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CURRENT ECONOMIC CONDITIONS BY DISTRICT

Prepared for the
Federal Open Market Committee
by the Staff

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SUMMARY*

This month's District reports suggest that the economic advance has continued at about the moderate second-quarter rate. Automobile sales remain strong, but department store sales softened in July. Retailers are still generally optimistic about the sales outlook, however. Manufacturing activity appears to be expanding, albeit at a modest pace,and there are indications that firms are beginning to revise capital spending plans upward. Capacity appears ample for the time being. While construction of single-family residences continues to increase, building of multiple-family dwellings remains very sluggish. The agricultural situation is generally favorable, although inadequate moisture may reduce crop production in some areas. Commercial bank lending to business continues to show little if any strength; loans to consumers are still on an uptrend.

Readings on consumer spending are mixed. Automobile sales remain strong, with demand favoring large- and intermediate-size American cars, some of which are in short supply. Department store sales, on the other hand, softened in July and generally have been below expected levels, although Atlanta reports healthy gains stemming from expanding convention and tourist trade. While retailers for the most part remain optimistic, there are indications that some have scaled back sales forecasts for the second half of this year (Boston, Minneapolis, Kansas City). There are also scattered

*Prepared by the Federal Reserve Bank of New York.

reports of heavier than desired inventories at the retail level, but serious imbalances thus far have been avoided, in part because of cautious inventory policies.

Manufacturing activity appears to be expanding at a moderate rate. Increases in new orders and shipments are reported by Philadelphia, and Chicago indicates that order backlogs for steel remain substantial. Richmond and St. Louis, however, report a leveling-off in manufacturing activity. Cleveland indicates an easing of tight supplies of certain steel and chemical products as a result of a slowing in orders. While the rubber and coal strikes have not had much impact as yet, the coal strike could affect steel output because coke is already in short supply. Further increases in industrial materials prices are in the offing, although these may be of relatively modest proportions (New York, San Francisco).

Capacity remains adequate in most sectors, and outright shortages so far have not materialized. Steel lead times have shortened recently, and steel capacity is judged sufficient for the remainder of this year and most of 1977. Similarly, chemicals and most capital goods industries have ample capacity. There is concern about the future availability of a variety of metal products and of natural gas, although in this regard Chicago and Dallas indicate that a pickup in drilling of gas wells is expected once the new ceiling prices on interstate natural gas shipments become effective. Manufacturers continue to manage inventories cautiously, and changes in stocks are generally small. There are scattered reports of inventories above desired levels, but others indicate that producers' inventories are lean.

The recovery in capital spending remains modest. There are signs, however, that firms are beginning to revise capital spending programs upward.

Chicago reports that plans previously shelved by automobile and steel companies are being revived; orders for transportation equipment have also improved. Atlanta indicates that capital spending plans have been raised by chemicals and by textiles and related industries. Moreover, export demand for capital equipment is reported strong, with significant orders from the USSR and from OPEC.

Some Districts report continued growth in home building, with activity concentrated in construction of single-family units. Apartment construction remains sluggish. Demand for mobile homes is very strong (Dallas). Comments on nonresidential construction suggest that it is still weak (Minneapolis, New York), although the possibility of some pickup in activity is foreseen. Mortgage funds are generally available, although St. Louis notes some recent upward pressure on mortgage rates and the full effects of the sale of the 8 percent Treasury note on savings flows are not yet apparent.

Business loans continue to show little if any growth, and bank lending rates have tended to decline. Kansas City reports, however, that most of the District commercial banks contacted were slow to move to the 7 percent prime rate, with some repondents still posting a rate of 7 1/2 percent. Consumer loans are generally rising moderately. Loans to agribusinesses and farmers are increasing.

The agricultural outlook is favorable for the most part. St. Louis reports that recent rains have improved yield prospects for some crops, and Atlanta notes that a new irrigation system is enhancing yields in part of Georgia. Kansas City suggests that increases in cattle prices will be only modest over the remainder of this year. Inadequate moisture has caused concern in some areas (Richmond, Chicago), while cotton acreage has been adversely affected because of excessively wet weather.

FIRST DISTRICT--BOSTON

The directors of the First District report that business conditions have changed little since last month's survey. New orders for machine tools are weak, and manufacturing capacity is generally redundant. In one recent development, retailers have become increasingly conservative in their outlook since sales volume in July was disappointing.

The machine tool industry has yet to participate in the recovery. The increased production of automobiles has generated some business for New England firms, but new orders for even the most basic, inexpensive, and versatile equipment have yet to encourage machine tool producers. One director speculates that potential customers are postponing purchases until after the September machine tool show, where buyers may survey the entire range of products. Because capacity pressures are lacking, purchasers can afford the delay.

New England directors continue to report that regional industrial capacity is redundant. Many firms have only recently resumed a second shift in work schedules, and overtime work has not yet attained levels considered normal. The only exceptions to this general description are lumbering and groundwood paper; both industries are receiving orders sufficient to utilize capacity fully.

Retailers had hoped that the strength of June's sales volume was a signal of better months to come. However, July's figures were slightly below plan. As a result, retailers are concerned that June was a fluke in an otherwise sluggish sales trend which has been developing since April. Some stores are reappraising their fall plans and their inventory positions. Although the stock of consumer items is not "excessive", some stores are "heavy", and one local retailer finds no problem in stocking his bargain basement with inventory procured from other stores.

Professors Eckstein, Samuelson, and Tobin were available for comments this month. Eckstein expects a 5 percent increase in the consumer price index and a 7 1/4 percent increase in compensation over the next several quarters. He termed the outlook "healthy", even though the forward momentum since April has been related mainly to trend as cyclical gains have ended. The July increase in unemployment should have come as no surprise since, on the basis of unemployment claims, labor markets have loosened since the first quarter. Tobin felt that the weakness in the stock market, in combination with nearly level interest rates, may indicate that investors are not taking continued increases in profits for granted any longer.

Samuelson and Tobin both criticized current concerns about capacity. In a dynamic economy, one should expect to find a few scattered shortages and relative price increases in those areas. To run into no capacity problems suggests our goals are overly cautious; to run into generalized shortages would suggest our goals to be overly ambitious. Bottlenecks could be found even in 1934 by those who looked hard enough.

Eckstein takes exception to the M2 target range. His forecast is based on M2 growth of 10 3/4 percent. Time deposits are expected to be boosted by a high savings rate and a small gap between thrift deposit and open market yields.

