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CURRENT ECONOMIC COMMENT BY DISTRICT

Prepared for the
Federal Open Market Committee
by the Staff

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SUMMARY*

The firmer tone asserted in last month's REDBOOK was generally confirmed by developments in the recent period. Eleven districts reported further increases in output, employment, and new orders. Cleveland and Philadelphia reported a slower rate of rise, however. Minneapolis found "little change" in nonagricultural activity. All districts attempted to assess the impact of the Administration's energy program, as requested by the Board telegram of April 27, with interesting but inconclusive results. In general, the strongest reports were from the Sunbelt districts, especially Dallas. Business inventories are in reasonable balance and are expected to rise. Capital spending is moving up, with emphasis on new equipment. Inflation fears are increasing, although in varying degree. The frenzied boom in single-family homes is virtually universal. Agricultural prospects have improved with recent rains in the Midwest and Northwest. Demand for consumer, real estate, and agricultural loans is strong, but demand for business loans is still relatively weak.

A sampling of opinions finds the Administration's energy program praised for its note of urgency, and for its objective of curtailing demand through taxes and higher prices. It is criticized for complexity, inadequate incentives to expand supplies of fuel, and for lack of compromise on the methods and timetables for reaching environmental goals (Cleveland, Chicago, and San Francisco). A number of districts, including Boston, Atlanta, St. Louis, Kansas City, and San Francisco reported opinions of some contacts that, by increasing uncertainties, the proposed program would have some

*Prepared at Federal Reserve Bank of Chicago.

retarding effect on capital spending. In any case, the program is "highly tentative" and is unlikely to be accepted as a package in its original form. The predominant view appears to be that the program will have little or no clear effect on either consumer spending or capital spending, at least not in 1977. Most business investment plans are fairly well set for the current year. Moreover, investment programs have been moving toward reducing dependence on natural gas and toward general energy conservation for at least four years (emphasized by Cleveland, Chicago, and Minneapolis). These trends were accelerated by the January fuel crisis.

Retail sales continue at a favorable level. However, a Boston area retailer reported a drop in sales following the announcement of the energy program. New York sees "good prospects" for the second quarter. Cleveland reported one view that the cancellation of the income tax rebate would reduce sales somewhat. No clear impact on auto sales from the proposed taxes and rebates is apparent. Philadelphia retail sales were depressed by a transit strike, now settled.

Inventories, overall, are well in line with sales. New York expects a "moderate buildup" in the months ahead. Some Richmond manufacturers now view inventories as "inadequate." Longer lead times are mentioned by Atlanta and Chicago.

A number of districts, including Boston and St. Louis, see a continuing improvement in sales of business equipment. Cleveland reports a "broader recovery." San Francisco reports a surge in demand for commercial airliners that is helping the Seattle area.

Six districts report increased fears of accelerating inflation, but none expected a near-term return to double-digit inflation once the effect of the special conditions of the first quarter are overcome. Supply stringencies are not generally significant at present. However, current or prospective pressures on capacity were mentioned for tires (Boston), coal freight cars (Cleveland), building materials (Dallas), and aluminum (San Francisco).

The tremendous market for single-family homes is nationwide, and prices continue to rise sharply. Vacancy rates are down for Florida condominiums. Higher mortgage rates are reported by Chicago, St. Louis, and Dallas. Nonresidential construction remains sluggish in most districts, but Atlanta finds some improvement, and prospects for new plants in Texas are very strong, partly because energy is "believed to be readily available" there.

Minneapolis, Kansas City, and San Francisco emphasized substantial improvement in farmland moisture conditions, although some areas, such as Montana and North Dakota, remain parched. Retail trade in rural areas improved with crop prospects. Soybean plantings are up in various districts, including Richmond and Minneapolis. Dallas reports increases in receipts from sales of cotton and soybeans.

Districts reporting on bank loan demand presented a generally similar picture. Consumer, real estate, and farm loans are strong, while business loans remain weak or only moderately higher. Philadelphia, for example, finds business loan volume "flat or down" in April, but inquiries and commitments are up, and "moderate" increases in business loan volume are expected for the remainder of the year.

FIRST DISTRICT - BOSTON

Respondents in the First District are generally encouraged by the economy's recent performance. They foresee a period of solid, stable growth. Most do not expect the Administration's energy program to have much influence on business investment plans, although some think that it may have a dampening effect in specific industries. The most disturbing note was sounded by a major retailer who is very concerned about the program's impact on retail sales: immediately following the announcement of the energy program there was a fall-off in sales. In other areas, the New England experience within the last month has been a continuation of favorable trends. Manufacturers report that operating rates are up, in a few cases close to capacity. Consumer loan demand is strong and commercial demand appears to be strengthening.

Respondents think that most businesses will not alter their investment plans because of the Administration's energy program. Among the reasons cited were uncertainty as to the final outcome of the program, the small share of energy in total costs and efforts already underway to improve the efficiency of energy use. In specific industries, however, the program might be a deterrent. Two suppliers to the automotive industry said that uncertainty surrounding the future of that industry would make them more cautious in their investments; on the other hand, a supplier of plastics used in making cars lighter hoped to benefit. Utilities are expected to delay investments until the final form of the program is clearer, and a large user of petroleum feedstocks said that in his case the prospect of increases in oil prices will discourage investment because a tight market will be necessary in order to pass these increases on. A diversified company with oil and gas operations claimed that while the expected return from exploration has not changed, the close scrutiny of the oil industry implied by the program may cause them to reconsider their commitment to this activity. Most businessmen are concerned that the program does not place enough emphasis on fuel production. In addition, a large retailer is very worried that the philosophy of conservation and frugality urged in the program will extend to consumption of products other than fuels. He noted a sharp fall-off in sales immediately following the President's announcement. As a result inventories are being held to the absolute minimum. Other aspects of the New England experience are more favorable.

Manufacturers report that operating rates are up. In general they are still somewhat lower than desired, but there are exceptions. A supplier to the tire-makers and a large producer of rubber products report that they are operating close to capacity. Consumer goods sales continue to be strong and capital goods are improving. One manufacturer reports that heavy capital equipment is doing quite well, and another indicated that sales to manufacturers of chemical processing equipment are picking up. No one reports any difficulties in obtaining materials and while prices are continuing to creep up, there does not seem to be the same concern about inflation as expressed last month. Inventories are being kept low.

In the financial sector, consumer loan demand continues to be strong and commercial loan demand is improving. Both corporate and consumer time deposits are growing, although one northern bank reports that demand deposits have been flat for an abnormally long time. A large bank in southern New England had planned to raise its prime rate this month, but is now having second thoughts.

