

CONFIDENTIAL (FR)

CURRENT ECONOMIC CONDITIONS BY DISTRICT

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SUMMARY

Current comment by businessmen and bankers, as reported by the twelve Reserve Banks, is decidedly more pessimistic than that of a month ago. The pervasive dampening effect of the General Motors strike is evident in most parts of the country. Employment continues to weaken, or at best, to show sluggish growth, in most Districts, while unemployment is reportedly rising further in several areas. On balance, reports emphasize continued weakness in consumer spending, and some further cutbacks or stretchouts of capital spending plans. Reports are mixed on the behavior of prices, but strong upward wage pressures continue to restrain any widespread belief that inflation will soon be under control. Residential construction activity is improving somewhat in parts of the country, but reports vary widely as to the degree of the recovery. Inflows of savings to financial institutions continue to grow, and somewhat easier mortgage terms seem to be available. Loan demand by consumers, potential home builders, and businesses is reported to be weak on balance, and is aggravated by problems in specific areas and industries.

In the past month, there has been some widening of the impact of the General Motors strike upon the economy. The two Districts in which the effect is most direct are Chicago and Cleveland, although the Chicago report indicates that after adjusting for the strike, economic activity in that District is level to slightly up. Seven out of the ten major metropolitan areas in the Cleveland District, however, are adversely affected, and other Districts--New York, Atlanta, St. Louis, and Dallas--trace either direct or indirect dampening effects to the strike. The Philadelphia report contains the suggestion that the underlying economic trend is weaker than generally acknowledged, and perhaps too much blame is placed upon the strike.

Numerous other strikes have had widespread effects as well-- construction workers in Kansas City; carpenters, household appliances, construction machinery, and other autos in the Chicago District; and airlines in the Minneapolis District.

Weakness in the employment picture is traceable to strikes as well as to cutbacks in government spending affecting the aerospace and aircraft industries in the Atlanta and San Francisco Districts. Also blamed for layoffs are cutbacks in business capital spending affecting the machine tool industry in the Boston and Cleveland Districts, and the computer industry in the Cleveland and Minneapolis Districts. Slackening steel production is a source of weakness in the Cleveland District, and the textile industry has accounted for some sluggishness in the Richmond and Atlanta Districts. A less-than-seasonal buildup of employment by retailers is also mentioned.

District reports describe consumer spending variously from satisfactory to very bad. The consensus is clearly less than satisfactory, particularly for "big ticket" items. Only the Chicago District describes the outlook for consumer durable purchases as optimistic. Retailers' inventories are generally being held down, and holiday season buildups are apparently lower than usual.

Residential construction is reported to be improved in the St. Louis, Minneapolis, and Kansas City Districts. In the latter case, the improvement follows a prolonged strike in several of the building trades. Residential building continues weak, however, in the Boston, Richmond, Atlanta, and San Francisco Districts.

While the liquidity positions of financial institutions are reported to have improved, the consensus of the reports is that loan demand remains weak. In some Districts this is reported to have led to greater investment

in municipal securities by banks, and there is some speculation about the possibility of an imminent cut in the prime rate.

Some moderation in the growth of prices is mentioned in the Richmond, Chicago, Dallas, and San Francisco reports. In some areas, consumers are continuing to shift to lower-to-medium priced goods, and price shading of consumer items is reported. Concern continues to be voiced, however, about the problem of controlling inflation in view of recent labor settlements which have resulted in large wage increases, for example, in the St. Louis and Kansas City Districts. Increases in gas and electric utility rates and in prices of public services are of concern in the Atlanta District. The potential need for incomes policies in order to control inflation in the face of rising unemployment and continued upward pressure on wages is mentioned by respondents to surveys in the Boston and Philadelphia Districts.

FIRST DISTRICT - BOSTON

This month's discussions uncovered a further deterioration of the quiet confidence which had prevailed among District One Redbook respondents until early autumn. This shift--sensed more than heard in last month's talks--was made explicit in varying degrees by both our directors and our academic consultants. The members of the latter group in particular seem to have converged to a point where there is substantive agreement among them on policy issues.

District One commercial banks continue to report results commensurate with the national experience: deposit flows are entirely satisfactory, and loan demand is flat to weak in all categories. One of our Class A Directors states that his institution has been investing large (for them) amounts in Federal funds for several months now, and is about to begin acquiring municipal obligations. Another Class A Director reports deposit increases of \$80 million over a year ago. Of this amount only \$10 million has been put into new loans while \$70 million has been used to reduce debt. Loan-deposit ratios at this institution have dropped from 89 percent last summer to a current 76 percent.

Area thrift institutions, too, have greatly improved their liquidity positions since mid-year, and many are once again building mortgage loan commitment levels. In line with this general picture mortgage rate reductions are finally beginning to appear in several communities scattered across the New England region. One banker did express concern, however, that an unusually high proportion of the pickup in mortgage activity is on existing structures, and that construction activity will be slow to benefit from easier mortgage market conditions.

More generally, area business conditions continue mixed. Recreational activity in the northern New England states is very good, and a great many of the region's manufacturers of industrial equipment and capital goods still have felt no slowdowns. There are perhaps more notable exceptions to this trend than there were a month ago; however, New England's precision tool and machine tool industries continue in a state of severe slack. New rounds of four- and eight-week layoffs--unforeseen as recently as a month ago--are now being planned for December and January at some firms.

Professor Otto Eckstein, characteristically our most ebullient academic respondent over the summer months, seems to have shifted in recent weeks to a more moderate stance. Describing the U. S. economy as "sick, and getting sicker," Eckstein suggested that a fourth quarter nominal GNP gain of \$7 to \$8 billion now seems likely. While he still sees a strong spurt of GNP growth over the first half of 1971 as likely to arise from the effects of steel hoarding and auto production catch-ups, Eckstein expects a third quarter 1971 decline in real GNP.

