

CONFIDENTIAL (FR)

CURRENT ECONOMIC CONDITIONS BY DISTRICT

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Federal Open Market Committee
by the Staff

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SUMMARY*

Based on the latest reports from the twelve district banks, business activity continues at a generally healthy pace. Outside of the automotive industry, where the Teamsters' strike has hampered production, manufacturing activity is at high levels in most districts. With some industries operating at or close to full capacity and new orders strong, delivery lead times appear to have lengthened in a number of districts. Business inventories are generally reported manageable, although some stockpiling in anticipation of higher prices was noted. The retail sales picture across the nation is somewhat mixed. While merchandising activity continued to grow nationally, some districts reported a less-than-satisfactory Easter buying season and a cautious outlook among retailers. Nonresidential construction continues strong in several areas, but home building activity has declined. On the financial scene, businesses, consumers, and farmers appear to have been substantial borrowers at commercial banks recently.

Manufacturing activity is strong and continuing to expand in many districts. While inventory accumulation presents no problem in most areas, many districts reported a lengthening of delivery lead times. Actual shortages of raw and intermediate materials were noted in only a few cases. Boston finds the strength in its industrial sector to be widespread, citing automotive products, aircraft engines and parts, machine tools, instruments and housing products. While thousands of automotive

*Prepared by the Federal Reserve Bank of New York

workers have been laid off in the Cleveland, Chicago and St. Louis areas as a result of the Teamsters' strike, manufacturing activity in other sectors is at a high level. In Cleveland, for example, the steel and aluminum industries are reported operating at effective capacity while the primary metals, machine tools, rubber and plastics, and paper and paperboard industries are at high or near peak operating rates. Chicago area machine tool builders see no letup in demand, which is the strongest since World War II. Most other districts report strong industrial activity, although less robust activity was recorded by Philadelphia and Atlanta.

Consumer spending continues to grow, but the pace of growth is mixed across the nation. Reports from Minnesota and San Francisco suggested that retailers were enthusiastic about the pace of retail sales. Dallas, Atlanta, St. Louis and Kansas City also reported some further expansion and Richmond found signs that the normal Easter buying spree was underway. Sales remain strong in northern New England, but some slight weakening may be occurring in other parts of the Boston district. Auto sales were strong in many areas of the country, led by strong demand for small, fuel-economizing cars. Philadelphia reports very soft retail sales in early April, while sales in New York were mixed in recent weeks. Cold weather dampened spending in Chicago. By and large, retail inventories were reported in good balance with sales, although New York and Atlanta noted evidence of excesses accumulating at particular retailers.

Commercial and industrial building continues strong in several districts but residential construction is declining in most areas. An exception was noted by Atlanta, where construction of apartment houses

increased modestly and most new office space is rented before construction is completed. The effects of the recent change in Regulation Q relating to money market certificates are mixed. Some areas report thrift institutions are only slightly affected, while in others there is fear of reduced mortgage flows.

The outlook for agricultural income generally appears good. Farmers are getting higher prices for many items and are optimistic about the year's prospects. Beef prices reached record levels, and corn and soy bean prices remained strong. Minnesota reports that its dairy farms are also doing well and optimistic crop producers in Atlanta have increased their plantings. San Francisco notes higher yields and prices for its dairy and crop production.

On the financial scene, loan demand was strong in reporting districts, with the exception of Atlanta and Dallas. Even in Dallas, however, commitments to lend in the future show a sharp rise, indicating strength ahead. Demand was apparently widespread among businesses, consumers and farmers. Increased consumer loans to finance auto purchases were noted in several areas. Deposit flows were reported adequate in most districts. Some deposit gains were attributed to the recent change in Regulation Q which, for yields over 9 percent, prohibits thrift institutions from paying 1/4 percentage point more on money market certificates than commercial banks. Boston and Dallas, however, reported little or no deposit growth in some areas. Boston noted that some banks in northern New England had responded to the lack of deposit growth by becoming restrictive in their lending. In New York, there are reports of liquidity pressures on small- and medium-sized firms, but large corporations do not appear to be affected.

FIRST DISTRICT - BOSTON

Directors and other respondents in the First District report that the level of economic activity remains very high. The only sign of weakness is a slight softening in retail sales. Manufacturers continue to experience strong orders and capacity utilization is high. Delivery lead times are growing and price increases are becoming larger. In the banking sector, loan demand is strong, but regular time and savings deposits are not growing at all. This situation is causing the smaller banks considerable concern. No one reports any serious problems in the first week of the Teamsters strike; however, several respondents expect to be adversely affected around the middle of the second week.

Retail sales in the First District may be weakening slightly. The head of a department store chain in the region believes that the momentum has gone out of consumer purchases; it has become harder to sell. A director associated with a large food chain reports that, after several very dynamic months, there has been a marked softening in the past three weeks. On the other hand, directors from northern New England say that sales in their states remain strong. Automobile dealers are doing particularly well.

Manufacturers in New England enjoyed a very strong March. Orders and production were up; capacity utilization is high. The prosperity is widespread: among the areas said to be doing well are automotive products, both commercial and military aircraft engines and parts, machine tools, instruments, graphics and apparel fasteners. Housing products (windows, cabinets and various built in products) are selling very well; however the demand for small appliances is slightly off. All the manufacturers contacted felt that their inventories are at appropriate levels; they are much more concerned about continued

increases in delivery lead times and higher prices. Increases in lead times have been particularly marked for electronic components and castings and forgings. Prices have risen especially sharply for brass, plastics, and repairs and services. One large manufacturer expressed the view that price increases by uncontrolled vendors will destroy the voluntary wage-price controls.

In the banking sector loan demand is stronger than expected, while regular time and savings deposits are not growing at all. In northern New England this situation is forcing banks to become restrictive in their lending. Smaller banks are worried about the possibility that the denomination of the six-months certificates will be lowered. In contrast to the country banks, a number of the money center banks are reported to be marketing loans very aggressively. This is said to be holding down interest rates; however, the quality of the loans is also somewhat lower than it would otherwise be. These banks are not concerned about the availability of funds; they are willing to buy whatever they need to make loans.

