

CONFIDENTIAL (FR)

CURRENT ECONOMIC COMMENT BY DISTRICT

Prepared for the  
Federal Open Market Committee  
by the Staff

July 18, 1972

TABLE OF CONTENTS

SUMMARY . . . . .	i
First District - Boston . . . . .	1
Second District - New York. . . . .	4
Third District - Philadelphia . . . . .	7
Fourth District - Cleveland . . . . .	9
Fifth District - Richmond . . . . .	12
Sixth District - Atlanta. . . . .	14
Seventh District - Chicago. . . . .	16
Eighth District - St. Louis . . . . .	20
Ninth District - Minneapolis. . . . .	22
Tenth District - Kansas City. . . . .	25
Eleventh District - Dallas. . . . .	28
Twelfth District - San Francisco. . . . .	31

## SUMMARY\*

Reports from the twelve Districts indicate that economic activity continues to strengthen and the outlook of most businessmen and bankers is optimistic. Consumer spending, especially for tourism, recreational vehicles, and autos, appears to be a major source of strength. Capital spending and plans for future outlays still appear to be gathering momentum, and orders and shipments of heavy capital goods producers are reported to be on the upswing. While construction activity is at a high level, signs of some slowdown in construction are becoming apparent in several Districts. Inventories are still being held closely in check with most manufacturing and trade firms reporting no change or only a modest increase in inventories. In general, agricultural conditions are good to excellent. However, heavy rains in some areas have set back crop conditions. Loan demand is on the increase, but banks apparently have adequate funds to meet the expected near-term loan demand. Interest rates on most loans are reported to be little changed or slightly higher in the last month.

Optimism on the part of businessmen and bankers is evident in most of the District reports this month. Atlanta notes that descriptions of the economy generally run from good to booming. Richmond reports that their directors are optimistic, and Kansas City notes that businessmen seem "unguardedly optimistic" about the economic outlook. And the consensus at Chicago's annual Business Outlook Conference was that the current economic expansion would last at least through the first half of 1973. New York directors were characterized as mixed on the economic outlook but were more optimistic than in the previous month.

\*Prepared at the Federal Reserve Bank of Dallas

Strength in the demand for consumer goods was noted in most regions. Minneapolis reports yearly sales gains of 5 to 10 percent in the Twin Cities area in the second quarter and a strong demand for meat at the retail level. Retail firms in New York were more optimistic this month about consumer confidence and outlays; consumer spending on nondurables appeared to be good in the Boston District. Brisk auto sales were cited by Richmond, Dallas, and San Francisco while Chicago reported an optimistic forecast for autos in both 1972 and 1973 at their Business Outlook Conference. Cleveland, however, reported that car sales in that District had risen less than in the nation. And St. Louis noted a decline in retail sales at major department stores in June, following a strong uptrend earlier in the year. Although the recent heavy rains depressed retail sales in the Philadelphia District, retail executives there are optimistic about sales this fall.

Improved consumer demand is also indicated by increased spending for recreational activities. The Boston, Chicago, and San Francisco Districts all report booming sales of recreational type vehicles. Atlanta reports heavy attendance at Florida's Disney World, with the benefits of this visitor attraction apparently spilling over to other parts of the Southeast. Businesses catering to vacationers in the Kansas City District were doing very well although tourists were reported to be avoiding luxury items.

Plans for increased capital spending were noted by St. Louis and Chicago as a source of further economic strength. And announcements of new plants and plant expansions continue to be numerous in the Atlanta District. However, the percentage of firms reporting increased capital spending plans in Philadelphia's regular survey has stabilized at about 45 percent in the past two months.

The upturn in capital spending this year is beginning to have a noticeable impact on the sales of some heavy goods manufacturers. Chicago cited increased sales of heavy construction equipment and over-the-road trailers while Boston reported an increase in orders for oil field equipment and aircraft parts. Steel companies in the Cleveland District are experiencing a strong and steady order pace with the prospect of some pickup in orders from the auto industry for August deliveries.

Inventory levels are generally unchanged or only increasing moderately. Manufacturing respondents to the monthly Richmond survey reported little change in their inventories and judged their inventory levels to be about right. San Francisco reported no sign of major inventory building at the retail level in that District, and Richmond noticed no change in trade inventories. New York and Boston, however, saw some evidence of moderate inventory building at the retail level. The Minneapolis Bank directors cited high finance costs, better management, and better-than-expected sales as possible reasons why inventory-to-sales ratios were remaining relatively low.

Crop conditions are generally good to excellent in the St. Louis, Chicago, Kansas City, and San Francisco Districts. However, cool weather and excessive rainfall have hurt crops in the Richmond District, and New York and Philadelphia report some crop damage due to flood conditions. Rain also slowed the Kansas wheat harvest, but the 1972 crop may still rank among the largest on record. Prices for both crops and livestock are reported to be favorable for increasing farm income this year, especially in view of generally high levels of production.

While employment gains were reported in some Districts, the uptrend is apparently still rather slow. Some manufacturers in the Richmond and Philadelphia Districts expect to increase their employment and lengthen workweeks. Nonfarm payroll employment is expanding moderately in the Cleveland District, and the insured unemployment rate has turned down. The unemployment rate for the five southwestern states in the Dallas District is at a low 4.4 percent, but employment analysts there are not optimistic about gains in employment during the rest of 1972.