As for the housing outlook, Eckstein sees a relatively moderate resurgence as likely. His current projections have housing starts at a 1.75 million annual rate by the end of 1971, edging up to 1.8 million and above in 1972. Eckstein emphasized that the nagging questions now lie more on the demand side of things, due to wealth effects, white collar unemployment, and consumer uncertainty. In money markets, Eckstein sees long rates (on AAA industrial bonds) as declining very slowly--perhaps 30 or 40 points by the end of 1971.

On policy, Eckstein suggested three measures as appropriate now. First, he endorses a discount rate cut, solely for its announcement effects. Second, he now suggests a six to seven percent growth in the aggregates should

be our target over the period from now to third quarter 1971. Finally, he strongly feels that the time is now overdue for an incomes policy. Specifically, this would take the form of the President himself calling together business and labor leaders for a closed session White House meeting. The crux of the Presidential message should be, first, that the Administration means business in its fight against inflation and, second, that the penalties for ignoring him will be continued high rates of unemployment, generally poor business conditions, public censure of specific groups, etc.

When Professor Wallich was queried on the use of incomes policy he replied, "Such policies are like prayer. If you know a good one that works you should use it." His approach would be one of a selective interim freeze on certain wages and prices. He stressed, however, that such an approach should be very temporary (six months or so), and removed before distortions and inequities begin to arise. On reducing the discount rate, Wallich would endorse such a move at the present time only if the mechanics of monetary policy are such that the System cannot otherwise achieve its aggregate and rate targets. As for specific aggregate targets, Wallich stated that the current growth path appears very low when viewed in real terms, and that seven percent would now seem warranted. This number represents a substantial shift toward stimulus on his part.

Professor Tobin remains the most bearish of our academicians. He too would endorse an immediate discount rate cut, and additionally counsels us to keep pushing on the aggregates with a view to continued easing in rate levels. Nine to ten percent growth in M1 strikes him as appropriate to accommodate a closing of the GNP gap.

Tobin sees no real source of strength anywhere in the private sector, noting that any probable housing resurgence will come nowhere near offsetting

the weakness in business investment that is developing. He further points out that we have experienced no great inventory decumulation and thus can expect no potential stimulus from that area. Tobin concluded by warning us to discount the argument that recent high savings rates will soon lead to consumers breaking out in a splurge. He points out that this ignores the wealth effects stemming from the stock market decline which are now very much in evidence in consumer behavior, and will continue to dominate it.

Professor Samuelson was unavailable to comment this month.

SECOND DISTRICT - NEW YORK

A somewhat more pessimistic picture of the current and prospective economic outlook than had been painted a month ago emerged from the opinions expressed recently by Federal Reserve Bank Directors and other business leaders. Most feel that, in part as a result of the General Motors strike, a revival of economic activity will be delayed longer than had previously been expected. In their view, prospects were for further trimming of planned capital outlays, continued restrained consumer demand over the next few months, sustained upward pressures on wages and prices, a further squeeze on profits, and little, if any, progress toward curbing inflation.

The chairman of the board of a large New York City bank thus commented that overall economic activity had slowed, and emphasized the significant actual and prospective adverse effects on the economy of the General Motors strike. The president of a Rochester department store pointed to the unusually high rate of unemployment in his area, to the temporary closing down of eight or ten companies dependent on the auto industry, and felt very concerned and pessimistic over the current outlook. The president of a large life insurance company believed 1971 would witness only a "slow ascent," while a partner in a large brokerage firm offering a wide variety of financial services did not see any significant upswing in the next year and if there is, a recurrence of the inflation problem. The president of a large chemical firm reported that he had been quite sanguine over his firm's prospects prior to the General Motors strike, but was now more pessimistic. The former chairman of the board of a major oil company foresaw a stagnant first half of 1971, but some real improvement for the full year.

With respect to planned capital outlays, the chairman of the large New York City bank expressed the view that these plans are being revised

downward. A director reported some "holding back" in capital expenditures in the industries with which he is familiar--aerospace, electronic, glass and communications. The president of the Rochester department store saw evidence of cutbacks in his area, while the president of the large chemical corporation reported that his firm was trying to hold down such outlays; he estimated that his firm's capital outlays will be about the same in 1971 as in 1970, which will be a bit less than in 1969. The president of a large life insurance company and one of the partners in a large brokerage house both felt that corporations with whom their organizations had contacts were reducing original capital spending plans. The editor-in-chief of a large publishing and communication corporation felt there might be "a substantial decline from this year's level" and the president of a manufacturing firm reported cuts in his firm's plans, estimating its 1971 capital outlays as not in excess of, and perhaps even below, those of 1970.

Regarding consumer demand, Rochester retail business was reported as "terrible." The president of a large chain of diversified department stores saw "no real bounce" as yet in retail sales, but felt a "faint heart-beat." There has been some improvement lately in ready-to-wear women's clothes as the indecision regarding the fashion styles is being resolved. However, men's suits were meeting a great deal of price resistance at the \$100 level. Home furnishing, television sets and other "big ticket" items were moving slowly. He did expect Christmas sales to be at about last year's level, and does not anticipate any real pickup in sales before the second quarter of 1971. The General Motors strike so far has had little adverse effect on this firm's Second District stores, but has had an impact on its stores in the middle west and the east coast of Florida.

Most of the directors and business leaders expressed concern over the large wage increases already granted, and looked for no lessening of wage

demands by union and non-union workers. With respect to the latter, the feeling was summed up by the president of an upstate bank who pointed out that non-union labor reads about raises granted union workers and they do not want to be behind. Against this background, most directors and business leaders did not think that the outlook for ultimate success in controlling inflation had improved.