Professors Eckstein and Houthakker were available for comment this month. Eckstein believes that the level of economic activity is very near full capacity. His clients and his reading of current business conditions also suggest that production and sales are still "moving along smartly." The married male unemployment rate has struck "rock bottom," help wanted ads abound, and the DRI indices show that labor market conditions are "tight." The current low first quarter growth estimates reflect the vagaries of quarterly GNP estimates, not a sharp deceleration in business activity.

Despite high demand, the economy does not appear to be running out of cash. At present, credit needs are modest compared to the banking system's ability to supply funds. The slow growth of the standard monetary aggregates

is misleading in this regard. The public is acting as though it has adequate money resources because it is accumulating liquidity in the form of "near money" assets excluded from the standard aggregates. For example, high interest rates have caused a rapid expansion of money market mutual funds. To the extent these intermediaries purchase large CDs from commercial banks, M_4 would provide a better gauge of recent "money" growth than M_1 , M_1^+ , or M_2 . Eckstein believes that it would be a mistake to reduce the Federal Funds rate at this time. In fact, the Fed should take steps to tighten policy further, raising the funds rate only as a last resort, however.

Houthakker is less optimistic than Eckstein. He believes there is a 60 percent chance of a "pause" and 40 percent chance of a recession by year end. Like Eckstein, Houthakker believes that the standard monetary aggregates are misleading. Considering the growth of money market mutual funds and other money substitutes, monetary policy has been neither too tight nor too loose. As long as the public's liquid assets continue to grow at current rates, there is no need to change the Federal Funds rate. Furthermore, the Fed should not change the Funds rate to "defend the dollar." The dollar has been doing well recently. It is more important to "defend the economy." "A prosperous economy is the best support we can give the dollar."

Houthakker is pleased with the President's energy program. In time, decontrol of energy prices should tend to reduce domestic prices as our supply of oil increases and our dependence on foreign oil is reduced. Initially, however, decontrol will increase prices. The Fed should not repeat the mistake it made in 1974 of tightening monetary policy too severely in response to these higher energy prices. Houthakker suggests a "middle course:" The Fed should not adamantly hold the line on price increases, nor should it passively permit higher energy prices to set off ensuing rounds of inflation.

SECOND DISTRICT--NEW YORK

Business activity in the Second District continued to expand moderately in March and early April according to recent comments of directors and other business leaders. While retail sales have been mixed, current and prospective business sales continue to be strong. With respect to inventories, several manufacturers mentioned that they thought that their customers had begun to stockpile inventories in anticipation of higher prices and the possibility of a prolonged teamsters' strike. Although supplies of most basic and intermediate materials seem adequate, scarcities have been reported for certain chemicals and other products. On the financial front, there were reports of continued liquidity pressures on small- and medium-sized firms.

Retail sales in the Second District have been mixed in recent weeks. Some retailers report their sales have been brisk, while others expressed disappointment. In any event, comparisons of the sales figures with those for a year ago are difficult because Easter occurs several weeks later this year. The teamsters' strike was not expected to have much effect on retail sales until late May or early June, when goods now on order and scheduled to be delivered would be merchandised. At some stores that reported disappointing sales, inventories appear to be running on the high side. Indeed, one large national retailer plans to cut back on its orders to work down its excess stocks. The general consensus is that retail sales will probably post a modest increase in 1979. Consumer spending on automobiles has been quite strong over the past month, accompanied by a pronounced shift in the sales mix. The demand

for small cars, including both foreign and domestic makes, has been brisk, reportedly reflecting consumers increased concern with fuel economy.

Outside of retailing, business activity remains robust. Overall, orders are brisk and capital spending is strengthening. A few clouds do seem to be forming on the business horizon, however. Delivery times for many goods are lengthening, and bottlenecks are developing for a few raw and intermediate materials--e.g., chemicals, carbon products, petroleum products, paper, and certain kinds of steel. Similarly, the demand for producers durables equipment may also be running up against a supply constraint. One upstate durables manufacturer mentioned that his business was "excellent", but that his delivery times have now stretched beyond the one-year mark. At the same time, some business inventories seem to be growing at a faster rate than they had been in recent months. While businesses still assert that they are conscientiously following "cautious" inventory-management policies, there are scattered reports of "imbalances." One large paper-products manufacturer, for example, cited localized buildups in the Midwest and on the West Coast. Also, several businesses mentioned that their customers appeared to be stockpiling materials and might even be "double-ordering" goods in order to ensure delivery. Some of these inventory imbalances may be the result of the teamsters' strike.

Looking ahead, there is still considerable sentiment that a slowdown is in the offing for the second half of 1979 led by a softening in the housing and consumer sectors, although there is disagreement on

the degree of the slowing. However, one respondent suggested that a long teamsters' strike could dampen even a sharp slowdown, as a strike would deplete inventories and its settlement would later produce a surge like the steel strike of 1968. In that event, in his view the post-strike recovery would mitigate the depressive effects of the recession.

On the financial front, there is general agreement that liquidity pressures are increasing, but only for small- and medium-sized firms. Indeed, many businesses reported longer collection lags for their accounts receivable. The senior lending officers at major Second District banks who were contacted, however, have yet to see evidence of seriously deteriorating corporate liquidity among their customers, who include many of the largest national firms. One respondent cited weak corporate borrowing over the March tax date as indicating ample liquidity. Although the recent easing in the commercial paper market has at times widened the spread between the prime rate and paper rates, this development was not viewed as reducing large banks' loan demand. This is because the spread was viewed as increasing from a level which was already high enough to discourage utilization of short-term bank credit by most paper issuers.

THIRD DISTRICT-PHILADELPHIA

Indications from the Third District are that economic activity is mixed in April. The industrial sector reports only marginal expansion this month and retail executives say sales have become extremely soft in the first weeks of the month. There is even some feeling in the retail sector that this may be the beginning of the downturn many people have been forecasting. As for the future, manufacturers look for a slowdown within six months, while merchants remain very cautious and conservative. One bright spot in the Third District picture is the banking industry. Area bankers report strong business loan demand, and expect the trend to continue at least through October. However, some drop-off in consumer loan volume is anticipated.

Third District manufacturers responding to the April Business Outlook Survey indicate only marginal expansion in overall industrial activity this month. In terms of specific indicators, new orders are up only fractionally while shipments continue to increase. Consequently, manufacturers' inventories have fallen for the sixth consecutive month. Factory employment, though, continues to grow. Survey respondents report both larger payrolls and slightly longer working hours in April.