The demand for all types of loans is apparently strong in nearly every District and advancing at a steady pace. Cleveland did note, however, that business loan demand over the June tax date was less than a year ago in their District. The supply of loanable funds at banks is adequate, but in the Chicago District the volume of outstanding CD's has been rising. While interest rates are apparently little changed, St. Louis and San Francisco noted a slight rise in rates.

FIRST DISTRICT - BOSTON

Business conditions are generally described by our directors as good, and in the recreational area as exuberant. All indicators show a very respectable rate of expansion, with the demand for funds from banks continuing to be fairly good.

Capital goods orders to machine tool manufacturers were reported as recently strengthening. Orders will have to rise substantially more, however, before profits are good, according to one director. Orders for machinery connected with oil fields were described as very good due to the 100 percent oil allowances currently in effect in Texas. New orders to industries connected with aerospace were reported as improving. This was indicated both by a manufacturer of superalloys and by an aircraft builder, who pointed to a pickup in commercial orders, especially for parts. A moderate level of activity in new contracts for Government and commercial building was also reported.

Manufacturers reported that they were still keeping inventories down but noted the beginning of replenishment of stocks at the retail level, and in some cases in manufacturing. One manufacturer of a raw material input to the tire industry stated that he felt that tire inventories, now at a three-month supply, were too high and thought that cutbacks in inventory levels would be very possible.

Consumer spending on nondurables appears to be good, but not bubbling. Consumer spending on recreational equipment--boats, campers, and recreational vehicles--were reported by one large manufacturer to be booming. This manufacturer noted that there had been some price increases recently in recreational vehicles, but he also added that he

thought price controls had been very effective in slowing price increases. A Bank director located on Martha's Vineyard reported that the area is having a very busy season, with a tremendous boom in housing on the island.

Only one director mentioned that recent flooding had affected his business. A manufacturer of small commercial and pleasure aircraft said that his Pennsylvania plant would be out of operation for 90 days because of flooding.

One director settled a new wage agreement with the United Steel Workers Union. The contract, which called for a 7-8 percent increase in the first year and lesser gains in the following two years, was substantially below other recent settlements. The company successfully resisted inclusion of cost-of-living adjustments. In other labor developments, construction workers in Manchester, New Hampshire are on strike, raising new fears about inflation in the business community. (They are asking for wage increases above the Pay Board guidelines.)

Professors Eckstein and Samuelson agreed that the economy is moving along the lines of the consensus forecasts and that the performance has been good but not excessive. Eckstein felt it would be a mistake to react strongly to the June wholesale price and unemployment figures. He said the Fed's job is not "to solve problems it can't solve." Samuelson warned that the floating of the pound, while not important for the U.S. trade position, can psychologically have important implications for capital movements. If speculators turn to the dollar, the Smithsonian Agreements may be in jeopardy. This is not the occasion for tremendous tightening but instead some "pious movement" toward "operation twist." He urged contingency planning on how the domestic expansion could be preserved if the agreements do break down.

Eckstein recommends a continuation of smooth, modest growth in RPD, permitting interest rates to "fall where they may." He would not be distressed by a  $5\frac{1}{2}$  percent prime rate. Neither Samuelson nor Eckstein would favor a higher discount rate at this time. Samuelson noted the stock market is "queasy" and would react better if an increase were to be made later.

SECOND DISTRICT - NEW YORK

Opinions on the current economic outlook expressed recently by the Banks' directors and other business leaders were mixed but on the whole gave a somewhat more optimistic overall picture than last month. Despite the adverse effects of bad weather conditions in June, including widespread damage in the District area as the result of Hurricane Agnes, a number of respondents felt that consumer confidence was strengthening further and that somewhat more liberal inventories buying policies were being pursued. There were also reports of improvements in the unemployment situation in some areas. In general, little concern was expressed over the current international monetary disturbances, nor over the uncertainties related to the developing discussions of Federal income tax reforms.

Concerning the current business outlook, most of the head office directors did not change their recent assessment. In general, they foresaw continued expansion of economic activity over the coming months, and some--if not altogether satisfactory--success of Phase II in curbing the wage-price spiral. One director, an upstate banker, pointed to the adverse effect of the hurricane on the tourist trade in his area and to the extensive crop damage which he feared would have a definite effect upon food supplies later in the year. A Rochester retailer felt that the recent flooding would adversely affect retail sales for one or two months, but he expected a resumption of normal activity thereafter. The responding Buffalo Branch directors, on the other hand, all indicated a more sanguine view, in different degrees, of the business outlook in their areas. They based their revised outlook, variously, on increased retail sales,

heavy construction activity, loan demand, and--in the view of one director--"inflationary fiscal policies" that at least in the short run were exerting upward pressures on the economy. Repairs of the flood damages were also mentioned as a stimulating factor.

