CONFIDENTIAL (FR)

CURRENT ECONOMIC CONDITIONS BY DISTRICT

Prepared for the
Federal Open Market Committee
by the Staff

July 14, 1976

TABLE OF CONTENTS

SUMMARY i

First District - Boston 1

Second District - New York 4

Third District - Philadelphia 8

Fourth District - Cleveland 12

Fifth District - Richmond 16

Sixth District - Atlanta 19

Seventh District - Chicago 23

Eighth District - St. Louis 27

Ninth District - Minneapolis 30

Tenth District - Kansas City 33

Eleventh District - Dallas 36

Twelfth District - San Francisco 39

SUMMARY*

The prospect is for a sustained economic expansion in the last half of the year. Although the majority of the Districts report that activity moderated in the second quarter, the outlook for the rest of the year is optimistic. Retail sales, although somewhat weaker this quarter, are expected to pick up. Manufacturing output shows little sign of weakness and it is not being hampered at this time by capacity limitations. Generally inventories are being kept under control and no build-up is anticipated. Residential construction continues to recover in most Districts but multiple-housing and commercial construction remains weak. Despite some problems with weather conditions, agricultural prospects are good. Demand for business loans continues sluggish in most Districts.

The growth of retail sales slowed somewhat in the second quarter in most regions. This slowing is expected to be temporary and retailers are optimistic about prospects for the rest of the year. Soft goods sales are generally good but major appliances exhibit more variation in demand. Some Districts (Chicago, Minneapolis) report weakness in appliance sales but others (Philadelphia) are experiencing good demand. Appliance manufacturers in the St. Louis District are experiencing a slowing of orders. Expenditures on tourism are high in most vacation areas (Atlanta, Philadelphia, Minneapolis).

Consumer spending for automobiles is high, and larger and intermediate sized models are in great demand. Some weakness is evident in small car sales. Chicago reports that the smallest auto producer which concentrates on small models has stopped assembly of 1976 models earlier than

*Prepared by the Federal Reserve Bank of San Francisco.

usual, while the larger manufacturers are pushing production of their large cars. At present, the strike of tire manufacturers is not causing problems for car manufacturers.

Manufacturing activity generally continues to expand. Demand for steel has increased (Chicago, Cleveland) and order books are full for flat rolled steel. Farm equipment sales show a mixed pattern. In Chicago, sales have exceeded expectations, but in Atlanta they are described as poor. Aircraft production prospects have improved primarily because of increased government contracts (St. Louis, San Francisco). The pattern is mixed for machine tools; Cleveland reports increased orders but Boston and Atlanta manufacturers' sales remain low.

For most industries, operating rates are below capacity. Capacity is being increased by many producers. Philadelphia notes that one-third of its survey respondents plan to increase their plant and equipment expenditures. Producers of aluminum, glass containers, and certain plastics are approaching full capacity. Shortages are not widespread although manufacturers may face problems in obtaining sufficient natural gas supplies (Chicago, San Francisco). Gasoline is not expected to be in short supply this summer, but New York reports a forecast of tighter supplies later in the year.

No major build-up in inventories is in prospect. Most retailers and manufacturers regard their inventories as adequate, however in the Richmond District, 70 percent of retailers surveyed thought their inventories were excessive. Retailers are following a cautious policy in rebuilding stocks despite an optimistic sales outlook (Boston, New York, Philadelphia, St. Louis, San Francisco).

Residential construction is recovering at a moderate rate in most Districts and it is described as good in the Kansas City District. Some concern is expressed about the effect of higher prices dampening the growth of sales (St. Louis, Minneapolis). Multiple-housing and heavy construction remains weak; Dallas reports the greatest weakness is in highway construction.

The agriculture outlook for most crops appears to be improving. Drought conditions have ended in several Districts (Minneapolis, St. Louis) and yields are expected to be good while prices will be firm. St. Louis and Atlanta note that cotton acreage is being reduced because of wet weather. Cattle prices may recover later this year, but they have been falling recently. Low prices have resulted in less cattle being placed on feed (Dallas). Kansas City reports excellent prospects for the wheat crop in its District, although nationally the crop should be lower than in 1975. Crops such as soybeans and corn are likely to be larger than last year according to Chicago, St. Louis and Atlanta.

Commercial banks are experiencing sluggish business loan demand and little strengthening is expected. The major exception is Kansas City where strong increases are reported. Consumer lending in the Boston District is relatively strong. Boston and New York banks are experiencing strong competition from savings institutions whose deposit-accepting and lending powers have been increased. Cleveland and Kansas City savings and loan associations report strong mortgage loan demand.

First District -- Boston

The New England directors are optimistic about future business conditions, and they report that business activity is good. Nevertheless, no director is exuberant because the overall expansion has been modest. Commercial bank loan demand remains weak. June retail sales have recovered from May's slump, but retailers, chastened by experience, are now less ebullient. The lumber and groundwood paper firms are oversubscribed, yet machine tool manufacturers, metal forming firms, and linerboard producers are confronted by capacity in excess of needs. White paper producers are utilizing 90 percent of capacity. Other industries generally report capacity utilization at 85 percent.

Business and consumer loans at commercial banks have been sluggish throughout the first half of 1976, and there is no indication that a surge in demand is imminent. Banking directors have noted that thrift institutions are quite active in courting loan customers, both business and consumer, when regulations permit.

After a disappointing experience in May, retail sales are back on track in June. Volume is not exceedingly high, but it is consistent with plans made earlier in the year. One director stresses that part of the problem in May can be attributed to unrealistic planning; too much was expected from tax refund checks. Retailers are still concerned about the level of inventories. They are optimistic but less enthusiastic.

Saw mills and paper mills either are producing at full capacity or anticipate reaching capacity by the fall. Saw mills cannot fill current orders, but the industry is expecting softer prices due to West Coast initiatives. White paper (business forms, duplicating paper, magazine stock, etc.) production is nearing capacity, and if the Boise Cascade and

Weyerhauser strikes continue much longer, the remaining producers may be oversubscribed. In any case, summer is a slow season and fall business is expected to tax industry's ability to produce white paper. Ground wood paper (newsprint, etc.) is mostly imported from Canada, but U.S. mills are at full capacity. Linerboard (cardboard) is at 85 percent of capacity, but the cyclical nature of orders and the European recovery are expected to generate enough business by September to justify full production scheduling. Although the paper industry is planning marginal additions to capacity, no major investment projects will be considered in the absence of significant price increases.

Machine tool orders have shown no encouraging signs in recent weeks, and the ebbing backlog is threatening production cutbacks. Producers speculate that capital goods users' demand has not "heated up" and that caution is widespread.