For the longer term, executives in the industrial sector retain their pessimism. Nearly half of those polled in April expect business conditions to worsen by October, while less than one-fifth anticipate further growth. And, for the first time in this expansion, survey respondents are forecasting a drop in virtually all specific indicators. Both new orders and shipments are projected to fall significantly within the next six months, and a further paring of stocks is planned. At the same time, manufacturers foresee a slight cut in the size of factory work forces, along with a shortening of the workweek.

On the price front, inflation continues in the District's industrial sector, and manufacturers expect to see more of the same over the next two quarters. Four out of five of the executives surveyed in April report paying higher prices for inputs this month, and two out of five are charging more for their finished products. Looking ahead to October, about 80 percent expect further hikes in the cost of raw materials, and 65 percent plan to boost the prices of the goods they sell.

Area retail sales have been "uncomfortably soft" thus far in April, following two boom months. Merchants were expecting large year-over-year increases in early April owing to the change in the calendar position of Easter. Such increases have not materialized, however, leading many retailers to believe that sales have softened dramatically lately. In fact, instead of attributing the slow sales to the usual transitory causes, one merchant believes that "March was quite likely to be the last good month retailers will see for some time."

Looking ahead to the summer and early fall, retailers are extremely cautious. The general feeling is that large boosts in the price of essentials such as food and energy will leave less money for consumers to spend on other things. Furthermore, Third District merchants had a strong summer in 1978, which will make big year-over-year gains difficult. Overall then, sales executives are looking for a marginal increase in nominal sales volume with about a 5 percent drop in real volume. Retail inventories, reported to be about as desired now, should not undergo any major change within the next six months.

Area bankers report continued strength in both business and consumer loan demand in April. Business borrowing is up as much as 10 percent over year-ago levels and generally as planned. Bankers foresee little change in the business loan situation through October, but anticipate a slight drop-off in consumer loan volume.

The prime rate remains at 11 3/4 percent at all banks contacted this month. Forecasts of the prime rate for the next two quarters continue to be widely varied, ranging from a move to 12 percent in the near future followed by a leveling off, to a continued climb through summer with a 14 percent cyclical peak in August or September.

Deposit flows at local banks appear to be adequate at the present time. Commercial banks report no ill effects stemming from changes in Regulation Q on the fifteenth of March. Money market certificates are still selling in the area, with about 50 percent of the money they attract coming from other accounts within the issuing institution.

FOURTH DISTRICT--CLEVELAND

Automotive production and employment in the Fourth District is being hampered by the Teamsters strike, but other key manufacturing industries are operating close to effective capacity. High operating rates and fear of shortages have stimulated some inventory building. Manufacturers see little sign of let-up in price pressures in the near-term. Retailers still view short-term sales prospects cautiously and some expect smaller gains in sales this quarter than last. Deposit flows at S&Ls in recent weeks have slackened, and officials are uncertain over future deposit flows and mortgage lending.

Except for the automotive industry, the Teamsters strike has not yet had disruptive effects on employment and production, although sizable cutbacks are likely if the strike lasts beyond mid-April. Auto production so far this month has been cut nearly 8 percent from the scheduled 825,000 units. GMC has already shortened the workweek at plants in Cincinnati and last week furloughed 7,400 workers for one week at the Lordstown assembly plant and another 6,000 workers at a nearby electrical equipment plant. Production losses were reported at about 7,500 passenger cars and vans. Ford Motors expects a cutback of about 55,000 passenger cars this month, nearly 25 percent of their planned schedule, even if the strike ends this week. They expect that two-thirds of the production loss will be made in May and June, but 10 percent or more will not be recovered in this model year because of poor sales of certain models. In addition, Chrysler announced a shutdown of six plants in Ohio beginning April 9. However, the shutdown

probably stems from excess inventories rather than the Teamsters strike.

Nonautomotive industries, including primary metals, machine tools, trucks, rubber and plastics and paper and paperboard, are reported to be at high or near peak operating rates. Effects of the Teamsters strike on employment and production in these industries have been minimal, although steel, glass and auto components producers expect disruptions should the strike continue much longer. Steel and aluminum industries are operating at effective capacity. Steel is expected to operate at about 95 percent capacity this quarter, a presumed maximum rate, unless hindered by the Teamsters strike. A shortage of domestic coke has boosted imports. One economist expects some domestic steel users to step-up imports because of fear of shortages and lengthening lead times at domestic mills. A major flat glass supplier to GMC reports a full order book through this summer. An axle and transmission producer also reports no cutbacks in production have yet resulted because of the Teamsters strike and remarked that should the auto industry be shut down, this producer would continue at full production in order to relieve a shortage in axles. Some softening is noted in sales of vans because of higher fuel prices. A shortage of polyvinyl chloride has led some producers to allocate production. Tire producers have been operating at capacity partly because of high demand and also because of expiration of the labor contract on April 20. An economist with a tire producer expects that the probability of a strike in the rubber industry will be heightened if the Teamsters strike continues through April 20. Paperboard capacity has tightened because U.S. producers have stepped up exports in response to higher prices abroad than in U.S. markets.

Businesses assert they are still cautious in inventory policies but are more willing to step up inventory building because economic activity in the fourth quarter of 1978 and again in the last quarter was better than some expected, which has given rise to a feeling that the widely discussed recession is not yet apparent. An automotive parts suppliers note that their inventories are at record levels but in terms of day's supply, stocks at the end of last month fell because of further increases in sales.

Intense price pressures show little sign of abatement in the near-term, nor are they expected to let up as long as manufacturing activity continues to operate at or near peak rates. Some officials remarked that only recently have markets for their products been strong enough to absorb price increases. Only scattered signs of moderation in price pressures are indicated. For example, additional FVC capacity is expected to be in operation within the next two to three months, which should end allocation of that product and ease strong upward price pressures. Also, steel scrap prices in some regions fell recently but this was not expected to spread to all steel producing regions.

Unlike ebullient remarks from manufacturers, retailers remain cautious in their appraisal of consumer spending prospects. The Easter season does not appear to have stimulated GAF sales so far this month. A department store official notes that consumers respond well to bargains and heavy promotions. An economist with a major department store chain expected April sales will increase about 9 to 10 percent from a year-ago, but he expects only an 8 percent year-over-year increase in sales this quarter compared with a 9.5 percent increase last quarter.

