

CONFIDENTIAL (FR)

CURRENT ECONOMIC COMMENT BY DISTRICT

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by the Staff

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## SUMMARY\*

Business has been brisk throughout the nation, and nearly all Reserve banks expect it to stay that way for at least the next few months. The manufacturing, retail trade, building, and banking industries report strong growth, with little evidence or expectation of an imminent slowdown. Concerns are growing, however, that tightening input markets, accelerating inflation, and rising interest rates may soon stifle the expansion.

A SRAC-requested survey by district banks on recent changes in Regulation Q reveals little impact so far: nearly every district has had only modest responses to the new six-month CDs.

Regular surveys of manufacturing activity conducted by Philadelphia, Richmond, and Minneapolis document a strong growth trend in manufacturing sales in their regions. The remaining Reserve banks report similar quickening in both durable and nondurable manufacturing activity of firms serving industrial as well as consumer markets.

The goods being produced for consumer markets have not been sitting on the shelf for very long either. Retailers have enjoyed substantial sales gains. Every district noted either an upward trend or at the very least some firming in consumer spending. Consumer durables, especially automobiles, were often cited as the best sellers (New York, Richmond, Atlanta, Chicago, St. Louis, and San Francisco).

And despite rapidly rising construction costs and mortgage interest rates in the neighborhood of 10 percent, individuals have

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\*Prepared by the Federal Reserve Bank of Minneapolis.

continued to demand new homes. That demand has been sufficient to fuel a resurgence of last year's homebuilding boom in some parts of the country (Atlanta, St. Louis, and Minneapolis). In some other regions where homebuilding activity has not resumed last year's pace nonresidential construction has picked up the slack (Chicago and San Francisco).

As usual expanding economic activity in the real sector has coincided with increased financial sector activity. Particularly strong loan demand was noted by district banks in Boston, Richmond, St. Louis, Kansas City, and Minneapolis.

That loan demand and the business activity with which it coincided isn't expected to let up in the near future either. Boston expects economic growth to continue throughout the year. The outlook for capital spending has strengthened in New York. Manufacturers and retailers continue to expect gains through the next two quarters in Philadelphia. Cleveland predicts expansion will continue into the first half of 1979. Chicago notes strength in capital spending plans. And Minneapolis looks for continued growth in manufacturing and retail sales through the rest of 1978.

These optimistic forecasts are tempered with a few notes of caution though. Some input markets have tightened noticeably. Skilled labor (Boston, New York, Chicago, St. Louis, Minneapolis, Kansas City, Dallas) and freight car (New York, Atlanta, Chicago, San Francisco) shortages were judged to be the most acute.

In addition, fears relating to accelerating inflation were common among many businesspeople. Several districts report widespread speculation that the recent rally in retail sales resulted from consumer

attempts to beat expected price increases and thus could not be counted on to continue as those expectations were realized (New York, Cleveland, Atlanta, Dallas).

Rising interest rates, pushed up at least in part by accelerating inflation, were also cited as a reason for caution. Chicago, Minneapolis, and San Francisco each mentioned the negative impact on residential construction of the continuation of current trends in mortgage interest rates.

It was hoped by some that upward pressure on these rates would be substantially mitigated by recent changes in Regulation Q allowing for the marketing of a new six-month CD. So far, however, these instruments are contributing only modestly to the easing of tight credit markets.

Each district summary includes comments on early developments in the market for the new six-month CDs. Those comments revealed a fairly homogeneous experience across districts and can be summarized as follows:

1. Most banks and thrifts have been offering the new CDs at the ceiling interest rate.
2. There has been a wide variation in the aggressiveness of promotional efforts with large urban financial institutions typically the most aggressive.
3. As a rule consumer response to the new instrument has been mild.
4. Most funds for the six-month CDs have been coming from existing deposits.
5. Most financial institutions expect the new six-month certificate will have little net impact on their deposit inflows during the next six months.

FIRST DISTRICT - BOSTON

Directors and other Red Book respondents of the Federal Reserve Bank of Boston report strong economic growth which they expect to continue throughout the year. One pattern that emerged clearly is that while many executives are worried about the economy as a whole, their own businesses are doing very well; several respondents gave the opinion that the published data are not reflecting the true strength of the economy. Commercial and industrial loan demand is growing strongly and production and employment in the First District are up. Retail sales remain healthy although some concern has been expressed about the future. Tightness is reported in the market for skilled labor in the electronics industry and shortages of some types of aluminum are expected later this year.

The chief economist of a large electrical equipment manufacturer reports very strong demand in both consumer and industrial markets. This company's domestic capital goods orders are up by about 25 percent over last year and major appliances and other consumer durables are also doing very well. A Connecticut director reports that manufacturers across the state are experiencing very strong growth in orders and sales. This pattern was also reflected in the comments of directors from other parts of the region. The Chairman of the Board of a local department store chain reports continued strong sales although he is highly concerned about the impact of inflation on consumer sentiment later this year. Retail inventories are somewhat higher than desirable although they are not a cause of great concern at this point. Loan demand continues to be very strong in the northern New England states and is also improving at the large Boston banks.

A recently completed survey of small businesses across New England indicates that many are planning price increases and several have had substantial wage settlements in the last few months. All of those participating in the Red Book calls expressed great concern about inflation. Several Massachusetts electronics companies reported shortages of skilled technicians, electrical engineers and other technical professionals. A large manufacturer of aircraft components expects shortages of aluminum to develop next year and also reports difficulties in finding machinists in some locations. However, this bank's survey of potential bottlenecks indicated that widespread shortages or capacity problems are not expected.

A survey conducted to obtain the requested information on the new six-month time certificate found that practically all but the smallest commercial and savings banks are offering the new certificate. But about one-fifth of the cooperative banks (small state-chartered savings and loan associations) in Massachusetts are reported offering them.

- A. All but one are offering the maximum rate and that one is a cooperative bank in Rhode Island paying the auction rate plus one-eighth.
- B. Around one-half of the larger institutions are advertising heavily.
- C. Heavy advertisers generally had good inflows. Savings banks with the higher rate generally had relatively better inflows than commercial banks.
- D. Those with good inflows report that one-half or more is outside money, while among the others very little is outside money.
- E. Respondents generally are not very enthusiastic about future prospects. After the initial flurry, they think inflows will taper off.

Respondents think this money is expensive and they are apprehensive about the future, fearing that bill rates may rise to eight or nine percent.