Samuelson believes our real growth targets should be not less than 6 percent. In view of the recent slowdown, he finds no cost in lowering interest rates now and raising rates later should the current weakness prove to be an aberration or should the rate of monetary growth explode.

Tobin favors holding the current level of rates for a quarter or two, even if it were to result in monetary growth above the Federal Reserve's self-imposed targets. He pointed out that there has been no strength in nonconsumption final demand and that a continued recovery is contingent on strength in private fixed investment. The fear of shortages could be a self-fulfilling prophecy if investment is discouraged long enough by a stagnant economy and stringent monetary policy.

SECOND DISTRICT--NEW YORK

The Second District economy continues to have difficulty gaining momentum, according to District directors and business economists contacted recently. Regional retail sales apparently softened in July, with the weakness heavily concentrated in apparel. However, sizable inventory imbalances were avoided, for the most part, largely as a result of cautious purchasing policies. Further improvement in home building appears uncertain, with high prices and a backlog of unsold homes restraining construction of single-family units and few signs of any pickup in multiple-family residences. Overall, the regional economy still lags behind that of the nation, in large measure because of the prolonged slump in activity in New York City.

Consumer spending in the Second District slowed in July. Retail sales in New York City were characterized as sluggish by department store executives. Directors from the Buffalo area reported that, aside from the auto sector, July sales softened considerably from June and sales in the first few days of August gave no indication of marked improvement. The president of a Rochester retail store indicated that the weakness was general throughout the state. An official of a trade publication felt that to a large extent the weakness stemmed from a slowdown in spending on apparel, and that buyers appeared to have become value conscious. Despite this softness, the president of a major nationwide retailer which specializes in apparel did not expect the slowdown to continue in coming months. Some respondents noted a change in the mix of consumer spending, as purchases of appliances apparently have held up.

Retailers appear to be very cautious in building inventories, responding quickly to changes in expected sales growth. As evidence of this, virtually every analyst contacted cited the fact that large inventory buildups did not accompany the sales slowdown. Nevertheless, some imbalances remain in the composition of inventories--old spring and summer stock versus new fall lines. Directors of the Buffalo Branch reported that promotions and markdowns had only limited success in moving merchandise. A senior official of a national retailer said his chain's markdowns would continue into August. A business analyst reported that outright order cancellations were rare but that many retailers appeared to be limiting or delaying ordering new merchandise and were planning instead to reorder if demand proved sufficiently strong.

Continuing problems with multifamily building were seen as limiting prospects of a pickup in the rate of recovery of residential construction. A senior economist of a major appliance manufacturer felt that home building was in a bind created by an imbalance between personal income and the high carrying and downpayment costs of a new home. The large backlog of unsold units was seen by another analyst as further restraining any near-term acceleration in activity. One director reported some spotty pickup in housing activity in central New York State. Outside of residential activity, a regional analyst thought that public construction spending in New York State would remain at a standstill for the near term. Commercial activity was seen as possibly recovering modestly, with the building of shopping centers and stores.

Overall, the regional economy continues to lag behind that of the nation. To a large extent, this is due to the failure of the New York City economy to revive. Over the first half of the year, estimates suggest that the City accounted for almost nine out of every ten jobs lost in the State. Total employment in New York City, seasonally adjusted, has continued to decline. To be sure, private employment appears to have stabilized, but at the lowest level since record keeping began in 1950. The rate of joblessness in the City is some 3 percentage points above the national average. Even this wide differential disguises the depth of the metropolitan area's slump, however, because a substantial reduction in the labor force has been an important factor in holding down the unemployment rate.

In addition to the weakness of the City's economy, a commercial bank economist felt that part of the economic sluggishness of the region reflected the importance of capital goods production in upstate New York. As a mature region with older, less efficient plants, the upstate region responds to a revival in capital spending with a lag--reportedly moving ahead with vigor only when national capital spending is well into an expansion.

As to the overall outlook for the national economy, a senior economist of a financial firm was highly optimistic, expecting a long-lived recovery and a sharp moderation in inflation. On the other hand, another senior economist expressed apprehension over the danger of a future pickup in real growth with concomitant upward price pressures. An economist of a major business equipment producer looked for deceleration in real growth but anticipated a favorable price performance. With regard to industrial materials prices, the president of a major metals firm felt that, while there would be further increases, a relative "breather" was likely compared with recent previous months. A nonferrous metals economist viewed as likely an additional copper price increase late in the year, with the possibility that the price of aluminum ingots would rise early next year. The Buffalo directors felt that, with substantial agricultural production in prospect, price pressures in this sector would be modest.

THIRD DISTRICT--PHILADELPHIA

Economic conditions in the Third District are improving, but the pace of improvement is somewhat uneven. Retail activity is mixed, while the manufacturing sector continues to expand. New orders, shipments, and employment are higher this month, while inventories in manufacturing are lower. The longer term outlook in both retailing and manufacturing is still optimistic, but less so than in previous months. Reports of higher prices are less widespread than in July. There is brisk activity in the market for existing housing but very little recovery in new construction. Bankers report that weakness in corporate loan demand is spurring requests by business borrowers for concessions on loan terms.

District manufacturers, responding to the latest business outlook survey, report a higher level of activity than last month. One third of the businessmen surveyed see an improvement in overall business conditions. Increases in new orders are reported by two fifths of those polled, and a similar proportion say that shipments have increased as well. Neither of these indicators showed any increase last month. At the same time, work forces are larger at 16 percent of the firms surveyed, while the average workweek is unchanged. One key area showing no increase is inventories, which are slightly lower this month after holding steady in July.

The outlook in manufacturing for the next six months is for further expansion, although projections of gains are not so widespread as in previous surveys. Of the executives polled, three out of five look for better business conditions over the next two quarters. This is down from last month, when three out of four respondents projected improvement six months out, and well below the monthly average (four out of five) for the first seven months of this year.

Specific gains are expected in new orders, shipments, and employment, but for each of these barometers the proportion of respondents anticipating increases is substantially below the levels of the recent past. In addition to expansion in these categories, the average workweek and inventories are each expected to increase over the period. At the same time, 40 percent of the manufacturers surveyed plan to hike their spending for plant and equipment, up somewhat from last month.

With respect to prices, 46 percent of the respondents indicate that they are paying higher prices for their supplies. This is down from last month when 57 percent were reporting increases. At the same time, 27 percent report price hikes for their finished products, about the same as in July. By February, roughly three out of four expect to be paying more for their inputs and charging higher prices for the products they sell. Retailers report only slight price increases by suppliers and attribute this, in part, to the uncertainty about retail sales prospects down the road.