S&L reports on deposit flows and consumer responses to recent changes in money market certificates are mixed. Some feel that the March 15 changes that set maximum rates on certificates may not have much adverse effect on deposit flows. An economist with a FHLB in this District perceives that associations are not strapped for funds, at least as suggested by an increase in paybacks instead of in new borrowings in recent weeks. On the other hand, some others feel associations have not been successful in rollover of maturing certificates. Nevertheless, some officials believe they can still draw down liquidity and step up borrowing to support mortgage demand, which is typically described as rising seasonally but not as strong as a year-ago. Prices of new houses continue to rise rapidly, although prices of new houses have tended to increase less rapidly than last year, according to some lenders.

FIFTH DISTRICT - RICHMOND

Responses to our latest survey indicate some further modest improvement in Fifth District business activity. Gains in manufacturing appear spotty, concentrated for the most part among producers of hard goods. Inventory accumulation in the manufacturing sector appears to have picked up in the past two months but remains moderate. Pessimism in the business community appears to be less pervasive than earlier in the year, although expectations for the next six months are still basically negative. The inflation problem continues to be the number one concern among businessmen. Thus far the Easter retail rush appears to be something short of spectacular. Loan demand at banks has picked up in recent weeks but activity in mortgage markets has slowed.

Of manufacturers responding to our latest survey nearly one-third report increases in shipments, new orders, and order backlogs over the past month. Such gains appear more prevalent among producers of primary metals, machinery and equipment, and electrical equipment than among manufacturers at large. On the other hand, textiles and paper producers do not seem to have shared in these recent gains. Employment among manufacturers continues to hold steady as does the length of the work week. Further accumulation of finished goods inventories apparently occurred since the last survey, but, on balance, current stocks have risen only very slightly relative to desired levels. For the most part our directors see little indication of significant inventory accumulation such as that which occurred during 1974. Only two directors see any cause for concern over current inventory developments. One cites heavy buying in anticipation of higher prices and one views heavy accumulation at the retail level as a

seasonal development. Manufacturers seem comfortable with current plant and equipment capacity and with current expansion plans.

Our sources of information yield no clear picture of conditions in the retail sector. There are signs that the normal Easter buying spree is underway, but no indication that it has been in anyway spectacular. Several retailers characterize current conditions only as stable. One cites a recent pickup in sales of big ticket items. Sources in the financial sector perceive strength in automobile sales and also in the use of credit cards.

The pervasive pessimism of last winter appears to be dissipating in the face of continued strength in the economy. Expectations among our survey respondents remain basically negative, but it is clear that a number of those respondents feel that prospects have improved in recent weeks. Over one-third of the manufacturers still expect the level of business activity nationally to decline over the next six months, but fewer than one-fourth expect declines in their respective market areas. Furthermore, over one-fourth expect further gains in output in their own firms. Retailers, on balance, foresee little change in the level of activity nationally, locally, or in their individual firms. Several firms expressed concern over specific conditions, inflation, the level of interest rates, the oil situation, and the teamsters' strike, but the basic outlook held by District businessmen can only be said to have improved in recent months.

In the financial sector businesses appear to have become more active bank borrowers and there are signs of renewed demand for instalment credit to finance purchases of automobiles. The residential mortgage market, however, continues to reflect slowing activity. Small to medium sized firms seeking working capital credits have contributed to recent increases in commercial bank lending to businesses. Loan demand has been greatest on the part of manufacturers,

and strength here has been somewhat offset by weak demand in the trade sector. Commercial banks in the region continue to feel comfortable with their liquidity positions, and thrift institutions have experienced only a moderate slowing in funds inflows following recent change in regulation governing money market certificates.

Fifth District farmers enjoyed a greater improvement in cash farm income in 1978 than did farmers nationwide. Generally good crop production--in contrast with the drought-reduced crop output of 1977--and higher farm prices combined to bolster total cash receipts from farm marketings some 17 percent over year-earlier levels as against an increase of around 15 percent nationally. Receipts from crop marketings, up 19 percent, contributed most to the District increase. By state, greatest improvement in total cash farm income occurred in Virginia and the Carolinas--states hit hardest by the 1977 drought.

SIXTH DISTRICT - ATLANTA

Activity has been rather quiet in the past month, bringing steady but modest growth despite the emergence of potential problems. Except for subcompact car sales, consumer spending gains have been small. Housing markets remain fairly strong but softening. At banks, deposit growth looks a bit better, but loan demand has eased. Steady, solid advances in nonresidential construction have continued. Layoffs and strikes have clouded labor market reports, but the Teamsters' strike has had only limited impact as yet. Inventories appear to be adequate and manageable, although short gasoline supplies have become more visible. Farmers are getting higher prices and are optimistic about the year's prospects.

Growth in retail sales within the District has been moderate and steady. Many retailers indicated that consumer spending is generally satisfactory and may be slightly ahead of spending for the comparable period in 1978. A continued shift in preference for smaller, fuel-efficient automobiles was evident, with very good sales straining supplies of economy cars. One contact reported a tendency for middle-class consumers to trade down to smaller models, while the well-to-do continue to purchase luxury cars.

There's been little change in housing trends of late. Some areas reported a pick-up in mortgage loan demand in March, probably largely seasonal or due to special influences like April 1 changes in local building codes. Apartment construction continues to increase modestly, although some areas have noted apartment vacancies creeping up. In early April, New Orleans made available some \$72 million, raised through municipal bonds, to mortgage borrowers at 8 1/4 percent. Estimates of the total amount of tax-free

mortgage offerings planned by Louisiana cities range from \$500 million to \$750 million. Several Florida cities, including Jacksonville, have similar bond issues in the works.

Loan demand, excluding mortgages, has moderated in the most recent weeks. Deposit inflows have strengthened, although demand for six-month money certificates seems to have slowed after the regulatory changes. In Tennessee, with an easing of usury restrictions on the horizon, borrowers are reportedly negotiating eagerly for longer loan maturities.