A distinctly more optimistic outlook was also evident in the tone of the responses of the senior officials of retail firms we usually contact in New York City. To be sure, in their view the bad weather conditions in June had temporarily acted to slow down the gradual rate of growth in consumer outlays that has been underway over the past year. In general, however, they felt that consumer confidence would continue to strengthen, and they looked toward a good year. While still closely controlling inventories, they were now gradually increasing them. (One official, who a few months ago reported that his firm would rather risk losing some sales because of "stockouts" rather than increase inventories, now stated that current policy was to be reasonably certain an adequate supply of merchandise was on hand in order not to lose potential business.)

A few respondents showed some concern over the latest upheaval in the foreign exchange markets, but the majority did not feel that the current international monetary situation was having any serious impact on current domestic economic developments. Some of the retailers, however, did mention encountering some difficulties as a result of the uncertainties regarding the exact dollar cost of their imported lines of merchandise.

With respect to the possible decision-making impact of the developing discussion over Federal tax reforms, most respondents either expressed no opinion or felt it was too early to affect business decisions. Some directors discounted this discussion as

"election rhetoric." One director felt that instead of inhibiting business capital outlays, the reverse might be the case as businesses sought to take advantage of favorable tax treatment now while it was still available. Some Buffalo Branch directors, however, reported continued concern on the part of businessmen over the heavy and increasing burden of New York state and local taxes.

THIRD DISTRICT - PHILADELPHIA

In general the overall business climate continues to improve in the Third District. New orders and shipments continue on an uptrend. Firms are expecting to hire more workers, and many expect to increase their plant and equipment outlays. Area banks are experiencing rising demand for loans. However, inflation appears to be a yet present concern of manufacturers, and retail sales in the Third District suffered recently because of adverse weather conditions.

Results of the Bank's monthly business outlook survey indicate that industrial activity is still rising, although at a slower rate than last month. Half the companies contacted expect no change in new orders and shipments in the next month while slightly more than a quarter expect an increase. The six-month picture is a bit better with 60 percent of the firms expecting increases in new orders and shipments by Christmas.

This continued expansion in business activity is having an increasingly favorable effect on employment. During the next month, 13 percent of the firms expect to hire more workers and 5 percent plan to increase their average workweek. Within the next six months, over 25 percent expect to increase both hiring and the length of their average workweek, while less than 3 percent plan cutbacks in those employment areas.

Capital spending plans appear to have stabilized in recent months. About 45 percent of the firms contacted in each of the past two months reported plans to increase their capital spending in the next half year. This is up only slightly from 41 percent which indicated they planned to increase their capital expenditures in April.

The outlook for inflation is less optimistic. Although roughly half of the businessmen contacted expect no change in prices from now until Christmas, some indicate expectations of rising prices over that time period. And virtually no firms reporting in the survey expect decreases in either prices received or prices paid during the next six months.

Loan demand at commercial banks in the Third District is advancing steadily. Consumer, real estate, and business loans are all increasing and are expected to continue on their upward trend. One large bank reported that it had all the business loans it wanted as a result of an aggressive recruiting program.

June was a disaster for retail sales in the Third District due to 22 days of rain. Summer goods just did not sell, and, surprisingly, home furnishings were also down slightly. However, retail executives are optimistic about sales for this fall.

The flood which hit the Third District late in June caused great personal suffering and financial loss to residents of the Harrisburg and Wilkes Barre areas. But, viewed in the perspective of the entire District, the effects were less pronounced. Philadelphia and New Jersey suffered only minor transportation delays, property losses along their river fronts, and depressed retail sales due to the rainy weather. Crop destruction may result in slightly higher commodity prices this fall.

Before Third District activity was temporarily depressed by the flood, strong demand for recreational services was reported by one of this Bank's directors. Motels and restaurants along the New Jersey shore were very busy.

FOURTH DISTRICT - CLEVELAND

Output and employment in the District are continuing to expand, and unemployment is beginning to decline. New car sales have not risen as much as in the nation, but activity in residential construction has recently accelerated. Steel firms are experiencing a strong and steady order pace; and large banks reported relatively slack loan demand over the June tax date.

Nonfarm payroll employment in the District is continuing to expand at a moderate pace from the trough of last fall, but it is still below the previous peak reached in late 1969. The overall employment performance in the District is influenced by the large proportion of manufacturing employment, which is 11 percent below the previous peak. The District's insured unemployment rate began to decline in June, following a sustained plateau from January through May.

In other areas of activity, new car sales thus far this year in the District have risen only about one-third as much as in the nation. In the Greater Cleveland Area, new car sales for the first half of 1972 were down 4 percent from the year-earlier level. Residential construction contracts in the District were exceptionally strong in April and May, following weakness earlier in the year; and nonresidential construction contracts are beginning to strengthen.

Preliminary results of our latest survey of District manufacturers indicate that the recent strengthening in business activity continued during June. Respondents indicated strong gains in new orders, shipments, and backlogs. Moderate inventory accumulation, which began in May, was sustained last month. Employment and hours also continued to rise in June. The percent of firms paying higher prices rose slightly in

June to a level just below that prevailing prior to Phase I. Survey participants expect no slackening in the pace of business or in the rate of inflation during July.

