

CONFIDENTIAL (FR)

CURRENT ECONOMIC CONDITIONS BY DISTRICT

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Federal Open Market Committee
by the Reserve Banks

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SUMMARY*

On balance, a slowing of business activity in recent weeks has been accompanied by a significant deterioration of businessmen's expectations for the remainder of 1979. Reserve Banks' characterizations of the current picture seemed to follow a geographical pattern: the northeastern, midwestern, and western districts view it as largely positive with some trouble spots, while negative factors dominate the reports of the north central, southern, and mid-Atlantic regions. Tight gasoline supplies, on top of more basic problems, have cut noticeably into consumer spending, with pronounced effects on tourism and sales of large cars. To date, the Independent Truckers' strike and diesel fuel shortages appear to have caused only minor disruptions of manufacturing activity, but the agricultural impact has been more severe in some areas. Apart from the fuel-afflicted sectors, industrial activity seems to be holding steady or coming off slightly from an elevated pace. Capital spending, for both plant and equipment, is unquestionably the best thing going, but many districts foresee some easing of growth there as well. Inventories, both retail and manufacturing, are heavier but seem to be of concern to retailers only. Job markets remain tight, for the most part. Bank lending, particularly to businesses, is almost universally described as strong; deposit growth has been slow to moderate. Housing has continued to wane.

Those districts commenting on the availability of gasoline regard supplies as "generally adequate." Odd-even rationing, purchase restrictions, reduced gas station hours, and curtailed driving have alleviated the crunch and avoided long waiting lines. The travel cutback has taken a heavy toll on the tourist industry--estimates of year-over-year declines in tourist-related

*Prepared by the Federal Reserve Bank of Atlanta.

businesses, where given, were double-digit. Philadelphia, however, reports increases at two major vacation spots and sees other factors contributing to the sharp fall in Jersey shore resort traffic.

Diesel fuel stringencies and/or the Independent Truckers' strike have resulted in relatively minor disruptions of coal mining (Minneapolis), construction work (Chicago), and manufacturers' input or finished product deliveries (New York, Cleveland, Minneapolis, Dallas). Some farmers have been harder hit. Atlanta and Richmond report cases of excellent crops of perishables rotting in the fields or at shipping points; Chicago and Boston have seen reduced supplies and unseasonably high prices of produce. Movement of animals to slaughter has been curtailed, forcing temporary shutdowns of meat processing plants in five districts. However, farm operations have been relatively unaffected in most of the Kansas City and Dallas districts.

Retail sales have fallen, in real terms if not dollar volume, say Boston, Philadelphia, Cleveland, Atlanta, and St. Louis; weakness has been particularly apparent in the latest week or two. Other districts (except Kansas City, which reports slowing sales gains) convey an impression of "mixed," "spotty," or "flat" sales. Retail stocks have crept above desired levels. A majority of retailers have revised downward their sales projections for the rest of the year and are likely to be rather aggressively thinning out inventories. The gasoline situation has been widely blamed for at least part of the sales slowdown, but those who believe that more plentiful fuel will spur a dramatic revival are a small minority. Gasoline probably does account for an apparent change in shopping patterns--several districts noted that downtown or neighborhood stores are faring much better (or less badly) than far-flung suburban or regional shopping centers.

The gas-related decline in sales of large cars, RVS, and light trucks and resulting inventory overhang have reached troublesome proportions. Production cutbacks and layoffs have occurred in the Atlanta, St. Louis, and Chicago districts; San Francisco reports one dealership closing and three others for sale in Portland. Three Banks note a substantial drop in prices of large used cars. Small economy cars are moving briskly, where available, but supply constraints for the best sellers have probably meant a decrease in total new car sales.