Professors Samuelson, Solow, Tobin, and Eckstein were available for comment this month. Samuelson notes that a 7 percent increase in the second quarter would be a desirable, integral part of achieving the 6 percent growth target. He called attention to the downturn in indices of futures prices for many sensitive commodities. This implies that the recent behavior of the wholesale price index is temporary and does not herald accelerating inflation. With regard to policy, Samuelson expresses concern that the M2 targets may not accomodate 6 percent real growth this year without substantial increases in interest rates which would endanger growth prospects in 1978. Although modest increases are reasonable, the Fed should be prepared to be more resistent to increasing interest rates if economic activity loses momentum. In addition, should a federal energy program raise the price of oil by design, monetary policy should not attempt to squeeze activity in response to this price increase.

Despite the volatility evident in recent data, Solow, Tobin, and Eckstein believe that the outlook for inflation in the remainder of 1977 has changed little. The retraction of the rebate and the increased investment tax credit, however, reduces prospects for achieving the 6 percent growth target. Solow and Tobin are especially concerned that the reduced money demand recently has not been entirely due to continuing improvements in payments technology. The uncertain link between money and future GNP growth diminishes the value of aggregates targets at this time. Tobin counsels no increase in the funds rate at the present time. Solow believes a 100 basis point increase will be necessary over the course of the year, while Eckstein advocates a 150 basis point rise.

SECOND DISTRICT--NEW YORK

Economic activity in the Second District continues to improve moderately according to directors, businessmen and economists recently contacted. The quickening pace of the national economy was largely expected by respondents and thus necessitated few revisions in the economic outlook. Several contacts anticipate that inventory positions in various industries will be moderately built up in the months ahead. The outlook for capital spending remains mixed. At least at this point, it appears that the Administration's energy proposals, while adding to planning uncertainties, are unlikely to have a substantive, near-term impact on capital spending. On the price scene, there was widespread concern that the rate of inflation was intensifying.

Department store sales in the New York metropolitan area appear to have increased at a moderate pace, though apparently less rapidly than in the nation as a whole. Respondents pointed to some evidence that New York City stores have been registering greater gains than their suburban counterparts, thereby reversing a long-term trend. The prospects for department store sales during the second quarter are generally considered good. Merchants are even more sanguine over widening profit margins because of cautious tailoring of inventories to sales. Thus, they do not expect the substantial and widespread price markdowns created a year ago by burdensome inventories.

District auto dealers have also become more optimistic in recent weeks. While the president of a trade association said that sales in the New York metropolitan area were slow, he attributed this to adverse publicity of one manufacturer interchanging engines and considered that the effect would be short-lived. The brightening sales prospects were also shared by an official of a New Jersey trade association. Reporting that sales had recently improved, he looks for fairly good sales for the remainder of the year. The President's energy proposals were not expected to adversely affect auto sales. One respondent stated that most new cars were already meeting the proposed miles-per-gallon standard.

With regard to the nation as a whole, several District economists anticipate that inventory investment will strengthen in the months ahead. By and large, inventories appear to be at desired levels locally. However, an economist at one large chemical manufacturer expects inventory rebuilding due to a recent pickup in sales. The vice president of a capital goods firm reported that production is being stepped up because of rising shipments and low inventories. A spokesman for a steel manufacturer in western New York said he expects his firm to be reducing inventories to meet liquidity needs but anticipates that steel customers will continue building inventories.

The outlook for plant and equipment expenditures remains mixed. The president of a major metals producer noted little likelihood of a pick-up in capital spending, especially in basic industries. On the other hand, a capital goods executive stated that its orders and shipments had just reached a record high. The president of a major New York City bank reported mixed signals from his customers. Some firms appear to be holding back on capital spending, while others, most notably automobiles, are going ahead with increased outlays.

With regard to the President's proposed energy program, most respondents felt that there were so many uncertainties to be resolved that its impact on capital expenditures could not be determined at this time. Utility executives indicated that their spending plans would be unaffected in the near term. All planned projects are in keeping with the President's goals--involving either the installation of nuclear plants or the conversion of existing facilities to coal. Some of the utilities foresee possible additional expenditures if they are forced by the final legislation to convert their remaining oil-burning facilities to some other fuel. The chief economist of a petroleum firm stated that domestic profit margins were generally not high enough to warrant new investment due to governmental regulations. Most respondents viewed the Carter energy program as incomplete, failing to provide incentives for increasing the supply of energy.

Continuing inflation remains a dominant concern of respondents. Although none foresaw any immediate danger of a return to double-digit rates, apprehensions were expressed by a larger number of contacts. Most felt that some upward pressure on prices would result if the energy proposals were enacted but not a substantial amount. Cost factors were cited by an industry spokesman as the reason for a probable near-term rise in steel prices and an economist with a food company anticipates further increases in food prices this year. However, a spokesman from the metals industry expects no substantial rise in metals prices soon, stating that market factors prevented his firm from fully passing on increased costs.

THIRD DISTRICT - PHILADELPHIA

Economic activity in the Third District continues to expand. A public transit strike kept the lid on retail sales in the Philadelphia area through the first week in May, but good gains are reported in areas not directly affected by the strike. Moreover, the manufacturing sector shows additional expansion although at a somewhat slower pace. New orders and shipments are higher while inventories are unchanged. At the same time, employment in this sector has improved for the third straight month. For the longer term, both retailers and manufacturers look for additional expansion. Planned increases in capital spending six months out are less widespread than in previous months, but this reportedly reflects unusually large outlays in the current period rather than any increase in uncertainty over economic prospects.

Manufacturers responding to the latest Business Outlook Survey say that business is better than last month. Forty-two percent of the respondents report gains in general business activity. This is down from April, however, when 56 percent were reporting improved business conditions. New orders are higher at slightly more than one-third of the firms sampled, and a similar proportion of the respondents indicate higher levels of shipments. In April, by comparison, one-half the surveyed executives indicated gains in these categories. Inventories are unchanged this month after increasing in the previous survey. At the same time, both employment and the average workweek are expanding for the third month in a row.

For the longer term, manufacturers look for additional expansion, although expectations of gains are somewhat less widespread than in April. Two-thirds of the respondents look for better business conditions six months out--down from three-fourths in the previous survey. New orders and shipments are expected to climb over the next two quarters, but inventory levels are projected to be no higher than in the current period. This is the first time that the six-month inventory projection has been for no change since last November. At the same time, employment and working hours are expected to increase although the proportion of firms planning to hire additional workers six months out is down from April.

The President's recent energy proposals have produced no evidence of any weakening in capital spending plans. Thirty-nine percent of the respondents expect their levels of capital expenditures six months from now to be higher than current levels while 7 percent anticipate lower levels. This "net increase" of 32 percentage points is down from 40 points in April and is the lowest since last summer. However, a check with those respondents who report plans for curbing capital outlays indicates that this arises from unusually high expenditures in the current period rather than from any increased uncertainty as a result of the President's energy proposals. In fact, manufacturers contacted say that the proposals are so tentative that they have not given them much consideration thus far. The only concrete impact reported involves a regional auto parts supplier in New Jersey who is expanding his inventory of parts for smaller cars.