One director, whose firm produces industrial equipment, mentioned that his company has not increased employment even though new orders in the second quarter were up 20 percent from the first quarter (following a "disastrous" second half of 1971). During the slack period, production workers were diverted to maintenance and repair jobs. This director also indicated he felt "apprehensive" about orders for the third quarter and noted that there was no indication of inventory building by his firm's customers.

Economists from three major steel companies in the District report a strong and steady order pace, but they expect the usual seasonal dip in July. Appliance industry demand for steel is still strong although the auto industry's steel orders have been lower than expected, given the production rate. One economist thought the auto companies were importing more steel than usual. The economists reported that they expect a step-up in demand from the auto industry for August delivery, however. Steel demand for oil pipes remains weak, and heavy construction demand is well below the seasonal norm. Customers' stocks of steel are still very low, but as yet there is no rush to rebuild inventories.

On the financial side, the increase in business loan demand at large banks was less than a year ago over the June tax date. Bank contacts suggested that improved corporate liquidity and competition from commercial paper contributed to this pattern. The bank respondents expect loan demand to strengthen as inventory building begins and as the economic expansion proceeds. One country bank director reported that his bank

was experiencing strong loan demand and that the bank was buying Federal funds for the first time in years.

FIFTH DISTRICT - RICHMOND

Because of the holiday, the number of responses to our regular survey was considerably less than normal, and the results should be read with this in mind. Although the uptrend in District business activity reported in recent surveys continues, manufacturers report some decline in shipments, new orders, and backlogs of orders. Further increases in retail sales--especially automobile sales--are reported. Employment and hours worked per week in the manufacturing sector are reported as increasing. District bankers also report increases in employment. Construction activity continues to increase, and bankers report increases in the demand for all types of loans. In general, businessmen and bankers are optimistic about the outlook for economic activity in the District.

Responses from manufacturers indicate some decline in shipments, volume of new orders, and backlogs of orders. Declines were reported by producers in such important District industries as chemicals and synthetic fibers. Manufacturers report little change in inventories, and inventory levels relative to desired levels are rated as about right by most manufacturing respondents. On balance, current plant and equipment capacity is reported to be inadequate.

Both banking and retail respondents report continued increases in sales. Reports from bankers indicate that automobile sales are especially strong. Twelve of 16 bankers reported increases in automobile sales in their areas, and the remainder reported no change. Trade and service respondents indicate no change in inventories.

In general, manufacturing respondents report increases in both employment and hours worked per week while trade and service respondents

report little change. Both trade and service and manufacturing respondents reported increases in wages paid. Prices received are reported as down in manufacturing and unchanged in trade and services.

Bankers report that activity in residential and nonresidential construction continues strong. Approximately one-half of the banking respondents reported increases in construction activity. Bankers report that the demand for all types of loans remains strong, with the demand for consumer and mortgage loans being especially strong.

Cool weather and excessive rainfall are reported to have caused substantial damage to agricultural crops in the District. Many farms and other businesses also suffered severe damage from the recent flood.

Bankers and businessmen in the District continue to be optimistic about the outlook for District business activity. More than 80 percent of the banking respondents report that they expect business activity in their area to increase in the next three months.

SIXTH DISTRICT - ATLANTA

Descriptions of economic activity and the economic outlook generally run from good to booming. Out of the many reports received, only one, from an Alabama director, reported sluggish economic conditions. Economic strength appears to be widely based in construction, manufacturing, and commercial activity. Only one director reported apprehension over the inflationary consequences of election-year spending and the increased Federal deficit.

Tourist activity is up strongly. Disney World has upped estimated 1972 attendance from 10 to 12 million and is expanding its labor force by another 1,700 to handle the flood of visitors. Disney World is partly responsible for increases in motel occupancy and increased attendance at tourist attractions throughout the Southeast. Hotel occupancy on Miami Beach was 84 percent in the first five months of 1972, compared with 80 percent in the comparable period last year. Attendance at other Florida tourist attractions is up from 20 to 40 percent. An auto-train service, which transports people and their cars from Washington, D.C., to a town near Orlando, is proving popular, and the company providing this service has recently purchased 33 domed passenger cars from a West Coast railroad.

A special survey of the Georgia tourist industry indicates that business is up at least 10 percent this year. Visits to Georgia Welcome Centers were up 29 percent in the first five months of 1972. The historic Savannah Foundation reports tours up 50 percent above a year ago. Atlanta's Stone Mountain Park has experienced a 12- to 15-percent increase in attendance. However, attendance is up only marginally at Six Flags Over

Georgia, an amusement park offering services in competition with Disney World. Rock City, a tourist attraction in Chattanooga, Tennessee, reports that attendance in the first two weeks of June was 25 percent above a year ago.

Both residential and commercial construction are strong. All areas of Florida report a construction boom, and there are numerous reports of new motel, residential, and industrial construction. Construction is slated to begin in August on a 31-story, 500-room hotel in Atlanta. The size of this hotel is a major change from earlier plans that had called for a hotel about half that size. The city of New Orleans has swapped land with a development firm that plans to construct a \$150 million riverfront hotel complex.