Although manufacturing activity is generally characterized as strong, a number of exceptions were noted. Auto output, of course, is off considerably, and some districts have seen or expect some slowing in other consumer goods--appliances, jewelry, some types of apparel--and in products auxiliary to production of new cars and homes, like tires, glass, and furnishings. Capital goods producers are enjoying vigorous demand, in general, but orders have slipped in some product lines. Steel orders are down from a lofty peak and other metals show signs of softening. There are conflicting reports on the direction of activity in some industries: paper products, heavy trucks, and chemicals. Atlanta, Chicago, Kansas City, Minneapolis, and San Francisco depict industrial activity as somewhat tighter than in other districts. By and large, producers now expect further reductions in activity in the months ahead but few seem worried by recent inventory accumulations; there were no reports of radical changes in capital spending plans.

New York, Philadelphia, Richmond, Chicago, and Kansas City report rapid increases in industrial prices, particularly for petroleum products or derivatives. Most expect more of the same, come rain or come shine. Wheat, soybean, and other grain prices have advanced sharply of late and livestock

prices remain high, but an excellent wheat harvest and favorable prospects for other crops should ease food price pressures within the next few months. The combination of strong prices and good production makes robust gains in farm income probable this year.

Except for layoffs by automakers, meat packers, and some tourist businesses, labor markets still look pretty tight; Banks cite heavy help-wanted advertising, vigorous recruitment efforts, and reported shortages of some types of labor. Chicago indicates that recent wage settlements have exceeded guidelines by a wide margin, but Richmond's regular survey of manufacturers actually turned up fewer instances of wage boosts.

Nonresidential construction is advancing briskly in the Richmond, Atlanta, Chicago, St. Louis, and Minneapolis districts, and booming on the West Coast. Home building, however, has continued downward except in some rapidly growing Sunbelt areas. Substantial sales declines and the prospect of a shift to a buyer's market were mentioned by Cleveland, Chicago, and Minneapolis.

Virtually every district used the word "strong" to characterize loan demand. Commercial and industrial borrowing, particularly short-term, has been especially heavy. Richmond and Kansas City suspect that inflation (but not stockpiling) accounts for much of the increase in inventory financing and/or constructions loans. Major NYC banks are among the most optimistic about lending prospects; they are joined by bankers in several other districts in their forecast of no further increases in the prime rate. Requests for consumer installment, mortgage, and real estate loans seem to be tapering but apparently still exceed the volume that lenders are willing or able to supply. Dallas reports an acceleration of deposit growth but most other Banks view inflows as modest at best. Some thrifts have been having problems as the drawing power of

MMC's has waned. Recent increases in usury ceilings have freed lendable funds in New Jersey and Tennessee, but New York State's new mortgage cap, still below market rates, has had little impact. Higher ceilings are scheduled to take effect soon in Texas and await the governor's signature in Missouri.

FIRST DISTRICT - BOSTON

Directors and businessmen in the First District report increasing signs of economic weakness; however, activity in several sectors remains vigorous. During the past two weeks there has been a significant slowing in retail sales. Retailers attribute much of this to the gasoline shortage. The trucking strike has not yet created significant disruptions but this may change in the next few days. Reports from manufacturers are mixed. Capital goods producers are doing well; however, some manufacturers of consumer durables are seeing a falloff in demand. Loan demand in the First District remains high; deposit growth is minimal.

Retail sales have fallen off significantly in the past couple of weeks. The head of a major department store chain reports that June sales are below last year's in nominal terms. Another large retailer finds that sales are just barely keeping pace with inflation. The gasoline shortage is believed to be an important source of this weakness; downtown stores are faring better than ones further from the population centers. Tourism in northern New England is also suffering from the gasoline situation. Thus far the strike by the independent truckers has not caused substantial disruptions at the retail level. Produce prices, which normally decline at this time of year, remain high; however, there have not been widespread shortages. The next week is considered critical. A large meat wholesaler has begun laying off employees because of reduced supplies.