THIRD DISTRICT - PHILADELPHIA

Information from directors, bankers, manufacturers and retailers suggests that corporate liquidity will remain a major problem in 1971, especially for lower quality borrowers. Overall business expectations remain bearish. More unemployment is anticipated. Finally, some directors believe that an incomes policy will be necessary if inflation is to be controlled without a significantly higher rate of unemployment.

A poll of top financial officers of the nation's largest firms indicates that corporate liquidity is still a big problem for a majority of firms. Nearly 40 percent of the firms say they plan to reduce short-term liabilities in 1971 in an attempt to upgrade their liquidity positions. About one-half of the firms planning to reduce short-term liabilities are counting on an increase in profits as a source of funds. Another 30 percent are counting on the sale of long-term bonds, with the remainder using equity sales and bank borrowings for refinancing long.

Although most firms are optimistic about improving their liquidity positions, there is more optimism on the part of lower quality borrowers than among those with top credit ratings. At the same time, talks with bankers and others in the financial community in recent weeks suggest that credit worthiness is likely to remain a major concern of lenders.

Although banks remain concerned about their own liquidity positions, they are backing away a bit from the severe lending restrictions they have imposed up to now. One Philadelphia bank, for example, is making an intensive analysis of its loan portfolio to determine how much more accommodative it can be to corporations that do not have access to long-term capital markets, but are anxious to refinance long some of their short-term liabilities. As of now,

large commercial banks in Philadelphia do report some lengthening of their portfolios; however, they are quite reluctant to go out beyond a year or two.

Overall economic activity will remain soggy for at least several months, according to Third District manufacturers and retailers. Manufacturers report that new orders, shipments and unfilled orders are likely to remain soft in the coming months. One director, who is also the head of a large manufacturing firm, believes that the underlying trend in the economy is weaker than is generally acknowledged. He says too much sluggishness is blamed on the General Motors strike.

Large department stores in the Philadelphia area also report that business is slow. Sales volume is weak across the board from clothing to cosmetics to household goods. Only items with substantial markdowns in price seem to attract buyers. One retailer noted that because of excess capacity among clothing manufacturers, substantial price shading is occurring at the wholesale level. He pointed to suits, coats, and lingerie as examples.

The hiring plans of both retailers and manufacturers in the Third District suggest further rises in the unemployment rate. Overwhelmingly, manufacturers plan either to cut back or hold the line on hiring during November and December. Retailers plan less than seasonal build ups in their staffs as well.

Considerable concern is expressed by some directors about the impact of the automobile settlement on inflation. One director, whose company is a supplier to the automobile industry, reports that from what he hears a very substantial settlement is in the works. Elsewhere in the District business community, inflationary expectations remain very much alive as well. Several directors believe that an incomes policy will be necessary in the coming months. They do not believe that monetary and fiscal policies alone can combat rising unemployment without losing ground against inflation.

FOURTH DISTRICT - CLEVELAND

The level of economic activity in the Fourth District declined in October, largely as a result of the auto strike and partly from cutbacks by some of the area's major capital goods producers. Manufacturing activity fell in September, and our most recent survey of District manufacturers indicates an acceleration of the decline in October. Steel production dropped 9 percent in October to a level nearly 17 percent below a year ago. Secondary effects of the General Motors strike were also reflected in the continued increase in insured unemployment in the District. (The insured unemployment rate in the Fourth District rose from 2.3 percent in August to 3.3 percent in October.)

Extended discussions were held with representatives of two important capital goods producers, two large consumer oriented firms, and four leading banks in the District in an attempt to provide some additional insight into the underlying trends in the economy beyond the obviously dominant effects of the auto strike. (General Motors has large plants in seven of the District's ten major metropolitan areas.) One director, associated with a large computer and office equipment manufacturer, reported that his firm is continuing to experience considerable resistance to capital spending by regular customers, with uncertainty about future business developments mentioned frequently as the reason for the delay. Computer sales have been particularly affected; the firm's new order pattern is far below projections made at the beginning of 1970. The director also reported that his own firm is keeping tight control on inventory, and all deferrable capital projects have been halted.

The second capital goods producer contacted is the largest machine tool producer in the U. S. with annual sales of approximately \$300 million. The firm's financial representative reported a definite softening trend in new orders for machine tools throughout 1970. The auto strike, in their view,

is simply an added factor contributing to an otherwise sluggish business situation. The firm's internal projections call for gradual recovery in machine tool orders in 1971. One major precondition for a return to a full employment growth path, in this company's view, is a change in tax laws to promote capital goods expenditures.

At the consumer level, an economist for a large chain of department stores with the corporate head office in the Fourth District reported that the firm's sales have been sluggish since the beginning of the third quarter. Sales of all types of goods have been slow, and durables have been particularly weak. The auto strike has, of course, had pronounced effects on retail sales in certain areas where large General Motors production facilities are located, although sales have held up better in other areas. In Columbus, for example, sales have been level through October. The firm has reduced employment by 6.5 percent since the beginning of 1970, in response to the sluggish sales, but labor costs are still rising. The firm's forecast calls for some increase in sales when the auto strike is settled and as expected steel inventory build-up begins; after that, a nearly flat trend is expected through the remainder of 1971.

An economist for a second consumer-oriented manufacturer of household food and nonfood products reported that their business has been unaffected by the auto strike. For example, sales in the third quarter of 1970 were 9 percent above the year-earlier level, and third-quarter earnings were up 13 percent from the 1969 level. The economist indicated that inventory levels are being watched carefully, but capital spending plans are being changed drastically: investment plans are geared to longer-term considerations.