Announcements of new plants and plant expansions continue to be numerous. Plans were recently announced in Mobile, Alabama, for a "mini-port" to handle general and containerized cargo trade with the Caribbean and South America. A major agribusiness firm is building a plant in Florida to process mushrooms. Insulating wallboard will be manufactured at a new plant to be built on the Georgia coast. A machinery manufacturing firm is building a plant in Meridian, Mississippi, and a business machines company is locating a distribution center in a planned community southwest of Atlanta. Plant expansions have been announced for a brewery in Jacksonville, an electric range manufacturing plant in Tennessee, and a water meter plant in Alabama. However, an on-again off-again \$100 million expansion of a Lake Charles petrochemical plant has been indefinitely shelved, reportedly because of a shortage of natural gas and a negative legislative attitude by the State of Louisiana.

SEVENTH DISTRICT - CHICAGO

Business optimism is growing stronger in the Seventh District, and the view that the economy is in a vigorous expansion seems widespread. It appears to be taken for granted that this expansion will continue at least through the first half of 1973. Firms continue to report they need higher prices because of upward pressures on costs, but they are constrained by the Price Commission and competition. Companies are cautious about adding to payrolls, and most are planning to hold employment stable or to raise it only modestly. The pattern is similar in inventories, with most firms intending to hold inventory increases to moderate amounts. Restraint is less pronounced in the capital spending area, with most companies planning to boost capital spending this year. The demand for commercial and industrial loans is moderately strong.

Increased optimism, evident from conversations with individual businessmen, was the general theme of the speakers at a recent annual Business Outlook Conference which drew attendance from all over the District. The primary difference of opinion among the speakers discussing the overall outlook was with regard to the second half of 1973. For that period, forecasts ranged from incipient recession to continued, even accelerating, growth. Virtually all commentators expected higher interest rates by the end of 1972, particularly short-term rates, and that rates would hold at these higher levels or climb further in 1973.

In specific areas in which detailed forecasts were made, the outlook presented for plant and equipment expenditures was the most optimistic. It was predicted that a capital spending boom was now in its initial stages and would show no significant signs of tapering off until

early 1974. Forecasters predicted auto sales for 1972 to be 10.6 million units, and that 1973 would see a slightly higher level, with domestic manufacturers holding on to the gains in market share which have been evident in recent months. The forecast for housing was for a general slowing down, but with starts still exceeding 2 million units this year and only slightly below that level in 1973. Continued but slower growth was forecast for the mobile home market. The outlook presented for retail sales--other than autos--also was strong. However, the expectation was that this strength would be concentrated in durable goods. Nondurables would show little gain except for that resulting from price increases.

The participation of District producers of capital goods in the improvement seems to have broadened in the last month. Increases in sales are beginning to be noted in heavy construction equipment and over-the-road trailers--trends not evident earlier in the year. The one capital goods area reporting no sign of improvement was railroad cars. A local manufacturer reported that if it were not for a small order received in January, they would have closed down everything except repair operations. This firm has not received enough requests for quotations to give them any hope of significant improvement before the last quarter of the year, if then.

Among the various consumer durable products, sales of recreational vehicles at both the retail and manufacturing levels have been very strong. One area manufacturer reported that his company's sales were nearly double last year's, and that shipping facilities to meet promised deliveries were becoming a bottleneck.

Strikes by various crafts have slowed construction in the Chicago area. The elevator constructors's strike was concluded July 9

after 100 days, and short strikes by the masons and carpenters have caused delays on several major projects, with one major building now about three months behind schedule.

Livestock prices continue at exceptionally high levels in response to strong consumer demand. Although meat supplies will be increasing seasonally over the next several months, recent estimates of livestock numbers have caused many observers to expect only modest price declines during the remainder of the year.

Crop conditions generally are reported "excellent" across the Midwest, suggesting a near record fall harvest. Nevertheless, crop prices generally are near their highs for the year. The pending grain agreement with Russia (announced over the weekend) has provided considerable support to the market. Settlement of the dock strike in Japan would provide further support.

Conversations with bankers in this District suggest that the demand for commercial and industrial loans is moderately strong, but there is no indication that an upsurge is developing. Except in Detroit, where demand has been sluggish all spring and remains so, the banks that were reporting the strongest demand earlier have experienced some weakening recently, while the others seem to be doing better. Borrowing over the June tax date generally was less than had been expected, and lack of inventory building is widely mentioned as a source of weakness. Competition for loans appears to be very strong among bankers, and we hear many comments that national customers are staying in the commercial paper market. We have heard a number of comments from banks about the aggressive operations of the largest Chicago banks via "cap" term loans. While loanable funds are still generally adequate, the major Chicago banks added

substantially to their outstanding CD's last month, and one bank indicates that it may have to seek CD money much more aggressively if inventory investment is stepped up as expected.

EIGHTH DISTRICT - ST. LOUIS

The uptrend in business activity continues in the Eighth Federal Reserve District but at a moderated pace, according to a sample of leading businessmen. Factory orders continue to expand, and a few firms have hired some additional help. An increasing number of firms report that output is approaching capacity levels and that plans are being made for plant expansion. Construction has apparently leveled off. Retail sales at major department stores have declined in recent weeks in contrast to a fairly strong uptrend from January through May.

Most manufacturing firms in the District report rising sales and production. Chemical firms, for example, report large increases in fiber and plastic sales in the second quarter of this year and some gain in industrial chemicals for the first time in more than a year. Defense plants and textile and electrical equipment manufacturers reported further gains in output and sales in the second quarter.