Nonresidential construction appears to be progressing at a steady pace. Office occupancy rates have continued upward, nudging up rents; construction seems to be well-balanced against reasonable expectations for demand, with most space rented in advance. Land transactions have been very active, with prices strong and even distressed properties now moving. A major Atlanta realtor has experienced no abatement of commercial closings to date, but he sees some hesitation of prospects, definite caution with regard to retail properties, and a potential overhang of warehouse construction. He characterizes credit availability as good and underwriting as "sensible." Some noteworthy industrial announcements have been made in the past few weeks, among them a \$150- to \$200-million expansion of St. Regis' Pensacola plant and an enormous electric-generating facility in Tennessee. Florida's phosphate producers are moving ahead with ambitious expansion plans, notably the development of uranium extraction capabilities, since the EPA gave them the green light in March.

Recent labor market news has been downbeat, with strikes and layoffs dominating the picture, but the potential for good job growth remains. The latest hard figures, several weeks old, showed only slight overall employment

gains. A construction strike, involving 2,500-5,000 workers, has brought a halt to major commercial building projects in south Florida. Georgia-Pacific's Louisville, Mississippi, plant continues to operate despite a lock-out of local workers. Both disputes arose from management's attempts to keep wage increases within the Administration's guidelines. The impact of the Teamsters' strike has been muted by the District's relatively high proportion of nonunion labor in trucking. The two Atlanta-area GM plants are well-supplied with parts, the majority of which are received by rail, and are likely to be stepping up production in coming weeks. Ford's Lakewood, Georgia, LTD plant will remain on a one-week-on, one-week-off schedule until July to reduce inventories and alleviate a parts shortage that pre-dates the Teamsters' strike. While it appears that Georgia will be spared from any major military cutbacks, Florida is likely to be the hardest hit state in the nation, losing more than 5,000 armed forces personnel, if the recent proposals are carried out.

A query of directors regarding inventories revealed no significant problems, either build-ups or shortages, although many expect some if the Teamsters' strike persists much longer. A few bankers reported that they received limited requests for financing of extra inventories just prior to the strike. Retail stocks are generally considered tractable, although Atlanta retailers complain of excesses. Supplies of some steel products remain tight, with lead times extending further.

Tightness of gasoline supplies has become more noticeable but has yet to pose major problems. Temporary outages have been more common, mainly at retail stations (especially Exxon) but also at some distributorships. Many stations have cut back hours and/or begun closing on Sundays. Other

rationing schemes being considered by retailers include converting self-serve pumps to full-serve and limiting service to regular customers; some south Florida stations are reportedly issuing IDs for that purpose. Some hoarding of fuels, notably by agricultural and construction firms, has been observed by central Florida directors. On the other hand, the trucking slowdown has reduced sales of gasoline, food, etc., at truck stops.

The Three-Mile Island incident has provoked a great deal of comment on the future of nuclear power in the Southeast; scattered groups of protestors have called for the closing of existing facilities and a halt to construction of new nuclear plants. No concrete steps in that direction have yet come to our attention.

Business is poor in the District's coal industry. Many smaller operators are selling at loss or closing shop. The industry has seen a rather brisk capital expansion and a dramatic rise in regulatory costs in the past few years, while the projected surge in coal demand has not materialized.

In the agricultural sector, prices generally have continued to rise. Beef prices posted a new record last month, and corn and soybean prices remained quite strong. Expanded production dropped poultry and pork prices, however; a "promotional" 10-percent cut in citrus prices looks likely to stick, and industry sources are talking of another reduction within the next few weeks. Crop producers are optimistic, increasing plantings and borrowings. Heavy rains have put plowing slightly behind schedule.

SEVENTH DISTRICT - CHICAGO

The truck strike has taken the economic spotlight in the Seventh District, even though Chicago area truckers have not been directly involved. Many companies attempted to prepare for the April 1 strike deadline by putting in additional supplies, and this augmented already heavy demands for materials and components. The main impact of the strike, so far, has been on output of motor vehicles. Orders for producer equipment continue to outrun rising shipments. Demand for trained and trainable workers remains vigorous. Consumer purchases have been dampened by cold weather and the late Easter. Real estate transactions picked up sharply in March from depressed levels, but home building is expected to lag year ago by a wide margin. Farmers are relatively prosperous, particularly livestock farmers. Continued stringencies in beef supplies will be offset, in part, by a major expansion now underway in pork and poultry production.

Prior to the truck strike, truck lines were operating all out:

(1) to make up for the bad winter, (2) to accommodate rising activity, and (3) to carry goods ordered as a hedge against the strike. Auto companies began closing assembly plants soon after the strike. A strike of a few weeks would halt the entire motor vehicle industry. Operations are geared to a steady flow of components to the final assembly process.

Outside of motor vehicles the impact of the truck strike has been "spotty." Steel has continued to move to the South and West from Chicago, but not to the East. Smaller unionized trucklines, company fleets, independents, lines with Teamster contracts expiring at other dates, and most Chicago area lines have continued to operate. LTTL (less than truckload lots) shipments

are being avoided by operating truckers. Various devices are being used to keep operations going, including rented trucks. The railroads are of little help because they have been operating at virtual capacity determined by availability of equipment and the condition of trackage.

The three-year pact rejected by the Teamsters would increase compensation more than 30 percent. Pending negotiations in other industries have come to a standstill awaiting a settlement by the Teamsters. Pay is already high with many young men making \$20,000 or more annually, not counting fringes. The main issues are said to be a demand for two COLA adjustments per year, rather than one, and an increase from \$60 to \$90 per week in the pension-welfare package. The adequacy of existing pension reserves has been jeopardized by unfortunate investment policies.

Negotiators are also watching the UAL strike. The Machinists rejected a three-year pact worth 32 percent in wages and 40 percent in total compensation. One issue is a demand for an unlimited COLA.

Informed observers expect a truck strike agreement within a week or so, before the general supply situation deteriorates seriously, because owners are more unified and strikers less militant than in the past. But this is by no means certain. Moreover, Chicago area locals may decide to strike after the national pact is negotiated as they have in the past.

The truck strike is not expected to affect production and distribution of oil products because pipelines, jobber-owned trucks, and independent trucklines handle most of the traffic. Moreover, the truck strike and the airline strike are helping to alleviate the very tight supply situation for diesel fuel, jet fuel, and heating oil. Inventories of these products had been drawn down to dangerously low levels, especially in the Midwest.