The firm's internal forecast includes a little less strength in the consumer sector than the "conventional" outlook. Their view is that a real consumer buying spree--especially in the area of durable goods--will not materialize until there is more concrete evidence that inflation is under control.

On the financial side, most District banks contacted indicated that they are using CD funds to repay Eurodollar borrowings because of the rate differential. Two of the largest banks reported that loan demand is weak, while one reported it is still strong. As a result of the weak business loan situation, one of the banks has recently reconsidered its municipal bond investment policy and is on the verge of a sizeable build-up in municipal holdings.

FIFTH DISTRICT - RICHMOND

Surveys of businessmen and bankers in the Fifth District indicate general agreement on the following points: (1) recent declines in manufacturers' shipments, new orders, and backlogs of orders; (2) declines in retail sales, especially automobiles; (3) higher levels of inventories of finished goods than desired in both manufacturing and retail trade; (4) decreased employment accompanied by some increase in the available labor supply; (5) some tapering of price increases in manufacturing, but continued strong upward wage pressure; (6) continued slump in residential building and some improvement in nonresidential construction; (7) tapering off of business loan demand at District banks but some strength remaining in consumer and mortgage loan demand; and (8) a generally optimistic though cautious outlook for future business conditions.

District manufacturers report declines in shipments as well as in new orders and backlogs of orders during the past four weeks. Although reports are mixed, few manufacturing firms indicate strength in orders and shipments. Declines are reported in such industries as textiles, hosiery, chemicals, furniture, metals, and electrical equipment.

Certain large chain stores, transportation companies, and electric utilities report increased sales recently. However, District bankers report retail sales to be down in their respective areas, and automobile sales to be off significantly.

Manufacturers and retailers in the District report further increases in inventories, and both groups continue to feel that current inventory levels are higher than desired.

District manufacturers report further declines on balance in employment. Declines are reported in textiles and nonferrous metals, while

some increases are reported in chemicals and electrical equipment. The length of the work week is reported down somewhat further by most District manufacturing respondents. Retailers and service establishments also report declines in employment and hours worked.

District bankers report declines in employment and significant increases in the available labor supplies in their respective areas. Manufacturers in search of skilled labor, however, continue to report a short supply of workers of the quality that they desire.

Manufacturers report no significant changes in prices during the past four-week period. Reports of increases in steel, electrical equipment, and textiles are about evenly matched by reports of price declines in non-ferrous metals, hosiery, and synthetic fibers. Continued price increases are reported, however, by businesses in retail trade and services. Wage pressures are reportedly continuing strong across the board.

Residential construction continues weak in all District states. Some District bankers report expectations of improvement in residential building, but so far, reports of increased activity are few. Nonresidential building, however, is reported to have increased somewhat last month.

Business loan demand at District banks is reported down on balance during the past four weeks, in contrast to reports of moderate increases over the last several months. Mortgage loan demand and consumer loan demand continue to increase, however, according to District bankers.

The number of respondents in the Fifth District reporting expectations of improvement in general economic conditions continues to be a significant majority. The tone of comments received from reporters, however, indicates that while a generally favorable outlook exists, many businessmen remain very cautious in evaluating prospects in their respective industries.

Numerous manufacturers continue to report excessive plant and equipment capacity--in textiles, hosiery, furniture, and electrical equipment. Most manufacturers apparently feel that their present expansion plans are about right, though many have made substantial cutbacks in plans in recent months.

The preponderance of reporters in industries such as textiles and furniture continue to feel that their inventories of finished goods are too high in relation to current sales prospects. With the exception of a few large chain stores, District retailers also report higher inventory levels than they desire.

SIXTH DISTRICT - ATLANTA

Our directors report a weakening, on balance, in the Sixth District economy. Layoffs, both related and unrelated to the General Motors strike, continue. Department store sales remain sluggish, and plant and equipment expenditures are off. Some large price increases have been proposed by gas utilities and by those providing such other public services as trash collection and water and sewer service. A cross-section of small Georgia banks report reduced demand for consumer loans.

Fresh layoffs have been reported in a variety of industries, with the Tennessee portion of the District apparently hardest hit. Aside from recent layoffs in aluminum, rubber, and textile plants, workers in Tennessee have been idled in plants producing aircraft parts, electric motors, and clothing outerwear.

Elsewhere in the District, layoffs have occurred at plants producing asbestos pipe, boats, lighting fixtures, ammunition boxes, and mobile homes. The mobile homes industry is reported to be suffering from overcapacity, and one producer commented that the industry is undergoing a shift in production in favor of modular homes.

A manufacturer in the Mobile, Alabama area has cut production and employment by 40 percent because he has been informed that his natural gas supply will be reduced 25 percent if there is normal winter weather this year.

The General Motors strike is responsible for continuing layoffs in the aluminum industry and for a sharp drop in shipments of coke from Birmingham to midwest steel mills. The strike was also mentioned by some small Georgia bankers as a reason for weak consumer loan demand.

There have also been reports of reduced investment in plant and equipment. Expenditures on industrial projects in Tennessee are reportedly

off 80 percent from last year. A steel company has postponed plans to construct a plant in southwest Mississippi to produce electric motors because of the slowdown nationally. In addition, the inability to obtain a long-run contract for natural gas was given as a reason for a steelmaker canceling an option to purchase a large tract of land near New Orleans.

A survey of department stores throughout the District indicates year-to-year sales gains of only one to three percent. Most of these retailers are anticipating a slow Christmas season and are accordingly planning modest inventories. Also, they do not foresee an upswing in sales during the first quarter of next year.