Reports on area retail activity are mixed. Some merchants indicate that current sales show little or no growth over the same period last year, while others note increases of 9 to 10 percent. Almost all of the retailers contacted, including some with 9 to 10 percent gains, say that current sales volumes are falling short of the levels they expected.

Major appliances and big-ticket furniture items are reported to be particularly soft, while fashion accessories and recreational equipment are singled out as strong sellers. Merchants note that price markdowns on seasonal items occurred earlier than usual this year, and they feel that these have helped generate a sizable chunk of current sales. According to one retailer, "we've reduced prices on seasonal items in the latest period in hopes of avoiding bigger markdowns in the next period". All of the retailers contacted look for a strong September, but several are reconsidering their prospects and buying plans for later in the year. According to one merchant, "we used to be cocky about the fall--now we're just confident". Yet another feels that, "if our December sales this year just equal last year's, we'll have nothing to cry about".

The residential housing market in the area is reported to be very active for existing housing, but only slight recovery is taking place in new construction. There are signs that the rental market in the area is tightening somewhat, which may open the way for a few new multifamily units. By and large, however, the outlook is for no substantial increase in new construction over the near term. One mutual savings bank official notes that availability of funds is good and that mortgage rates have declined recently. This official expects rates to decline further in the near future before moving upward by late fall. He even sees the possibility, although remote, of a drop in rates paid on savings if short-term money market rates decline further.

Bankers in the District report that, while consumer loans are increasing, business loan volume remains weak. Most banks are attempting to attract consumer business through either merchandise promotions, lower rates, or extended maturities. The results, however, are "not as good as expected". On the business side, there are no reported signs of any pickup in loan demand. Several bankers do note slightly increased pressure from corporate customers for concessions on loan terms. More requests for fixed rates, as well as early attempts to renegotiate terms on revolving credits, are reported. For the most part, bankers indicate that these requests have been denied. Several bankers feel, however, that, if business loan demand remains weak, they may find it more difficult to deny such requests in the future.

FOURTH DISTRICT--CLEVELAND

Plant shutdowns and summer vacations have slowed economic activity in the Fourth District. Consumer spending for automobiles, recreation, home remodeling, and new houses continues relatively strong, but sales of department store goods were soft again in July. Recovery in capital goods continues to be spotty. Neither the rubber strike not the coal strike has disrupted operations of their consumers. Tightness in supplies of certain steel and chemical products appears to have eased as a result of a recent slowing in orders. Several thrift institutions report some deposit losses as a result of last week's 8 percent Treasury note but less than in previous periods of comparable yield spreads.

Consumer spending continues to be selective and spotty. Car sales, recreation and amusement spending, and home improvement expenditures remain strong. Auto sales in July, especially of medium-size cars, held up relatively well in the largest metropolitan centers of the District. Home improvement business continues to flourish according to banker directors and a director associated with a building materials firm. Another director reported new attendance and spending records for amusement by consumers. Some retailers of department store goods complained that sales were again soft last month. A financial officer with a large department store that caters to middle- and upper-income earners reports that sportswear is selling well, accessories are still selling better than a year earlier, but ready-to-wear apparel is selling poorly. Collections have not been a problem. A financial officer with a large discount chain describes sales of both hard and soft goods as flat.

Consumer demand for single-family housing is strong, and directors as well as officials with thrift institutions report brisk loan demand. One director expects new housing starts to average 1.5 million units in 1976 and projects an increase to 1.7 million units in 1977. High costs of single-family units have boosted demand for mobile homes. Construction of multifamily dwellings remains weak, according to several mortgage lenders, although one director noted that gradually improving vacancy rates are contributing to a pickup in demand.

Capital goods are still marked by sluggish recovery and ample capacity. Some producers do not expect to reach their pre-recession peak until 1978. Sales of heavy-duty trucks and industrial lift trucks have been recovering, but significant improvement is not expected until 1977. One official expects that the next peak for these capital goods is unlikely to be as high as the 1974 peak; even if it were, shortages are unlikely to appear because of recent expansion in capacity for trucks, axels, and other material handling equipment. An electronics and printing press firm reports both orders and backlogs last month were at their highest volume in recent years. Capacity for producing printing equipment is judged to be adequate for the next few years because of the large amount of unused capacity, but a shortage of capacity for semiconductors, radio- and TV-broadcasting equipment and other communication equipment will require the firm to double its capital spending beginning this year.

Financial officers and economists in the steel and chemical industries view their capacity as adequate to accommodate demand this year and most of 1977, although spot shortages may surface later this year. Steel economists with major producers in the District report that orders and shipments slumped more than usual in July and August. One economist expects a strong rebound in the late summer and fall months and has revised his estimates of shipments for 1976 slightly upward. However, an economist with another steel company has recently revised his forecast downward because of continued sluggishness in capital goods and a lack of inventory buildup by steel users. Tightness in flat-rolled products has eased, although some steel mills are apparently still informally allocating orders. Coke is expected to be in tight supply in 1977 because of environmental standards that are restricting production from some existing coke-oven facilities in the District.

Chemical producers report that operating rates for their frims continue to climb moderately. Output in July and August softened because of plant shutdowns of customers. PVC, polypropylene, and chlorine are among products in tight supply, and some spot shortages can surface by the year-end.

Neither the rubber strike not the coal strike has hampered output of users. According to an economist with a major tire producer, the rubber strike can continue for another few months without curtailing auto production. He cited the sustained operations by nonstruck suppliers and small independent tire producers who have been selling the bulk of their output directly to auto producers rather than in the replacement market. According to his view, the replacement market will be affected more seriously than the original equipment market, if the strike continues much longer. The wildcat strike in the coal industry, which has caused an estimated 10 million ton loss in coal output, will have little if any effect on coal consumers because inventories were already well above the normal 65-day supply before the strike. Metallurgical coal will be in tight supply because of restricted coal output, but steel economists do not expect that supplies will hinder a rebound in steel operations.

Financial officers with savings and loan associations commented that the full extent of deposit losses resulting from last week's 8 percent Treasury note will not be known until the final payment date on August 16. An official with one of the largest savings and loan associations in the

District expects heavy withdrawals on that date. Several small- and medium-size associations detected no significant withdrawals of deposits, but they noted that net deposit growth for the last several weeks has wavered between losses and modest gains. Despite some runoff in deposits, none of the savings and loan associations expect to curtail commitments or loans. Liquidity is still above minimum requirements, and deposit growth is expected to recover beginning in September, although at rates below the rapid growth earlier in 1976.