Prices in the industrial sector continue to climb, but the increases are no more widespread than in April. In the current survey, 54 percent of the respondents report higher prices for supplies and 32 percent report higher prices for their finished products. By November, 95 percent look for higher prices for inputs and 76 percent anticipate higher prices for the products they sell. Both of these proportions are about 10 percentage points higher than last month.

Department store sales in the region exhibit about the same pattern as last month. While a public transit strike put a damper on sales in Philadelphia's central business district, stores in the outlying areas are experiencing good sales gains. The transit strike, which lasted from March 25 through the first week in May, had a definite impact on sales according to merchants contacted. One estimates that normal sales volume at his downtown store was cut in half as a direct result of the strike. Another retailer feels that people had begun adjusting to the lack of public transit, but he guesses that normal sales near the end of the strike were still reduced by about a third.

Outside of the immediate strike area, sales are reported to be good with gains of up to 10 percent over year-ago levels. Generally these gains are "not quite up to expectations, but close nonetheless". Housewares and T. V.'s are said to be selling well, and a few merchants note that soft goods in general are not keeping pace with their expectations. For the longer term, retailers look for further gains in sales. For the remainder of this year, one merchant with stores outside the immediate Philadelphia area looks for gains in current dollars of more than 10 percent over the same period in 1976. Merchants whose stores are concentrated in the Philadelphia metropolitan area, however, look for gains closer to 5 percent.

Bankers report that business loan volume is flat or down in April. However, all of those contacted say there is some pickup in discussions of financing terms with potential business borrowers. One notes that while the numbers don't show up in the books, commitments are up at his bank and he is "definitely encouraged" by the pickup in interest on the part of local businesses. He feels that businessmen are becoming more encouraged by the longer-term economic prospects and they feel that inflation, while still too high, is "manageable."

For the longer term, bankers look for only moderate increases in business loan volume over the remainder of this year. Interest rates are expected to move upward during this period. Forecasts of 5 3/4-6 percent for Fed funds and 7-7 1/4 percent for the prime seem to be the norm.

FOURTH DISTRICT - CLEVELAND

The sharp rebound in economic activity in the Fourth District appears to have slowed in recent weeks. Auto retailers report continued strong gains, but sales of other consumer goods slowed from the rapid March pace. Withdrawal of the tax rebate has resulted in some scaling down of consumer spending projections for the balance of 1977, but retailers are still cautiously optimistic over sales. Primary metals producers indicate the February-March surge in orders has tended to flatten. Recovery in capital goods appears to be broadening. The Administration's energy proposals are unlikely to have much affect on capital spending plans for 1977. Energy intensive consumers, as well as energy producers, generally feel the Administration's energy proposals have added to the list of uncertainties facing private decision-makers. Despite a recent drop in consumer confidence reported in the Sindlinger survey, auto dealers uniformly describe last month's new car sales as being as strong as in March. Cancellation of the tax rebate and announcement of the energy program had no effect on new car sales according to three dealers. One dealer noted an increase in small-car sales following announcement of the President's energy program, another dealer noted a tendency by buyers to trade down from standard- to intermediate-size cars, but not to compact or subcompact cars as they did following the oil embargo. Dealers also felt the standard-size cars continued to sell well because most of these cars would qualify for a rebate; the proposed tax on less energy-efficient luxury models would not be large enough to deter high-income buyers.

Retailers report mixed consumer goods sales for April. An economist with a large national department store chain headquartered in the District tended to dismiss the recent drop in consumer confidence as having little predictive value. However, he lowered estimates of GAF sales in 1977 by 1 1/2 percentage points because of cancellation of the rebate, the bulk of which was expected to have been used for food and GAF merchandise. He expects strengthened real sales of furniture and appliances this fall. Another official with a large department store chain described sales as good, adding that he had not detected signs of consumer reaction to the rebate cancellation. Nor does he see indications that consumers are less confident or more hesitant in their buying. He noted that consumers responded favorably to the President's energy message through increased purchases of storm doors, insulating materials, and other types of energy-related merchandise.

Officials of two national food chains headquartered in the District reported softness in food sales during April. Sales for groceries, meats, and bakery products, have not improved despite several promotional programs. They did not believe slower sales were related to cancellation of the rebate, nor have they adjusted expectations of 1977 sales downward.

Primary metals producers report orders have tended to flatten, following a sharp rebound since February. In part, this is associated with a full-order book through June for both flat-rolled steel and aluminum products. The steel industry is expected to operate at about 85 percent capacity this quarter, compared with the low 70's last quarter. Operating rates in the aluminum industry may slip to the mid 80's this quarter because of cutbacks in power in the West. Steel sources indicate that some price hedging and inventory rebuilding account for this quarter's strengthening in orders and production.

More capital goods producers are experiencing recovery. Printing and communication equipment orders continue to accelerate and one large producer noted orders were nearly 50 percent above his firm's current shipping rate. A parts supplier for heavy-duty trucks and off-highway equipment reports that orders have expanded strongly since February. Machine tool orders apparently have strengthened after leveling out earlier in the year. Sales of excavators and other construction machinery are increasing. On the other hand, orders from utilities, especially for generators and turbines, remain weak; demand is also slack for intermediate-size trucks, farm tractors, and oil field equipment for secondary recovery.

Consumers and producers of energy commented uniformly that the Administration's energy program is unlikely to spur capital spending plans for 1977, but some felt that it could delay spending. Respondents were reluctant to consider effects on spending plans for 1978 and future years because of inadequate information and widespread belief that the program stands little chance of Congressional approval in its present form. At a meeting of 18 chief financial officers from Pittsburgh-based firms held by this Bank on May 6, several officials contended that the Administration's program adds another uncertainty to investment decisions. Threat of controls over intrastate gas prices, uncertainty over whether EPA standards on use of coal will be relaxed, and lack of incentive to stimulate energy supplies were among major aspects of uncertainty cited by these officials. Short-run bottlenecks in electric power and other energy sources will likely surface over the next few years because of uncertainties and lack of investment incentives that have held back spending.

Energy intensive users, especially in primary metals, forgings and chemicals stressed that adoption of conservation practices since OPEC have gradually reduced their consumption of energy. Some steel producers commented that for the last four years they have been working toward improving supplies and reducing consumption of energy by building coal reserves, by installing new coke ovens which produce greater amounts of coke-oven gas, by drilling for natural gas, and by building storage facilities for oil and propane. In view of limited cash flow and increased debt, some producers see insufficient incentive in present proposals to accelerate plant and equipment expenditures. An official with a major aluminum producer said his firm can convert some plants from natural gas to coal, but it may not be economically feasible because of pollution control requirements. He acknowledged the need for both conversion and replacement of facilities, but said this is expensive relative to the price of aluminum products. He also indicated his firm has experimental plans to use lignite as a source of power. An economist with a major plastics producer, who stated his firm also has adopted energy conservation measures, fears that the proposed price control on intrastate gas will continue to limit natural gas supplies.