A slump in air traffic is a further indication of economic sluggishness. So far this year, Birmingham has realized only about a four percent increase in air passenger volume, compared with a 17 percent increase a year ago. The slump in air traffic has set back airline earnings at a time when Birmingham is negotiating contracts with airlines for municipal airport facilities. This may retard the city's airport expansion program.

Construction activity is mixed. In the Nashville area, new construction is off more than 20 percent so far this year, with no upturn in sight. Residential construction is slow in south Florida, where the volume of new and used home sales is down around 20 percent from last year and softness in luxury apartment rentals is also reported. However, commercial construction in south Florida is reported up about 50 percent this year. Housing construction is at a complete standstill in south central Louisiana and commercial construction is slow. Residential construction in north Alabama is reported vigorous, with mortgage demand strong for homes in the \$40,000 to \$70,000 bracket and modest in the \$25,000 range. Mortgage money for homes below \$15,000 is reported to be nearly nonexistent. In the Mobile area, residential construction is reported very active in the extremes of the market--i.e., disadvantaged/elderly and luxury type.

There is some more disquieting news on the inflation front. Utilities in Tennessee have requested higher gas rates, which come on top of the 23 percent average increase in TVA electric rates last month. An aldermanic committee in Atlanta recently approved a water-and sewer-rate increase averaging 135 percent, largely because of water pollution control efforts. In addition, it has been recommended that rates for garbage and trash collection be increased 91 percent in Atlanta. The price of citrus pulp, an ingredient in livestock feed, has jumped to \$50.00 a ton from \$27.50 a year earlier because of the corn leaf blight.

On the optimistic side, the cast iron pipe industry reports improved profit margins, the economy of central Florida continues to be vigorous, and the paper industry is reported to be undertaking projects shelved earlier this year.

SEVENTH DISTRICT - CHICAGO

Abstracting from the General Motors strike, a most difficult undertaking, business activity in the Seventh District appears to be moving in a level, or slightly upward, direction. Increases in output of some consumer goods and building materials about balance declines in capital equipment and defense-related activities. Job markets have eased further. Upward price pressures have moderated somewhat. Credit has become more available. Most businessmen and bankers anticipate no marked change in the general economy in the near future.

Rumors persist that progress is being made in the G.M.-U.A.W. negotiations. Developments such as the news blackout, effective October 30, and the 17-hour bargaining session that ended at 2 a.m. this morning have preceded important agreements in the past.

Local agreements at individual plants are being concluded daily, not only at General Motors plants, but also at plants of other motor vehicle producers. As of today half of 162 local agreements have been reached at General Motors plants. Except for the Detroit Diesel Plant in Detroit, however, it is our understanding that returns to work await agreement at the "big table."

Negotiations in many nonautomotive industries are marking time pending a final agreement at General Motors.

It is said that a return to work must occur in the next few days if General Motors plants are to return to full production in December. Holidays and vacations in that month will hamper operations.

The hardship on General Motors strikers, who get a maximum of \$40 weekly in strike benefits, has been eased by the provision of food stamps and by the forbearance of understanding creditors.

Production and sales in this region currently are affected adversely by strikes or slowdowns in a variety of firms and industries that have not been affected by the General Motors strike. Among these are household appliances, construction machinery, autos (American Motors), and building activity. A carpenters' strike in Will County in the Chicago area has halted most work there, including some major projects. Also, as part of the General Motors strike, the EMD plant in a Chicago suburb, which employs 7,500 workers making railroad locomotives, is shut down.

Layoffs related to the General Motors strike are mounting steadily at plants producing steel, tires, and other components, in dealerships, and at auto transport companies. Other car producers are benefitting from the shortage of General Motors cars. Chrysler sales set an all-time high in October. Sales of Ford and AMC also are above the year-ago level. Nevertheless, most General Motors customers appear to be waiting.

Sluggish order trends for bearings, gears, fluid drives, and tool and die work indicate further declines in output of producer equipment. Meanwhile, orders for furniture and color TV have improved recently and appliance producers are doing well. Producers of most consumer durables report inventories in good shape at all levels, and appear to be relatively optimistic about future sales.

Steel inventory building for strike-hedge purposes will begin soon. Export business has dropped sharply. Inventories of steel have increased sharply at the mills, while steels users continue to cut back.

The frequency of price increases continues to diminish, while price concessions are more numerous. But the general uptrend in prices of finished goods and services appears not to have slowed significantly. Increases in worker compensation agreed to recently, or likely to be agreed to in the months ahead, are of such a magnitude that business

managers consider additional price increases to be inevitable.

Programs to cut costs and improve productivity are being pushed vigorously. There are reports of smaller, marginal, plants being closed, especially in cases where operations can be consolidated.

Farm machinery sales improved in the third quarter. Increased supplies of pork and poultry are tending to depress prices of these commodities substantially. Corn blight damage still cannot be assessed precisely. A recent survey of Seventh District bankers, however, revealed that 80 percent thought the blight would have little or no effect on loan repayments by farmers. Ten percent expected an adverse effect on loan repayment capacity, but an equal proportion expected an improvement because of higher corn prices.

Loan demand at banks is markedly less vigorous than a few months ago. This drop in business loan demand clearly is related to heavy sales of securities. Large banks report CD funds in ample supply, even at reduced rates. The prime rate appears vulnerable.

EIGHTH DISTRICT - ST. LOUIS

According to a sample of businessmen in the Eighth District, economic activity continues at the reduced levels of recent months. These businessmen see no clearly dominant force to move the economy in either direction. Part of the pessimism arises from the automobile strike. In addition to the wage losses by striking automobile workers, there is a sizable impact on the suppliers of automobile parts and materials. Most District firms report no change in employment, but new budgets are being tightened, and capital investment plans are being lengthened. These firms apparently see little indication of an early upturn. Residential construction has picked up somewhat, offsetting a decline in industrial construction. The size of wage settlements continues to disturb most business managers. Retail sales continue at generally satisfactory levels, while inventories are being held at a minimum.