No problems have been reported recently with the nuclear stations that supply a vital portion of the electricity used in Illinois, Michigan, and Wisconsin. Commonwealth Edison, which serves 8 million people in Northern Illinois, depends on nuclear power for almost half of its requirements. There is grave concern that the problem at Three-Mile Island will add force to demands that construction be stopped on several new nuclear stations and that existing stations be closed.

The producer equipment surge is still underway. Machine tool builders see no letup in demand unmatched since World War II. Producers of freight car components have decided to expand capacity, finally convinced that the boom will last.

The auto and truck market is generally strong, but very mixed. Some economical cars are bringing premiums over list prices, and some standard-size models are in short supply. However, supplies of light trucks, other than four-wheel drives, are now ample. Demand for heavy trucks remained strong in March, much to the surprise of some forecasters.

Mainly because of a surge in livestock prices, average farm prices were at record levels in the first quarter, 24 percent above year ago. Net farm income in 1979 is expected to surpass the 1973 record which was nearly equaled in 1978. Farmers are buying equipment at a fast pace, and are expected to continue to do so.

The truck strike is not expected to ^{/significantly} affect supplies of meats and other perishables, almost all of which are carried by independents. Tie-ups in terminal areas are possible, however.

Increased pork and poultry production, perhaps as much as 20 percent, will moderate upward pressures on food prices in the second half of the year.

EIGHTH DISTRICT — ST. LOUIS

According to a number of Eighth District businessmen, the District economy continues to advance at about the same rate as a month ago. The strongest gains apparently were registered in the manufacturing sector where larger orders were reported by several important industries. In some cases, however, anticipation of the truckers' strike may have affected March orders. In addition, the strike is currently having substantial effects on the automobile manufacturing industry and will threaten others if it lasts very long. Retailers report that sales have continued to increase, but some noted a possible slower trend. Inventories, however, remain at about desired levels. Construction activity continues at a high level spurred by increased nonresidential construction. Homebuilding, on the other hand, remains somewhat lower than a year ago, but such activity improved in March over the very low levels of January and February.

Overall, retail sales continue to increase although some retailers indicate a slowing in recent weeks. One representative of a major St. Louis department store noted that recent sales have been increasing, but at a slower rate than the current rate of inflation. Two representatives of national retail marketing chains also reported a slower growth in sales. Retailers, however, do not report major problems with inventory accumulation. Unit sales of automobiles are apparently about the same as a year ago. Dealers, however, noted a marked shift toward smaller cars.

Manufacturing activity has continued upward in recent weeks, but recent gains may not totally reflect the underlying strength of the economy since some orders were placed in anticipation of the truckers' strike.

Representatives of firms manufacturing boxboard, chemical, and construction materials all indicated that part of the strength in March sales may have partially reflected the impending strike. A representative of a major steel firm reported strong orders and a sizable backlog of orders. Several machine tool firms reported sales to be quite strong and that delivery dates have lengthened. A major aircraft manufacturer reported that commercial aircraft manufacturing activity is "booming" as a result of recent orders.

While anticipation of the truckers' strike may have boosted activity in March, the strike is currently having a major impact on the automobile industry. In the St. Louis area more than 18,000 workers have either been laid off or are working fewer hours. Other firms noted that the strike will not cause them to shut down in the immediate future, but that a prolonged strike will cause serious problems in obtaining raw materials and delivery of finished products will develop if the strike is prolonged.

Overall, construction activity continues at a high level in the District as a decline in the homebuilding industry has been offset by nonresidential construction. Contractors of commercial, highway, and other types of construction report long backlogs of projects, and, in some cases, are refusing to bid on new projects. Homebuilding activity, on the other hand, was off substantially in the first two months of the year, but gained momentum in March. While new home sales also have picked up, builders indicate that it is too early to estimate the current strength of home demand. Most homebuilders are expecting a 15 to 20 percent decline in unit sales this year.

Recent regulatory changes concerning money market certificates apparently are exerting an adverse effect on savings inflows at savings and

loan associations, but are boosting the inflow into commercial banks. While in earlier months S and Ls were able to attract large amounts of funds via these certificates, some S and L officials noted that the inflow of these funds tapered off during March. These officials said, however, that it was too early to predict the final impact of the recent changes. Missouri S and L officials contacted are not upset by the regulatory change since these funds are not very profitable in view of Missouri's 10 percent usury ceiling on home mortgages. Legislation has been introduced into the Missouri legislature to amend the usury law.

Commercial banks report that loan demand remains strong although the volume of loans at larger banks has not shown much gain in recent weeks. S and L officials report continued high demand for home mortgages, particularly for existing homes. Some S and Ls, particularly in states affected by usury ceilings, are continuing to ration credit to customers by increasing the down payment on loans.

NINTH DISTRICT - MINNEAPOLIS

Contrary to what many economists predicted last year, the district's economy is holding up pretty well. Several economists expected both the nation and the district to slide into a recession by the end of 1978 or at least early in 1979. Our Bank's directors indicate in April, however, that business activity remains strong. And as long as the trucking strike is not prolonged, they expect that strength to continue everywhere except in the construction industry.

Widespread Strength and Optimism

District manufacturers seem to be having a very good year. Several directors report brisk activity in these industries which they think will increase. This strength is reflected in the heavy loan demand directors see at many commercial banks, and they don't expect that to ease soon either.

This region's low unemployment is another manifestation of economic strength. The district's unemployment rate is currently at a low 4.3 percent, and nonagricultural jobs have increased 4.4 percent over the last year. In fact, two directors say their areas are at full employment. Joblessness should remain low in this district; help wanted ads indicate that employers are not slackening their hiring plans.

The farm sector is also contributing to the district's prosperity. Directors expect high prices to continue to bolster livestock producers' profitability. Dairy farmers are making money too, and new price supports should make their business even better. And grain growers' prospects remain quite favorable if the weather cooperates.

This strength in the district's economy makes district retailers busy and optimistic. Hard goods and autos are selling well, and retailers think

demand will remain strong for these goods, especially smaller cars. Unseasonably cold weather is holding down soft goods sales, but this merchandise is expected to start moving once warmer weather arrives. Directors say most retailers are satisfied with their inventories and don't anticipate any problems.