Professors Eckstein, Houthakker, and Samuelson were available for comment this month. They all agreed that the recent surge in consumer prices does not imply an increase in the underlying "hardcore" inflation rate. Further, none of the three believed the acceleration to be the result of widespread "excess demand." Eckstein noted that the rate of price advance is no worse than was previously expected, while both Houthakker and Samuelson felt that they would require more confirming evidence than they have yet seen before concluding that unemployment has reached its natural rate or that full capacity output has been achieved.

All respondents favored the maintenance of the current posture of monetary policy. Eckstein believes that no further policy changes should be attempted until incoming data reveal the effect of earlier rounds of tightening on the economy. In his view, current policy seems to be producing the desired effects--witness the deceleration in the rate of money growth and the increase in mortgage rates--so that it would be a mistake for the Fed to use up all of its "margin for movement" at the present time. He expects a slowdown in the economy to begin in August or September due to declining housing starts as disintermediation intensifies and weak consumption spending as households reduce excessive debt burdens. According to Samuelson, current policy should aim at avoiding less than 3 percent real growth in 1979. He feels that a "preventive growth recession" is not necessarily desirable, and therefore urges the Fed to "dig in its heels" to prevent a too rapid tightening of credit markets. Houthakker agrees that current monetary policy is appropriate, although he would like to see it accompanied by a substantial reduction in the Federal budget deficit.

SECOND DISTRICT--NEW YORK

Business activity in the Second District continues to expand moderately according to recent comments of directors and other business leaders. No industrial materials shortages were reported, nor were any anticipated in the foreseeable future. Current labor supplies appear to be adequate for the most part, although a few shortages of skilled labor were noted. Respondents generally discount the possibility of wage and price controls. Fears of further inflation, at least in the short term, were judged to have induced consumers to step up spending. Among notable regional developments, inventory policies remain cautious, and capital spending shows signs of strengthening. On the financial scene, many District banks appear to be offering the new six-month time certificates. In the short time this instrument has been available, commercial banks' marketing efforts appear to be moderate as has consumers' reception of the new investment.

With respect to aggregate supply conditions, there were no shortages of industrial materials reported. Moreover, none of the respondents anticipated such shortages emerging in the foreseeable future. One agricultural director did note that there was a severe shortage of railroad cars which may hamper transportation of grain to market. On the labor front, respondents characterized overall labor supplies as adequate. Nevertheless, some slight shortages of specialized workers appear to have emerged. In the automotive sector, temporary shortages of tool and dye workers were reported, but these shortages were not expected to affect production. Plant managers, mechanics and mold makers were also cited as specialized skills that were in relative

tight supply by one director.

For the most part, retail sales in May and early June were judged to have been on target. Nevertheless, for the year as a whole, several merchants felt that sales were below expectations. As a consequence, retailers viewed their inventories as somewhat high, but voiced little concern over their ability to work off any excesses once the summer sales season rolled into gear. Automotive sales have been brisk in recent months. One industry economist attributed the current spurt to a combination of "catch-up" buying after the past winter and consumers attempt to beat price increases due on the new model year cars. Thus, he expected sales to taper off considerably later in the summer.

Outside of the retail sector, the outlook for capital spending in the District appears to have strengthened. The president of a major utility reported that his firm was experiencing record growth that, in turn, was triggering an increase in capital spending plans. Reports from the directors of the Buffalo branch suggested a noticeable brightening in the outlook. A major Rochester firm has commenced construction of a major facility. At the same time, several manufacturing firms in Buffalo are going ahead with planned plant expansions. Upstate capital goods producers reported a steady increase in new orders.

While inflation remains a dominant concern among respondents, directors and businessmen did not expect a reimposition of wage and price controls. In general, retailers reported that their pricing practices were unaffected by the possibility of wage and price controls. Notwithstanding these comments, several related rumors that some stores were selling items at discount so, in the

event of controls, prices could be raised back to list. In a similar vein, leading industrialists noted that the uneasiness which surrounds the controls issue has prompted some firms to protect themselves by implementing discount policies so that the discount can be eliminated very quickly, if necessary.

A representative sample of commercial banks in the Second District were contacted concerning the newly allowed six-month time certificates. All respondents were offering the certificate at the ceiling rate as determined at the weekly auction of 180-day Treasury bills. Marketing efforts on the part of commercial banks have varied considerably as has consumer interest to a lesser extent. Most respondents, however, reported only a moderate amount of advertising and a slow or very slow consumer response. When asked about the proportion of certificates representing intra-bank shifts from other instruments, the majority stated that they had not yet made such a calculation. Looking at the new certificates' impact on net deposit flows over the next six months, about half of the surveyed banks indicated that they expect little or only a modest net inflow, while the others expressed no opinion at the time.

THIRD DISTRICT - PHILADELPHIA

Indications from the Third District are that the local economy continues to expand. Manufacturers report a fourth consecutive month of improvement in the industrial sector, and department store sales have surged ahead so far in June. Retail inventories are at desired levels, with no shortages reported. For the longer term, manufacturers continue to look for gains over the next six months, although such expectations are now less widespread than at any time since January 1975. Retailers foresee continued increases in sales volume throughout the second half of the year. Area bankers report some growth in business borrowing, but say that the underlying "hard" demand for conventional domestic business loans has changed little. The new six-month variable-rate CDs are being met with little enthusiasm by the public. Bankers differ in their views concerning the effect of certificates.

Manufacturers responding to the June Business Outlook Survey indicate continued economic expansion in the industrial sector. This is the fourth consecutive month in which substantial gains have been reported. Respondents indicate higher levels of new orders and shipments, while inventories are down for the second month in a row. At the same time, continuing improvement is noted on the employment front. In the current Survey, 29 percent of the respondents report larger work forces at their factories---the highest this proportion has been in a year--while 17 percent report a longer workweek. Manufacturers report that they are experiencing no tightness in the labor market at this time and no difficulties in obtaining supplies or equipment.

Despite the current strength, however, Third District manufacturers continue to become less bullish. While 46 percent of the respondents to the June Survey look for business conditions to improve in the second half of 1978, 23 percent expect conditions to deteriorate. This "margin of improvement" of 23 percentage points is at its lowest level since January 1975. And, while Survey participants still foresee gains in new orders and shipments, the "margins" in these categories are also at their lowest in the current economic recovery. A Director of this Bank, whose business is in manufacturing, reports that much of the strength he sees in the second quarter is a result of inventory rebuilding. He foresees a slowing in demand as inventories reach desired levels. Nevertheless, local businessmen still project increases in both the size of their payrolls and capital expenditures over the next six months. About one-fourth of the executives polled say they expect to expand their work forces by December, while one-fifth plan to be spending more on plant and equipment by that time.