In the manufacturing sector producers of capital goods are experiencing strong demand. One major manufacturer of nonelectrical machinery says that backlogs are well above last year in three of four areas; the greatest strength

is in heavy equipment, particularly for the chemical industry. Automotive product orders, on the other hand, have fallen off. Consumer durables are faring less well; while one major producer of appliances has had sales above expectation, another reports that white goods are moving very slowly. The jewelry industry in the region is experiencing weak demand, although this may reflect style considerations rather than economic factors. One rather discouraging note in view of the current gasoline situation is that an important supplier of engineering services for the construction of refineries and power plants reports very little activity. Several firms contacted believe that their inventories are now too high. For the most part, shortages of materials are confined to specialized components with lead times for electronic components particularly long.

Loan demand in New England remains high. One large bank in southern New England reports that it reached an historic peak in mid-June. All lines are doing well, although one respondent notes that much of his commercial demand is from small-and medium-sized organizations. The one dissenting report is from a bank in northern New England, which has seen a softening in the past two weeks. The only deposit growth is in money market certificates. To supplement deposits, one small bank reports that it is actively borrowing in the secondary market, while a very large bank is bringing back funds which had been lent abroad.

Professors Eckstein, Samuelson, Solow, and Tobin were available for comment this month. All agreed that the economy has probably entered a recession, so that an easier monetary policy is appropriate at the present time. Since they also agreed that the current inflation is primarily the result of supply shocks, all believe that at least partial monetary policy accommodation is warranted despite the high probability that rapid price increases will continue for a few more months.

Professor Eckstein describes the downturn as a "supply recession" attributable to oil price increases, gas rationing, and such attendant supply-side phenomena as the truckers' strike. In his view the demand element is slight--mainly the depressing effect of high consumer debt loads--so that it would be an error to act as if the economy is experiencing a demand recession. Eckstein believes that the Fed would be wise to let the funds rate drift down, but not according to the historical pattern. In particular, he thinks a rate no lower than 8.5 percent is appropriate if a damaging reflation is to be avoided. He warns that should rates move sharply lower, forcing the system back up against the supply ceiling from which it has recently fallen, the next business cycle will be accompanied by much worse price behavior than was experienced in the current one.

Professor Samuelson believes that it is time to let the market know that interest rates have peaked. Some easing in interest rates is necessary in order to prevent a "hard landing," an outcome he sees as excessively costly given the modest inflation gains that would likely result. Since the current inflation is not the kind that can be easily reversed by Fed policy, Samuelson warns that we must be prepared to accept slow economic growth for an extended period of time if a more acceptable inflation rate is to be achieved.

Professor Solow notes that the arrival of the recession somewhat earlier than many forecasters had previously expected can in a certain sense be regarded as fortunate, since it provides less opportunity for unwanted inventories to accumulate. Without an inventory overhang, he expects the downturn to be relatively mild and short-lived, the recovery well underway by early 1980. Solow believes that the challenge for monetary policy is to avoid a repetition

of the 1974 experience, which in his view would do little to moderate the supply-induced inflation. Arguing that easier monetary and tighter fiscal policy would be preferable to the current policy mix, Solow advises the Fed to ease now in order to head off a possible tax cut.

Professor Tobin observes that the recession is "just what the doctor ordered" last November. Unless a severe downturn is deemed politically desirable, he thinks that the Fed should now begin to ease its policy stance. Although Tobin is concerned that recent price increases may be built into future wage demands, he sees no evidence that this is occurring yet nor does he think that a gradual decline in short-term interest rates is likely to alter labor's behavior.

SECOND DISTRICT--NEW YORK

Business activity in the Second District activity appears to have slowed in June, according to recent comments of directors and other business leaders. Shortages of gasoline appear to have reduced consumer spending. Department store sales were mixed, and sales of new automobiles declined. For the most part, production levels of manufacturers appear to have remained strong, although order backlogs have been trimmed in some instances. While most respondents voice little concern over the level of inventories, a growing number noted that their inventories were growing. The work stoppage by independent truckers appears to have delayed deliveries of many products, but has yet to create substantial disruptions. On the financial scene, credit demands remain strong.