The automobile strike is having both direct and secondary impacts on economic activity in the Eighth District. In St. Louis where General Motors has some major factories, the direct impact has been substantial. Direct wage losses are estimated at \$1.5 million per week. In addition there has been a substantial reduction in demand for plastics and other supplies purchased by automobile manufacturers.

Plans for further belt-tightening are expressed by a number of large manufacturing firms. Most respondents indicate their own work force is stable, but some emphasize that there will be no net hiring of employees. Bearishness as to outlook in the next few months and hard-nosed budget planning are typical expressions of current business psychology.

Capital investment plans are being generally lengthened. Part of the change is the result of strikes or failure to obtain supplies on schedule, but part is the result of rising pessimism as to prospective demand for output.

Most firms indicate, however, that capital expansion plans are continuing high relative to past years.

Although nonresidential construction is down, reports indicate some gains in residential construction. The housing demand has been strengthened by slightly lower interest rates on home mortgages and the allocation of additional funds for rural home purchasing by the Farmers Home Administration.

Wage settlements and union wage demands continue to be a major worry of most business managers. Some express doubt as to the ability of stabilization policies to have an appreciable effect in view of high wage demands. Other managers believe that unions will be willing to settle for more moderate wage claims.

Retail sales remain at generally unchanged levels, except in the specific localities where the effects of the automobile strike have had a major impact on total employment and income. Department stores report that goods can be moved readily at promotional sale prices. Inventories, however, are being held at below normal levels with a "look and see" attitude in preparation for the normal pre-Christmas buildup.

Unfavorable weather has hampered agricultural operations in the cotton producing areas and lowered the quality of the crop. Corn production is down as a result of the southern corn leaf blight, but the crop is believed to be somewhat above expectations of a month ago. Farm incomes are expected to be somewhat higher this year than a year ago, because the crop declines will likely be more than offset by higher average prices.

Farm outlook specialists in the area believe that livestock product prices are at or near a low point in view of the outlook for feed, particularly corn, and that we can expect an uptrend in these prices for the next year or two. Since livestock products account for a sizable percent of food expenditures,

these increases indicate substantial upward pressure on food prices in the coming year.

Commercial banks report that both deposits and loan requests are growing. They indicate, however, that loan requests are given greater scrutiny as a result of the unfavorable profit outlook for many firms.

NINTH DISTRICT - MINNEAPOLIS

Observations of bank directors and officers indicate that consumer uncertainty in the Ninth District is still very prevalent; this uncertainty is being reflected in consumer spending decisions. The one bright spot on the horizon is the upswing in residential building activity, although the outlook for other construction sectors is mixed. The General Motors strike is having a minimal direct effect on Ninth District economic activity, but the Northwest Airlines strike is causing considerable difficulties in some areas of the District.

Because of uncertain future economic conditions, consumers in the Ninth District are still watching their purse strings very closely, and, based on savings flows to local savings and loans and banks, consumers are still saving near record proportions of their incomes. Although retail sales in scattered eastern portions of the District seem to be rising above year-earlier levels, there was a general consensus among directors of the bank that consumer spending is still very weak, especially for "big ticket" items. One director could only describe Minnesota retail sales as being "bad;" and, recent reports of additional layoffs certainly have not stimulated consumer optimism in the twin cities. Honeywell has announced a layoff of 600 workers in early November, and employees expect further cutbacks. Univac's closing of its Federal Systems Division will affect 400 workers. The Dayton-Hudson Corporation, anticipating that consumer buying will not pick up until next year, has announced that it will build only three new stores next year instead of the six it had originally planned.

The results of recent bond elections suggest that voters are as wary of state and local government capital spending as they are of their own private expenditures. A bond dealer guessed that about 50 percent of recent bond

referendums in the District have been defeated. He also stated that many of those that have passed were only successful after two or three attempts, and only after substantial paring of original requests. Because of voter reluctance to pass new issues, many boards and local government units are not even putting bond issues on the ballot but instead are waiting for a change in voters' attitudes.

States and municipalities, with the exception of Montana which has a six percent statutory ceiling, have been able to float bond issues because of the easing in market interest rates, and dealers have had little trouble in moving their inventories. As a result, dealer inventories are at very low levels. A few directors commented, though, that some municipalities which have been authorized to float issues are holding back in hopes of further declines in interest rates.

Residential construction has strengthened considerably in the District over the past few months because of easier mortgage market conditions and increased emphasis on "235 Programs." Mortgage rates are continuing to slip in the twin cities. Some savings and loans will now make government insured mortgages for as low as one discount point, and one savings and loan is now making eight percent conventional mortgage loans with a 25 percent down payment.

Conditions and expectations in other construction sectors, however, are mixed. Nonresidential building construction generally has slackened and a number of contractors are running into financial difficulties even after reducing expenses as much as possible. For the most part, directors of the bank felt that construction volumes would be even lower than usual this winter but hesitated to guess what would happen next spring when the building season begins in the upper midwest.

A director who is active in the construction industry felt that District highway construction next year will probably be at about the same level as it was

this year. He also felt that bids will turn out to be substantially higher than currently expected because of rising construction costs.

For the most part, the General Motors strike is having only a limited impact on the District, and its effect is restricted primarily to General Motors dealers. Dealers have been selling out inventories but are now "getting down to showroom models." One director felt that the recent reduction in copper prices was partially due to the General Motors strike, and another mentioned that heavy equipment inventories are at very low levels.