Price increases in the industrial sector appear to be slightly less prevalent this month. Of those surveyed, 40 percent say they're paying higher prices for raw materials than they did in May, and 30 percent say they're charging more for the goods they sell. For the longer term, 86 percent expect to be paying more for inputs by year-end, while 60 percent plan to hike the prices of their finished products by that time.

Area retailers say business is off to a good start in June, with reports of current dollar sales ranging from 6 to 16 percent ahead of year-ago levels. Sales volume is generally at or slightly above anticipated levels for this period. Merchants expect sales to continue to grow through December with projections of year-end sales 5 to 12 percent ahead of

December '77 levels.

Retail inventories are unanimously declared to be in "good shape," having thinned a little after the unplanned accumulation in the first quarter. Merchants contacted say there is no evidence of chronic or acute shortages in any lines. Retailers expect to maintain current inventory levels throughout the rest of this year, and foresee no change in the inventory-sales ratio.

Commercial bankers in the area say business loan demand is up between 4 and 15 percent from a year ago. However, the gains may be the direct result of efforts to increase volume through unconventional methods (such as fixed-rate term loans and off-shore loans), indicating that the demand for conventional business borrowing is essentially flat. But, because initial projections for this time period were not "overly optimistic," volume is just about as planned. Looking ahead to the rest of the year, bankers anticipate gradual improvement in the demand for conventional C&I loans.

The prime rate at all the banks contacted was recently boosted to 8 1/2 percent with further hikes projected by year-end. All bankers contacted expect the prime to top out at 9 percent in 1978, but differ in their projections of when it will peak. (One contact sees the peak as early as September 30th, with a slight decline in the fourth quarter.) Rising short-term interest rates have resulted in little or no disintermediation at commercial banks up to this point, although S&Ls have experienced a significant slowing in deposit growth.

The new six-month variable-rate certificates of deposit are currently carrying an interest rate of 7.1 percent. Yield differentials do exist in the area, however, as some banks are compounding interest daily and

others are not. Advertising has been light, in some cases nonexistent, and response to the new instrument has been less than overwhelming. One bank with total deposits of more than \$600 million has sold only 3 CDs totaling \$70,000, \$50,000 of which was rolled over from a maturing certificate at the same bank. Although most bankers did not have such accurate figures this early, the general feeling is that a large portion of the new certificates will be transfers from other instruments within the same institution.

Bankers differ in their views on what the effect of the certificates will be.

Responses cover the entire spectrum, running from "a big impact--should sustain the housing market" to "no impact on deposit flows at all."

FOURTH DISTRICT - CLEVELAND

Fourth District economists who met recently at this Bank expect that the expansion will continue at least into the first half of 1979 unless economic policies become restrictive. Auto producers remain optimistic over sales prospects for that industry although some retailers expect a sharp slowing in consumer spending next half. Only scattered signs of bottlenecks and shortages are reported, despite operating rates in some key industries approaching effective capacity. Though bankers are satisfied with consumer response to the six-month savings certificates, the bulk of certificates represents a shift of funds from existing deposits rather than new money.

Twenty-five economists attending the bank meeting on the economic outlook slightly scaled down expectations for growth in output but raised them for inflation this year. The median forecast of the group indicated second-half gains in real GNP at about a 3.5 percent annual rate, followed by a 2.5 percent annual rate of increase in the first half of 1979. They expect the rate of inflation to increase by about a 6.5 percent annual rate from the third quarter of 1978 to the first quarter of 1979 and moderate to 6.1 percent in the second quarter of 1979. While the expansion is expected to continue into 1979, one economist forecasts a mild decline for two successive quarters during the first half of 1979 and three of the group expect either no growth or a small decline in early 1979, followed by a pickup the second quarter.

Expectations for consumer spending are mixed. An economist with a major automotive producer expects that total auto sales this year

will amount to 11.3 million units and moderate to about a 10.8 million annual rate during the first half of 1979. He explained that consumer installment repayments relative to disposable income are not high by historical standards and that consumers have been using capital gains in housing to help finance purchases. New car sales have held up longer and at a higher rate than he expected in part because of prebuying in anticipation of rising prices and the belief that 1978 models represent the last of the big cars. A less optimistic viewpoint was expressed by an economist with a major national department store chain. He expects considerable slowing in the pace of consumer spending during the second half of 1978. A further gradual pickup in the personal saving rate, continued high rates of inflation at about a 7.5 percent annual rate by the end of this year, and an expansion of consumer installment debt are expected to contribute to a reduced rate of spending.

Economists expect generally that the rate of increase in fixed investment over the coming four quarters will be about the same as in the past four quarters. Some pointed out that orders in their industries, including heavy-duty trucks, printing and communication, and electrical equipment, are no longer accelerating, even though the volume of orders is well above a year earlier. Machine tool orders this year are well above a year earlier but are not accelerating. However, one economist expects larger gains in fixed investment over the next four quarters because commercial and other nonmanufacturing building contracts have been rising rapidly.

Officials and economists report only scattered shortages of labor, plant capacity, or materials, although operating rates are at or

near effective capacity in a number of key industries, including primary metals, machine tools, building materials, and paper and paperboard. While shortages are not widespread, backlogs have been rising and delivery schedules have been lengthening in several industries.

Most shortages are in construction, particularly for insulating materials and drywall. There are complaints of railcoal car shortages. A capital goods producer complained about extended delivery in machine tools hindered his company's expansion program. Despite scattered shortages, several economists caution that demand and price pressures can surface anywhere along a supply schedule and not necessarily when operating rates are at capacity. Production of paper is at capacity and paperboard operations are at about 98 percent of effective capacity, but no shortages of labor and materials are reported. Some auto producers are operating above capacity on popular models without bottlenecks.

Others caution that effective productive capacity is often different from published capacity. For the past month, steel has been operating at about 92 percent of effective capacity, a level that approaches full capacity because a higher operating rate would require violation of environmental regulations. A major aluminum producer also has been operating virtually at capacity. On the other hand, a major producer of fiberglass insulation is operating at 105 percent of capacity and expects to operate at full capacity at least until additional new capacity becomes available later this year. He points out that the 600 additional suppliers of cellulose since the end of 1977 are providing new capacity for insulating materials. But the relevance of this capacity is unknown since government standards on insulation are being tightened.