Professors Eckstein, Houthakker, and Samuelson were available for comment this month. None advocated a change in the long-term monetary growth targets, although each gave slightly different reasons. The latest Data Resources, Inc. forecast is based on monetary growth in excess of the upper limit of the current target range; it also implies real growth of less than 6 percent and significant increases in the Federal funds rate. While Eckstein admits that the errors in such forecasts are too large to draw precise conclusions, he argues that it would be foolish to lower the upper end of the target range away from the center of the zone of uncertainty. Samuelson advocates small, frequent policy shifts in both directions depending on the nature of the incoming data. The data over the last month or two suggest somewhat more weakness in late 1976 and 1977, although not a growth recession. Samuelson feels it would be a political and economic mistake to aim for a 4 to 5 percent real growth rate over the next several quarters. Weighing both the need for higher real growth and the tendency for inflationary pressures to increase in the later stages of a recovery, Samuelson thinks policy should become slightly more expansionary -- he welcomes the recent declines in short-term rates and advocates another quarter of the same announced monetary growth targets. Houthakker concurs with the consensus opinion of real growth of 4 to 5 percent over the next few quarters with inflation remaining near its present rate. He has been encouraged by developments on the labor front and less encouraged, but not alarmed, by the increases in raw materials prices. He wants no further policy stimulus until the rate of inflation starts to recede, and he continues to favor monetary growth of about 5 percent with no change in the targets. (Eckstein, incidentally, commented that the DRI industry experts were favorably impressed with the Board's new capacity utilization indexes.)

Second District -- New York

The economic recovery in the Second District continues to lag behind that of the rest of the nation, but recent developments have not materially altered the assessment of District directors and business leaders who were recently questioned about the economic outlook. Merchants do not appear overly concerned by the softening of retail activity, which they regard as temporary, but they are generally following tight inventory policies. On the financial front, business loan demand continues to languish in New York City, although a few directors reported scattered evidence of a pickup outside of the city. Commercial banks in New York have begun to respond to the challenge of checking accounts at mutual savings banks by eliminating or lowering checking fees.

Consumer spending in this District remained sluggish overall in June, although there were mixed reports of an upturn. The president of a major pharmaceutical concern reported a slowdown in some consumer markets in May and June. The controller of a major New York City department store also reported that sales continued weak in June. In western New York state, the Buffalo directors found little indication of any significant increase in consumer spending except for automobile sales. On the other hand, a Rochester retailer found June's sales, though soft, stronger than May's. Many stores, in an effort to limit inventory accumulation, have begun to mark down merchandise prices earlier this year than usual. In this connection, a senior official of a nationwide chain specializing in apparel and other soft goods said his firm planned June and July markdowns that are greater than normal.

Beyond their cautious inventory policies, retailers do not appear overly concerned by the softening of sales activity and have not altered their fundamental assessment of the future. Respondents believe that consumer spending will pick up again in coming months, but do not expect an upsurge as strong as that experienced early in the year. Echoing this view, the president of the pharmaceutical firm discounted the downbeat findings of recent consumer confidence surveys, arguing that they have no predictive value but merely confirm current market conditions. In the view of Buffalo directors, consumer confidence remains favorable as inflation decelerates and real income rises.

Outside of the retail business sector, most other respondents did not appear concerned over inventories. The president of a large distributor of electric equipment said his company's inventories were "in great shape." The treasurer of a metal-fabricating company reported that his once massive inventory overhang had been eliminated and that overall inventories were now "just about at optimal levels." An economist for an oil company felt his firm's inventories were generally in a normal range, with gasoline stocks being built up in anticipation of future tightness.

On the outlook for wage pressures, directors of the Buffalo branch felt that demands for wage increases have moderated somewhat. The president of a large utility reported that his company is experiencing record low job turnover and felt that this may allow him to break out of the national pattern of pay increases. Respondents, however, remained wary of aggressive wage demands of unions. One director, who is associated with the automotive industry, felt that the relative moderation of wage demands in that industry was due to the fact that pressures for catch-up pay increases were largely behind us. An official of a nationwide retail chain termed the wage situation in his industry as "stable." With only a small fraction of his work force unionized, he felt that the abundance of unskilled workers eliminated economic pressures to raise wages.

Surveying the financial scene, business loan demand in New York City continues to languish and respondents do not see signs of a turnaround. However, the chairman of a major New York City bank indicated that there were signs of recovery in loan demand at some rural and regional banks outside of the central money markets. In New York State, mixed evidence on this point was offered by various directors. One reported loan demand was flat in central parts of the state, while another cited an incipient recovery in the Binghampton area.

While New York City loan demand remains sluggish, competition for demand deposits has developed as a result of mutual savings banks bidding for commercial bank customers. Recent legislation now permits mutual savings banks in New York State to issue non interest-bearing demand deposits. A trade association for these thrift institutions indicated that as of the end of June three-fourths of its membership (84 out of 118 members) were offering these accounts. In the few weeks that the accounts have been available, deposits have grown rapidly and already exceed $100 million. In response to this rapid growth and aggressive marketing by savings banks, commercial banks have begun to eliminate or substantially reduce checking charges.

While the regional recovery generally continues to lag the national economy, there were some encouraging developments in the District's employment situation. The New York State unemployment rate (not seasonally adjusted) declined 0.6 percentage points to 8.9 percent in May, the first time in 30 months that it was lower than a year earlier. In Buffalo, where joblessness has persistently been the worst in the District, the unemployment rate fell from a high of 12.1 percent in March to 10.4 percent in May. This is also well below its 11.5 percent rate of May 1975. After holding steady at 10.7 percent in March and April, the New York City unemployment rate fell to 10.1 percent. This improvement is somewhat illusory, however, since it was caused less by an increase in jobholders than by a reduction in the work force. Indeed, New York City's recovery from the recession has fallen further behind that of the nation. The city's unemployment rate in May was 3.4 percentage points higher than the national rate, while in January this difference was only 2.6 percentage points. Of the five downstate counties surrounding New York City, each registered improvement in the jobless rate, but only one had a rate below the national average.

Third District -- Philadelphia

Economic activity in the Third District is still expanding. Retail sales have picked up after a period of softness, and conditions in manufacturing have improved, although the pace of expansion in this sector is slower than last month. Employment in manufacturing is up for the fourth month in a row, while new orders and shipments are down fractionally. At the same time, inventories are basically unchanged from June. For the longer term, both retailers and manufacturers are optimistic. Businessmen indicate that prices continue to rise but no dramatic movements are evident. South Jersey shore resorts report a good season so far and are bullish about the rest of the summer. Bankers indicate that business loan demand is still soft but are not yet ready to make price concessions to generate additional volume.