Similarly, several energy producers in the District report they see little in Administration proposals that will spur investment in the near-term. Officials with two oil producers in the District and one small natural gas producer commented that while the program's emphasis on conservation is necessary and desirable, it lacks incentives to expand supplies and introduces more, rather than fewer, controls and regulations. They, too, indicated their firms have adopted measures to improve fuel consumption. One official cited improvements in petrochemical and refining facilities since 1973, noting that the tax credit will not hurt acceleration of that trend. He questioned, however, the amount of additional savings that can be realized. Two natural gas producers said that the roll-back in natural gas prices and proposed regulation of intrastate prices adds new uncertainties to investment decisions. One commented, however, that even if wellhead prices of natural gas were set at $1.85 per thousand cubic feet, his company would still increase the number of new wells to be drilled this year to 70 (compared with 60 last year), assuming drilling and exploration costs do not increase any faster than currently anticipated. An oil producer feared that if conservation efforts failed to curb consumption, mandatory controls and additional regulation would be instituted. The shift to coal is too sudden. It is unlikely according to this official, that his firm's capital budget for 1977 will be changed because of present energy proposals. According to estimates derived from its energy model, the oil producer estimates that real investment in 1978 would be about $1.5 billion less than expected without the energy program and $2.7 billion less in 1979, that real GNP would grow by 1 percentage point less in 1980, and that the rate of inflation in 1980 would be 1 percentage point higher than estimates without the energy program.

The goal of 1.1 billion tons of coal can be met by 1985, according to an official with one of the nation's largest mines headquartered in the District. He pointed out that this year the industry will produce about 675 million tons of coal with capacity for about 775 million tons, and that output has been rising steadily since the oil embargo. While acknowledging short-run shortages in freight cars, he expects this problem will be overcome as demand increases. He also noted a growing effort in research and development to improve coal technology, and that one large company has already found a way to remove sulphur from coal at about one-half the cost of present scrubbers.

FIFTH DISTRICT - RICHMOND

Our latest survey of Fifth District business conditions shows further gains in business activity in April, in both the manufacturing and retail sectors. Manufacturers report further increases in shipments, orders, and order backlogs. Employment and weekly hours also continued to move up among manufacturing respondents. Inventories showed little change and are now more nearly in line with desired levels than has recently been the case. Prices continued to rise across a broad front in April. Manufacturers responding to the survey remain optimistic, with a majority expecting further improvement in business conditions over the next six months. Retailers, on the other hand, apparently foresee little or no change in the level of activity over that time period. In the banking sector, commercial loan demand has weakened over the past few weeks, but real estate loans, consumer installment credit, and agricultural loans have all advanced steadily. Fifth District farmers surveyed on April 1 reported intentions to increase the total acreage planted to field crops this spring by some 280,000 acres or around 2 percent over last year.

Concerning the question of the impact of the proposed energy program on business investment, a telephone survey of several of our Directors revealed that while the proposal has contributed to a general feeling of uncertainty, it is unlikely to have a significant effect on investment at this time. The consensus appears to be that in a business environment where uncertainty stemming from environmental regulations, possible changes in business taxes, inflationary pressures, and similar existing factors is already prevalent, additional unanswered questions cannot help but are unlikely to have a major effect in the immediate future. On the positive side, it was noted that at least the President's proposal represents a concrete effort to come to grips with a pressing problem and that from this standpoint it could be encouraging to some people. On the other hand, it was generally agreed that the plan offers no incentive for the production of energy and apparently fails to recognize some of the problems of particular industries. In summary, responses suggest that the impact of the proposal itself should not be significant but could lead to some delays in proceeding with specific investment plans.

Nearly half of our manufacturing respondents reported shipments as being up from a month ago and almost as many experienced similar increases in the volume of new orders and in backlogs of orders. Inventories were essentially unchanged over the month, but fewer respondents now feel current levels to be excessive, and some now view their stocks as inadequate. Employment was up slightly in April according to our manufacturing respondents, as were hours worked per week. Prices, including employee compensation, were reportedly higher in April than in March. One-half of those surveyed paid higher prices last month. Current plant and equipment relative to desired levels was about the same in April as in March, although the number of firms viewing it as inadequate increased slightly.

Most of our retail respondents reported a higher level of sales in April than in March, but there was only a very slight increase in the relative sales of big ticket items. Inventories at retail were unchanged and are now near or slightly below desired levels. As with the manufacturers, prices paid and received by retailers were broadly higher. In fact, retailers were unanimous in reporting increases in employee compensation and in prices paid. The number and size of outlets remain in line with desired levels.

In the banking sector, lending of the real estate, agricultural, and consumer installment varieties has continued a steady advance in recent weeks. Commercial loans, however, have weakened in the District in line with the national pattern. This weakness has been concentrated primarily in durable goods manufacturing, e.g., metals, and in some nondurable areas, particularly the food, liquor, and tobacco group and in textiles. Demand for loans to retailers and wholesalers has held up and is particularly strong among wholesalers. Large CD's outstanding have declined in line with loan demand.

According to the April 1 planting intentions survey, soybean acreage, expected to be up some 10 percent, will account for most of the rise in acreage planted to field crops, although fairly significant increases in cotton and hay plantings are also intended. Plans for a slight reduction in feed grain acreage and a 13 percent cut in tobacco plantings will be partially offsetting. District farm income improved significantly during January and February, rising 13 percent over that in the same period last year compared with about a 3 percent gain nationally. Although increases in both crop and livestock receipts contributed to the District advance, most of the upturn was due to a 31 percent gain in crop receipts. Higher prices and larger marketings caused by the delayed harvest of some 1976 crops were primarily responsible for this sharp increase.

SIXTH DISTRICT - ATLANTA

The Southeast's economic climate remains generally sunny, although some clouds have appeared in the form of the energy program and persistent price increases. A broad survey finds businessmen unsure of the effects of the energy proposals but cautious in making major commitments until the uncertainty abates to some degree. Construction expenditures are rising rapidly, reflecting local government improvements, booming single-family housing markets, and moderate advances in nonresidential building. A special survey of bank lending finds strength in construction-related lending and growth in agricultural loans. Purchasing managers' responses to a survey suggest favorable developments, on the whole. However, their expectations of intensifying price pressures are consistent with other current reports. Georgia mobile home manufacturers, who looked to recent regulatory changes for a new lease on life, are encountering disappointment.