Public response to the new savings certificates was rather mixed, according to officials with major district banks. S&Ls appear to have promoted the certificates more aggressively than the banks. Generally, all ten banks contacted are offering six-month certificates at maximum rates, with a few compounding daily and the others compounding monthly or quarterly. All banks are offering maximum rates on eight-year certificates. Some are compounding quarterly for deposits of \$5,000 or less and others monthly for deposits exceeding \$5,000. All but two of the banks described their advertising as heavy, but some feel their programs are not as aggressive as S&Ls. Consumer response to the six-month certificate is described as very good or favorable by most banks. On the other hand, response to the eight-year certificate has been slow. Still, one of the largest district banks reported that the eight-year CDs made up about 20 percent of its total volume of certificates. Bankers do not plan to change their promotional programs, except for one bank that indicates that after the June 30 interest payment date they will more aggressively promote six-month certificates. Only two banks reported that the bulk of the certificate sales represented new money. Some of the largest banks state that as much as 75 percent to 90 percent of funds obtained represented a shift from existing deposits. Most bankers feel the new certificates will not do much to improve the net flow of deposits over the next six months.

FIFTH DISTRICT - RICHMOND

Fifth District manufacturing activity continued to expand in May as respondents to our monthly survey report further increases in shipments, new orders, and backlogs. Survey responses also included favorable reports on inventories, where accumulation slowed, employment, and weekly hours worked. Despite recent gains in activity, there is no indication of imminent bottlenecks. Comments by the Richmond Directors, however, were less encouraging than our survey results. The Directors view consumer attitudes as essentially neutral and a majority cited inflation as a negative or potentially negative factor. Bank credit activity in the District continues strong, with lending concentrated in the business and consumer sectors. Most banks and S & L's in the District are offering the new six-month savings certificates and most are paying the legal maximum rate. Customer response, generally, has been less than expected.

The gains in manufacturing activity over the past several months have served to bring inventories and plant and equipment capacity nearly into line with desired levels. There remains a number of individual respondents who view current stocks as excessive, but nearly two-thirds consider current levels about right or too low. Nearly all manufacturing respondents view current expansion plans as about right. A majority of our Directors feel that business investment opportunities have changed little over the past six to twelve months.

Despite substantial recent improvements in orders and shipments, manufacturing respondents express considerably less optimism about the near-term future than has been the case in other recent surveys. The consensus now appears to be that business activity nationally and locally will be little changed over

the next six months. Their expectations, as well as those of our Directors, appear to have been significantly affected by recent price developments. Our survey indicates widespread increases in both prices paid and prices received. Directors are almost unanimous in citing inflation as a negative factor in the outlook and note, in particular, its adverse impact on consumer attitudes. An overwhelming majority feel that recent mortgage rate developments have dimmed the outlook for residential construction in the District. The few retailers reporting in our latest survey reflect a somewhat more positive view of near-term prospects than those expressed by manufacturers and Directors. The outlook for automobiles appears especially to have firmed.

Reports from banks and thrift institutions suggest that the recent sharp increases in mortgage rates are beginning to have a depressing effect on loan demand, although this effect is still fairly minor. The typical rate for an 80 percent, 30-year mortgage loan in the District is around 9 3/4 - 10 percent. Business lending has been very strong in recent weeks, with loans to durable goods manufacturers, public utilities, and retail trade accounting for the largest portion of new volume. Two-thirds of the respondents to our May survey of bank lending practices report moderately stronger commercial and industrial loan demand over the past quarter, and half expect demand to strengthen further. Rates charged to customers have risen, and there is some evidence of firming in non-price terms of lending, too.

Most banks and S & L's in the District are offering the new six-month savings certificates, and most are paying the legal maximum rate. An exception seems to be South Carolina, where the major banks have not entered the market for these instruments. The thrifts have been more aggressive than the banks in promoting the new certificates, with bank advertising generally taking the form

of announcement or notification advertising.

In general customer response to the certificates has been less than expected at both banks and S & L's. The expectation at most financial institutions is that the six-month certificates will help prevent the loss of existing deposits as market interest rates rise, but that no significant increase in new money will result. Initial experiences confirm this expectation, as most institutions report that the largest proportion, 75 to 90 percent, of funds being placed in six-month certificates is being transferred from existing accounts. Again, however, South Carolina is an exception. The thrifts in that state have had a good public response to the new certificates and a substantial amount of new money is being generated. There is a feeling at some institutions that funds currently held in long-term deposits will be transferred to the six-month certificates as outstanding savings certificates mature.

Most field crops have gotten off to a late start because of the cool, wet spring. Delays in planting have ranged from one to three weeks. Much replanting has been necessary. Some cotton has been plowed up because of poor stands. And shortages of flue-cured tobacco plants have developed in some areas. Peaches are said to be in good condition and sizing well.

SIXTH DISTRICT - ATLANTA

Current activity levels are quite high, but rapid inflation and tighter money have intensified the uncertainties in the outlook. The only bottlenecks that appear serious are truck and rail transport, although minor shortages of a variety of construction materials are widespread. Consumer response to the new CDs has been slight thus far; financial institutions have accepted them with some reservations. Heavy sales of automobiles and other hard goods have buoyed retail spending to a probably unsustainable pace. Housing demand and actual construction are still booming, but inhibiting factors have begun to emerge. Many directors attribute some of the recent strength in consumer buying to inflationary expectations, but cautious control of inventories has held anticipatory buying to a minimum in the business sector.

Most of the District banks and savings and loan associations are offering both the new six-month and the eight-year certificates. S&Ls have been most aggressive in advertising the deposits, particularly in major cities. Some banks and thrifts, mainly in rural locations or small cities, will offer them only on request; several have taken a wait-and-see attitude and are holding off on the short maturity certificate. Thus far, issuance has been rather slow. By and large, banks and S&Ls do not expect the new instruments to attract a substantial volume of new funds but add that they should help retain deposits, and a few think they will get good volume in one or the other eventually. Although a significant shift of funds between the types of institutions is not anticipated, deposit structures may be noticeably affected. The consensus is that the bulk of money will

come out of existing time and savings accounts, thus raising the cost of funds.

The majority of our 35 branch directors and Atlanta area business analysts found only minor shortages, if any, in their areas. Inadequate supplies of various construction materials were widely mentioned but never described as serious; lists included insulation, roofing, plywood, cement, other lumber products, nails, gypsum products, some steel products, and asphalt products (in order of frequency of mention). A continuing shortage of paper for web offset printing presses was described as critical by two sources; directors close to Louisiana's oil industry cite shortages of drilling rigs and drill pipes. Two directors volunteered forecasts of shortages: in unleaded gasoline and mid-sized autos by summer's end and in large steel castings and in lower grade steel used in nails and reinforcing rods by year-end. The most serious supply problems at the moment are bottlenecks in both truck and rail transportation. Because past weather problems have caused an unusual coincidence of crop maturity in different areas, fruit and vegetable growers are having great difficulty moving perishables to market through the strained trucking system. With an abnormally large number of cars and locomotives under repair and seasonal grain traffic, rail freight bottlenecks have delayed shipments of phosphate and building supplies, especially.