Manufacturers responding to this month's business outlook survey report that business is better although the improvement is less widespread than in June. Close to one-third of the executives surveyed indicate improvement in overall business conditions compared with two-fifths reporting gains last month. New orders and shipments are down fractionally, and inventories, which declined a bit last month, are reported to be essentially unchanged from that time. On the "plus" side, employment in manufacturing continues to improve. The factory workweek is marginally longer this month, and increases in work forces are reported by 19 percent of the firms polled. This is the fourth month in a row in which job gains have been recorded.

Despite the current weakness in a few indicators, the outlook in manufacturing for the next two quarters is optimistic. Of the businessmen polled, 3 out of 4 project a higher level of economic activity by the beginning of 1977. Specific gains are anticipated in new orders, shipments, and employment while inventories are expected to grow only slightly from present levels. Increases are planned in spending for plant and equipment by one-third of those surveyed -- about the same proportion of respondents as last month.

On the price scene, manufacturers report paying and receiving higher prices this month. Better than half of the executives in the current survey report paying more for their inputs, and 1 out of 5 indicates higher prices for outputs. Over the next half year, 86 percent expect to be paying more for their supplies and nearly as many anticipate higher prices for their finished products. In the meantime, retailers report a gradual upward trend in prices with movements characterized as "evolutionary rather than revolutionary."

Area retailers report that sales have picked up after a brief period of softness. Sales gains are put at 10 percent above year-ago levels. Durable goods are reported to be selling well while soft goods are "holding their own." Major appliances, auto accessories, and sporting goods are mentioned as strong sellers. One merchant indicates a good selldown of seasonal items, but another notes excess stocks of seasonal soft goods, especially sportswear. Despite the recent period of weakness, retailers remain optimistic for the rest of this year. As one merchant puts it, "We see no reason to overhaul our optimistic forecast for the second half since the basic factors promoting strong consumer spending are still present." In addition, there are no reported changes in any buying or ordering plans. According to one retailers, "We expect strong demand down the road, so we don't want to overreact to a temporary lull in sales thereby ending up with shortages a few months out."

Contacts at South Jersey shore resorts report that the early part of the summer has been as good as, or better than, the same period last year. Bicentennial visitors, especially to Philadelphia, were expected to spill over to the shore areas and provide an added boost to business, but contacts indicate that this has not yet happened to any significant degree.

The prospects for the rest of this reason are favorable. Inquiries from potential vacationers are reported to be up from last year, and advance bookings for August are reported to be high. For the season as a whole, shore officials feel that with good summmer weather business activity will exceed the relatively strong performances of last year. On top of this, any additional business from Bicentennial visitors will be, in one contact's words, "just icing on the cake."

Area bankers continue to report that loan volume is flat. Auto and credit card loans are moving upward at some banks, but business loans are labeled "basically unchanged" by the majority of bankers contacted. Most bankers indicate that current loan volume is below their forecasts made last fall. For example, one executive at a $3 billion bank notes that loans at his bank are running $200 million below the expected level. Despite this weakness, there are no reports on price concessions on business loan terms.

For the longer term, bankers continue to feel that loan volume will pick up gradually in the third quarter and gather momentum in the fourth. However, one banker feels that for most of the second half of 1976 the softness in business loans will continue since prime borrowers can bypass banks by selling their own notes on favorable terms. Another contact feels that banks may step up their efforts if loan demand doesn't improve. "For now, we'd rather sweat it out than get locked into some unprofitable situations by making price concessions. We take this position because we feel that demand will materialize. If it doesn't, however, we'll see much more aggressive action on the part of the banks in the second half of the year to boost loan volume."

Fourth District -- Cleveland

Activity in the Fourth District is marked by slowing gains in manufacturing, some revival in retail sales, and spotty recovery in capital goods. Directors and other respondents still report no shortages nor are any expected in the near future, although supplies of some types of steel, plastics and packaging materials have tightened. Deposit inflows at thrift institutions have slowed sharply, and expectations are that mortgage interest rates will rise unless deposit growth strengthens.

Retailers report a pickup in June sales, following two monthly declines. Although they view the revival with some skepticism, they remain cautiously optimistic that near-term prospects for consumer spending remain favorable. A director associated with a major national retail chain said orders placed by department stores are reportedly very high, but a few retailers apparently have lowered their commitments for future delivery. An economist associated with a major retailer is skeptical about the June recovery because of the spotty nature of the pickup (apparel and soft goods still weak, furniture sales strong) and the need for sales promotions to induce consumer response. He expects sales gains will not be as large as he estimated a few months ago. In contrast, an economist with a large producer of major appliances views the recent decline in retail sales as temporary and expects a second wave of rapid expansion later in 1976. He attributed the spring slowdown to emerging price resistance by consumers, flattening in housing starts and an ending to the effects of tax cuts early in 1975.

Recovery in capital goods remains mixed. Two large producers of machine tools report orders in recent months have exceeded shipments for the first time since mid-1974. Heavy-duty truck sales picked up last quarter from near trough lows, according to a major supplier in the industry. A producer of earthmoving equipment for mining, construction and logging industries continues to lay off workers and will suspend operations for at least a month over July and August for lack of orders. Another major capital goods producer, where orders so far in 1976 have risen only about 3 percent from 1975, reports inquiries have increased, indicating a step-up in orders later in 1976. That firm's capital spending plans for this year are below last year's outlays. Its major capital investment program includes purchasing a mining company as a hedge against expected rising prices for basic materials. Projections of a high rate of inflation, relatively slow growth in economic activity, and adequate capacity in its industry are among the reasons cited for its conservative spending plans over the next few years. A director with a diversified firm also indicated his company's capital spending for 1976 will be considerably less than previously anticipated, but can be boosted quickly depending upon the strength of customer demand.

There is yet little indication of shortages or bottlenecks in any of the key manufacturing industries in the District, although steel, plastics and packaging industries are tight in some product lines. Major steel producers in the District report order books for flat rolled products are full for the third quarter. One mill apparently turned away some business that was later placed with other domestic sources. Demand for other steel products, such as plates, structural steel and pipe, remains weak. Steel operations will drop less than usual for the summer months; operations will likely remain close to 90 percent of capacity, except that some mills may temporarily shut down for needed repairs. One of the largest producers does not expect to boost capital outlays until 1977.

A director described the supply of raw materials as adequate for the near term. Coke and iron ore are potential sources of problems for steel producers. One steel economist expects no shortages of raw materials this year, but said a coke shortage may surface in 1977 because of environmental constraints. Another economist said that inability to meet environmental standards may require his company to shut down ore mines in Minnesota. Three domestic steel producers and a prominent ore producer announced joint plans to sharply boost pellitized ore capacity, but production would not be available until late 1979 or early 1980.