A Slowdown and a Threat

Not everything looks rosy, however.

For one thing, the district's construction industry is working hard now, but it seems likely to slow later this year. A large national building products supplier, headquartered in Minneapolis, reports that customers' inventories unexpectedly rose sharply in early 1979 because of a softening in residential building. This firm sees housing starts dropping from 1.8 million to 1.6 million between the first and second halves of 1979. In addition, this manufacturer says bookings for new commercial and industrial projects fell in early 1979, and it projects national nonresidential building peaking in the third quarter and declining 5 percent in real terms between 1979 and 1980. These declines are expected to result mostly from the high cost and low availability of funds--a concern that several bank directors also have.

And the construction industry may not be the only one weakening if the current trucking strike lasts much longer. The strike has already affected Montana ranchers' ability to get feed. And a large Minneapolis-St. Paul area manufacturer is starting to run out of space because finished products cannot be shipped. Directors think that if the strike does not end within about two weeks, many manufacturing plants and construction projects will be shut down as inventories of production inputs are depleted.

TENTH DISTRICT—KANSAS CITY

Economic activity continues generally strong in the Tenth District, although there are signs of weakening consumer demand and scattered indications of declines in construction. Most manufacturers are operating at or near capacity, and are scrambling for materials to keep their inventories of inputs at satisfactory levels. Purchasing agents have not observed any abatement in the rate of increase of materials prices, nor do they expect any in the months ahead. Retail stores report some moderation in wholesale price increases, but lackluster sales volume. Farm income stands to benefit from the increased price of livestock, and agricultural loan demand is very strong. Deposit growth is uneven among banks across the District, judging from the mixed reports received. Bankers do not expect to be changing their prime rates for a while.

Retailers say their sales receipts are up only slightly from year-ago levels. Retail sales volume in recent months has been increasing much more slowly than in late 1978, making retailers apprehensive about their prospects for the rest of the year. The large gains that were reported five to six months ago have sharply dissipated, and store executives are quite concerned about the possibility that a recession may begin in the third quarter.

Prices paid by retailers have been rising somewhat in the last two or three months, but there seems to have been some moderation in the increases. Compliance with price standards by manufacturers is cited as one reason for the moderation. Retailers feel that their inventories are a little high—particularly when looking at a flat third quarter with recession

overtone. However, some stores say they built up inventories in anticipation of the Teamsters strike.

Purchasing agents say prices for most major inputs are approximately 10 to 12 per cent higher than this time last year, with some steel inputs and petroleum based inputs registering increases of 20 to 50 per cent. During the first quarter of this year alone, prices of commodities such as copper, aluminum, steel, corrugated shipping materials, and petroleum products have risen about 10 per cent. Buyers expect input prices to continue to rise rapidly, especially prices for aluminum and oil-based supplies.

Most industry spokesmen consider their current inventories of materials to be at satisfactory levels. But, inputs are becoming increasingly difficult to obtain as lead times are stretching out substantially, especially in the machinery, agricultural equipment, and aircraft industries. A prolonged Teamsters strike threatens to make matters worse.

Several Tenth District metropolitan areas report tight labor markets. On the other hand, one Director from Omaha says that architects, engineers, and construction workers in that area cannot find work. Another Director is bothered by the apparent relaxation of the wage guidelines, believing that any change now will cast employers who complied in a bad light.

Farm prices are continuing to rise to record high levels. In March, the index of prices received by farmers rose 2 per cent, the fourth consecutive monthly increase. Beef cattle prices jumped nearly 10 per cent for the month, and this increase was responsible for most of the increase that occurred in the index of farm prices. Not all farm prices rose last month, however. Lower prices for hogs and vegetables partly offset the gains for other commodities. Nevertheless, farm prices in March were 23

per cent above year-earlier figures. This strong gain coupled with the prospects for the remainder of 1979 suggests that net farm income will exceed the 1978 level of \$28 billion.

The sharp improvement in 1978 farm income has been reflected in the farm real estate market, which in the past year rose 14 per cent nationwide. Within the Tenth District, the annual increase ranged from 7 per cent in New Mexico to more than 20 per cent in Colorado and Nebraska, averaging about 14 per cent for the District as a whole. Although interest rates on real estate mortgages have increased about one percentage point in the past year, the bright prospects for 1979 farm income will probably outweigh most concerns about the cost of borrowing. Thus, further increases in land values seem likely in the Tenth District.

Most bankers in the Tenth District report that loan demand is strong, with agricultural loans, especially cattle loans, particularly strong. The demand for consumer, commercial, and retail loans is generally good, while the demand for housing and construction loans is mixed. All banks surveyed report prime rates between 11.50 and 11.75 per cent, and no rate changes are planned for the near term. However, most bankers say they are becoming more selective in their lending activity.

Bankers give mixed reports on deposit growth. Most of the perceived sluggishness in growth is attributed to seasonal factors. Savings and time deposits are normal to flat while the other deposit categories are showing varied behavior among banks. The mixed reports for money market and large CD's are a marked change from the general strength indicated in these areas during the March survey.

ELEVENTH DISTRICT--DALLAS

The economy of the Eleventh District continues to advance, according to the Directors and businessmen surveyed, but the Teamsters' strike is beginning to disrupt business activity. Consumer spending remains strong with both department stores and auto dealers reporting recent gains in sales volume. Bank loans outstanding continue to grow at the same reduced rate that has prevailed since the start of the year. Mortgage lending activity by savings and loan associations is down substantially from last year's peak and appears to be slowing further. New orders and capacity utilization remain high in most manufacturing industries. There is a noticeable rise of resentment about inflation, and the Government's inability to handle the problem effectively.

The Teamsters' strike forced the temporary closing of a local GM assembly plant due to a lack of parts. Other manufacturers are watching the situation closely and indicate a prolonged strike would be harmful. The strike has not appreciably affected the movement of goods at the port of Houston, although some merchandise that would normally leave the port is being warehoused.

Department store sales continue to increase and remain slightly above last year's Easter sales period. Early spring sales promotions are helping to boost sales volumes. Many executives anticipate a slowing of sales in the second half of the year but add signs of a widespread slowdown are not yet evident. Inventories remain near desired levels.