Consumer purchases continued brisk through May, with most areas reporting year-over-year sales gains well in excess of price increases. Hard goods sales have shown the most rapid advances. A large grocery chain has seen its beef sales fall 15 percent in the past two weeks in the wake of rising prices. Retail stocks are generally heavier than

desired, reflecting overly optimistic buying rather than slower sales. Auto sales have been very strong; the combined daily sales rate of four regional distributors of domestics climbed to 24 percent over the year-earlier pace in May; one set an all-time record, and two posted records for the month of May. Large, luxury models have been selling extremely well. The used car, truck, and import markets remain vigorous.

Home loan demand and construction activity continue to boom, although mortgage rates are rapidly approaching 10 percent and high financing costs appear to have squeezed some projects off the drawing boards. In northern and central Florida, several S&Ls have suspended new mortgage lending. Demand for office and commercial space in Atlanta has improved dramatically and encouraged a return to speculation.

Our survey of directors on the CD and shortage situations also included questions on inflationary expectations and anticipatory buying. Many suspected that buying to beat price increases accounts for a portion of recent strong advances in consumer spending, especially for homes and automobiles. A few gave examples of similar behavior in the business sector--in ordering of capital equipment (cranes, lathes, and milling machinery), purchases of construction materials (although the short supplies may be as responsible as inflation), and real estate decisions. However, uncertainties in the outlook have induced most businesses, and manufacturers in particular, to keep a tight rein on purchases. Apparently, the fear of getting caught with excessive stocks has precluded stockpiling of goods for the purpose of cost control, although some businesses are accumulating stocks to support especially brisk demand where supply conditions permit. Cost increases are the motivation for most mark-ups, the

directors believe, but there are indications that recent price hikes have included a margin for anticipated inflation. Virtually none of our directors found evidence that the possibility of price controls has been the major consideration in pricing.

A wide variety of special cut-rate air fares, usually representing a 35- to 40-percent discount, has boosted southeastern passenger traffic and benefited Miami in particular. The airlines have done substantial hiring for reservations offices. When asked how long he thought the low rates would be offered, a major airline business analyst replied that the carrier had already begun to feel the effects of the revenue dilution.

SEVENTH DISTRICT - CHICAGO

Concern over accelerating inflation is uppermost in the minds of many businessmen, lenders, and consumers. Some analysts are apprehensive that imbalances associated with the payments deficit, sharply rising prices, higher interest rates, and reduced availability of funds will slow or reverse the economic expansion early in 1979. Tighter mortgage credit has already had an impact on residential construction, but nonresidential construction is showing new strength. Demand for capital goods is generally vigorous. Job markets are very strong. Consumers are spending freely. Farmers have made rapid progress with plantings after a late start.

Any assessment of the impact of the 6-month "T-rate" certificates, permitted since June 1, must still be tentative. Institutions offering these instruments are paying maximum rates. Promotions have been aggressive in Chicago, Indianapolis, and Des Moines, variable in Detroit, but nonexistent in Milwaukee. In general, the largest banks and S&Ls have taken the lead. Reports from Chicago and Detroit indicate that response, so far, has been less than expected, with a large share, perhaps 60-90 percent, of the funds transferred from existing deposits. Bankers describe the movement as "defensive," i.e., helping to prevent deposit outflows. Many fear that competition for T-rate CDs will raise costs without commensurate benefits in terms of deposits.

Uneasiness over the duration of the expansion is not supported by new signs of weakness in demand. Purchasing managers in Chicago and Milwaukee report output, employment, orders, backlogs, and inventories rising faster than a few months ago. Recent readings on some data are the strongest since 1973 or 1974.

Price increases in wholesale markets appear to be averaging over 7 percent on an annual rate basis. A wide variety of commodities and services are involved--steel, aluminum, castings, leather, glass, packaging materials, chemicals, and fasteners are mentioned. Not all announced price increases are holding up, at least not in full. Order lead times are lengthening, but there are very few serious shortages. Placing customers on allocation, widespread in 1973-74, is unusual in today's markets, except for building materials. Problems in obtaining a variety of building materials are likely to ease later in the year, if housing starts decline as expected.

Limited availability of skilled workers is a frequent complaint. All metalworking trades and clerical workers, such as secretaries and typists, are mentioned most frequently. Help-wanted advertising is very heavy.

Another problem area is transportation. Movement of goods in and out of plants is hampered by availability of freight cars, locomotives, and highway transport. Orders for new freight cars, locomotives, and other railroad equipment are causing a buildup of backlogs. Forecasts of sales of heavy trucks for 1978 have been raised again recently, and the year may set a record. Some railroad car builders have converted plants to produce hopper cars, auto transports, and lumber flat cars.

All fuels are in adequate supply. Various natural gas utilities are adding commercial and industrial customers again, after a lapse of several years. A prominent petroleum analyst is greatly disturbed by reports that the DOE is seriously considering use of quotas to cut imports of oil by two million barrels per day. Even a cut of one million barrels (less than 5 percent of total supply) would soon cause "utter chaos." Apparent surpluses of oil products are really quite thin.

In the Chicago area, new permits for both homes and apartments were well below year ago in April. As a result, the four month total also was down. This trend is expected to continue. The rate on standard conventional mortgages is now close to 10 percent in the Chicago area, plus two or three points. Higher rates alone do not seem to deter inflation-conscious home buyers. S&Ls have restricted new loans to established customers, to owner-occupied homes, and by raising down payments. The trend toward condo conversions continues unabated, thereby increasing demand for mortgage loans. Prices of existing condos are rising more rapidly than in past years.

Steel firms in the Chicago area report a good order book for the third quarter. One company is operating above its rated capacity. A larger share of steel orders is for structural steel and equipment, which are in a "long overdue expansion." Important industrial, utility, and mining projects are reported to be in the early stages of design and construction. Steel imports are believed to have dropped sharply after May 1 when "trigger prices" became fully effective. However, much of the record volume of steel imported in the first four months is believed to be still in the hands of distributors.