FIFTH DISTRICT--RICHMOND

Responses to our latest survey of Fifth District manufacturers indicate that activity in July remained essentially stable for the second consecutive month. The pace of improvement appears to have slowed in the second quarter, and since then there has been little change in the level of manufacturers' shipments and some softening in the volume of new orders. Backlogs of orders have declined in each of the last two months, while materials inventories have remained essentially unchanged. Stocks of finished goods leveled off in July, after rising in June, and inventories in general seem to be somewhat above desired levels. District retailers surveyed report increased sales in July, but big-ticket items apparently did not figure in this improvement. Retail inventories showed relatively little change after three months of widespread increases but remain above desired levels. Both manufacturing and retail respondents remain optimistic, expecting further improvement in business conditions over the next six months. Business loans at large District banks have shown little, if any, growth in recent weeks. Real estate loan volume remains essentially flat, while consumer lending continues to advance. In the agricultural sector, drought threatens severe crop losses in North Carolina's piedmont and western coastal plain. Short soil-moisture supplies have also caused crop conditions to deteriorate in many other areas of the District.

Manufacturers' responses to our survey reveal a decline in backlogs of orders during July, resulting from a slight decline in the volume of new orders accompanied by a small increase in shipments. Inventories of both materials and finished goods were essentially unchanged from June, and over one third of manufacturers feel current levels are too high. Manufacturing employment seems to have risen somewhat among respondents, although hours worked per week declined slightly. Most respondents report paying higher prices in July, but reports of receiving higher prices were less common than in recent months. One third of our respondents report increased employee compensation. Thirty percent of the manufacturers responding to our survey continue to view current plant and equipment as excessive, although one in ten now considers them inadequate. There continues to be little desire to enlarge current expansion plans.

Retailers report increased sales in July, although sales of big-ticket items apparently declined in relative terms. Comments of retailers suggest a more favorable outlook for fall lines but continued slack in sales of summer items. The latter are reportedly selling only at reduced prices. Inventories at retail showed little change last month and apparently remain somewhat above desired levels. Prices, paid and received, rose across a broad front. Retailers remain satisfied with the number and size of their outlets.

Business loan volume at large District banks has shown little, if any, growth in recent weeks. Seasonal demand for agriculture-related loans is also weak. The outlook of area bankers is mixed. While some foresee no immediate cyclical turnaround for business loans, others feel the situation is poised for a turnaround in the third or fourth quarters. One Maryland bank reports a recent nominal increase in commercial lending, with some interest reported in term borrowing to finance fixed investment. According to a branch director, however, "there are no signs of inventory accumulation, plant expansion, or other capital expenditures which are needed to spur demand". For the time being, loan volume remains below desired levels.

Real estate loan volume at District banks appears essentially flat, although one Maryland bank reports a moderate increase, primarily in construction lending. Consumer lending is still advancing, although at a reduced rate compared with recent months. Area bankers expect this strength to continue for the present time. The Federal Home Loan Bank in Atlanta reports continued strong deposit inflows into District savings and loan associations. The rate of net inflow, however, has shown recent signs of slowing. The volume of mortgage loan commitments and closings at savings and loan associations is exceptionally high but is expected to subside as deposit inflows slow.

Higher prices than last year, heavier volume, lower but improving quality of marketings, and a small reduction in the percentage of sales placed under loan have characterized the 1976 flue-cured tobacco marketing season thus far. Average prices are currently running some 8 percent above a year ago. Receipts from farm marketings continue to run above a year earlier, but the District increase remains well below that for the nation. The relatively poor gain recorded in the District is due to a sharp decline in crop receipts.

There is still no indication of any problems, real or potential, arising from supply or capacity constraints. Most respondents report no problems in meeting orders and none in obtaining deliveries from key suppliers. There remain several who expect some lengthening of lead time, but nothing out of the ordinary. Only in a few isolated cases are any difficulties being encountered, and there seems to be no pattern of industry involvement. In one case, a manufacturer anticipates difficulty if there is no prompt resolution of the rubber workers' strike.

SIXTH DISTRICT--ATLANTA

Developments in the Southeast furnish evidence of continuing economic growth. Convention and tourist expenditures, spurred by the opening of a new convention center, are expanding in the Atlanta area. A survey of District businessmen and bankers finds the outlook for shortages unchanged. Inventory policies remain cautious and fairly stable. Plant and equipment additions are concentrated in the District's capital-intensive industries. Bank loan demand is expected to remain slight to moderate. Labor supply shortages are foreseen in certain skilled trades. Rising prices are foreseen for energy-related products. In Southeastern agriculture, cattle and calf inventories are declining. Application of a new irrigation technology is changing the crops grown in parts of Georgia.

Atlanta's economy is benefiting from expanding convention and tourist trade. Transient spending is a key explanation given for retail spending gains at rates which exceed state and national advances. Convention patronage of hotels, restaurants, and retailers is expected to receive a major boost in September, when about 20,000 persons will attend an apparel industry exhibition, the first to be held in a large, new convention facility now nearing completion. Another major development affecting retailing is the opening of a 1 million square foot regional shopping mall which includes four major department stores.

A new survey of businessmen and bankers finds few changes in their views concerning current and prospective shortages. Natural gas, both as a fuel and as a raw material, and tires are mentioned most frequently. A variety of metal products, including pipe, castings, forgings, alloy steel, bearings, and fabricated pressure vessels, is also cited. Some concern exists about current and future availability of crossties, creosoted lumber, and other lumber products.

Inventory policies remain cautious, but changes are slight. Stock reductions by wholesalers and retailers of furniture in Florida and major appliances in Tennessee may reflect slowness in sales gains for these items. Deliberate reductions in inventories by wholesalers of lumber, paper, and steel are indicated, and excessive stocks of nylon, rayon, and wool are being reduced.