One word summarizes the reaction to the recently announced energy policy--uncertainty. A broad cross section of businessmen just surveyed expressed an almost unanimous view that capital spending plans are being postponed. Utility industry sources expect the costs of coal conversion and pollution control equipment to hike the cost of electricity. In addition, utilities question the practicality of converting small plants which might be shut down instead. This same pattern may also apply to small industrial plants. Coal producers also question the new policy; they perceive a conflict between the energy policy, which encourages use of coal, and environmental protection regulations, which increase the degree of uncertainty surrounding large mining investments. Slight changes in these standards can curtail the market for a mine's output, thereby making a substantial investment unprofitable.

Several District cities have recently completed or are in the midst of "face-lift" operations. Seven Mississippi towns and Montgomery, Alabama, have undertaken extensive renovation of their downtown areas. Birmingham plans less comprehensive but large-scale city improvements. Atlanta will spend several hundred million dollars on airport expansion and sewage system improvements. Well over a billion dollars will be spent when subway construction is included. Tampa is taking steps to complete city expressways; airport expansion is scheduled for Miami.

Housing has been exceptionally strong in many areas of the District. By all accounts, March and April brought record sales for realtors. In southeast Florida, new single-family home sales have been running 60 percent over a year ago; in the state, new home building is up 81 percent. East Coast builders are selling out projects from floor plans. Atlanta realtors report sales about 45 percent better than last year. In the New Orleans area, single-family home buying has become speculative. Unsold condominium stocks are being chipped away in Florida, and Atlanta's housing supply is tightening. Some areas report rapidly rising housing prices; others find almost no change from last year's price levels. A negative aspect of the housing boom in South Florida is a record rate of foreclosures of home mortgage loans.

Nonresidential construction activity has made solid but unspectacular advances. Louisiana and Mississippi have picked up several new industrial expansion contracts. Though a large part of new capital spending is going for expansion rather than new plants, several large new facilities have been announced.

A survey of commercial bank lending activity in the Southeast detected moderate to substantial increases in loan demand. Increased demand is almost universally reported on the part of construction contractors, builders, and their suppliers. Coffee producers, importers, and dealers also have increased their borrowing. Gains have been noted in lending to hard goods manufacturers; there is little sign of an increase for soft goods producers. These borrowing trends correspond to recent retail sales developments. Lending has also increased rapidly for oil producers and service firms in coastal areas. Agricultural lending has increased, reflecting rising land values, favorable prospects for 1977 crops, especially soybeans, and new equipment demands caused by changes in crop mix. Some "carry-over" loans for rice and sugar producers are also being made.

In general, the resurgence in loan activity reflects the effects of inflation in addition to a normal expansion in the need for working capital, accounts receivable, and inventory financing. Some loans are being used for equipment purchases, but there is little evidence of lending for plant expansion.

In coming months, most banks foresee a continuing moderate to strong increase in loan demand; particular strength in construction-related lending is expected to continue.

Life insurance companies reportedly are holding an abundance of funds for investment. Because they expect rising interest rates, they are concentrating their lending almost entirely in the short- and intermediate-maturity ranges. Some companies are, for the first time, entering into warehouse financing.

Favorable economic prospects appear in an April survey of southeastern purchasing managers. Order backlogs for their products are growing; they also note a stretch-out of lead times on goods they order. Although no noticeable change in the pace of deliveries has occurred in the past four months, some slowing is foreseen during the next quarter. During the past three months, there has been a steady increase in the proportion reporting higher prices. More pervasive price increases are anticipated in coming months.

Rapid growth in inventories is not expected. Changes in raw materials stocks were limited in the three months preceding April, when a strong build-up was reported. However, during the next quarter, a return to stability in raw materials is foreseen. The growth rate of finished goods stocks flattened last month after three months of steady increases; slower growth is expected to continue.

The proportion of respondents reporting sales increases has risen steadily for four months; almost three quarters foresee continued gains. Profits had been stable prior to an increase in April. This recent improvement is expected to continue.

In price developments, there presently exists an inventory overhang of about one year's supply of copper and a six-month supply of nickel. Steel producers report a demand increase related to a pickup in heavy construction. Retailers note price increases for appliances, leather goods, and "home fashion" merchandise. Furniture prices were recently boosted 25 percent by two manufacturers.

Manufacturers of mobile homes in Georgia report that a recent easing of restrictions on highway transportation has brought no noticeable improvement in their business. Shipments remain quite weak, despite the enactment of legislation permitting 14-foot wide mobile homes to be transported over Georgia highways. Additional plant closings appear likely to occur.

SEVENTH DISTRICT - CHICAGO

A broad uptrend in activity continues in the Seventh District. Most observers expect the expansion to continue through the remainder of the year. The Administration's energy plan has received mixed reviews. Retail sales trends are favorable. Output and employment are rising in most areas. Order backlogs are increasing in most industries. The pace of price inflation has quickened somewhat, and further boosts are expected. Order lead times are lengthening gradually. Some producers of capital goods report substantial increases in orders, but prospects for new plant construction in this region remain poor. The market for single family homes is extremely strong. District farmland values continue to rise at a rapid pace.

District observers look favorably upon the Administration's attempt to impress the public with the seriousness of the energy problem. The need for a concrete "energy policy," even one with defects that could be remedied later, has been strongly urged for years by informed people. However, the proposed program is viewed as one sided, with its heavy emphasis on slowing demand and with little to offer in the way of incentives to increase supplies. The Administration's program is viewed as excessively complicated. Few of the specifics are expected to pass Congress without alteration, and, then, only after substantial delays. Although a rise in oil and gas prices to world or "replacement cost" levels is desirable, and the sooner the better, the expected degree of conservation is believed to be optimistic.

A major oil company emphasizes that its investments on exploration and development are determined by internal cash flow, and available cash would be less under the Administration's program than currently. District electric utilities are largely oriented toward coal and nuclear plants and are not much affected by the proposed restrictions on gas and oil. Major utilities here deplore the deemphasis of the breeder reactor, which currently appears to be the only feasible means of supplying adequate energy in the years ahead.

The effect of the energy plan on business investment prospects is not clear. We have learned of no specific investment decisions that have been either accelerated or delayed as a result of the messages. With the future of the legislation in doubt, moreover, specific calculations as to the impact of higher prices, taxes, and tax credits are not possible. Most business executives do not believe that investment tax credits provide a major incentive, although the tax savings clearly provide additional investment funds.

Well-managed and well-financed industrial and utility companies have been planning and investing with an eye to fuel conservation, in general, and gas and oil, in particular, for at least four years. They needed no warnings concerning current and probable future supply stringencies. Most companies have an "energy czar" who coordinates all energy-related policies for all facilities wherever located.

Owners of both commercial and industrial buildings send representatives to periodic meetings with other companies and government officials to consider energy problems. Existing structures are being renovated by adding insulation, new windows, and siding. Arrangements are being made to provide additional storage for fuel oil and propane and to reduce use of natural gas. Various manufacturers have acquired their own gas and coal properties, either for direct use or to barter. Manufacturers of instruments, controls, valves, and whole systems that regulate energy use are doing an excellent business. Any appropriation urged as an energy measure is said to receive rapid approval by boards of directors. All of these factors were at work prior to the Administration's recent proposals.