The 2 1/2-month-old rubber strike is still not expected to shut down the auto industry, according to an economist associated with a major tire producer. The rubber industry continues to operate at about 50 percent of capacity but is expected to operate at 100 percent for at least a year following contract settlement. Contract talks appear deadlocked, but he pointed out that loss of medical, life insurance, and accident benefits, which expire next week, might speed up settlement.

Supplies of several types of nondurable goods, including food, packaging and paperboard, are judged to be adequate but supplies of glass containers and plastics are tightening. A director remarked that capacity in the food processing industry is adequate. Glass container producers are expected to operate close to capacity in 1976, although supplies of these containers are described as tight but not critical. No shortage is expected in 1976 or 1977, in part because of the substitution of metal for glass containers. The paperboard industry is operating at about 91 percent of capacity, well below the 1974 peak, but supplies are expected to tighten as the industry approaches 100 percent operations later next year. Capacity additions in packing and paperboard industries in the last few years have been small because of the high cost of building new plants.

Polyvinyl chloride is in tight supply. One major producer is operating at about 90 percent of effective capacity compared with 80 percent in the first quarter of 1976. Effective capacity of the industry, although higher than during the peak in 1973-1974, has been reduced because of environmental constraints. Sources associated with the industry expect no shortages such as were experienced during the last peak.

Financial officers associated with savings and loans report a seasonal to larger-than-seasonal slowing of deposit inflows in June. Mortgage loan demand is described as heavy. The view of two officials is that mortgage rates will rise unless demand softens or deposits grow as rapidly as they did earlier in 1976.

Business loan demand at banks is described as flat to weak by two directors. A director with a large bank attributes continued weak loan demand to corporate use of long-term debt and equity markets, the sluggish pace of capital spending and tight inventory control by business firms.

Fifth District -- Richmond

Responses to our latest survey of Fifth District business conditions suggest a decided pause in the current expansion. Manufacturers' reports suggest a decline in new orders in June, with shipments apparently showing no change and backlogs of orders falling off. Inventories of finished goods were reported to be larger than a month earlier and current levels are considered excessive by nearly one-third of our respondents. Despite this apparent slackening in the rate of advance, District manufacturers remain optimistic. Expectations of continued gains in the level of business activity are not quite as widespread as in some recent months, but over one-half of our manufacturing respondents expect further improvement over the next six months. Beyond some normal lengthening of lead times, there are no signs of any difficulties arising with respect to the availability of materials and supplies. Reports from retailers indicate a simliar pattern of activity: sluggish sales, a relative decline in sales of big ticket items, and further expansion of inventories. Large District banks report only nominal growth of commercial and industrial loan volume in recent weeks. In the agricultural sector, the general condition of most major field crops in the District has improved in recent weeks in response to much-needed rain and warmer weather.

Of manufacturers responding to our survey, one-half report no change in shipments over the past month. The remaining one-half are evenly divided between reporting increases and decreases. Meanwhile, over 40 percent indicate reduced volume of new orders and over one-third report declines in backlogs of orders. More than one-third also reported increased inventories of finished goods, while stocks of materials were apparently unchanged. Inventory levels are now considered excessive by nearly one-third of our manufacturing respondents, while nearly as many view current plant and equipment capacity in excess. Nonetheless, employment continues to rise in most sectors of the District economy, and reports of higher prices are widespread.

Among individual industries textile, apparel, chemical, and furniture manufacturers seem to have been typical, experiencing some weakness in the volume of new orders. Respondents from the primary metals industry report little change from a month ago, while producers of machinery and equipment showed some gains in this area. Inventories are considered excessive in furniture and fixtures, while in most other industries a majority of respondents consider current levels about right. There are individual respondents in virtually every industry surveyed, however, who feel current stocks are excessive.

Citing cooler than usual weather and a general lack of consumer confidence, retailers responding to our survey report marginally weaker sales in June and the first relative decline in sales of big ticket items since December. Reports suggest a continuing spate of bargain hunting, but with consumers retaining an eye for quality. Rather widespread inventory accumulation and the recent sluggish sales pace have left over 70 percent of our retail respondents with what they feel are excessive inventories. Price increases at the retail level are reported with greater frequency than in recent months, although most respondents report no change in prices, received or paid, since May. Retailers remain optimistic about the level of business activity, particularly with respect to sales in their own firms. Nearly 60 percent expect further improvement in the level of activity nationally and in their individual market areas over the next six months, but over 80 percent expect sales in their own firms to improve over that time period.

The availability of supplies and materials does not appear to be presenting any serious problems in the Fifth District. Most of our contacts in industry report at worst some lengthening of lead time, but even that is considered normal. Most firms continue to report that their orders are being met promptly and that they anticipate no difficulties in meeting orders for their own products. Only one respondent, an apparel manufacturer, reported operations being hampered by the performance of his key suppliers. One manufacturer mentioned the rubber strike, which he feels would adversely affect operations by the end of July.

Despite seasonal strength in business credit demand from agriculture-related industry, total C&I loan volume at large District banks has shown only nominal growth in recent weeks. According to area bankers, continued cyclical weakness in business loans is due to two basic factors. First, local industry reaction to the recent slowing in nondurable sales has been swift and conservative. In North Carolina, for example, the textile industry is said to have quickly tightened production to forestall unwanted inventory accumulation. Second, there is almost complete lack of term loan requests for purposes of business fixed investment. Consequently, loan volume is still below desired levels. Consumer lending is still advancing, but not as rapidly as in recent months. This seems to hold for both revolving credits and direct installment loans. Large District S&L's generally report that the demand for mortgage funds remains very strong.

In the agricultural sector, earnings from farm marketings continue to run above a year ago. But the 2 percent gain in the District during January-April was much smaller than the 10 percent increase recorded nationally. The corn outlook is especially promising, with prospects for a record harvest in North Carolina. However, excessive soil moisture is causing problems for crop farmers in many areas of South Carolina.

Sixth District -- Atlanta

The southeast's economic recovery continues, led by consumer spending, tourism, and some agricultural industries. A number of directors perceive a recent leveling tendency but retain a positive view of future prospects. None doubt that current progress will continue, although it may be slow. Retail sales gains tapered off in some parts of the region but have resumed in many areas. Tourist outlays remain a key area of strength. Bright spots are numerous in southeastern agriculture. Industrial developments present a mixed pattern. Purchasing agents report moderating economic growth. Improvement is becoming more evident in the District's construction industry.