The Northwest Airlines strike is having a very noticeable effect in the twin cities, North Dakota, and Montana: numerous cases have been cited where landing and other fees have dropped significantly; firms servicing the airline and airline passengers have experienced substantial losses of income; banks have increased their loans to and are carrying past due loans of Northwest employees; and a number of Northwest Airlines employees have taken jobs at considerably less pay and prestige.

TENTH DISTRICT - KANSAS CITY

The economy of the Tenth District is showing signs of sluggish growth following its decline earlier in the year. Attitudes and expectations remain cautious, however, as a result of several factors, such as strikes; recent sharp declines in farm prices; the existence of some pockets of especially high unemployment; and a continuing sense of concern and uneasiness about the state of the national economy. Business loan demand at large District banks has continued to ease moderately. However, since some of the large banks have been repurchasing loans from their parent holding companies, the moderate weakness reported in business loan figures may not fully reflect the extent of the softening in demand.

Although employment in the Tenth District has been adversely affected by current economic conditions, the impact has not been as severe as in other areas of the country. Expanding tourism and increased interest in the region's power resources (uranium, coal, and oil) have helped to moderate unemployment in the District's mountain states and in Oklahoma. Employment in the more industrialized states of Missouri and Kansas has been harder hit by the economic slump. However, the earlier decline in total District manufacturing employment has tapered off, and was reversed in August. The employment outlook for the remainder of 1970 (and into 1971) appears hopeful, as reports indicate few, if any, further layoffs are anticipated. Optimism concerning the overall employment picture is tempered somewhat by the continuing cautious attitude displayed by both consumers and businessmen, and by the continuation of the automobile strike.

The total value of residential construction contract awards in the District has shown a sharp pick-up recently. Yet, savings and loan associations in some areas report that their supply of funds is now growing faster than the demand for them. Despite settlement of the construction strike in the Kansas

City area, there is little evidence of a resurgence of demand for funds to finance homebuilding. There is apparently much confusion about the contract settlements, with many potential home buyers not realizing that the large wage increases will come over a period of 2 1/2 years.

The Kansas City construction strike, which finally came to an end after 201 days, serves as a good illustration of the cost-push pressures that prevail in the economy. Three laborers' unions ratified settlements on August 31 that increased their hourly compensation from \$4.01 to about \$8.16 an hour, to be attained by April 1, 1973. The bricklayers settled on September 11 for an increase of about \$4.50 an hour over their previous rate of about \$5.62 an hour, for a total of about \$10.12 an hour. On October 13, the cement masons settled for a \$4.57 increase which will result in an hourly compensation of \$9.64 by the April 1, 1973, date; and the lathers ratified an agreement on October 18 calling for an increase of \$5.02 an hour to a final figure of \$9.55 an hour. The one bright spot is that all the settlements led to contracts with a common expiration date of April 1, 1974--an important element in the strategy for future labor peace in the area's construction industry.

Personal income growth in the District has been slow because of declines in the manufacturing and construction industries, and because of weakness in farm proprietors' income--which the recent sharp declines in farm prices are likely to extend through the rest of the year. As a result of all these factors, retail sales are showing very little strength.

The relatively slow growth in the District's economy appears to be reflected in the moderate weakening in business loan demand at large District banks. District banks so far have had very few loans repaid by firms that have sold bonds in the market. More repayments are expected in the future, though, particularly if conditions in the bond market improve

and permit regional businesses to acquire long-term funds. Most of the large banks do not look for an improvement in business loan demand in the near future; on the other hand, very few foresee a sharp decline.

Among other loan categories, the demand for single-family residential mortgages is fairly weak. Consumer loan demand also is somewhat weak. In particular, one bank reports that it has been unable to build up the amount of outstanding loans under its credit card program. In contrast, the demand for construction loans and commercial mortgages is strong at a number of the large banks.

At the smaller District banks there are also indications that loan demand is weak. One large Oklahoma City bank reports that it has no participation loans from its correspondents. A large Denver bank reports that a surprisingly large amount of Federal funds have been available from its correspondents.

There is a general consensus among the large District banks, based partly on their own conditions and partly on their assessments of the positions of money market banks, that the prime rate will be reduced in the near future--probably before yearend. In view of the high cost of obtaining funds, some bankers indicate that they may not extend a prime rate reduction to as many borrowers as in the past.

ELEVENTH DISTRICT - DALLAS

The data for this report were gathered in a survey of twenty-four of the larger retail stores in the Eleventh District. The retailers surveyed reported (1) most stores had experienced a downtrend in sales earlier in 1970 but have noticed a pickup in buying and store traffic in the last two months; (2) about half of those surveyed noted that the prices on goods they purchase are still increasing--some at a slightly lower rate; (3) over half of the retailers mentioned that prices on the goods they sell are still rising--but, again, at a somewhat slower pace in recent days; (4) the majority noticed a trend toward stable or rising sales volume in suburban stores, while most central city stores had experienced a downtrend in sales, especially during the past year; (5) there appears to be increasing price awareness on the part of the consumers and many stores noted a shift toward low to medium priced goods; (6) the relationship between discount stores and department stores does not appear to have changed significantly, although the number of discount houses appears to be rising; and (7) over half of the stores expect sales during the upcoming holiday season to be heavier than during the same period in 1969.

Despite sluggish sales recorded earlier in the year, thirteen of the stores reported substantially heavier buying and store traffic during the past two months. Although consumers appear somewhat more cautious in buying, people seem to be responding well to promotional price appeal ads, and buying volume has increased. One store noted that despite some slack in sales earlier in the year, this would be their best year in history. Another retailer noted that last September (1969) was the beginning of a downtrend in sales, but now October (1970) the opposite feeling seems to prevail.