Output relative to capacity has been inching up for several quarters, and managements at most District firms are beginning to plan for increased investment. One of the largest manufacturing firms headquartered in the District reported that new investment had declined for two years, but that 1972 would be the low point as a major increase was planned for next year. A number of smaller firms also reported plans for investment in new plants and plant enlargement.

Although those surveyed reported employment as stable, their estimates of employee numbers reveal that employment has actually increased. Nevertheless, some areas of the District report a relatively high rate of unemployment. Included among such areas are Southern Indiana,

with an unemployment rate ranging from 6 to 12 percent, and the inner-city portion of the St. Louis metropolitan area.

Construction remains high throughout most of the District, but it has apparently leveled off in recent weeks. Residential construction remains at a high rate throughout the District. Commercial construction is at a high rate in most of the District, except for the St. Louis area where such construction is at a lower rate, and an excess of office supply space is reported.

Major department stores in St. Louis report a sizable decline in sales during June. Part of the decline is attributed to cooler and drier than normal weather conditions. These conditions resulted in reduced sales of air conditioners, lawn mowers, and other garden equipment. Some pickup in sales is expected as soon as weather conditions return to normal.

Crop conditions in the Eighth District are generally good. There are a few areas where crops are suffering from drought, but such constitute only a small percent of the farming community. Corn production is expected to be down from the very large crop of last year, but soybean production should be well above year ago levels. The outlook for farm income is very good, with higher prices and a higher level of production in prospect.

Savings inflows into District savings and loan associations have continued strong in recent weeks, but time and savings deposit growth at commercial banks has tapered off, following very rapid gains earlier in the year. Loan demand at District member banks continues sharply up. Short-term interest rates have begun to rise, and long-term rates are expected to rise in the near future.

NINTH DISTRICT - MINNEAPOLIS

Most bank directors and major Minneapolis/St. Paul retailers reported favorable gains in second quarter retail sales and are optimistic about consumer outlays in the third quarter. In the Black Hills, tourist traffic has returned to normal after being disrupted by flooding in early June. Bank directors suggested a variety of reasons for recent low business inventories. Meanwhile, labor disputes have disrupted economic activity in Minnesota. In the opinion of the bank's directors, a tax increase will be necessary next year.

A telephone survey of large Twin Cities area retailers indicated that most second quarter sales met earlier expectations. Four out of five respondents reported sales up between 5 and 10 percent from a year ago, and they expect comparable third quarter advances. Two retailers did report, however, that cool weather had restricted sales of seasonal merchandise. The sales of one discount store chain failed to achieve expectations, and its year-to-year second quarter sales gain was slight. This retailer attributed his poor second quarter to continued softness in the economy and increasing competition.

A telephone survey of Twin Cities area meat and grocery firms revealed strong consumer demand, especially for meat. Food retailers also indicated that future meat prices will depend on overall supplies, as consumer demand is assured, and most felt that higher prices would not significantly reduce sales. This survey, taken just before the announcement of the President's limits on food handler margins, revealed that, in this area, margins were already being curtailed--especially at the retail level.

Outside the Minneapolis/St. Paul metropolitan area, Bank directors reported that most retailers had realized their earlier optimistic expectations and had a good second quarter. Directors from both South Dakota and Montana attributed favorable second quarter sales to high livestock prices and look for further retail sales gains in the third quarter. A North Dakota director reported his area's second quarter retail sales matched expectations and stated that prospects of a good grain crop in his area denoted a strong third quarter for consumer spending. Although retail sales in his area were high, however, one director indicated that second quarter sales did not meet expectations, but he is optimistic about retail spending in the third quarter. A director from the upper peninsula of Michigan said that cool weather had curbed second quarter spending in his area.

Tourism, a major source of retail sales in South Dakota, dropped off sharply after the flooding in the Black Hills on June 9 and 10. According to a state tourism official, visits to Mount Rushmore dropped from a normal daily average of 18,000 to 3,000 a day during the week after the flood. However, by the end of June, tourist traffic was back to normal. Although this June tourist loss is not expected to be regained, improved activity is anticipated for the remainder of the summer.

Bank directors had mixed reasons why their areas' inventories have been low in relation to sales. Small businesses in one area were said to be keeping inventories down because of the high cost of money. Other directors mentioned improved management techniques and recent innovations by farm machinery dealers as attempts to hold down inventories. A South Dakota director attributed his area's low inventories to the fact that business had been much better than expected. According to

another, inventories had been low and would remain so because businessmen no longer speculate on them. Due to cool weather in May and June, however, two directors indicated that inventories of summer seasonal merchandise had risen in their areas.

Labor disputes in late June and early July have disrupted District economic activity. In Minnesota, contractors imposed a lockout against workers, and work on major construction projects throughout most of the state has therefore stopped. In addition, the Northwest Airlines pilots are on strike, thus idling about 4,500 Minnesota workers. Non-wage issues are the source of both of these disputes. An additional 1,400 workers are on strike against the Hanna Mining Company because of mine safety conditions at three Minnesota locations.

