores in rural areas did somewhat better than those in the Minneapolis/ St. Paul area. District retailers, in general, indicated that inventories were in good shape and that they were beginning to buy goods in smaller quantities and replenish their stocks more often. Consequently, retailers believe they can hold their own, but they do not look for any immediate improvement in sales. In fact, in order to maintain profit margins one major retailer has developed contingency plans to reduce personnel and other costs in case sales fall off more than anticipated.

Contrary to the general trends in the economy, District resort owners had excellent business this winter. Part of the reason can be attributed to good snow conditions and acceptable temperatures which made for excellent skiing and snowmobiling. Further, consumers did not seem to mind the higher prices at ski areas, and ski equipment sales were excellent despite the softening in consumer spending. Looking ahead to this summer, resort owners are quite optimistic, and in some cases reservations and inquiries for this summer are ahead of comparable figures for last year.

The first quarter's substantially stronger savings inflows at mortgage lending institutions brightened the District's prospects for a housing recovery in the months ahead. Although liquidity positions at District S&Ls were still weak, loan commitments increased perceptibly. Recovery is not likely to be rapid, however. In a recent survey of interim construction financing, senior loan officials of several commercial banks in the Minneapolis/St. Paul SMSA indicated that the loan demand from builders of multifamily housing was not strong. Moreover, banks were not eager to make new multifamily loan commitments because of the fear of both the cost overruns and the other problems that beset builders in 1973 and 1974.

TENTH DISTRICT - KANSAS CITY

Business conditions in the Tenth District appear to be stabilizing. Purchasing managers are still paring inventories, but generally not because they expect further declines in sales. Some firms are going ahead with capital expenditures planned earlier, but there is no suggestion of decisions to increase such outlays more than had been budgeted. Weak spots in the region, such as in autos and construction, are being offset to some degree by strength in areas such as extractive industries and skiing. However, unemployment rates in the District states and metropolitan areas continue to show the uptrends evident in recent months. Agriculture has suffered from adverse price movements this winter, but this sector too may be bottoming out. Bank business is slow, and bankers are like other respondents in taking a "wait and see" position with regard to the tax-cut economy.

The Tenth District economy historically has enjoyed insulation from the severity of business cycles. This time around, however, unemployment rates in the Colorado Springs, Kansas City, and Omaha metropolitan areas have risen to levels near the national average. Further increases may follow, but businessmen foresee a leveling off or improvement in sales and production. Some price breaks are reported by purchasing agents, who still complain of shortages of certain items. One construction outfit that specializes in pollution control devices still cannot get the castings it wants, evidently because suppliers of castings have had their forging operations curtailed by pollution control requirements. Construction is especially weak in the District. While business executives cannot be characterized as pessimistic, they are not optimistic either--just cautious. For example, plans for expenditures on new plant and equipment have not been scaled up in light of recent events. The possible closing of the Rock Island Railroad worries some communities a great deal, but this appears to be the only dark spot in the outlook.

Led by lower prices for most of the major crops, the index of prices received by farmers declined 2 percent for the month ended March 15, the fifth monthly drop in a row. Compared to a year ago, farm prices were down an average of 15 percent. Since mid-March, however, the prices of most grains and livestock have rebounded sharply causing some observers to conclude that the 5-month decline may have bottomed out. The higher price levels for livestock are generally expected to be sustained into the summer, but the prospects for crop prices are more uncertain. If the expectation for bumper crops is fulfilled, some downward movement in price is likely.

While falling farm prices have been reflected in the wholesale price index, retail food prices have continued to rise over the last several months. However, the rate of increase has eased substantially from the unusually high rates experienced in 1974. In the months ahead, food prices will probably continue rising. However, there is reason to hope that food prices will be fairly stable during the second half of the year, in light of what has happened to farm prices since the beginning of the year, and favorable prospects for production in both the crop and livestock sectors.