According to reports from throughout the Second District, department store sales were mixed in June. Respondents attributed at least part of the slowing to shortages of gasoline. The present gasoline shortage has apparently given a competitive edge to downtown stores; sales in New York City reportedly were 5 to 10 percent higher than last year, while suburban stores suffered declines of 5 to 10 percent. Despite these current problems, many retailers remain optimistic about the future. Based on the experience of California, they expect sales to return to normal once the gas crisis atmosphere disappears. As a consequence, many merchants voiced little concern over inventory levels. At the same time, however, less optimistic assessments were offered by a growing number of respondents. These retailers reported they had lowered their sales projections, and were holding down inventory stocks. In their view, consumers' heavy indebtedness, the eroding purchasing

power of consumers' incomes, and uncertainties over the prospects for continued business expansion were affecting consumer behavior.

In addition to dampening department store sales, the gasoline shortage appears to have weakened sales of new cars. In particular, sales of large cars have slowed considerably. Sales of the more fuel-efficient intermediate and small cars have remained strong or in some instances have risen dramatically. Depleted inventories of these small-sized cars were viewed by several automobile retailers as restraining sales. While major automobile manufacturers announced cutbacks in the production of large cars, the effect of the cutbacks in New York and New Jersey are unlikely to be severe, since the majority of assembly plants located here produce intermediate-and small-sized cars.

Outside of retailing, business activity also appears to be moderating. Most producers are fully booked for the near term, but order backlogs have fallen somewhat for paper products and intermediate nonferrous metal products. For the most part, production levels are remaining steady, a notable exception is one major supplier of photographic equipment and supplies. This firm is beginning to curtail production in response to weaker sales and some buildup in inventories. At least at this point, however, most business respondents report that inventory levels generally are in line with shipments. Little concern was voiced over shortages, although a few firms are being adversely affected by shipping delays and uncertainties due to transportation delays caused by the work stoppage of independent truckers. Still, some materials in short supply, plastic pellets for molded parts, and the costs of others, such as feedstocks for chemicals, are rising rapidly.

On the financial scene, the demand for credit remains strong.

Officials at several major banks in New York City report continued strong demand for business loans. These respondents foresee no marked weakness in the demand for business loans during the second half of 1979. In their view, the demand for financing of acquisitions and inventories will remain strong and bolster business borrowing. With respect to current business loan demand, most respondents failed to see any evidence that inventory accumulation or the energy situation were playing an especially important role in raising financing demands. Several bankers did cite the growing importance of loans to finance acquisitions. The consensus view was that the prime rate has peaked and will remain at its current level through the third quarter and, in line with short-term market rates, will decline during the fourth quarter. Outside of the business sector, demand for consumer credit and home mortgages in the Second District also remains strong. The directors of the Buffalo Branch reported that the rise in New York State's usury ceiling on home mortgage interest rates to 9 3/4 percent had had little impact on the availability of mortgage funds, because it remained well below market interest rates. In New Jersey, an official of a leading thrift institution felt that the rise in that state's usury ceiling to 10 1/2 percent had noticeably increased the supply of funds.

THIRD DISTRICT - PHILADELPHIA

Reports from the Third District indicate that business activity is moderate to slow this month. Area manufacturing has posted its third consecutive no-growth month, and retail sales, which are starting to slow anyway, have been pushed down farther by gasoline problems. As for the future, Business Outlook Survey respondents are forecasting an imminent recession and retailers are being ultraconservative about fall and early winter sales. In the banking sector, loan demand is reported to be up. Interest rates have been cut at some banks, and no further hikes are anticipated in general. The gasoline shortage's major impact so far in the Third District has been on vacation business which is reported to be down significantly at many resorts.