Despite some recent slackening, consumer expenditures continue to supply the driving force behind the southeast's recovery. Marked gains persist in motor vehicle sales; smaller models remain an exception. Dealers cite holder-in-due-course regulations as a source of increased contingent liabilities; purchased paper contracts increasingly provide full recourse to the dealer. Used car sales are strong, although independent dealers report a scarcity of customer financing. Reports from Birmingham indicate a continuation from May into June of weakness in soft goods sales. Price reductions late in the month alleviated this weakness. New Orleans area merchants also used earlier-than-usual price cuts to revive sales. In both localities, customers responded well to these price concessions. Reports from numerous small variety stores in Alabama and Mississippi also indicate recent slowness in sales. Reports from Florida indicate slowness during May in some localities follow by gains in late June, while others have enjoyed uninterrupted increases. Some Nashville retailers report sluggishness in retail sales, while slow, steady gains are noted by others. Several cases of excessive inventory accumulation are mentioned, as well as an "industry-wide problem" with charge account collections.

Tourist expenditures remain a mainstay of the District recovery. Tennessee leads in strength, with large gains in attendance at national parks and private recreational attractions. Opryland continues to enjoy huge increases in attendance from last year; the Grand Ole' Opry is continually sold out. New Orleans reports large gains in hotel and motel receipts. Tourist traffic in central and southern Florida is generally very strong, although one source in southern Florida cites a slight letdown in June. This report is echoed in northeastern Florida, where declines in tourist patronage were recorded in June.

Food industries are another area of strength in the District. The shrimp fishing and processing industries in Louisiana are benefiting from greatly increased catches and rising prices. They should have a banner year. The sugarcane industry anticipates higher yields on a smaller acreage due to unusually favorable weather conditions. Weather has proved detrimental to cotton yields in Alabama, Tennessee, Louisiana, and Mississippi. However, markedly higher prices will offset the impact on producers to some degree. Corn production is expected to be large in Alabama, Tennessee, and Louisiana. Crop progress in soybeans is good in Alabama, Mississippi, and Tennessee. Florida reports that the citrus industry is prospering. The price of Valencia oranges has risen significantly. Recent miscalculations of orange juice concentrate inventory levels do not seem to have affected sales volume or the price of orange juice.

Various industry developments include an aluminum plant operating at maximum capacity which cannot meet the demand for its product. Demand has been boosted by the Canadian aluminum strike. Rubber production in Alabama remains dormant, pending settlement of the United Rubber Workers' strike. Appliance output has increased as a result of progress in home construction. A large steel company is experiencing increased sales; production increases have stimulated rehiring. A machine tools producer notes increased inquiries for pricing, although actual orders remain slow. This company's present backlog results in a 6- to 12- month lead time for new orders. Farm equipment is selling very poorly, with the exception of harvesting machinery.

A survey of Georgia purchasing agents indicates moderating economic growth. Increased sales and production are much less prevalent than in prior months. Further leveling of business activity in the next three months is anticipated. Delivery periods for purchases are stabilizing; slower deliveries are less frequently noted, while unchanged delivery times are increasingly prevalent. Average lead times on orders placed are somewhat shorter. A moderating tendency in prices is also apparent; reports noting price increases predominate but are offset to a much greater extent by constant or lower prices. Expected price increases have also eased somewhat. Growth in order backlogs has also moderated substantially. Inventory additions are decelerating for raw materials and finished goods; this tendency is expected to continue for raw materials.

Even the hard-pressed construction industry is showing definite signs of revival. Increased activity is general in single-family home construction. Sales of homes are increasing and prices appear to be firming in some areas. In southern Florida, the number of foreclosures has decreased substantially. Some signs of interest in condominium projects have been reported; these take the form of building permits and purchases of uncompleted projects. However, vacancy rates and inventories remain extremely high in some areas despite substantial reductions. Nevertheless, in the judgment of one director, "A turnaround is in the making" and southern Florida is "going through a moderate but firm recovery."

Seventh District -- Chicago

The economic outlook continues favorable in the Seventh District, although the pace of the upswing probably has moderated since the first quarter. Unemployment has declined significantly in all major centers, but remains high compared to pre-recession levels, especially in Michigan. Despite publicized reports of weaker national performance of employment and retail sales in recent months, there is little apprehension in the District that the general expansion is near a peak. Motor vehicles and many types of smaller capital goods are selling well, but orders for heavy capital goods continue slow. Various equipment producers, however, express confidence that new orders will strengthen in the next six months or so. Single-family home construction continues at a high level, but other construction sectors remain depressed.

Executives continue to be cautious on commitments to increase investments in inventories and plant and equipment, and on new hirings. In large part, this reflects still-fresh memories of the excesses of 1973-74. But they complain of various government regulations that restrict managerial discretion, and there is apprehension that this fall's elections will produce a less stable political environment.

Most firms either are adding to staff or, at least, are not cutting back. Help-wanted advertising in the Chicago area rose significantly in March and since then has been running 80 percent above year-ago, and has been very close to the level that prevailed in 1973 and in 1974 until September when a sharp decline began.

Capacity continues to be ample in virtually all sectors. However, new cuts in natural gas allotments have been announced for the winter season.

Limited availability of gas supplies is reported to be deterring expansion of industrial firms in Wisconsin. A recent heat wave in Indiana caused reductions in electric power available to manufacturers. Possible shut-downs of nuclear plants present a continuous threat to power supplies. Lead times on new orders for materials and components have stretched out further, partly because suppliers are reluctant to increase staff. On the brighter side, oil companies are less concerned about gasoline shortages this summer because refinery operations have been adjusted to increase supplies more readily than had been expected.

Opening steps have been taken to exploit a substantial body of copper ore in Northern Wisconsin. A Chicago steel firm contracted recently with partners to substantially expand two iron mines in Northern Michigan that produce low-grade ore which is converted into pellets.

Various firms have taken steps to assure future supplies of materials and components against a recurrence of the bottlenecks of 1973-74. They have expanded their own facilities, purchased plants of smaller companies, and have attempted to arrange firmer commitments from suppliers.

Some retailers were disappointed by sales results in May and June, but they do not appear to have lowered their sights for the year as a whole. The extent of sales promotions of seasonal merchandise since July 4 does not suggest a heavy overhang of goods. Appliance sales have been somewhat weaker than expected, especially refrigerators and freezers. The failure of appliance sales to expand further may reflect large purchases of autos and other vehicles, heavy vacation spending, and the higher proportion of new housing units represented by single-family homes.

As the 1976 model year draws to a close, shortages of popular intermediate- and full-sized cars are cited more frequently. Gluts of some small cars are substantial. The smallest auto producer, which concentrates on small cars, stopped assembly of 1976 models on June 25, several weeks earlier than usual. The "Big Three" are pushing large car output to the limit, mainly using overtime rather than extra shifts. Local strikes at crucial plants have impeded auto production. The model change-over period apparently will be shorter than had been expected earlier, but new models will not be produced on the same assembly lines as old models (as in the past) because many 1977 models are "not compatible." Availability of tires is not an immediate problem despite the long strike.