Construction of large new industrial and utility plants is at a low level in the district, and no significant pickup is expected in the near future. Stringent federal and state environmental controls are said to restrict new developments to an important degree. Currently, the major concern is air pollution. EPA regulations issued in December, in effect, state that no new major "source" of emissions can be constructed unless an "offset" is provided by reducing emissions from other sources. Some analysts insist that the standards established for various emissions are unreasonably severe, even unworkable. These air quality restrictions do not seem to apply to new equipment installed in existing structures, and help explain the rising share of capital spending accounted for by equipment.

Major retailers report a continued high level of retail sales with furniture and appliances--both large and small--showing new strength. Inventories of these items are said to be "thin." General merchandise sales are expected to be up 10 or 11 percent for the year as a whole with prices averaging about 5 percent higher.

Sales of single family homes are "phenomenal" and may reflect "panic buying." Mortgage funds are in good supply, but interest rates and fees have been increased moderately by S&Ls. Processing of loans is at "capacity." Buyers are not favoring sites closer to centers of population, and most are not much concerned about fuel bills.

Producers of equipment for constructions, mining, materials handling, and metalworking report a significant rise in orders in the past month of two. Order backlogs are building up again.

EIGHTH DISTRICT - ST. LOUIS

Businessmen in the Eighth District report continued economic gains in recent months. While retail sales are only modestly improved, production activities have improved over a broad range of activities. Increased orders have been reported among a number of capital goods items. However, in response to the question concerning the impact of the President's energy proposal on capital investment, several businessmen reported that the uncertainty created by the proposal will have adverse short-run effects on capital spending. In the financial sector, growth of saving flows into thrift institutions has apparently moderated in the past couple of months. Loan demand, particularly for real estate loans, remains quite strong.

Retail sales have improved only modestly in recent weeks. A representative of a major department store did note some improvement in big ticket items. Yet other major retailers reported that April sales were only slightly above the dollar level of last year. Nevertheless, retailers quickly volunteered that prospects remain good for the rest of 1977. Inventories at the retail level are reported to be at acceptable levels. Automobile sales have continued strong, with imports registering particularly large gains.

One of the more optimistic features of the business picture has been the rapid gains in production and employment so far this year. First quarter employment figures show sizable gains in payroll employment, particularly in the manufacturing sector. Recent interviews with businessmen indicate that this higher level of activity has continued into April. A representative of a major chemical company noted that demand has remained strong for most products with the exception of a slight reduction in demand for some fibers. Representatives of other manufacturing concerns, such as apparel, paper, beer, food products, appliances and consumer tools, indicate a continuing growth in demand.

Orders and production in several capital goods industries have picked up in the past couple of months, although reporters point out that boom comditions have not developed. Orders for large electrical motors, thermostats and other control devices, industrial screws and bolts, fabricated products, railroad cars, and industrial lubricating equipment were reported to have increased recently. Representatives of the aircraft industry also reported a high level of activity. On the other hand, orders for such items as telecommunications equipment, farm equipment, and radiators for heavy equipment were reported to have remained relatively stable.

While recent gains have occurred in the capital goods industry, the general concensus among businessmen is that the President's energy proposals will have adverse effects on capital spending in the near term. It is the businessmen's view that the proposals have created more uncertainty, and hence, have increased the difficulty of predicting costs. This will tend to discourage a marginal amount of investment for the time being. The long-run effects are less clear. However, some expressed the view that the program would discourage greater production of energy. Businessmen generally believe a genuine energy problem exists and that a solution must be found. While a market solution is preferred by most of those interviewed, they were aware of the political problems that such a solution would entail.

The fear of reacceleration of inflation was again expressed by several businessmen contacted this month. They noted more rapid increases in the price indexes in recent months, the increased level of business activity, and the energy proposals as contributing to this concern. A savings and loan representative noted that the current high demand for homes and mortgage funds is partly fueled by concern of consumers that inflation would soon put house prices out of their reach. Several local bankers expressed concern about the sharply rising land prices. In particular, they feared that farmers buying land at current prices may find themselves with cash flow problems which could result in increased foreclosures.

Growth of net savings at savings and loan associations and commercial banks has apparently moderated in the past two months. Some increase in such flows, however, is expected in the near future as funds invested in maturing Treasury notes issued during the high interest rate period are attracted back into these institutions. Loan demand at banks and savings and loan associations is reported to be strong, primarily reflecting the demand for housing, other real estate, and agricultural loans. Demand for commercial loans at the larger city banks, however, has remained relatively stable. The mortgage interest rate in the St. Louis area has moved up about a quarter of one percentage point in the past month.

NINTH DISTRICT - MINNEAPOLIS

Although little change has occurred in district nonagricultural economic activity in recent weeks, the agricultural situation has brightened. Recent rains in the eastern portion of the district and higher cattle prices have been encouraging. Nevertheless, the western areas continue to face considerable moisture deficiencies, and expectations for continued low grain prices are working to diminish farm income prospects. Consumer spending has improved in rural areas where considerable rain has fallen, but has remained weak in those areas that are still very dry. Directors don't expect a boom in district plant and equipment spending but neither do they think the Administration's energy program will have any immediate adverse effects on manufacturers' capital spending plans.

Although concerns about prices and moisture have not vanished, the district's agricultural situation appears more favorable than it did several weeks ago. Recent increases in fed cattle prices have been heartening to feedlot operators. Rains have eased concern about moisture conditions in many areas of Minnesota and South Dakota. However, serious drought conditions continue in Montana and North Dakota.

In general, district farm plantings should follow the USDA's April 1 survey of planting intentions: plantings of spring wheat will be cut back from last year, soybean plantings will be increased, and corn plantings will approximate last year's acreage. Several directors, however, foresee more shifting out of corn into soybeans than the survey results indicate. In one director's opinion, this shift should help to prevent a large carryover of corn and lower corn prices and should work to keep soybean prices down. Nevertheless, other directors expect continued high soybean prices and no substantial increase in corn prices. Prospects are for continued abundant wheat supplies and low wheat prices. Continued low grain prices are expected to depress district farm income; 61 percent of the bankers responding to our latest Agricultural Credit Conditions Survey look for farm earnings in the coming months to be below last year's level.

District consumer spending activity in recent weeks appears to be closely related to moisture conditions. Long awaited rains have improved retail sales prospects in several areas. Nevertheless, many farmers remain hesitant to spend until they become certain of what to expect from this year's crops. Farm implement sales, with the exception of irrigation equipment, are weak. And 63 percent of the bank respondents to our latest Agricultural Credit Conditions Survey also expect farm spending in the next few months to be lower than it was a year earlier.