Major current plant and equipment additions are concentrated in capital-intensive industries, including chemicals, fabricated metals, paper, and glass in Alabama and Tennessee and petrochemicals in Louisiana. Increases are also noticeable among several manufacturers of precision equipment. Prospective increases are centered in the chemicals, primary and fabricated metals, pulp and paper, and building materials industries. Upward revisions in spending plans are reported in chemicals and in textiles and related industries. One source states that far more work on projects of all sizes is going on in company engineering departments, compared with four months ago, but that the number of these plans which will be translated into actual additions is difficult to assess. Despite considerable investment activity, expected demand for bank loans in the next six to twelve months is fairly evenly divided between "slight" or "moderate". None of those surveyed expect loan demand to be "substantial" or "strong".

Shortages of labor are expected to appear in certain skilled categories, including machinists, toolmakers and diemakers, metal workers, welders, chemical and apparel workers, nurses and medical technicians, and data processing specialists. These anticipated shortages closely parallel the industries in which significant labor-force additions are expected to occur.

Major price increases are widely anticipated for fuels, including natural gas, coal, petroleum products, and electric power. Products for which significant increases are expected include paper and paper products, various metals, and any product using natural gas as a raw material, such as chemical fertilizers.

Inventory numbers of cattle and calves in the southeastern states showed a sharp decline from the previous year. As of July 1, the District drop amounted to 9 percent; Alabama's loss of 13 percent was the largest in any District state. Breeding herds are being reduced to the same degree as the total cattle inventory.

Center pivot irrigation systems, visible in increasing numbers in southwest Georgia, are producing marked changes in crop yield and type of crops by alleviating the problems posed by sandy soils with poor water retention. The center pivot device employs a "spoke" of twelve-inch pipe with sprinklers attached which radiates from a water well. The sprinkler travels on wheels driven by electric motors. A radius as large as 1,500 feet is used in presently existing systems. Even distribution of water and fertilizer is achieved by gradual rotation of the sprinkler. Remarkable increases in yields of corn and peanuts have resulted from use of this device; vegetable farming, an industry new to the area, has begun. A capital investment of at least $60,000 is required but, according to agricultural extension service studies, is quickly recouped as a result of increased yields.

SEVENTH DISTRICT--CHICAGO

Reports from the Seventh District indicate that the expansion will continue at a moderate pace through the year. There is somewhat less concern about shortages and "overheating" than a month or two ago, especially in soft goods. Nevertheless, prices are advancing on a broader front. Frequent comments indicate that strikes and vacation shutdowns are responsible for an apparent "summer lull". Evidence is accumulating that capital expenditure programs are being revised upward. Prospects for a substantial revival in apartment construction remain poor. Farmland prices have advanced sharply. Despite reports of inadequate moisture in some areas, it is too early to assess the impact on crop production.

Shortages and stringencies have not yet emerged except for items in especially strong demand as "vans" and certain other vehicles. In fact, demands for chemicals, paperboard, apparel, and appliances have fallen short of expectations, and some prices are soft. Steel lead times have shortened since the spring. The coal strikes could cut steel output, if not settled soon, because coke is already in short supply. Natural gas will be a serious problem if the winter is cold.

Inventory building continues on a cautious basis. Field inventories of some capital goods components and some finished goods are described as "skinny" or "lean". Some producers have attempted to get distributors to stock up through liberal credit terms.

The July survey of the Milwaukee Purchasing Managers shows over 70 percent reporting paying higher prices for the third straight month, compared with only 1 or 2 percent reporting lower prices. In July 1975, 20 percent reported higher prices and 6 percent reported lower prices. Many manufacturers will raise prices in the near future to offset higher costs of labor, supplies, or services. For example, diesel engine prices are expected to rise 6 to 10 percent. Insurance premiums will be boosted 10 to 20 percent. Most utilities have applied for substantial rate increases.

Negotiations of the United Auto Workers with the motor vehicle and farm equipment producers are expected to be resolved without a strike. (A long rubber strike was expected.) The auto workers have a rather favorable position relative to most other factory workers. The union is said to be pushing "job security" measures, including restrictions on subcontracting and imports of major components. The companies want a ceiling on health care payments and effective penalties on absenteeism. The settlement probably will be in the area of 10 percent for the first year.

In the white-collar field, Chicago consulting firms expect increases in compensation of 7 to 8 percent this year and next, slightly less than last year. The number of executive hirings is about 30 percent higher this year, and salaries are up 8 percent or more.

Large general merchandise chains continue to report sales below budgeted levels. Apparel and fashion goods are the weakest items. Among the stronger items are microwave ovens and home-improvement supplies. Credit sales account for a larger share of total sales, and experience is more favorable. Some types of motor vehicles are in short supply. Van sales, often at the full sticker price, are expected to exceed 500,000 this year and to rise by the amount permitted by manufacturing capacity in 1977.

A steel company is not disturbed by reports of slow demand this summer. This firm's orders for October delivery are much stronger now than they were at the same point in 1972, prior to the big upswing. Auto companies' orders for steel are in line with optimistic sales projections. A slight improvement is noted in orders from equipment producers. Delivered prices of imported steel have increased and are now equal to domestic prices.

Sales of some important chemicals declined in June and July and were well below budgeted levels, although still above a year ago. There are even indications of a shift from inventory accumulation to liquidation.

Oil supplies are adequate, currently, and prices are stable, but there is concern that new price and pollution regulations will cause problems. If the announced rise in prices of interstate natural gas shipments becomes effective, a pickup in drilling of new gas wells is expected. Oil-well drilling volume increased earlier this year but mainly in proven fields at shallower depths.

Capital spending programs shelved by auto and steel companies in 1974 are being revived. Auto companies are spending for new products, not expansion. Steel company projects are for replacement of obsolete facilities (including pollution control) and to increase capacity of blast furnaces, coke ovens, and rolling mills. Orders for locomotives and freight cars have increased from very low levels. Various airlines are ordering new aircraft. Higher fuel costs alone make it desirable to replace fifteen-year-old jets with more efficient models. Sales of trucks, trailers, farm equipment, and lift trucks are at good levels. Construction and mining equipment orders remain slow. Various companies report that export demand for capital equipment is stronger than domestic demand. Orders from OPEC nations (Organization of Petroleum Exporting Countries) and the USSR for equipment for construction, mining, and oil production are especially significant.

Rural bankers report District farmland prices at midyear to average 30 percent above a year ago--as much as 40 percent in some areas of Illinois and Iowa. Strong demand for farm production loans and equipment loans is being accommodated by rural banks with ample funds.