Loan demand at Tenth District weekly reporting banks continued weak during the month of March. Real estate loans were especially weak, while business loans increased less than is seasonally normal. Bankers note no recent pickup in home mortgage loan requests, and a continued sluggish demand for auto loans. In addition, bankers report that credit card loans have weakened more than expected. Some bankers, however, expect loan demand to increase in the next several months, including an increase in the demand for real estate construction loans. Generally, bankers say that their loan policies are not becoming more restrictive. Total deposits declined recently at District weekly reporting banks but the decline was less than seasonal. Bankers express considerable uncertainty about the future growth of their deposits. Some feel that the Federal tax rebates might increase their time and savings deposits in May and June, but others do not expect to benefit to any significant degree.

ELEVENTH DISTRICT - DALLAS

Despite a boom in output of oil field equipment and related products, industrial production in the Eleventh District has continued to decline at a moderate pace. In anticipation of the dollar-a-barrel tariff imposed February 1, imports of crude oil were accelerated in January. But, due to unseasonably mild weather and the recession, demand for petroleum products has fallen and refiners have trimmed operations. Petroleum refining is running at 84 percent of capacity, down 10 percentage points since early January. In spite of lower output, refiners report that stocks of finished products are pressing storage capacities.

Chemical production has also trended downward since late last year with a sharp falloff in new orders. Manufacturers attribute the drop in bookings to inventory liquidation by many customers that made large purchases last year as a hedge against possible shortages. One of the District's leading producers of industrial chemicals reports output has dropped to 50 percent of capacity. Despite reduced demand, producers have been reluctant to lower prices. One firm attributes the reluctance to an industry-wide concern that price controls may be imposed later this year.

Operations of District steel producers primarily engaged in supplying residential and commercial construction, continue to be depressed. Manufacturers of reinforcing steel bars have cut production as much as half. Still, a buildup of inventories has forced them to substantially reduce prices. One of the largest producers of re-bars, for example, has lowered prices by roughly 20 percent across the board and still reports record high inventories.

In addition, the falloff in demand has left many steel dealers flush with high priced foreign steel that was ordered last year when domestic mills could not keep pace with demand. During the fourth quarter of 1974, foreign steel--priced well above domestic levels--poured into the District at record rates. Now, with prices down, dealers will have to take losses estimated at $150 per ton to liquidate their inventories. Nevertheless, foreign producers have remained active in District markets by aggressively cutting prices. Steel ordered in March, scheduled to reach the Gulf Coast this summer, is priced roughly a tenth below quotes by District mills. One official reports his firm cannot compete at current prices, since quotes on foreign products are now lower than his cost of production.

Manufacturers of truck trailers are experiencing drastic reductions in new orders and production. To avoid the added cost of an anti-skid braking system that became mandatory on January 1, major fleets bought ahead last year. As a result, new orders have been "practically nonexistent" this year. Production by one of the largest manufacturers in the District is down 75 percent from the level in the fourth quarter of 1974. And at one assembly plant where 400 workers have been laid off since mid-December, output has been cut from 35 to 8 units per day. In addition, the slowdown in business activity late last year prompted a sharp decline in hauling and forced the cancellation of many orders. This has contributed to large inventories of finished trailers--in the case of one firm between 700 and 800 units.

Apparel manufacturers--many operating on reduced workweeks--report orders have picked up recently. One major garment maker said salesmen are now getting orders they would not have gotten a few weeks ago, indicating that most retailers have run off large post-Christmas inventories.

Nevertheless, buyers remain extremely cautious. To control inventories, retailers are ordering smaller quantities and are reordering more frequently. In addition, they are largely confining their purchases to staple items--basic styles, sizes, and colors--and are carefully avoiding "fad" items.

Producers of oil field equipment--including offshore drilling platforms--continue to operate under a deluge of orders. Backlogs of three to five years are common. In addition, firms engaged in supplying steel and fabricated metal products to equipment manufacturers are hard pressed to meet demand. One of the District's largest materials suppliers, for example, reports a two year backlog of unfilled orders for steel castings. Shortages of skilled labor are also impeding equipment production. Many firms have started recruiting nationwide, especially in the Detroit area. Moreover, several large producers have established schools to train unskilled workers for skilled positions.