Given the district farm income situation, many bankers continue to report greater-than-usual demand for refinancing farm debt. Of the bankers responding to our latest Agricultural Credit Conditions Survey, 75 percent characterized the current rate of farm debt repayment as "slow," 51 percent observed a greater proportion of farmers at their debt limit than last year, and 66 percent expected an adverse change in farmers' ability to repay debt. Nevertheless, district bankers appear fairly confident of their ability to meet the current credit needs of agriculture, and 56 percent of the respondents were still seeking new farm accounts. More bankers than in January, however, are making greater numbers of loan referrals to nonbank credit agencies.

No boom is expected in district nonagricultural capital spending. One director, whose firm sells control devices to industrial customers, indicates that his firm's business has not reflected any substantial pickup in plant and equipment outlays. And no other directors reported any substantial capital spending outlays in their areas.

According to this Bank's directors and a survey of several district manufacturers, the Administration's proposed energy policy will have little effect on capital expenditures planned for this year, but many respondents are unsure of its longer-run impact. No business reported cutting any capital spending plans this year as a result of the President's program. One director thought that the current uncertainty surrounding the program might curb some capital outlays but had no documented proof. Another director indicated that the uncertainty "didn't help" the capital spending situation. An economist with a large firm that manufactures energy management devices stated that the President's program has caused them to make upward revisions in their sales forecasts. They plan to increase their capital spending in late 1977 and 1978 to meet this increased demand. Many businesses already have programs under way to conserve energy or are making efforts or plans to convert from natural gas to some alternative energy source, particularly coal. Consequently, some felt the President's program may accelerate programs already under way. Several commented that it is just too early to fairly assess the proposed energy program until Congress' intentions are better known. Consequently, most respondents had a wait-and-see attitude.

TENTH DISTRICT--KANSAS CITY

Directors report that business conditions are generally good in the economy. Residential construction and retail sales continue to supply much of the best news. The economic outlook in the Tenth District has been brightened considerably by spring rains. Farmers are more confident of getting a good crop, but apprehensive about the price it will bring. Some directors feel the proposed energy program will have no effect at all on capital spending, while others see pronounced adverse effects. Only moderate increases in meat prices appear likely during the remainder of the year, as pork supplies are rising to offset decreases in beef production. The reports of bankers reflect both the cost-price squeeze in agriculture and the generally optimistic mood of businessmen in the District.

Most nonbank directors believe that the Carter energy program would adversely affect investment. Some say that it already has, by increasing uncertainty. Beyond that, they believe that the emphases on regulation and conservation cannot help but depress capital spending in the economy as a whole as well as in the energy business in particular. Two directors from the oil industry stress their worries about the longer-term implications of "public-utility type" regulation in energy. Current prices, they say, would be adequate incentive to encourage heavy investment in exploration and drilling if there were not the fear that future prices may be artificially depressed by controls, rendering such search and development unprofitable over its long pay-out period. A minority of nonbank directors feel that Carter's proposed energy program is too weak to affect much of anything.

Cattle-on-feed data from the 23 major feeding states have begun to support expectations of a slowdown in beef production. There were 10.6 million head of cattle on feed on April 1 --3 per cent less than a year earlier and 11 per cent below January 1, 1977. By contrast, however, cattle-on-feed numbers in the Tenth District were 3 per cent greater than a year earlier --and Nebraska numbers were up 20 per cent. Despite January-March marketings that were up 2 per cent over year-earlier levels, beef production was down 3 per cent for that period. Thus, the expected 7 per cent decrease in April-June marketings from January-March levels should accelerate the apparent trend toward reduced beef production.

Thus far, decreases in beef production during 1977 have been more than offset by increases in pork production. In fact, total red meat output for January-March 1977 was up 2 per cent over 1976. On balance, larger pork supplies should effectively moderate expected price increases during 1977 for both pork and beef.

Tenth District banks report seasonally normal loan growth in April. Wyoming and Colorado respondents note strong real estate loan demand for condominiums and one-family residential structures, while in Oklahoma there is increased loan demand related to oil exploration and delivery. Some respondents in Nebraska and Kansas City report strong demands for loans by business and industry as well as by consumers. Several city bankers also report that country banks are selling them more agricultural loan participations. The city bankers, in turn, are approaching large money center banks for the funds. Almost all respondents involved in agricultural lending remark that their agricultural loan portfolios are large for this time of the year. They say depressed cattle and wheat prices have led cattlemen and wheat farmers to borrow more than usual for operating expenses.

Bankers also report that businessmen are increasingly optimistic about future expansion. Some are "cautiously optimistic" while others are "downright bullish". None of the bankers notice any impact whatsoever on business planning regarding plant and equipment expenditures as a result of the Administration's proposed energy policy, although some expect to see an effect in the future. Some respondents feel that security markets, not banks, will be the source of funds tapped for those purchases of plant and equipment that arise from the energy program.

ELEVENTH DISTRICT--DALLAS

The economic expansion in the Eleventh District continues to build and broaden into virtually every industry. According to this month's survey, the administration's proposed energy program, if enacted, would have little immediate effect on capital spending. All areas of construction activity continue to exhibit substantial strength. Homebuilding is up sharply from the strong performance a year ago, and demand for mobile homes continues to pick up. Nonresidential building is beginning to boom with a big increase in construction of manufacturing plants. Steady savings inflows into Texas savings and loan associations continue to provide ample supplies of mortgage money in the face of strong demand. Increased agricultural crop receipts are bolstering cash flow and farm incomes.

Businessmen report the effects of the administration's proposed energy program on capital spending are not clear at the present time. Uncertainties stemming from the energy proposals are evident, but so far there is no indication that they have led to any significant erosion of business confidence and delays in capital spending plans. One steel producer cancelled construction of a $100 million furnace after the administration's energy announcement, but a major electric utility notes that the energy proposals would not alter their current capital spending plans through 1978. An El Paso sheet metal firm, however, is planning to build a large plant to accommodate an anticipated increase in its solar heating business.

New housing starts in Texas are running 61 percent higher than a year ago, and brick, insulation, carpeting, and skilled labor are in short supply in some areas. A Houston homebuilder reports especially strong housing demand at the lower end of the price spectrum and that additional emphasis is being placed on building low-cost housing. However, there could be a softening in the lower-price housing market as the recovery in apartment construction gains momentum. Increased construction costs continue to push housing prices upward, and most homebuilders expect new single-family home prices to climb from 10 percent to 15 percent this year. As a result, the low-income buyer might find it cheaper to rent than to buy.

Most mobile home dealers report excellent sales, and an El Paso dealer indicates that March was his best sales month ever. Inventories are generally at desired levels. Mobile home manufacturers are paying increased attention to a growing overseas market. One manufacturer recently shipped about 120 double-wide modular units to Algeria as part of a larger order.