Auto sales continue to make a strong showing. Gains largely reflect the increased popularity of economy-size cars, although one

dealer notes that sales of big cars are picking up again. Inventories of trucks and small cars are low.

Loans outstanding at District banks continued to climb at the somewhat slower pace established earlier this year, but loan commitments appear to have risen sharply in March. Much of the strength in lending is centered in energy-related activities. Consumer lending appears to have quickened recently. Most types of real estate lending also remain strong, although some weakness in mortgage warehousing is noted. Deposits are showing essentially no growth.

Preliminary results from the quarterly survey of agribankers suggest little overall change in agricultural credit conditions since the first of the year. Many rural banks report a normal seasonal weakness in loan demand. Banks continue to be very selective in making loan commitments, and few are actively seeking new farm loan accounts. One noticeable change since the last survey is an apparent improvement in bank liquidity in the High Plains region of Texas. In addition to normal deposit growth generated by crop sales in the first quarter, several agribankers in that area note lending activity by the Farmers Home Administration and the Small Business Administration has contributed to an improvement in loan repayment rates and to increased bank deposits.

Savings and loan associations report that mortgage lending remains lackluster and deposit inflows are weak. Some S&L's experienced net deposit outflows in early April, apparently reflecting consumer cash needs to make income tax payments. Lower interest rates on money market certificates caused an initial reduction in the level of those deposits, but most S&L's report the effects have been relatively mild.

Manufacturers report steep increases in finished goods prices. Although increases in wage rates are moderate, the growing shortage of skilled labor is forcing labor costs up as many firms find it necessary to start training programs. Raw materials and intermediate-goods prices continue to rise rapidly.

New factory orders are increasing at a moderate pace, and back orders are heavy as capacity utilization remains high in most industries. Although delivery times are lengthening, shortages of materials and parts remain isolated. Increases in new orders for machinery, textiles, and apparel continue strong. Bookings for drilling equipment and transportation equipment remain at high levels, but some weakness is noted among manufacturers of food service equipment. Inventories generally remain near desired levels.

New construction plans for manufacturing plants this year are not expected to match last year's strong increase. One area of potential weakness is the petroleum processing industry where uncertainty over the availability of feedstocks has cut into projected plant expansions. However, if the production of chemicals continues to increase as it did in the first quarter, construction in that industry could pick up appreciably. Construction of electric generating plants is also slower this year than last year. An improved profit outlook for steel producers and fabricators is expected to boost construction outlays to replace old facilities, possibly as soon as late this year. Construction spending by the paper industry is also expected to increase sharply.

Discussions with small groups of businessmen reveal rising resentment against the failure of Government to deal more effectively

with inflation. The continued onrush of Government regulation is another very sensitive issue. Declarations that they have stopped trying to comply are heard, especially from small businesses.

TWELFTH DISTRICT - SAN FRANCISCO

A picture of general "good health" prevails in the western economy with business strong across the board. Commercial and non-residential construction is moving ahead sharply, the forest products and aluminum industries are booming, smaller-economy auto and truck sales are way up, mobile home sales remain good, retail sales are very strong, dairy and crop production yields and prices are higher, and employment is generally good with unemployment low in most areas.

Several pressing problems do exist in the area of petro-chemicals where the volatile Iranian situation and OPEC price increases have led to oil/gas reductions, shortages and higher wholesale/retail prices. It is possible that the energy situation may affect food chain enterprises, fast food restaurants, motels, tourism and other gas-related industries. Though tight, the situation is not yet disastrous in the West.

Inflation pressures continue to be felt, with overall loan demands down slightly, money market certificates (MMC) exceeding expectations with the interest-rate-conscious consumer public, and residential real estate construction and sales declining as buyers continue resisting higher price tags and high mortgage costs. A particular exception to the downward trend in housing is the Los Angeles County area, where the housing market is thriving. Residential building permits in the area are up a strong 17 percent, as compared to the general decline of 11 percent in California. Los Angeles housing starts in both single- and multi-family dwellings have shown a substantial increase in the entire first quarter of 1979.

Some analysts have expected supply bottle-necks to develop, especially with the Teamsters Union and United Airlines strikes in progress, but only minor spot shortages and difficulties in obtaining equipment and/or materials have resulted to date. While truck deliveries are taking longer, it is usually a lack of stock-on-hand in all product lines that has "lengthened" delivery times for manufacturers, distributors and local contractors. But, generally, delivery schedules have been this lengthy for a long time, one director reported. A fairly tight supply situation has existed in such areas as office furniture, paper, trucks, truck accessories, forklifts, and cement. But other areas such as bank equipment, clothing, and electronics products have had no supply problems -- and don't expect any. If the strikes continue, it is expected that delivery schedules will continue to lengthen and that shortages of materials could be created.

Spending on consumer durables in the West has been affected by the high rate of inflation, high interest rates, decreases in disposable income, current wage guidelines, petroleum shortages, and home construction declines. The demand for such items as recreational vehicles, power boats, new furniture, rugs, and white goods is expected to be slow and sluggish during the current year. The longer the negative factors remain, the greater the impact will be on future movement of consumer durables.

The Twelfth District, as expected, has experienced a shift of money market certificates (MMC) accounts to banking institutions, following the March 15th advent of regulatory changes that eliminated the rate differential favoring thrift institutions. But the limited data available for late March

do not guarantee that a major, long-term trend away from Savings & Loans has occurred, when the data are compared with the weekly inflows of January, February and early March 1979. With some exceptions, there appears to have been a gradual but steady increase in the rate of MMC growth in most banks since March 15th.

The Farmers & Merchants Bank of Central California, which had experienced a decline in the rate of MMC growth from January 1 through March 15, reversed that trend dramatically following the regulatory changes. Their MMC rate of increase for the last half of March was 109 percent greater than the first half of the month. Similarly, the First National Bank of North Idaho reported that MMCs have had a significant impact on their March business with MMCs representing 12.5 percent of their total time deposits and 21.8 percent of their total Time Certificates of Deposit, as compared to 11.6 percent and 20.3 percent in February. Obviously commercial banks are benefiting from being on equal terms with Savings & Loans and mutual savings banks, with respect to the interest rate that can be paid on MMCs. The loss of competitive advantage by the thrift institutions is allowing banks to gain a larger share of the MMC market. A continuing shift from regular passbook savings into MMC instruments is expected.