A survey of new car dealers indicated sales have fallen sharply since the cash rebate program ended. Respondents said sales in March were, on average, down 50 percent from the level in February. Dealers admit the downturn seems to indicate that the cash rebates simply borrowed from future sales. Nevertheless, they regard the program as having been successful, as they were able to liquidate large inventories of new cars--even to the extent of selling entire stocks of some small models. Since dealers expected sales to be sluggish after rebates ended, they have held down new orders, thus keeping inventories manageable.

TWELFTH DISTRICT - SAN FRANCISCO

Our directors remain cautious about the near-term economic outlook and would prefer to react to developments as they occur. If anything, their estimate of the turnaround in general business activity has been shifted a little further into the fourth quarter of 1975. Consumer spending continues lethargic, and business loan demand is off considerably. The most depressed industries, forest products, construction and transportation equipment, have deteriorated further. Our directors do not believe that passage of the 1975 tax bill will create enough stimulus for a sudden recovery, although consumer spending will benefit.

Consumer spending is reported to be cautious; department store sales in southern California were down 5 percent from a year ago and promotional sales were ineffective. Furniture and appliance dealers are anticipating sales increases as a result of the tax rebates. Post-rebate automobile sales weakened across District states, but the decline was mitigated by price reductions stemming from cutbacks in standard equipment. According to one director, reports of improved mileage on 1976 models has all but sounded the death-knell for 1975 models. One banker reports a trend toward 42 to 48 month maturities on new car loans. Luxury cars continue to sell well, at about 15 percent over last year.

After a year during which manufacturers built up inventories in anticipation of price increases and materials shortages, the recessionary fall-off in demand has precipitated sharp inventory declines. It is generally believed that the worst is over, and output is currently in line with sales. Some industries, however, notably forest products and aluminum and food processing, are still working off excess inventories. Manufacturers are anticipating declines in materials prices, and they intend to hold down inventory in this hope at least until the fourth quarter of 1975.

The situation in the forest products industry continues to deteriorate. One large paper company has stopped shipments for 90 days and most other companies are still curtailing output. Negotiations for a new industry labor contract will get underway in May and strikes are anticipated. One director estimated that the final wage settlement will entail a 10 percent increase on a one-year contract.

The depressed state of the lumber industry continues unabated, reflecting weakness in construction. One director who cites the growing number of bankruptcies among building contractors and the high unemployment rates of laborers and architects, claims that it will take 7 to 8 years to absorb existing vacancies in southern California.

Petroleum inventories are currently at an all-time high and, although refinery runs have been reduced, stocks will be above normal through midsummer. Several directors indicated concern over the long-run petroleum supply situation--one citing that the fields in southern California have been nearly pumped dry and another stating that Washington D. C. has been short-sighted in its action on the depletion allowance. A study he has made showed that the worldwide effective tax rate for 10 large oil companies was 11.5 percent, compared with 8.4 percent for a sample of large commercial banks.

In a separate question inquiring as to the effects of the investment tax credit on their capital spending plans, the directors were unanimous in stating that there would be no impact. They consider that, with profits dropping and retained earnings for capital investment limited, long-term credit would have to be priced more attractively to induce capital expansion. One director states that a permanent investment tax credit at a higher level than 10 percent might have a significant effect.

The agricultural economy is still reflecting the effects of a highly profitable year in 1974: sales of tractors and farm equipment are up, but consumer resistance to high-priced processed foods is beginning to be felt at the retail level. A citrus freeze in the Bakersfield area will reduce yields by 30 percent this year.

This District's banks are currently experiencing healthy deposit inflows. Although the rate of return on loans is high, loan volume to business has been falling off, partially from lower demand and partially as a result of a policy change to improve the quality of loans made in the light of heavy loan losses last year. The banks anticipate only a modest resurgence in business loan demand by year-end, but they are actively seeking consumer loans. Mortgage loan expansion will be limited by the aggressive competition of S&Ls. This quarter will see a normal seasonal increase in agricultural loans. The increased liquidity of banks will be invested in securities only to the extent that it cannot be loaned.