EIGHTH DISTRICT--ST. LOUIS

Eighth District businessmen report that business activity is generally good. The pace of the recovery, however, has slowed somewhat in the last two months. Inventory demand has apparently slackened, and retailers note some slowing in sales. Also, manufacturing firms are experiencing some leveling-off in sales, and recent increases in manufacturing employment have been less than increases recorded earlier in the year. Home building, which made substantial gains earlier in the year, has tended to level off in recent weeks. Deposits at thrift institutions continue to increase but at a more modest pace than earlier in the year, and mortgage interest rates have inched up in recent weeks. Despite the slower pace of the recovery, most District businessmen remain optimistic and report a preference for this slower rate of recovery rather than for more stimulative actions which lead to further inflation.

The pace of consumer spending has apparently slowed somewhat recently. Some department store representatives noted that their sales were essentially unchanged from June to July; however, they were substantially above year-ago levels in both months. July sales of air conditioners and other consumer durables were reported to be good, but overall sales of such items for the year to date have been somewhat less than anticipated. The July gains in big-ticket items were offset by reduced sales of nondurable items. Automobile sales remain strong, though the rate of gain has stabilized.

Gains in manufacturing orders have decelerated somewhat in recent weeks from the pace of early 1976. A representative of the paints and coating industry stated that orders have generally risen since the beginning of the year, though a slowing in the growth rate is now apparent. Manufacturers of home construction items reported that sales, while above year-ago levels, have not increased recently, reflecting the less than anticipated increase in housing starts. A major aircraft manufacturer reported a mild decline in sales in the first half of the year, though the backlog of orders is higher than a year ago. Lower commercial aircraft deliveries were partially offset by accelerating work on Government contracts. A producer of conveyer products for the foundry, sawmill, and rubber industries reports that new orders are substantially behind 1975 and 1974 and that no recovery is foreseen at this point. On the other hand, a representative of a major chemical firm reported that sales have continued up at a moderate rate among most product lines. Perhaps the most optimistic prospects are in the automobile sector. A spokesman for this industry in the St. Louis area was generally optimistic about the sales prospects for the new-model year. Reflecting this optimism, two plants have announced major increases in employment and planned output. Overall, employment in the District has increased less than seasonally in recent months. Manufacturing employment has continued to make some gains in several areas of the District, but the increases were more than offset by declines in the nonmanufacturing sector. Unemployment rates, however, continue downward in most of the District and are generally below the United States unemployment rate. Some nonmetropolitan areas reported virtual full employment.

Growth of home construction has slowed recently. New home sales in the St. Louis area are reported to have been fairly steady in recent months, though not spectacular. Multifamily construction in the St. Louis area remains near a standstill. Several commercial and industrial projects are under way in various parts of the District, but one contractor reports a lack of new projects coming on stream.

The slower rate of deposit growth reported earlier at savings and loan associations has continued in recent weeks. Offerings of attractive yields on Treasury bonds probably are drawing some funds from thrift institutions. The deceleration in the growth of thrift deposits has encouraged some savings and loan associations to make their certificates of deposit (CDs) more attractive by reducing the maturity of CDs for a given yield. This policy is a reversal of actions earlier this year, which tended to reduce the attractiveness of CDs. Mortgage lenders report some upward pressures on mortgage interest rates in the past month. The dominant rate is now at 8 3/4 percent in the St. Louis area. Business loan demand at commercial banks remains sluggish, according to St. Louis bank representatives, and bank lending rates have tended to decline.

Crop yields have generally improved as a result of scattered rainfall in recent weeks. In some areas, particularly in Missouri, corn and soybean crops have been severely damaged by drought conditions. Reports from several other areas, however, indicate that crops are in excellent condition. Recent rains in some areas have enhanced yield prospects, especially of late plantings. Cotton yield prospects, however, remain poor, reflecting earlier adverse weather conditions.

NINTH DISTRICT--MINNEAPOLIS

Although bank directors in early August were generally favorable about the District's economy, other sources indicated some concern about the economy's performance. Many directors were optimistic about consumer spending for their areas, and District retail sales held up quite well, but an actual resurgence in consumer spending had not occurred. Also, our latest agricultural credit conditions survey indicated a weakening in farm earnings and a cutback in farm spending. Several directors reported a considerable amount of residential construction in their areas. Apartment construction and nonresidential construction, however, were not strong throughout the District. Looking toward fall, directors looked for economic policies--particularly those regarding agriculture--to play an important role in the Presidential campaign.

Although many directors reported favorable retail sales gains in recent weeks and were encouraged about the future, other information indicated that no resurgence in consumer spending had taken place. A director whose firm is a major producer of consumer goods stated that food and soft goods sales revived in June and July and expected business to be good this fall. Economists for two major retailers headquartered in the Minneapolis-St. Paul area were not so optimistic. They reported that, since their firms' sales had yet to revive, their outlook for the second half of this year was weakening. One economist said that he had not made a downward revision of his sales forecasts for the last half of 1976 but had less confidence in them than earlier. The other stated that his firm had forecast a 10 percent sales increase for the second half of 1976 but was currently anticipating only a 5 to 6 percent gain. And both firms adopted a more cautious position on inventories than they had earlier this year.

The results of our latest agricultural credit conditions survey, taken in late July, indicated that weakened farm earnings had tended to dampen agricultural spending. Many agricultural bankers appraised farm earnings as being somewhat worse in July than they had reported in April, and 51 percent of those surveyed reported recent farm earnings lower than a year before. In assessing the prospects for the next three months, bankers were slightly more pessimistic--55 percent expected lower farm earnings than last year.

The present crimp on earnings seems to stem largely from low grain prices, the continued withholding of 1975 crops from the market, and unprofitable cattle operations. Expectations that earnings could worsen have been generated by inadequate rainfall in much of the District's crop regions.

As might be expected from their assessment of farm earnings, agricultural bankers reported cutbacks in spending by farmers. Forty-one percent of the bankers responded that recent spending was lower than at the same time last year, and 48 percent expected spending in the coming three months to continue lower than a year before. These figures are substantial revisions of their responses in April, when only 31 percent reported low spending and 25 percent expected more low spending for the next quarter.

Most directors reported quite strong residential construction activity but mostly in just the single-family market. A director whose firm is a major producer of temperature controls cited information indicating that single-family construction was much stronger in the Ninth District than in the nation. He expected that strength to increase in the third quarter. With regard to apartment building, he mentioned a national association of home builders survey, which found a rather sharp second-quarter recovery in multi-family construction that was expected to gain momentum during the remainder of 1976 and into 1977. Also, a recent Twin Cities metropolitan area apartment survey reported that vacancy rates had declined to quite a low level, a usual sign that a pickup is due. However, many observers felt that rental rates were not high enough to justify new apartment construction in the District.