Our information on business capital spending suggests greater strength than was indicated by the most recent DOC survey. Figures on bidding volume and new plans are up sharply. Outlays by the auto industry to produce more efficient cars and trucks will be enormous for years to come. New commercial construction is showing substantial strength. Demand for equipment for rail and motor transport is excellent. Orders for machine tools, industrial presses, castings, forgings, diesel engines, and various components are all far ahead of last year. Most of these companies report business to be "very good," but still not comparable with the 1973-74 boom. Construction machinery is another strong

sector, particularly smaller types. Farm equipment sales will be down this year, but by a smaller proportion than had been expected earlier.

With improved weather in late May retail sales picked up on a broad front. A growing share of total sales seems to be going to the larger, more aggressive chains. Not all car models have been selling well, but overall sales have exceeded expectations in recent months. Sales of recreational vehicles and light trucks have been stronger than autos with some models "sold out." Regional polls report deep consumer pessimism, but consumers appear to be buying big ticket items aggressively.

EIGHTH DISTRICT -- ST. LOUIS

In the Eighth District, business continues its broadly-based expansion. Consumer spending has strengthened in recent weeks, manufacturing activity has risen further, and shortages in labor and materials are beginning to occur. Credit demand remains strong, interest rates are rising, and savings inflows are levelling off. Most financial institutions are offering the new six-month and eight-year certificates, but consumer response has been modest so far. In the agricultural sector, crop plantings have continued to be delayed by rainy weather but 1978 financial prospects for farmers have improved substantially as a result of rising farm commodity prices.

Department store retailers noted recent improvement in sales after a poor first quarter, and are generally optimistic about sales prospects for the summer season. Inventories of soft good items, which earlier this spring had become excessive, have been reduced to desired levels. Automobile dealers report strong sales in recent weeks, and, in some areas, shortages of some automobile makes were noted.

Shortages of labor and materials were reported by a number of businessmen, although serious bottlenecks do not appear prevalent at the moment. Delivery schedules are lengthening for a wide variety of products, such as semi-finished brass goods, pneumatic and hydraulic components, and steel forgings. The labor market is starting to show scarcities of some types of labor, including machinists, mechanics, electricians, stenographers, and maintenance workers.

Manufacturing activity has continued to increase. Aircraft orders

at manufacturing firms continue to rise, due to both increased expenditures and a pickup in commercial airplane orders. Building products manufacturing shows continued strength. A manufacturer of connector plates used in construction registered sharp increases in May orders. A boxboard manufacturing firm reported continued improvement in sales. Other manufacturing firms showing increasing strength include steel, automobile, apparel, and leather products.

Housing construction remains at a very high level in the District as a result of a large backlog of orders. Builders noted some decline in consumer interest in recent weeks but felt that it was too early to judge whether a significant slowdown in orders is occurring. Even if a moderate slowdown should occur, the high level of existing backlogs would keep construction activity at a high level throughout this year. Commercial building has been sluggish in most of the District since the last recession, but recent information indicates a rapid increase in office rent in the St. Louis area, suggesting that economic conditions may be improving for a renewal of office building construction.

Most commercial banks and savings and loan associations are offering both the new six-month and eight-year savings certificates. Only a modest amount of advertising of these new instruments has occurred thus far. Consumer response to these certificates is termed "mild." Rates offered are at legal maxima, although they vary slightly on the eight-year certificates depending on the compounding methods used. The penalty for early withdrawal on the six-month certificate varies among institutions but is most commonly complete forfeiture of interest. Of the six-month certificates sold so far, it is estimated that roughly half of the funds were shifted from existing

accounts in the same bank.

Savings inflows into commercial banks and savings and loan associations continue at the reduced pace of recent months. Some savings and loan associations reported net outflows in May, but for S and L's as a whole some gains appear likely. Commercial banks are experiencing some decline in consumer passbook accounts, but other time deposits have continued to advance, bolstered by increases in large CDs.

Loan demand at financial institutions continues to increase. Mortgage loan demand is very strong. Some savings and loan institutions reported record volumes of loans closed in May. Mortgage interest rates have moved up another quarter of a percentage point in recent weeks to 9-1/2 percent on an 80 percent loan. Rates on 90 percent loans are now at the 10 percent legal maximum in some District states. Both business and consumer loan demand at banks have continued to rise.

Crop planting has been hampered by rainy weather. Cotton planting has been reduced sharply from a year ago, but part of the reduction was planned. Corn planting is behind schedule. Rising prices for crops and livestock products have greatly improved prospects for farm income, which is now expected to be substantially above the 1977 level.

NINTH DISTRICT - MINNEAPOLIS

Our district's economic news has been good lately, and most observers think it will stay that way in spite of tightness in a few input markets. Business has been brisk and should remain so for manufacturers, farmers, retailers, and builders throughout the district. But growing tightness in skilled labor and home mortgage markets threatens to put the squeeze on some area businesspeople, most notably homebuilders. The seriousness of that threat is difficult to assess, though, as the impact of recent Regulation Q changes on the supply of credit is still doubtful.

Good Economic News

Reviews of recent manufacturing activity are all good. Our Bank's directors report vigorous industrial activity throughout the district. Their reports are supported by our Bank's survey of industrial expectations which reveals that first-quarter sales by Ninth District manufacturers were up 17.5 percent from their year-earlier levels. These manufacturers thought their second-quarter sales were running 14 percent above a year ago.

Sales by farmers have also been higher than last year. Cash crop receipts for our district through April were about 17 percent higher than the corresponding period last year. Cash livestock receipts were up 15 percent.

Rural retailers serving those farmers as well as the retailers serving their city cousins have enjoyed strong sales activity. Directors indicated that rural consumer spending has been strongest in western

Montana, western South Dakota, and Wisconsin, where the profitable livestock and dairy businesses are concentrated. Retail sales outlets in urban areas throughout the district have posted very good sales figures in recent weeks.

Durable goods have been particularly big sellers. Automobile sales have been unusually good. And home buying has continued to be a favorite pastime of our district's consumers.

Homebuilding has picked up too. It was off to a slow start in January and February, but recent reports suggest this industry has resumed last year's record pace. This resurgence together with mounting commercial building demand has pushed construction employment in the district to an all-time high.

#### Good Economic Outlook . . .

These high levels of economic activity are expected to persist. For example, manufacturers responding to our industrial expectations survey predict continued strong year-over-year growth through the rest of 1978. And they consider their inventory and capacity adequate for that projected growth.