Construction of office buildings in Texas appears to be picking up slowly. Office leasing has strengthened in most large cities and has stimulated new office construction--especially in Houston where first-class downtown space is 98 percent occupied.

Construction of manufacturing plants in the District is beginning to accelerate on a broad front. Most of the biggest dollar outlays are being made in the petrochemical industry along the Gulf Coast where numerous new plants and expansions are under construction. The largest single project is a new $600 million ethylene plant that has just been started near Corpus Christi. In addition, building plans for new and expanded plants in the electronics, machinery, paper, and steel industries are up sharply. Lone Star Steel has announced a $100 million expansion, and a new minimill is slated to be built near Houston. Industrial commissions in Texas report that the number of firms making inquiries about the possibility of locating in the state where energy supplies are believed to be readily available are running at record levels.

Nonbuilding construction continues to improve gradually, but a turnaround in highway construction in Texas will be stronger than previously anticipated. The state government has approved \$264 million for highway construction and repairs in each of the next two fiscal years. Those sums are funds that were added to current budget expenditures for highway construction which have been running at about \$350 million per year.

Savings inflows into Texas savings and loan associations continue to grow, and mortgage money remains readily available. A Houston S&L reports no decline in its savings inflows from last year's peak level. However, a San Antonio S&L indicates that inflows are not as strong as last year. Commercial banks in Dallas are experiencing increased mortgage demands. One bank reports more demand than it can handle, while another indicates that the number of mortgage loan applications received last month was the highest in 20 years. Conventional mortgage rates have firmed a bit to 8 3/4 percent.

Cash flows and farm incomes in the District are being boosted by increased receipts from crop sales. Sharply higher receipts from cotton and soybeans have raised total crop marketings about a fifth higher than a year earlier. However, because of weak cattle prices, livestock sales are lagging. With crop sales strong, cash receipts for the District states in the first two months of this year advanced 11 percent from the comparative period a year earlier, substantially exceeding the 3-percent gain for the nation.

Deposits at rural banks in Texas have risen slightly because of the increased cash flow from cotton and soybean marketings. Monthly data from a selected group of Texas banks heavily engaged in agricultural lending indicate deposits are up 10 percent from a year ago. Total loans at the same banks, however, have climbed nearly a fifth. Loan-to-deposit ratios at these banks have risen somewhat but average 53 percent when Fed funds sold are not classified as loans.

TWELFTH DISTRICT - SAN FRANCISCO

Consumer spending continues strong all over the Twelfth District, with an emphasis upon autos and big ticket items. The inventory picture is mixed, with aluminum and small cars moving downward and aerospace and forest products moving upward. Construction activity continues brisk and rainfall improves the outlook for agricultural production. Commercial lending moves up slightly in April and purchases of large CD's continue downward. The general consensus in the district is that the President's energy policy increases uncertainty and will lead to a slowdown in plant and equipment expenditures in 1977.

Consumer spending is reported strong in almost all urban areas of the Twelfth District, while low farm prices and drought have generated a weakness in rural consumer demand. The composition of consumer demand tends to favor autos and appliances. A good portion of spending appears to be associated with the construction boom; furniture, appliances and other household goods are receiving considerable consumer attention. Some sporting goods stores are also claiming a dramatic rise in sales. One item reported to be facing slower sales is coffee. A supermarket price war continues in Los Angeles.

Auto sales are currently above 1st quarter levels in most areas. For example, one foreign car distributor in Oregon reported the following pattern of sales: Jan. 1,110; Feb. 1,002; Mar. 1,450; Apr. 2,137. Foreign auto sales account for 33 percent of total in Oregon. Composition of district auto sales is generally reported to be steady (with percent shares of 35 compact, 34 intermediate, and 30 large). However, subsequent to the President's energy message some areas report a shift to large cars and other areas a shift to small cars.

Business inventory movement is mixed. For example, inventories of small cars have fallen to very low levels for some makes, while newsprint inventories have grown quite large due to a softening in Japanese demand. In fact, decreased Japanese demand has led to a buildup of inventories in a number of West Coast forest product lines. One large aerospace firm (Boeing) reports an increase in inventories in anticipation of an expansion in sales. Aluminum inventories continue downward and one producer expects an aluminum shortage next year.

The spotlight in western production continues to fall on the housing sector. Construction activity appears brisk all over the district. Southern California reports first quarter building permits up by 50 percent over the year earlier figure (with a 60-40 percent, single-multiple composition) and housing values up by 68 percent over a year ago.

The construction boom has helped to keep the forest products sector active, and demand for cardboard containers is also reported up. Aluminum production is currently higher than the first quarter level and aerospace activity continues at the same high first quarter rate. Some manufacturing volume is reported down from the first quarter levels. While the drought continues to adversely affect the agricultural sector, rainfall has brightened the outlook of one and two months ago. For example, the Yakima Valley in Washington will now get 30 percent of its normal irrigation deliveries rather than the 6 percent of normal previously announced. In Oregon, all parts of the agricultural sector are reported improved, with the exception of livestock where water shortages, poor pasture and record-high hay prices are very seriously hurting a number of producers. Agricultural employment is down all over the district.

While consumer lending still continues strong, business loan demand is flat in some areas and up slightly in others. Two large California banks, plus one Oregon bank report that commercial lending in April was slightly above the first quarter level. An Idaho banker reports loan demand is ample in volume but down in quality due to low crop prices, water shortages and confusion over the new energy policy. Real estate lending is strong in a number of areas and two Washington bankers have expressed concern about the strength of demand for and size of these loans. In particular, they see an increasing number of real estate loans based upon both husband and wife incomes and they are uneasy about making these loans but feel obliged to do so by sex discrimination laws. A quantitative picture of lending is given by one large California bank: since year-end, consumer installment lending is up 8 percent, real estate up 6 percent and commercial up 1.6 percent.

There is a general consensus that the President's energy policy increases uncertainty and will cause a general slowdown in plant and equipment spending until the actual shape of the energy program and its effect upon various energy prices becomes clear. One Oregon banker feels that all major industrial plant and equipment expenditures will be reviewed in light of the new energy policy's effect on construction costs, direct energy costs, conversion-to-coal costs and rebates and investment tax credits. But, like most of our directors, he feels that these effects will not be clear until it is known how much of the program remains intact after its journey through Congress. The president of a major forest products firm claims that since

1973 energy use per unit of output has already been reduced by 10 percent in his industry and he foresees both the further use of waste material for the internal generation of energy and the construction of new plants using coal as the primary purchased fuel. However, a gas company president feels a shift to coal will be possible only through a relaxation of California's air quality standards and the introduction of a cleaner coal burning technology. And one aluminum producer feels that forcing companies to switch to coal will drive some offshore, including one of his own plants. The increased uncertainty generated by the proposed energy program has caused one large California bank to lower its forecast of 1977 state plant and equipment spending by one percentage point - from 13 to 12 percent over last year.