Given the prospects of a large budget deficit in fiscal 1973, bank directors believe that a tax increase would be necessary next year. One director stated that Phase II would not be sufficient to contain next year's inflationary pressures. Two directors did indicate, however, that a tax boost would probably not be enacted next year, though another considered it politically feasible.

TENTH DISTRICT - KANSAS CITY

Record high cattle prices, a near record wheat harvest with prospects for improved world prices, and generally favorable crop and livestock prospects are helping this District's important agricultural sector contribute to regional economic growth. Summer tourists appear likely to continue their habit of spending more than last year, just as winter sports enthusiasts did this past season. Loan demand continues strong and is expected to remain so, but bankers foresee only a moderate increase in interest rates during the coming months. Businessmen seem unguardedly optimistic about the economy, pointing to construction activity as a key indicator.

Recent rains, while adding valuable moisture for pastures and growing crops, have had a disruptive effect on the wheat harvest. Though virtually complete in Oklahoma--where yields averaged somewhat better than expected--the harvest in Kansas has slowed with considerable wheat still in the fields. Because of the delays, total production in the nation's leading wheat state may fall a little short of earlier projections. Nevertheless, barring further delays, the 1972 crop will rank among the largest on record. Generally, the prospects for the other cash crops in the District are excellent. The recently announced sale of grain to Russia undoubtedly will provide firmer world grain prices than otherwise would have prevailed.

Meat prices at both the farm and retail level again have been attracting national attention. Since early May, slaughter steer prices have risen from about \$34.50 per hundredweight to more than \$40, despite a sharp increase in beef production in May. Hog prices spurted more than

20 percent to reach the \$30 mark, and with farrowings remaining low the longer-run price outlook continues strong. These price developments contributed heavily to the recent increase in the wholesale price index and likely will create further upward pressures on the consumer price index. In the months ahead, cattle marketings are expected to remain moderately above year-earlier levels, but prices likely will remain strong due to unprecedented demand not only in the United States but throughout the world. The lifting of import quotas on meats is not expected to result in significantly larger meat supplies, and import supplies could even decline providing meat prices in world markets do not weaken substantially. Both hog and slaughter cattle prices, other than for seasonal changes, can be expected to remain strong during the remainder of the year.

Attendance at popular Tenth District recreation areas this summer promises to continue the upward trend of recent years. Although cool weather and a new daily camping fee may have discouraged some visits to Yellowstone National Park, most popular tourist areas report larger crowds than last summer. Contacts in Colorado, Wyoming, and New Mexico say that businesses catering to vacationers are doing very well and total spending is up considerably. In spite of the increased popularity of camping, the motels and lodges are doing well. Gasoline sales have increased sharply. Some respondents feel that vacationers are still avoiding expenditures on luxury items such as expensive entertainment and souvenirs. On balance, however, businessmen expect this to be "an excellent tourist season."

Tenth District bankers report continued strong loan demand in recent weeks. Real estate and consumer instalment lending are still

areas of steady growth, and higher feeder-animal prices are boosting agricultural loan volume. Business loans seem to have firmed after some weakness in May; national accounts are still not a significant factor, but strength in construction activity and consumer spending is maintaining local credit demand. Most respondents foresee little slackening in loan demand during the second half of the year, although real estate and construction loans may soften in some locales where overbuilding--particularly in the multi-family sector--is in prospect.

Several bankers report rather sluggish demand deposit growth in June, but most report further moderate inflows of time and savings deposits. Deposit inflows--especially in the time and savings category--have been strong enough in recent months to provide adequate funds for lending needs. Most banks contacted have not aggressively pursued large CD money of a very short-term nature. While one banker is worrying about disintermediation, most respondents feel that with the funds they have now and reasonable inflows in coming months, there will be no great difficulty meeting loan demand at interest rates not too much higher than current levels.

Directors say their conversations with other businessmen indicate almost no remaining clouds of economic pessimism. Among the commonly cited indicators of vigor, major construction projects are emphasized. The most recently announced of these include a \$30 million fertilizer plant in Oklahoma and a major expansion (cost not disclosed) of the GM Assembly Plant near Kansas City. The president of a large corporation says that the Price Commission setup is becoming a nightmare--that he has five people working full time on prices and is considering hiring another to work in Washington keeping track of things.

ELEVENTH DISTRICT - DALLAS

The economy of the Southwest is somewhat stronger than a year ago in the opinion of economic analysts with the Southwest Regional Office of the U.S. Department of Labor, the District states' Labor Commissions, and Directors of Business Research at five southwestern universities. District economic indicators also suggest an improved economy. Industrial production, construction contracting, and consumer buying are all moving upward from relatively advanced levels. However, only a slim minority of the analysts contacted feel that labor market conditions will improve by year-end.

Most of the respondents view the present level of employment as about the same as it was at the end of last year. But a few analysts reporting on Oklahoma and Louisiana feel that the situation has worsened in those states. Most respondents indicate that the unemployment problem in their region is concentrated in the larger cities with the smaller cities being relatively unaffected. However, counties with defense industries, Indian reservations, or large numbers of migratory farm workers are also feeling the pinch. For the District as a whole, defense and oil and gas industries are cited as ones in which unemployment problems are most severe. However, a number of other industries are also reported as contributing to the unemployment problem in the various District states, including construction, retail trade, and transportation equipment and electrical machinery manufacturing.