In addition, farmers have gotten their crops in on time, and recent weather has been favorable. So most observers are predicting good harvests in the district. Furthermore, since the majority of district farmers have signed up for the government acreage set-aside program, they will be eligible for federal crop price supports. And livestock producers, though disappointed over the relaxation of meat import barriers, still expect a good year.

Our directors also project continued high levels of retail sales through the summer.

. . . Despite Input Shortages

All this optimism exists in spite of concern over some input shortages. Skilled labor markets are much tighter than they were a year ago. And financial institutions are straining to keep up with the heavy loan demand.

Homebuilders are bearing the brunt of the higher prices generated in these tightening markets. Construction costs are rising rapidly, and mortgage interest rates are poised to pierce the 10 percent barrier.

Our Bank's directors fear a substantial slide in the quantity of new homes demanded as these factors continue to push monthly home-ownership payments higher.

It's not clear how much the tight credit situation will be eased by the recent changes in Regulation Q, either. While most district banks and thrifts offered the new six-month CDs at the ceiling rates, less than half of those surveyed (almost all located in urban areas) were actively promoting sales of these instruments. And while promotion of the CDs increased their sales, most banks and thrifts thought little net deposit gain would result from those sales. The high state income tax rate in Minnesota and exemption of T-bill interest from those taxes led some bankers to suggest that banks and thrifts in that state would continue to find it hard to compete with government debt instruments for investor funds.

TENTH DISTRICT - KANSAS CITY

Tenth District purchasing agents report price increases on a broad range of materials. Also, lead times are extending and some highly skilled labor is reported as being in short supply. Retail sales at major department stores are in an uptrend, especially since the end of the bad weather. Consumer demand for beef remains high, and further retail price increases may be expected despite recent government action. While agricultural loan demand has declined, in part because of higher farm prices, total district loan demand remains strong. Deposit growth, on the other hand, has not as yet been significantly affected by the new six-month money market CDs.

Purchasing agents for major manufacturers in the district report increases in materials input prices averaging close to 8 percent over the past twelve months. Specific materials mentioned with near 8 percent increases include fiberglass, aluminum, aviation engines, aviation fuel, and steel. Only copper prices were reported to have come down. Looking to the remainder of 1978, drug-related chemical prices are expected to remain unchanged, steel prices are expected to increase 4 to 5 percent, and fabricated truck parts may increase 12 1/2 to 13 percent. Lead times are extending, particularly for materials used heavily by the auto industry (steel, fiberglass, and fabricated transportation components). Other goods with expanding lead times are electric motors and copper. Demand increases and capacity constraints are often given as explanations for increasing lead times. Steel availability is expected to continue to tighten and fiberglass insulation will be a problem until significant new capacity is added. A shortage of skilled labor such as machinists, tool makers, and equipment operators was

reported, and a custom builder of truck-tractors in Kansas City is now at "full" capacity. Inventory levels at respondent firms were generally satisfactory to a little heavy. Two directors reported input price increases for their industries approximately equal to those noted by the purchasing agents. Furthermore, both directors indicated that their sales were rising far more rapidly than might be expected given current real GNP growth, and each expressed a belief that the sales uptrend is likely to taper off.

Retail sales have been on an uptrend since March. Most stores indicated they have managed to recover fully from the bad weather. Most stores also reported that input prices have not been raised on all items and that a 6 to 7 percent price increase is likely for the remainder of the year. All stores indicated they would pass on as much of the increase as competition will allow. Inventories appear to be a little on the heavy side--probably due to a lack of January-through-March buying. However, no one seemed overly concerned about the situation and all respondents expect to have inventories in line soon. There were no reported inventory problems. Labor supply problems have resulted from the new minimum wage and social security laws. With higher operating costs some managers reported they were forced to reduce their work force in order to maintain their profit margins. Consequently, they are having a hard time maintaining the same level of services as before. Sales are expected to be up 8 to 15 percent over last year, not adjusted for inflation.

The long expected price correction in the cattle market has apparently occurred in recent days as futures prices have tumbled from contract highs. Cattlemen have been further displeased by recent government action to permit an additional 200 million pounds of imported beef

into the United States during the coming year. Neither cattlemen nor consumers should read too much into these occurrences, however. Consumer demand for beef remains quite strong and in the face of this demand, new market highs for slaughter cattle and further retail price increases before the end of the year should not be ruled out.

Banks contacted for the June Redbook indicate that loan demand continues strong, though government loan programs and higher farm prices have resulted in somewhat weaker demand for agricultural loans. Most of the banks surveyed have increased lending rates by 25 basis points in the past month and expect further increases by the end of the year. Deposit growth is moderately strong in the Tenth District.

Introduction of the six-month money market CDs has not yet had a major impact on inflows of time deposit funds. Surveys conducted by this Bank reveal that all of the large banks and most of the small banks contacted are offering the new money market CDs. All of the responding banks that are offering money market CDs are paying the ceiling rate. There has been a moderate amount of advertising of the new six-month certificates but some bankers indicated that they would intensify publicity in upcoming weeks. Consumer response to the new time certificates has been disappointing at most of the banks surveyed. The dollar volume of sales has been less than expected at most banks, and all banks except two reported that more than 75 percent of the funds used to buy the new time certificates came from existing accounts within the bank. A number of bankers did express the belief, however, that the money market CDs would become increasingly important in preventing disintermediation. After the June tax payments and the credit of quarterly interest on passbook accounts at the end of June, many bankers believe that the sale of the six-month certificates will increase substantially.

ELEVENTH DISTRICT - DALLAS

Directors and businessmen interviewed this month report further advances in Eleventh District economic activity. Initial response by the public to the new six-month time certificates has been favorable, although initial sales were less than expected. Banks and thrift institutions see the new certificates as an effective way of retaining current savings. Material shortages continue to cause bottlenecks in construction activity in the district. Labor remains in tight supply and is constraining production in some industries. Retail sales are posting strong gains, but retailers attribute some of the strength to advance buying by customers. Manufacturing activity continues to expand, but there are signs of slowdowns in new orders in some industries.

In response to an advertising blitz in newspapers and on radio and television, public interest in the new six-month time certificates has been heavy, but sales during the first week of issue were somewhat short of expectations. S&Ls appear to be marketing the new time certificates more vigorously than banks. In fact, some large banks have made only minimal efforts toward selling the certificates. Maximum allowable interest rates are being offered at compounded rates by most of the banks and S&Ls surveyed, and nearly a third of the new issues sold represent inflows of new savings. Banks that are not advertising the new certificates are finding that a much smaller percentage represents new savings inflows.