The heaviest trucks are now selling well again and the uptrend in sales of lighter trucks, with an increasing share going to consumers, remains "phenomenal." Demand for semi-trailers has picked up at least as fast as sales of heavy trucks. Farm equipment sales, especially heavy tractors, have exceeded expectations and inventories in the field are moderate. Export sales of farm equipment also have been strong. Sales of lumbering equipment, lift trucks, and smaller construction equipment are well above recession lows.

Output of some types of heavy equipment remains at high levels, but backlogs for virtually all types continue to shrink. The volume of inquiries and quotes have been at a good level, however, and firm orders are expected to increase as the general expansion continues.

Recent and prospective increases in steel prices are expected to hold up. Cold-rolled sheets are "effectively on allocation." Demand for heavier steel products has increased somewhat. Steel mills, like most other manufacturers, will schedule normal summer vacations this year, despite lengthened lead times.

Single-family homes continue to lead construction. For the first five months home permits in the Chicago area were close to the high levels of the early 1970's, but apartment permits were only a fraction of that level. Apartments have accounted for only 30 percent of Chicago area permits this year, compared to almost 60 percent in 1971 and 1972. Commercial and industrial construction prospects remain poor through year-end. Sales of mobile homes have increased sharply from last year's low level, but no early approach to peak rates of 1972-73 is anticipated.

Eighth District -- St. Louis

Sales, production, and employment continue up in the Eight District, although at somewhat reduced rates according to reports from businessmen. Retail sales at department stores continued up at about the same pace as last month. Manufacturing activity is mixed. Automobile production is strong, but appliance orders have slowed recently. Home building continues to make gains, and mortgage rates have remained unchanged in recent weeks. Business loans at banks have likewise remained unchanged, although consumer loans have registered further increases. In the agricultural sector, most field crops except cotton are reported to be in generally good condition.

Growth in retail sales has continued in recent weeks, and retailers remain generally optimistic about future sales. Automobile sales have continued to make sizable gains from year ago levels. Department store sales have likewise increased; however, sales of some items at department stores have levelled off due, in part, to unusually cool weather in June and early July, which discouraged the sale of air conditioning and summerware items. Most software items were reported to be selling very well. Department store retailers report their inventories at desired levels, but some car dealers reported very low inventories of full-sized automobiles.

Manufacturing activity has generally improved from a month ago, but again the rate of gain has apparently slowed during recent weeks. Appliance manufacturers, for example, note a slowing in orders of refrigerators, freezers, and similar items. This is thought to partially reflect a slowdown in growth of inventory demand rather than final demand. Inventories of appliances, it was pointed out, were built up quickly in the earlier months of the year and are now largely at desired levels. Capital equipment manufacturers reported that capital equipment demand has been improving in recent weeks. Demand for equipment by utilities was reported to be low compared with recent years, but such demand is expected to improve next year. Automobile assembly plants producing the larger size cars have been at full capacity, though some plants in the St. Louis area are now undergoing extensive retooling. Aircraft manufacturing was reported to be stable. Defense-oriented aircraft production is fairly strong and increases are expected as defense spending increases. However, commercial aircraft production is still reported to be sluggish.

A number of reporters commented on the possibility that plant capacity was generally well below levels projected on the basis of trend for recent years. A representative of a major chemical firm indicated that obsolescence during the last two years was much greater than normal.

The home building industry remains on the uptrend in the District and commercial construction is beginning to increase. Single-family construction continues to proceed at a fairly strong pace, while multi-family construction is still at a very low level and has shown only modest improvement recently. Industry representatives expect a "shortage" of multi-family units in some areas of the District this fall if construction does not pick up significantly. Concern was also expressed about the sustainability of the upturn in single-family housing in view of the sharp price increases in homes and the possibility of higher interest rates. While commercial construction remains very low compared wtih most recent years, reports indicate that it is beginning to increase.

Overall employment gains have been registered in the District in recent weeks. Several businessmen commented that qualified workers were hard to find, despite the relatively high unemployment rates. Unemployment rates are below 5 percent in several of the smaller metropolitan areas, while in Memphis and Louisville, where the recovery has been somewhat weaker than that of the nation, the unemployment rate is substantially above the national average.

Savings and loan associations have experienced a slowing in deposit growth in recent weeks. However, funds are still reported to be quite plentiful for home construction as most associations still have sizable amounts of uncommitted funds accumulated from earlier deposit gains. The cost of mortgage funds has generally remained in the range of 8 1/2 to 8 3/4 percent in the St. Louis area. Business loan demand at banks has been unchanged in recent weeks, while demand for consumer installment loans has picked up.

Crops are reported to be in generally good condition in the Eighth District. However, the prospects for the cotton crop are uncertain at this time. Late planting, cold spring weather, and excessive rainfall threaten to severely affect cotton yields. In several areas, 10 percent of the cotton crop has been plowed under and put into other crops, primarily soybeans. Hence, soybean acreage and production probably will be above earlier estimates. Poultry production is reported at a high level, although observers pointed out that further price declines for poultry meats would lead to cutbacks in production.

Ninth District -- Minneapolis

Several Ninth District economic indicators weakened in the second quarter. Growth rates for retail sales were down considerably from the first quarter. The seasonally adjusted unemployment rate for the District rose slightly in May to 6.0 percent. Housing permits fell from the first quarter rate. Manufacturers responding to the bank's latest quarterly Industrial Expectations Survey revised their sales expectations downward from the previous Survey. Business investment still had not picked up by early July, and as was true in June, capacity constraints still were not a problem in this District. Finally, the District's agricultural situation improved from the previous month.

The growth rate for retail sales in May-June was down substantially from the early months of 1976. The year-over growth rate through April had been about 25 percent. But nearly all firms reported smaller gains in May and June, and some firms said that sales were slightly less than in 1975 (May and June retail sales in 1975 were robust in this District). Some retailers even felt that stocks had become larger than desirable, in light of the recent dip in consumer spending.

Sales appeared weakest in the District's rural areas -- perhaps due to widespread drought conditions. Sales in the Twin Cities have been stronger, with some stores still experiencing increases over last June of nearly 20 percent. Nonetheless, most increases were smaller. A firm which operates stores nationwide said, for instance, that its June sales in Minnesota were about 10 percent above last year compared with its national sales gain of 6 to 8 percent. A representative of the firm said that the 10 percent gain was better than had been anticipated overall. Retailers --

even those with lower June sales than in 1975 -- continue to be optimistic about the second half.

Among individual products, autos continued to move well. Intermediate and full-sized models were selling best. Short stocks of intermediates and specialty models were common. Tourism was doing well in the District and resort owners expected sellouts in July and August. The drought caused sales of some items -- such as lawnmowers -- to fall, but caused sales of irrigation equipment to rise.