Reports from directors on building activity in their respective areas showed nonresidential construction weaker than residential construction. However, the director whose firm manufactures temperature controls believed nonresidential construction had begun to recover and should be very strong by 1977, up 10 to 15 percent in constant terms.

Directors agreed that economic policies would be a major part in this year's Presidential campaign. One director thought that policies regarding inflation would be important to either side because of the apparent voter concern in that area. Another expressed concern that spending promises made during the campaign could generate inflationary expectations.

A matter of concern to many directors is the particular role of agricultural policies in this year's campaign. A Montana director said that recent supply and demand conditions point toward a weakening in wheat prices--a weakening which would benefit the Democrat's argument for reimposition of price supports. That director also expected criticism of the Ford Administration for imposing agricultural export embargoes which are associated with falling prices.

TENTH DISTRICT--KANSAS CITY

Consumer spending has settled down in District department stores but not in domestic new-car dealer showrooms, where full-size luxury models are nearly sold out and where orders for new models are already strong. Chain store managers, despite their lackluster summer sales, expect good business in the months ahead, report slightly heavy inventories, and foresee fairly stable prices for their merchandise. The outlook for food prices, meanwhile, is very uncertain, given the mixture of offsetting forces affecting farm prices. Banks report some increase in agricultural loans but none in business loans. Car buying continues to give moderate growth to consumer loans. Despite the current weakness, most bankers expect the prime rate to rise but not by much.

Reports vary, but the rate of growth of retail sales by District department stores apparently has slowed considerably this summer, and projections for fall and winter have been revised downward in many cases. July sales by some stores in Kansas City and Denver were strong, but in Wichita, Oklahoma City, and Omaha, business was sluggish. These mixed reports contrast sharply with the uniformly exuberant responses received this spring, so that some slowing in retail trade can be inferred. Department store officials say they are not pessimistic, just reconciled to a good year instead of a great one. Several noted that sales last fall and winter were exceptionally strong, and that they are now hoping to do as well after once "wishfully thinking" that they could do better. Most store managers say that their current inventories are a little heavy, although they expect to be "clean and in good shape" by fall, implying some liquidation soon. The prices paid for merchandise by retail outlets have been holding the line, and store managers doubt if they will have to raise prices at retail very much in the next six months to a year.

Big American cars are the hottest summer item in new-car dealer lots throughout the District. Intermediate sizes are selling well, too, with compacts and subcompacts attracting the least interest. Luxury-car dealers report exceptionally good sales and complain of inadequate inventories of full-size models. The same story is heard from dealers in the lower priced domestic makes, although they note some recent up-tick in sales of compacts, perhaps due to the lack of selection in the larger models. Stripped-down versions are the exceptions, optional equipment the rule, with many of the sportier versions sold "loaded". Foreign-car dealers report little traffic, with "no shortages of cars, just customers". Domestic dealers are optimistic about the new-model year, while foreign-car dealers are hopeful.

After remaining unchanged for the month ended July 15, farm prices have turned weaker, with the declines for hogs and wheat being particularly significant. The outlook for farm prices for the rest of 1976 is clouded by uncertainties arising from the weather, total demand, and recent reports on livestock inventories. Cattle prices are currently much lower than anticipated earlier, reflecting vigorous flows of marketings from both the feedlots and the pastures. The July 1 inventory of cattle, which was down 5 percent from a year ago, points to a substantial reduction in cattle numbers for 1976 as a whole. However, the 17 percent increase in the number of cattle on feed as of July 1, with some concentration in the heavier weights, suggests that total slaughter will remain relatively large through at least the remainder of the year. This implies only modest price increases in the period ahead. Assuming a continuation of these trends, however, beef supplies in 1977 will likely be curtailed, perhaps significantly, and prices will probably rise. Larger supplies of pork and poultry would have a dampening effect, however.

Another element in the cattle picture hinges on the size of the 1976 corn crop and the cost of feed. Due to the prospects for a low carry-over of grain this fall, feed prices will likely remain relatively high until a bumper crop is assured. If grain prices remain relatively high, placements of cattle in feedlots will likely taper off, which will ultimately reduce beef output and increase prices. A big crop, however, would have the opposite effect.

Among District banks contacted, business loan demand did not increase in July relative to its level in June. Several banks do report increases in loans to agribusinesses and to farmers for financing current operations and for storing grain. Most of this increase in loans is being generated by overlines from correspondent banks. Some banks also report more inquiries about real estate construction financing, although few of these have been translated into actual loans. Consumer loan growth has been moderate, with car sales being the strongest area of gain.

Most of the banks contacted have been slow to move down to the 7 percent prime rate, with some still posting a rate of 7 1/2 percent. Despite the current weakness in the rate, the majority of bankers in our survey expect the prime rate to rise by the year-end, although to no more than an 8 percent level. One banker, however, predicts that the rate will fall below the present level. Two important factors are viewed as limiting the size of future increases: the slow pace of economic recovery in areas other than consumer spending, and the weak loan demand at New York City banks.

ELEVENTH DISTRICT--DALLAS

After slowing last spring, economic growth in the District appears to be progressing at a slightly faster pace. The decline in total employment may have ended, and home building and drilling activity are strong. Manufacturing output, however, continues to sag. This month's survey included banks, savings and loan associations, mobile-home manufacturers and dealers, and natural gas producers. Major city banks report slow growth in loan demand, but rural banks indicate that demand for agricultural loans is strong. Mortgage markets are tightening as demand for housing continues to grow. Sales of mobile homes are up, but financing is unavailable for most prospective buyers. The recent Federal Power Commission (FPC) order to raise interstate gas prices is expected to bring increased drilling, especially in offshore areas.

The growth in loan demand at major District banks is lackluster, although some bankers point to some recent improvements that may lead to a significantly higher level of demand by the year-end. Petroleum loans were reported to be strong, and several bankers reported "a slight trend" toward inventory building. Reactions to inquiries on consumer loan demand were mixed. Consumer instalment loans and use of credit cards range from record levels to "only modest", and an increase in loan participations was reported by member banks of multibank holding companies located in Houston.

Agricultural bankers generally report demand for farm and ranch credit is strong. Farm machinery loans have increased because of higher prices for tractors, machinery, and equipment. And, as a result of large grain harvests, crop storage loans have risen, but loan demand for feeding cattle has weakened with fewer placements of cattle on feed.