Banks and thrift institutions have reduced advertising during the second week of issue and plan to resume heavy advertising only when they begin to lose deposits. Bankers, in particular, are reluctant to

make the new time certificates an important source of funds, as most expressed satisfaction with their current liquidity position and see the new certificates as adding to the cost of funds without providing additional benefits. But these banks feel compelled to offer the new certificates to remain competitive with other institutions whose currently weak liquidity positions warrant issuing the new certificates. S&Ls pressed by continuing strong mortgage demand and declining savings inflows, find the new certificates more attractive than banks. The increased ability to retain savings, plus drawing in additional savings, appear to offset the added costs of funds in the judgments of the majority of S&L executives surveyed.

Banks and S&Ls agree that the money going into the new certificates is highly interest-rate sensitive. Several respondents predict money market rates will decline late in the third quarter and the new certificates will play only a minor role in savings flows by next year.

The strong pace of economic activity in the district has produced relatively few shortages or bottlenecks. Most of the material shortages continue to be in the construction industry. The shortage of cement is acute, and available supplies of concrete are being allocated to customers and Monday deliveries have been discontinued. The price of concrete in Dallas is currently \$35 a yard, up from \$30 in January, and is expected to rise to \$40 a yard by the end of the year. Shortages of sand, gravel, sheetrock, and insulation have also lengthened the time required to complete some projects. Most of the shortages faced by the construction industry have existed for several months now, and construction firms

have coped with them through careful planning and ordering materials well ahead of schedule.

Labor shortages persist in construction and other industries. Welders, machinists, and mechanics are reported in short supply by fabricated steel producers, oil field equipment makers, and shipbuilders. Shortages of adequately qualified unskilled labor are also frequently reported by employers, especially in Dallas and Houston.

The only equipment shortage of note is for drilling rigs. A shortage of rail cars, especially hopper cars, continues to slow deliveries of some agricultural and manufactured products, but the railroads say the problem is only temporary.

Retail sales are "excellent" and are running slightly ahead of expectations according to department store executives. Apparel sales at many outlets have been sufficiently strong this quarter to offset the first quarter's poor performance. However, some executives attribute much of the increase in department store sales to advance buying prompted by prospects of higher prices. Many retailers believe that the current strength in sales will not carry over into the second half of the year, largely because of the high and rapidly rising level of consumer debt, and year-to-year sales gains will begin to slow in coming months. Inventories at stores are currently near desired levels.

Manufacturing output continues to expand, but some industries report a softening in new orders. Bookings for fabricated steel buildings are slowing because many small businesses are having difficulty securing mortgage money to make these purchases. Fabricated metal manufacturers, however, continue to operate at full capacity and still have large backlogs of orders.

There is widespread feeling, especially among the directors of this bank, that prices are rising much faster than the WPI and CPI suggest. With prices of many goods rising very sharply, it is difficult to discern what commodity prices are rising at slower rates than the overall indexes.

TWELFTH DISTRICT - SAN FRANCISCO

Retail sales, especially those of domestic autos, continue strong. High cattle prices are stimulating farm incomes. The forest products industry is booming and reports a serious shortage of railroad cars to deliver its product. Except for California, the Twelfth District is characterized by full employment. Bankers are generally unenthusiastic about the six-month certificates and consumer response at banks has been very modest.

Retail sales continue strong in the west. One Oregon observer notes that nominal sales are increasing at 15 percent annual rates. A survey in Tacoma, Washington, sees sales rising at an 8 percent annual rate. In Seattle, domestic auto sales are reported strong, but sales of imports are down sharply due to buyer resistance to price increases. In southern California, sales of most cars are said to be booming, but especially those of such luxury cars as Cadillac and Mercedes. New car sales are also reported strong in Utah.

In the agricultural sector, high cattle prices are reported to be bolstering farm incomes throughout the district, but there is some concern about Administration hints of raising the imported beef quota. Even though fruit and vegetable prices have been rising, good California weather is expected to flatten these out. Concern is expressed that current farm-land prices in California are not justified by the land's productive capacity, but rather by its value as an asset for foreign investors fleeing inflation or domestic investors seeking tax shelters.

The forest products industry is reported to be quite strong due both to strong export demand and an expanding residential construction sector. There are, however, two major concerns in this industry. The first is that high mortgage rates (now 10 percent and expected by some to move to 11 percent) could pull the rug out from under housing sales and thus lumber sales. The second concern is over a serious shortage of railroad cars to get forest products out of the northwest--one observer claimed that the need is for 50 percent more cars than are currently available. A director who produces railroad cars confirmed this reported shortage by noting that his factories were experiencing tremendous backlogs.

In southern California the construction business (especially nonresidential) is still booming, though there is growing concern over rising costs of labor and materials. One director in the construction business claimed that rapidly rising wages accompanied by falling productivity (due to low and falling unemployment rates) had generated a 27 percent increase in labor costs over the past year.

Our directors were asked whether they felt that their local areas were characterized by full employment or whether there were involuntarily unemployed people who could be absorbed by a rapidly expanding economy. All western directors outside California portrayed their local economies as having a fully employed labor force. The Utah economy was said to be devouring a stream of new workers migrating into the area. In the Portland area, it was observed that there were virtually no skilled workers available, and this shortage of skilled workers was echoed throughout the district. The categories of unemployment still

existing (i.e., students seeking summer jobs, migrant workers, some unskilled workers and central-city teenagers) were cited as not being amenable to reduction through a more rapidly expanding economy. On the other hand, six of our eight California directors felt that California was not yet near full employment. A dean at the University of Southern California notes that they are receiving hundreds of requests for interviews for both academic and staff positions. Several directors noted that California will move even farther away from full employment in the short run due to the public-sector layoffs stimulated by the passage of the Jarvis-Gann initiative (which cut property taxes by 60 percent).

Our banker directors were generally unenthusiastic about the new six-month certificate. The general feeling seems to be that:

a) banks cannot compete with thrifts in this market due to the 1/4 percent differential and b) most purchases of certificates will be simply internal shifts anyway. All are offering the certificates at the T-bill rate. Only slightly more than half of the banks appear to be advertising the certificates, and most of this advertising seems to be of a minimal nature. Consumer response so far seems negligible to modest, though one Alaskan and one Washington bank did report favorable response. Practically all of the certificate purchases (80 to 100 percent) involved internal shifts of funds. The only exception was the Alaskan bank for which 45 percent of the certificates were new business. Most felt the certificates would have only a modest impact over the next six months, and generally that they would help to curtail outflows of funds rather than actually generate any new inflows. One director felt the only effect would be to raise the cost of funds and thus lower earnings.