Respondents to the latest Business Outlook Survey say local manufacturing activity remains unchanged for the third consecutive month. Shipments are higher once again, but new orders have not kept pace, causing stock levels to tumble for the seventh time in eight months. On the employment front, area labor seems to be holding its own. Industrial employment is reported to be about the same as it was in May and the length of the average workweek remains unaltered.

Present conditions, however, are not expected to last much longer. Survey respondents foresee some weakness in the economy in the coming months, and are forecasting an imminent downturn. Just how far into the predicted slump we'll be by year-end, or how severe it will be by that time, is open to question though. Neither new orders nor shipments are projected to drop between now and December and responding manufacturers do not expect at this time to cut payrolls within the next six months. Moreover, over one-fourth of the respondents report plans to increase outlays for plant

and equipment in the near future. Thus, it appears that although a slowdown is generally expected, manufacturers do not presently look for a precipitous dropoff in business by year-end.

Industrial prices are reported to be up sharply in the region this month. Eighty-six percent of the respondents report paying higher prices for inputs in June, and over 40 percent are charging more for their finished goods. For the longer term, more of the same is expected—recession or no recession. Manufacturers were nearly unanimous (94 percent) in predicting further hikes in the cost of raw materials over the next six months, and over 60 percent plan to raise the prices of the goods they sell.

Third District retail executives paint a much bleaker picture this month than do their industrial counterparts. Retail activity in the region is generally sluggish in late June with reports of current dollar sales ranging from 4 percent above to 8 percent below sales levels for the corresponding period in 1978. Sales are also reported to be below planned levels for the period by 5 to 20 percent. Suburban stores are doing much worse than downtown branches, probably a direct result of gasoline availability problems. However, a Director of this Bank in the retailing industry feels this problem will be rectified shortly, when newly imposed gas rationing plans take effect. Despite sluggish sales inventory, levels have not become a problem as retailers, in anticipation of a general slowdown this year, have been aggressively cutting stock. Merchants cite myriad causes for the observed sluggishness in sales, including the coolest and wettest spring in recent memory, gasoline shortages and prices, the erosion of purchasing power by "soaring inflation," and the possibility that the long awaited recession has finally arrived. It should also be noted, however, that near-record gains were reported in June 1978, making large year-over-year increases at this time less likely in any case.

Looking ahead to the balance of 1979, retailers are being more conservative in making their forecasts than they've been in some time. Projections of December sales volume range from 3 to 7 percent over year-earlier figures, but merchants at the upper end of the scale believe their projections are optimistic. Most expectations have been toned down as fear of an imminent recession grows.

Area bankers say loan demand is generally strong. Reports of C&I loan volume range from 3 to 14 percent over last June. Consumer loans are also up, but by less. Bankers currently anticipate a slowing in loan demand throughout the rest of 1979. Loan volume projections for year-end are very conservative, about even with December 1978. Fear of a coming recession was generally noted by bankers contacted.

Banks in the District are currently quoting a prime rate of either 11 1/2 or 11 3/4 percent. Forecasts for interest rates vary, but no further hikes are anticipated currently. Projections range from a drop in the prime to 10 percent by December to no further changes as inflationary pressures keep it at 11 1/2 to 11 3/4 percent.

No major problems are reported with savings flows in late June. Consumer deposits are reasonably good and corporate savings are holding their own. Money market certificates continue to creep up.

Gasoline is generally available in the Third District at this time, and, as all three states in the District are currently on an odd-even ration plan, lines have grown shorter. Overall, the local economy appears to have suffered very little from the gas shortage thus far. Deliveries of food and commodities seem to be on schedule and no major problems with employee attendance have been noted. The businesses hit hardest by the crisis have been those affiliated with vacation spots. Shore resorts along most of the South Jersey coast report a slow season so far, with business down as much as 20 to 25 percent from last year. This comes as a surprise to many seashore businessmen, who

thought that gasoline problems would encourage people who normally would have taken longer trips to go to South Jersey instead. These spots have been suffering from more than gasoline shortages though. For one thing, unseasonable weather has been the rule so far this spring. For another, Canadian visitors make up about one-fourth of the vacationing population in some resorts, and current exchange rates are not favorable to Canadians travelling in the U.S. The one exception to seashore sluggishness this year is Atlantic City where legalized gambling continues to draw record crowds, especially with the opening of the city's second casino.