A consensus of agricultural bankers in irrigated farming areas indicates that the demand for crop-operating loans is up sharply, largely due to increased costs. A banker in the Texas Panhandle area, for example, reported that crop production costs were up nearly a third from 1975 on most irrigated farm operations. High natural gas prices have substantially increased the energy costs for pumping water. In the intensive irrigation farming area around Pecos, one banker indicated that natural gas prices paid by producers are up 500 percent from a year earlier. And, coupled with higher prices for other inputs, irrigation farming has become expensive and risky. Bankers, therefore, are taking a close look at the repayment capacity of irrigation farmers.

Adequate funds, however, are available in the District for extending agricultural credit. And half of the agricultural bankers are seeking new farm and ranch loan accounts, even though loan demand has risen. Rural banks also report a strong growth in deposits from a year earlier.

Demand for mortgage loans at savings and loan associations in major District cities is strong, with one savings and loan association in Houston describing the market as the biggest in history. Loan applications for single-family homes priced from $40,000 to $50,000 are most numerous. In Houston, there is a strong market for town houses, as renters are finding it cheaper to buy than to pay escalating rents.

There appears to be no oversupply of single-family homes. In Houston, there is an acute shortage of improved building sites, and skilled building tradesmen are in short supply. Part of the shortage of lots is attributed to an average six-month delay of red tape necessary to meet the Department of Housing and Urban Development's (HUD's) standards in developing raw land.

After slowing in the second quarter, the growth in savings deposits expanded in July. One savings and loan association expected the rate of inflow of savings to slow for the remainder of the year, however, to about half the rate of growth experienced in the first half of the year. The growth in savings is now largely due to purchases of four-year 7 1/2 percent term certificates, followed by six-year 7 3/4 percent certificates and passbook accounts. Four months ago, passbook accounts led the growth in savings deposits.

A survey of mobile-home manufacturers and dealers indicated a "fantastic" demand for this type of housing. Sales are currently being supported by people who cannot qualify to buy single-family homes. The number of lenders has declined because many lost money on the "easy" financing terms they offered a few years ago, and those still in the market are much more selective in the loans they grant. One manufacturer stated a buyer must be "gold plated" to be granted a loan. According to one dealer in El Paso, sales could increase 1,000 percent if more financing were available. However, high insurance costs--as much as $80 per month for a $10,000 mobile home--have dampened sales in Gulf Coast areas.

Despite a court-issued stay of the FPC's recent order raising the ceiling prices on natural gas sold in interstate markets, a number of Texas gas producers expect the FPC to win a quick termination of the stay, even if the case is appealed to the Supreme Court. Once the new ceiling prices become effective, producers with contracts that allow price adjustments will file for higher prices. Drilling activity in the District--already fairly strong--should quicken, especially in Federal offshore areas of the Gulf where the greatest potential for significant new finds is believed to be. Idled deep-drilling rigs in west Texas should also benefit from higher prices. Gas explorers say they will now look more closely at prospective fields that were judged to be unprofitable at current interstate price levels.

TWELFTH DISTRICT--SAN FRANCISCO

Our directors report a continued gradual improvement in business, with price pressure moderate compared with recent experience. Newly negotiated wage packages are averaging gains of approximately 10 percent, but industries in their second or third year of contract life are averaging less. Although some commodity prices--such as aluminum scrap and natural gas--have risen quite sharply, most are showing a decelerated rate of increase, and some (residual fuels and nitrogen fertilizer) have actually declined. Construction of single-family residences has picked up, but multidwelling building remains sluggish, due to the gap between prevailing rent structures and building costs.

The annual wage bill increase in 1976 for newly negotiated contracts is averaging about 10 percent. In many cases this represents a considerable scaling-down of the unions' original demands. For industries in their second or third year of a contract, gains have been far less. One director reports that "increases are continuing, but on the whole seem fairly moderate by standards of the recent past".

Materials prices appear to be strengthening but, except in isolated cases, increases have not been dramatic. Since the recovery began in September of last year, a large manufacturer reports that scrap aluminum prices have risen from 14 cents per pound to 30 cents per pound; basic costs of pig aluminum and sheet increased an average of 15 percent, the same as the raw materials costs for basic resins (polyester, epoxies, etc.); and steel products are also up about 15 percent over the same time frame. Paper products sold to the dairy industry have increased 6 to 7 percent in price since the first of the year. Motor gasoline has increased about 15 percent during 1976;

residual fuels are down 20 to 25 percent, and the price of the remaining components of a barrel of crude are about the same as in January. Current quotes for nitrogen fertilizer average around \$130 a ton, down from a 1975 cost range of \$210 to \$230 a ton. Lumber costs are up about 10 percent, and copper, which is still being sold from stockpiles, is starting to increase. Energy costs, especially for natural gas, continue to rise more rapidly than other costs.

Interest in plant expansion is still minimal, although the president of a large manufacturing firm in California commented that,"with production of steel approaching 90 percent of 'optimum' capacity, we expect a continued, steady--though slower than mid-1974--increase in capital spending".

New housing construction in the Twelfth District is concentrated in single-family units, and the market is strengthening. Nevertheless, a producer of aluminum siding reports that a 70 percent proportion of its recent surge in sales was for existing home improvement rather than for new construction. There continues to be a very strong resale market for single-family dwellings based on profit taking and upgrading.

Over the first half of 1976, there has been only slight improvement in apartment construction, and the main reason cited is the disparity between current rent scales and construction costs (craft wages). One bank in Oregon calculates that rental fees of 29 to 32 cents per square foot are needed to finance new construction, whereas current rentals are said to support only a 23 to 25 cents per square foot level.

In southern California, vacancy rates are down and rents are reported to have increased sufficiently to have sparked some interest in apartment construction, but the market tone remains sluggish. On the other hand, a strengthening trend toward building more duplexes and "fourplexes" has been noted. One reporter comments that passage of the tax reform bill with the Kennedy-Haskell amendment would eliminate multiple-dwelling investment as a tax shelter and further reduce construction levels.

Many farmers and ranchers are experiencing a very trying 1976. The farmers who sold crops immediately after harvesting have made a profit, but those who placed their crops in storage have been facing a continually declining schedule of prices and, in many cases, will have to sell at a loss.

The optimism about higher cattle prices is beginning to diminish. Because of heavy losses taken this year on fattened cattle, the prospect is for a poor feeder cattle market this fall.