District labor markets weakened in the second quarter, according to several seasonally adjusted indicators, although quarter-to-quarter comparisons of seasonally adjusted data are perhaps misleading due to the unusually mild first quarter in the District. The unemployment rate edged upward to 6.0 percent of the labor force, from 5.7 percent in March. Employment, seasonally adjusted, leveled off after several months of increase; actual employment growth was substantial and total employment was up about 3 percent from 1975. The volume of help-wanted advertising indicated a continuing strong demand for labor. Manufacturing employment turned up in May and was about 2 percent above the trough of last winter.

April data on housing permits indicated that sector also tapered off from first quarter performance, though the unseasonally warm winter again makes interpretation of data difficult. The slowdown was not merely statistical, however, and builders have expressed disappointment at the rate of new home sales in recent weeks. They attribute the slowdown to buyer resistance to new homes' prices and to the recent upturn in interest rates. S&Ls are liquid, so that there is no evidence of a scarcity of mortgage money in the District.

Manufacturing sales gains in the second and third quarters may be lower than expected and lower than first quarter advances. Manufacturers said that first quarter sales were 15 percent above last year, and they projected second quarter sales at 13 percent above 1975, down from an earlier projection of 16 percent. Manufacturers said that current inventories are at adequate levels in light of future sales.

Business investment spending remained soft in the District; the current dollar value of nonresidential construction awards was only slightly above 1975. Excess capacity still exists in most sectors, so that there is little incentive to make capital outlays at this time. In addition, manufacturers still have some doubts about the staying power of the recovery: for example, one manufacturer in the District says that his firm has been postponing spending proposals for several months due to an uncertain outlook.

In the District's farm sector, crop conditions improved from a month ago. Rains boosted prospects in areas afflicted by the spring drought. On balance, yields in the District will likely be lower than trend, but crop conditions varied widely in the District. Moisture supplies were still extremely short across western Minnesota and eastern South Dakota. But the remainder of Minnesota's corn and soybean crops were in fair to good condition as of late June, with some areas even reporting excellent conditions. Row crop growth in Minnesota was greater than normal; however, frequent rain will still be needed to carry crops through to maturity. Small grain yields in Minnesota were harder hit by drought than corn or beans. Crop conditions were mixed across North Dakota, the major producer of spring wheat. The Montana winter wheat crop, on the other hand, is in generally good condition, though yields will be down slightly from last year.

Tenth District -- Kansas City

Residential building in the Tenth District, especially of single-family homes, has been very strong through the first half of 1976, and builders are optimistic about the remainder of the year. Cash inflows to savings and loan associations continue to be heavy, and loan rates are expected to remain stable through year's end. Tourist and recreation business in the District's mountain states has also been very good. Wheat harvest in the District is proceeding satisfactorily, with total production now estimated to be significantly greater than originally expected. District commercial banks report strong business loan demand in June.

Builders and home builders' associations across the Tenth District report a good year so far in residential construction activity, especially for single-family homes. There is more activity in custom-built homes than in speculative building, with some scattered reports of increasing stocks of the latter. Multi-family unit construction is generally reported as stagnant, except in New Mexico. Most builders remain optimistic for the rest of 1976, and some stretch their optimism through the first half of 1977. A few respondents expressed some fear of overstocking of houses by year's end, especially in Colorado, and most have a fear of rising mortgage costs later this year.

According to spokesmen for Tenth District savings and loan associations surveyed, rates on a typical 80 percent conventional loan now range from 8.75 percent to 9.5 percent, with 9 percent the most commonly reported rate. Most respondents expect rates to hold at the above levels, at least through the end of 1976. Cash inflows have been very strong in early July, and loan demand was generally characterized as strong. Several reporters noted that their firms had experienced withdrawals of funds that seemed clearly intended for purchase of consumer durable goods, especially new automobiles.

The tourist and outdoor recreation business in the Rocky Mountain states of the Tenth District has been very good so far this summer, with the peak months yet to come. There are more tourists, spending more money, than in 1974 and 1975. One respondent described the situation in Wyoming as "back to normal -- back to the pre-oil embargo days." All states report a greater proportion of campers, a trend toward all tourists staying in one area longer and spending less time on the road, and a spending pattern that includes more spending on gasoline but saving elsewhere.

Farm prices have been exhibiting strength in recent months despite the favorable prospects for agricultural output. For the month ended June 15, 1976, the index of prices received by farmers advanced 2 percent, as gains in soybean, corn, and hog prices more than offset the slippage in cattle prices. At mid-June, prices were about 5 percent above year-ago levels.

In recent weeks, the Russians have purchased about 1.5 million metric tons of soybeans in addition to about 4 million tons of wheat and corn under the grain agreement consummated last fall. The general strength in foreign demand, together with the continued expansion in livestock feeding domestically, explains the uptrend in grain prices until recently. However, if the summer and fall crops turn out as large as currently projected, grain prices could experience additional retrenchment.

The District's wheat harvest is progressing satisfactorily, although the rate of progress is behind last year's pace as well as the 10-year average. Nevertheless, production prospects in the major wheat states appear to be higher than originally expected. Recent estimates for Oklahoma and Kansas, where harvest is virtually complete, are 151 and 322 million bushels, respectively, down about 7 percent from last year. The Nebraska crop is also expected to be reasonably good, but output in Colorado is disappointing because of weather difficulties. For the nation, total wheat production is expected to be about 100 million bushels below last year, with spring wheat output partially offsetting the decline in the winter wheat production.

Most Tenth District banks contacted reported strong increases in business loan demand during June. Several of the banks indicated that a source of strength in loan demand was their participation in smaller banks' loans. Others, however, indicated that demand for loans arose primarily from their own customers. No particular industry or loan purpose dominated demand. Reasons for borrowing, nonetheless, included both inventory financing and capacity expansion. Agricultural loans -- primarily to finance cattle inventories -- also rose strongly in June, with participation again being a factor. Consumer loans generally rose, with auto loans showing the most strength.

Banks stated that their levels of negotiable CD's have bottomed out, but that they do not expect increases in loan demand strong enough to necessitate a buildup at this time. Several banks mentioned surprising strength in demand deposits as another reason for keeping low CD levels.

Eleventh District -- Dallas

The economic recovery in the southwest has slowed, and although many signs of strength are still evident, some areas of weakness are currently hampering further overall improvement. This month's survey touched on retail sales, construction, drilling activity, and cattle feeding. The results suggest a mixed economic picture. New auto sales are strong, and the pace of residential housing starts is again picking up after leveling off for four months. Moreover, drilling activity should increase further over the remainder of the year -- especially if the interstate price of natural gas is raised. Despite the areas of strength, department store sales have softened. Highway construction remains one of the weakest sectors of the Texas economy, and placements of calves in feedlots have slowed because fed cattle prices have fallen well below production costs.