Tourism in the Pocono Mountains is running about even with last summer, according to contacts in that area. This of course means business is below planned levels, but most of the loss has come from a dropoff in day trips. Prearranged trips such as bus tours, conventions, and honeymoons are up about 12 percent over last year.

As for the rest of the summer, resort businessmen and officials feel that things will shape up if gasoline supplies improve. They do note, though, that business that has been lost to this point is lost forever. It cannot be made up.

FOURTH DISTRICT - CLEVELAND

The sentiment of several directors, officials, and economists in the Fourth District is that business is at or near a peak. Most District economists expect a recession beginning in the third quarter. Except for automobile production, manufacturers continue to operate near capacity, but expectations are for a let-up later this summer. Capital goods producers, especially machine-tool builders, remain optimistic over the near-term. Mortgage loan demand has eased but apparently exceeds the availability of mortgage credit.

Economic activity is close to a peak, according to the prevailing view of a number of officials and economists in the District. Some believe, however, that a peak in consumer spending has already been past. One retailer expects real sales will decline through the fourth quarter of 1979 and then turn up early next year in response to a likely tax cut. He estimates that real retail sales this year will decline by 1.5 percent, compared with a 3.5-percent increase in 1978. A large producer of major appliances, who only recently felt that a recession would not begin until the third quarter, now feels that weakening in consumer spending has already triggered a recession.

The prevailing view seems to be that a recession will begin in either the third or fourth quarter of 1979. Of the 28 economists who attended the Fourth District economists round table meeting held at this Bank on June 1, 13 expected real GNP would decline in the third quarter and 12 expected real GNP would decline beginning in the fourth quarter. Although the median forecast of the 28 showed a decline in real GNP of less than 1 percent between the second quarter of 1979 and the first quarter of 1980, a small group anticipates about a 2-percent decline in real GNP. These forecasts were not much changed

from expectations last March, but the group was more certain now of a recession than they were three months ago. They pointed to contractions in consumer spending and in housing already under way that would lead to a mild adjustment of inventories beginning next quarter and continuing until early 1980. A higher rate of inflation than previously expected, coupled with growing uncertainty over the gasoline situation will prevent an early comeback in consumer spending.

Except for automobile production, manufacturing activity in the District continues on a high level, although expectations are for a let-up by late summer. The strike by independent truck haulers has curtailed shipments in some industries. Neither shipments nor production has been hampered by limited gasoline supplies. Steel shipments in June were curtailed by as much as 15 percent for one large steel producer, but steel production has held at about effective capacity. Some steel officials feel orders peaked last March (when orders exceeded capacity to ship by 30 percent) and are now running at a rate below the last two months. One producer reports relatively full order books for July and August, but some openings exist for September delivery. At the moment, only a normal seasonal slowdown in operating rates is expected for the third quarter. Steel industry economists are skeptical over fourth-quarter prospects. They uniformly expect a recession in the fourth quarter will depress steel consumption and orders, especially from the auto industry, and that the volume of imports, if sustained at the May surge, would result in a sharp liquidation of inventories and a serious downward adjustment in steel production. Tire shipments have also been curtailed by the truckers' strike, and operations in the industry have been cut to about 86 percent of capacity since the strike settlement. Some industry economists expect a weak fourth

quarter because of sagging consumer demand for autos and tire inventories that are judged relatively high. A major glass supplier to both the auto and construction industries reports some easing from capacity operations because of a cutback in glass for new houses. They expect a larger-than-usual seasonal drop in orders and production after September because of a further slowdown in the auto and housing industries. Production of major appliances is holding steady in response to a high level of housing completions, according to one economist; however, as completions fall, production will be cut back, probably over the next two quarters. Sales to retailers have begun to weaken but are still stronger than expected.