Moreover, the respondents' outlook for employment in the Southwest is not particularly optimistic. Only 11 percent of the respondents feel that the situation will improve by year-end, with

67 percent anticipating no change, and 22 percent feeling that there will be some further increase in unemployment by year-end 1972.

Respondents feel that the closing of established plants is the greatest source of unemployment while stating that expected growth in employment would come primarily from the opening of new plants in their respective areas.

Those that expect some improvement in the unemployment situation feel that it will be selective--likely to occur principally in construction, trade, state and local government, and apparel, rubber and plastics manufacturing. Those anticipating no change or a worsening in unemployment emphasize the anticipated growth in the labor force. They point out that the labor force has increased substantially since a year ago, reflecting in part returning veterans, entering youth, and migration.

District economic indicators continue to reflect growing strength. The seasonally adjusted Texas industrial production index edged further upward in May to a new record level. All durable manufacturing industries posted gains from April to May to provide most of the strength in the index. Oil allowables in all four producing states of the Eleventh District were left unchanged again for July at maximum levels.

Department store sales posted significant month-to-month and year-to-year gains in June. Registrations of new passenger cars in Dallas, Fort Worth, Houston, and San Antonio rose significantly in May over the previous month. Cumulative figures for the first five months show auto registrations in these four metropolitan areas more than 12 percent above the 1971 level. Total employment in the five

southwestern states rose only slightly in May, however, and was accompanied by an expansion of the labor force. All industry groups showed year-to-year increases in employment with the largest advance registered in construction. The seasonally adjusted unemployment rate for the five southwestern states held steady at 4.4 percent for the third month in a row.

Texas regained its standing as the nation's leading cattle feeding state on June 1. The index of prices received by Texas farmers during the month ending June 15 rose to a level 18 percent higher than a year ago. Higher prices for cattle, hogs, lambs, wool, mohair, and cotton accounted for the increase. Total credit at weekly reporting commercial banks in the Eleventh District rose significantly in June with sizable increases in both loans and investments accommodated by a substantial expansion in time and savings deposits.

TWELFTH DISTRICT - SAN FRANCISCO

According to our directors, business activity is continuing to expand at a satisfactory rate. Consumer spending is climbing with higher than usual increases in June reported for retail sales in many areas of the Twelfth District. Automobile sales in particular are doing very well. Construction activity continues to be an important factor in the expansion, although signs of weakness are appearing that indicate a slowing later in the year. Agricultural prospects are generally good in most District states. Financial conditions are little changed with only minor movements in interest rates reported.

Retail sales are higher in June throughout most of the District, and in a few cases increases of 12 percent and more occurred over the previous month. For example, in Oregon, appliance sales are 12 to 15 percent above last year's level, and Southern California department store sales rose an impressive 12 percent in June to stand 8 percent above the previous year. There are exceptions reported for individual dealers in Oregon and Seattle, but the consensus seems to be that aggressive retailing efforts are producing higher sales.

Automobile sales are running as high as 20 percent for some dealers, and most dealers expect current trends to continue. American-made cars and trucks seem to be doing best, for there is some indication that foreign car dealers are actually experiencing declining sales. One factor in this latter trend is the advantage of domestic car dealers in having better resale facilities for trade-in cars. Sales of recreation-type vehicles and trailers are reported 20 to 30 percent higher by some local manufacturers.

Despite the satisfactory level of sales and a feeling of optimism by retailers about future sales prospects, there is no sign of any major rebuilding of inventory. Retailers, both small and large, are still operating with inventories at a minimum level. They are still trying to keep inventories down, and, if anything, many are attempting to find ways to reduce them further. Optimism about sales is combined with caution about inventories.

Other factors are helping retailers operate with lower inventories. A major reason, according to several directors, is that suppliers are quick to fill orders, thereby reducing the need for inventories. Appliance dealers in the Los Angeles area are described as relying on the close proximity to suppliers to cut down their inventories. Finally, retailers foresee no shortages developing that would require a change in their current policy.

A good year is expected for District agriculture. Cattle prices are high and in turn are keeping up the demand for feed grains. Crop conditions in the Pacific Northwest, Idaho, and Northern Utah are good, with the notable exception of fruit crops in parts of Washington and Idaho which had suffered from late frosts. Southern Utah has been experiencing a drought, and recent storms have brought only a slight improvement; in this area livestock and crops have suffered.

Construction activity remains good, especially for single-family homes. Suppliers for the construction industry remain optimistic, and employment in the wood products industry is high in Oregon and Washington. These industries related to construction provide the only example where inventories are being built up. Yet there is evidence in the recent leveling off of California dwelling unit authorizations that declines in total activity can be expected later in the year.

Overbuilding of multi-units in Oregon also may present problems. These elements of weakness are not general, and no immediate decline appears to be likely.

Most bankers see little change in financial conditions. Demand for loans is strong in the Seattle area and rising in Oregon after a period of stability. Trends in deposits in most states are mixed, with both increases and decreases reported. Only minor increases in interest rates have taken place.