Sales of new cars and pickup trucks are strong throughout the District. The biggest demand continues to be for intermediate size cars. Demand for large models is also up sharply largely because General Motors plans to reduce the size of many large models in the 1977 production year to the intermediate size range. The auto dealers surveyed feel the announced 6 percent price increase for the 1977 models has had no effect in stimulating purchases of the remaining 1976 models. Inventory levels of intermediate and large model cars and trucks are low, and some dealers are completely out of the most popular models or will be before the 1977 models are introduced. Inventories of compact cars, however, are plentiful as sales of these models have not met previous sales expectations. Large price discounts will likely be necessary to move the current inventory of small cars.

Most respondents in a survey of department store executives described business as "pretty good" but pointed to a softening in sales in the past few months. About half of the respondents felt the softness was centered in durable goods, and about half felt the weakness was largely in non-durable goods. Inventories are generally on the "high side," but remain at manageable levels. As a result, most department stores continue to take a conservative approach to building inventories, and some have found the time required for delivery of some goods has begun to stretch out. All respondents felt retail sales would show steady improvement in the last half of the year.

After leveling off for four months, the pace of residential construction in Texas has again begun to quicken. Most of the activity continues to be in single family starts, but some builders look to a significant improvement in multi-family construction by the beginning of next year. One reason for the slower than normal recovery in single family housing, according to a San Antonio contractor, was the news media publishing stories that new homes have become unaffordable. Another builder attributes the current strength in new starts to the fact that people now see that they can make mortgage payments despite higher prices and interest rates.

With the exception of single family housing, construction activity in the southwest remains depressed, and one of the weakest sectors is highway construction. In Texas, the growth in highway construction funds has tapered off with slowdowns in both federal funding and state tax revenues. And with road building costs rising at an estimated 15 percent per year, actual construction put in place is being sharply reduced. A few contractors have gone out of business, while others are selling off used equipment and are cutting back their work forces. The decline in demand for materials used in road building is largely responsible for the depressed market for construction steel and reduced output in the stone, clay and glass industry.

Although the number of active drilling rigs in Texas is about 4 percent below the high levels attained a year ago, an increase began a month ago and most industry spokesmen anticipate further gains in drilling over the remainder of the year. But many drillers no longer expect the gains to be as strong as anticipated two months ago. Activity seems to be restrained by the rollback in prices for crude oil, and many drillers report that proposed tax law changes and the threat of divestiture could discourage investment in the industry. Nevertheless, many independent drillers expect that the Federal Power Commission will raise natural gas prices from $.53 per thousand cubic feet to as much as $1.50 by September. If a large increase is granted, exploratory drilling for gas should rise sharply.

Placements of calves in southwestern feedlots slowed considerably in June from the increased levels of late 1975 and early 1976. Bankers financing cattle feeders expect placements to remain low as fed cattle prices have edged below feeder cattle prices and the cost of grain. One banker reported that with current prices for fed cattle around $40 to $41 per hundredweight and the cost of grain near $48 per hundredweight, cattle feeders are incurring heavy losses. Considering the losses, cattle feeders and bankers are cautious about placing new cattle on feed. Thus, the demand for feeder cattle loans has weakened. The weakness in fed cattle prices apparently is caused partially by the increased slaughter of heavier weight grassfed calves as prices for feeder calves are restrained by the lower demand for feedlot replacements.

Twelfth District -- San Francisco

In the opinion of our directors, the recovery is proceeding at a moderate, sustainable pace. Inventory-sales ratios are being kept low deliberately and hoarding psychology seems non-existent. Except for natural gas, supply schedules are generally being met with only an insignificant number of delays being reported. In the absence of capacity growth, however, scarcities might develop in 1977 in the aluminum, high-grade paper and chemical industries. The agricultural outlook is fair in spite of drought conditions in some areas. The market for aircraft appears to be picking up. Money center banks continue to be disappointed with the low level of loan demand.

Our directors were asked to comment on the fact that the 15 percent rise in total business sales during the first year of the current economic recovery was accompanied by only a one percent rise in inventories. The majority reported that these trends generally reflected their own company's experience and that the cautious inventory policy was deliberate. The 1973-74 recession which, in many cases, involved a costly sell-off of swollen inventories, is fresh in their minds. Moreover, many cite the high cost of borrowed funds as a deterrent. They also credit efficiency measures adopted since the recession which allow operating at lower stock-sales ratios.

Except in the cases of coffee where forward buying is active and copper where the accumulation has been involuntary, there is little evidence of a hoarding psychology. Filling of orders by vendors has generally remained timely, although some delays have been reported in the retail sector and in the area of construction materials such as electrical and plumbing fixtures. In the lumber industry, the inventory gain has matched that of sales over the past year.

Surveys by a large West coast bank indicate that businessmen now plan to increase their inventories in step with sales gains, and, with few exceptions, they feel that stock levels now are just about right. "The recent slowing down in inventory building augurs well for a solidly based, long up-trend in the economy."

Except for natural gas supplies, present shortages of materials generally do not represent a critical or disruptive problem. Under conditions of continued real growth above 4 percent, it is thought that shortages could develop in the aluminum, high-grade paper, and chemical industries during the second half of 1977. There is also some possibility that cattle will be in short supply by year-end 1976. No instances of capital expansion were cited.

In spite of drought conditions in California and the Teton flood disaster in Idaho, the agricultural outlook remains fairly good, but the final outcome is still a matter of speculation. Farm prices are considered low; some 1975 potatoes and beans are in storage due to low price and demand. But plantings are in and much now depends on the weather. Fat cows and dressed meat prices haved dropped $5 to 10 per CW recently, as excessive numbers were brought to livestock commission sales.

Pockets of increased construction activity are appearing in the West, but the trend is generally flat. Utah claims a 33 percent increase over last year in residential housing activity and Southern California is reporting gains. Strength in housing seems closely associated with increases in area employment.

There has been a promising renewal of government contract activity for aircraft; bids are being taken on 12 to 15 new programs. On the commercial side, new orders for placement of equipment have prompted a 15 percent improvement in the production rate of one large manufacturer. The average domestic airplane is 8 years old and this should eventually affect replacement demand.

Loan demand at money center banks has continued sluggish; even consumer lending which had been vigorous, has slowed somewhat. Banks with overhanging REITs' problems are finding the slow pace of the recovery helpful. Bank profits for the first six months of 1976 are expected to follow the pattern of the first quarter; a very few banks are expected to report increases in second quarter earnings over the first quarter.