Despite widespread expectations of a recession, officials in the District still expect fixed investment will provide some near-term support to overall economic activity. Year-to-year increases in real investment this year are still expected to about match last year. Capital goods producers, especially those associated with machine tools, transportation equipment, materials handling and communications equipment, remain optimistic over shipment and production prospects at least for the next few quarters. However, irregular behavior in new orders in recent months leads one economist to expect real investment to decline early next year. Suppliers to the heavy-duty truck industry report their business has peaked and expect production to be cut back later this year.

Some adjustment of inventories is expected over the next few months by officials in a number of industries, including steel, food processing, tires, and large and intermediate cars. Major appliance stock held by retailers are reported to be above a year earlier (which were regarded exceptionally low) but in balance with sales at a manufacturing level. According to one producer,

heavy-duty truck producers expect a sizable adjustment of inventories later this year.

Bankers, S&L officials, and realtors generally report some let-up in demand for mortgage credit. S&Ls consider demand is still stronger than their ability to make mortgage credit available. Some lenders have been shutting off loans while others continue to tighten terms. Some expect to increase mortgage rates still further in the next few weeks in order to curb demand. Mortgage rates are between 10.5 percent and 11 percent for a prime rate mortgage loan and as high as 12.5 percent for a 95-percent loan. S&Ls expect to have difficulty in their July roll-over of six-month certificates, and some are aggressively issuing jumbo certificates to meet commitments. In recent weeks, some lenders report loan applications have eased because of heightened consumer uncertainty. An official with a larger realty association in northern Ohio reports demand in June was off considerably from a month earlier, especially because of the energy problem. They note a change from a sellers to a buyers market is possible.

FIFTH DISTRICT - RICHMOND

Responses to our latest Survey of Fifth District Business Conditions suggest only minor changes in the level of activity over the past month. Manufacturers, as a group, apparently experienced very slight declines in the volume of new orders and order backlogs. In addition, inventories were up despite an increase in shipments. Responses concerning employment and weekly hours worked suggest some gains in production are continuing to occur. Increases in prices paid have become even more widespread in recent weeks although employee compensation and prices received do not seem to have followed suit, at least according to this month's survey. The outlook of our respondents has also deteriorated since the last survey. Indications are that aggregate credit demand in the region has softened somewhat since May, but also that there have been no dramatic shifts in the pattern of loan demand for major types of loans. The current truck strike is having an unfavorable impact on the farm income situation. State agriculture officials, especially in the Carolinas, indicate that the strike is resulting in tremendous financial losses for producers of vegetable crops and peaches.

Manufacturers reporting a reduced volume of new orders slightly outnumbered those reporting gains in orders over the past month. Much the same was true of responses concerning changes in backlogs of orders. Nearly two-thirds of all respondents nevertheless continued to experience either unchanged or higher levels of both orders and backlogs. Inventories of materials and finished goods also appear to have risen on balance, but only about one respondent in four views current stocks as excessive. Shipments were apparently up somewhat among those manufacturers surveyed although gains were less widespread

than in our previous survey period. There has also been some increase in the incidence of reports that current plant and equipment may be excessive, but such responses continue to represent a relatively small proportion of total responses. There remains virtually no sentiment among respondents for altering current expansion plans.

Approximately one-third of the manufacturing respondents report increased levels of employment over the month and there was also some small increase in the average workweek among responding firms. Although nearly three-fourths of our respondents report paying higher prices last month, the number experiencing gains in employee compensation and prices received actually declined. Expectations of manufacturers have become decidedly more negative in recent weeks. Three-fourths of those surveyed expect the level of business activity nationally to worsen over the remainder of the year and over half expect some worsening in their respective market areas. Only about one-fourth, however, expect conditions for their own firms to decline over the next six months.