With regard to price changes, the picture is not quite so optimistic. Twelve out of the twenty-four retailers surveyed reported that prices on goods purchased are continuing to rise. Some felt that prices are not accelerating as fast as earlier this year--but, there was still concern over rising prices. However, price rises are more spotty and across-the-board increases are not as widespread. Prices of goods sold also seem to be rising--although many are rising at a slower rate. A few stores noted, however, that prices seem still to be escalating in some lines. A few of the retailers contended that price increases were necessary in order to cover cost, since profit margins have already been reduced. One retailer did report that his store was attempting to reduce prices on a few of their most highly competitive lines.

With a general softness in sales during most of 1970, central city stores have fared worse than most suburban outlets. Most of the retailers reported stable or rising sales volume at suburban stores, while downtown stores struggle to hold their own. However, a number of the retailers noted that as sales have increased recently, some downtown stores are improving their sales volume. Only one retailer reported a substantially larger sales volume at their central city store.

A number of the retailers mentioned an "increasing price awareness" on the part of consumers. Consumers are concerned with prices, but also tend to demand quality for the price paid. There has been a recent trend away from the really expensive items--and toward the medium-to-low priced goods. However, consumers seem to relate prices to quality for all price ranges. One store noted that the better buyer of former years has suffered losses in the stock market and is not buying up to normal capacity. Many of those surveyed felt that quality is more important when consumers are being selective. However, the trend seems to be reversing and a few retailers felt consumers would become somewhat less price conscious in future months.

With the recent increase in discount store outlets, many retailers felt that competition has become keener. Although Sunday closing laws have taken some edge away from discount stores, one retailer noted that the increase in "square footage" alone has probably shifted the balance toward the discount outlets. Many of the items offered by moderate and higher priced stores are not available at the discount centers; however, for lower priced items, the forcefulness of large discount operations makes competition quite keen as a number of retailers noted--customers are very aware of price competition at this time.

In comparison with the 1969 holiday season, the majority of retailers reported that they expect a heavier volume of sales this year. Three of the retailers expected a substantially heavier volume, eleven expected a slightly heavier volume, seven expected sales to be about the same as in the 1969 season, while only three felt sales might be slightly lighter this year.

In the way of general comments, one retailer noted that consumer sentiment was low due to the economic situation but expected relief during the fourth quarter and early in 1971. One noted that if the General Motors strike continued, plus the massive layoffs at Texas Instruments, Ling-Temco-Vought, General Dynamics and Ford, that holiday sales could be softer than are now anticipated. One retailer indicated he was taking a "lean bull" position and expected October through April to be very strong for retail sales.

TWELFTH DISTRICT - SAN FRANCISCO

The general view expressed by Twelfth District businessmen and bankers is that economic conditions have not changed to any extent and that there will be no marked increase in the pace of economic activity during the next six months. At the same time, there is no expectation that general conditions will worsen. Certain weaknesses remain, particularly in those industries dependent upon housing and aerospace. Overall, there remains sufficient strength to produce a moderate growth in the economy, but not enough to result in any immediate decrease in unemployment.

The weakness in aerospace continues to be felt in the Seattle area and to a lesser extent in southern California. Boeing has carried through its announced workforce reductions. The President of Lockheed Aircraft predicted further employment reduction in southern California with no reversal of this trend until 1972. Firms in the forest industries are also cutting back, both in employment and planned capital expenditures. Additional mills have closed in the Pacific northwest and in northern California. At the moment, the General Motors strike has not had any pronounced impact in this District (except, of course, for retail car sales).

Other industries and other areas are having fewer problems, but the slowing of the economy has resulted in greater efforts to reduce costs and, in particular, to cut unnecessary staff. The tendency has been to rely upon attrition to work a gradual reduction in the numbers of employed and upon shortened workweeks to cut current labor costs. It appears that the usual hiring of temporary retail help for the coming holiday season will be under tighter rein. There is still a good demand for certain skills and so there is continued but selective hiring. Nonetheless, the overall trend of business policy is to emphasize cost reduction and the prospect is for continued restraints on hiring in the immediate future.

The demand for housing and new construction remains weak. Increases in vacancies of industrial and commercial property are reported in Southern California and residential real estate sales continue to fall below 1969 levels. Industries supplying the housing industry are finding that their sales are much below expectations. A hardware manufacturing firm, for example, reports that the value of shipments is below that of last year despite higher prices, and there is some price cutting for large orders.

Retail spending remains a source of support. In some areas, such as Salt Lake City, sales records are being set, but this is the exception. The normal pattern has been steady demand or perhaps slightly below normal. This is true even in areas with heavy employment; in Seattle, sales so far this year are down only one percent from 1969. There are some signs of problems for consumers; some banks report that there has been some increase in collection problems for their consumer loans.

The picture of agriculture is favorable as prices have held up well, and good crops have been reported in grain growing areas. The principal exception is in certain non-citrus fruits. Fruit growers in Washington expect lower returns because of a combination of a smaller crop and heavy discounting on small sizes which made up a higher percentage of the crop than usual.

The banks report that they are in a somewhat better liquidity position and are, as a result, reducing the rates they are paying on large CD's. At the same time, they are not experiencing any significant change in the demand for loans, and they do not foresee any important increase in business loans during the next six months. The banks generally are maintaining policies of being selective in their lending policies. There are some exceptions where a bank is attempting to expand its loan business as part of a long-run expansion program.

In summary, business behavior is based upon expectations of a moderate slowdown in the economy, at least through the end of the year. Local businessmen and bankers do not expect any marked improvements in the unemployment situation. In some cases they are pessimistic about prospects for controlling inflation, although there is now less comment upon inflationary trends in contrast to earlier in the summer when it was of much greater concern.