In the retail sector there does not seem to be any clearly discernible pattern. In some areas sales have weakened while in others they are holding up surprisingly well. One of our directors reports firm sales activity up until just the last few days, and further feels that this very recent weakening is more consistent with his expectations than the earlier performance. One respondent in the building materials line also reports sales continuing to hold steady. Survey responses also suggest some running down of inventories by retailers, which seems to be consistent with their doubts about whether sales can continue at recent levels.

The demand for commercial and industrial loans appears to have tapered after showing unusual strength earlier this year. In particular, term loans for capital expansion have shown weakness. At the same time, short-term loan demand has increased about with the rate of inflation. Inventory financing has hardly increased at all if measured in terms of physical volume of goods, and reports suggest that the buildup of stocks for the Christmas season will be delayed as retailers hold back to gauge the strength of their markets. Loan demand from construction related businesses has led other sectors due largely to the surge in materials prices. Consumer instalment loan outstandings continue to increase while the number of loans made is holding fairly steady. Consumer revolving credit activity, however, continues strong. Several banks have stated that they feel the peak in consumer loan demand has been reached. Mortgage loan demand is strong in most areas, but activity is being limited by a scarcity of funds at savings and loan associations. The volume of new funds received in money market certificate accounts at the thrift institutions has dropped considerably, while losses continue in other categories of time deposits. Liquidity positions are comfortable at most large commercial banks.

District cash farm income was one-third above a year ago during the period January to April, but the current truck strike is having an unfavorable impact at the present time. Because of the lack of trucks, thousands of bushels of perishable vegetables have been left to rot at shipping points. Other crops ready to be harvested, have been plowed up. Virginia reports indicate that operations of meat packaging plants, dependent on out-of-state shipments, have been significantly affected. And both meat packing plants and some poultry processing plants have been severely affected in moving their products from plant to market. In addition, official reports suggest tighter diesel fuel and

gasoline supplies for farm work in some District states. Farm work in some areas is being delayed by late deliveries of fuel or the inability to obtain fuel when needed.

SIXTH DISTRICT - ATLANTA

In the past few weeks, the two most significant factors affecting the southeastern economy were gasoline availability problems and the nation's independent truckers' strike. Despite some trouble spots, District gas supplies appear to be holding up better than in the nation at large. The truckers' strike caused serious disruptions and hardships for the District's agricultural sector and exacerbated gasoline supply problems. Consumer spending has been sluggish and many retailers have expressed increased uncertainty regarding future sales and inventory levels. Some slowdown in single-family residential construction has been discernible, except in Florida and the Atlanta metropolitan area. Banking contacts expressed concern over the ability of higher interest rates on savings to attract new money. Loan demand, except for home loans, has remained strong. Commercial construction and industrial activity have been healthy.

The independent truckers' strike had a severe impact on the District's agricultural sector. Many farmers were unable to secure the delivery of excellent harvests to market. Alabama's corn, potato, and bean growers, as well as south Georgia's and Florida's watermelon growers, experienced substantial losses. Large poultry losses throughout the District were also incurred because of the necessity to destroy chicks and eggs. Additionally, layoffs and reduced payrolls occurred in food processing industries. An estimate of the strike's full impact is, at present, somewhat conjectural; however, it is certain that convoys escorted by the National Guard or the state police mitigated delivery problems and prevented wholesale disaster for some farmers.

The strike and actual or threatened violence to nonstriking truckers worsened existing gasoline supply problems. The areas reportedly experiencing the most critical availability problems and the longest gasoline lines were northern Alabama and southern Florida. Gasoline availability in Georgia and Tennessee has remained generally adequate, helped by a reduction in the tourist traffic. Purchase limits and reduced station hours are now the rule throughout the District, but odd-even rationing has been effected only in south Florida.

Although passenger travel by plane and train has increased dramatically, the gasoline situation has cut so deeply into auto travel that total tourism has dropped rather sharply. In late June, tourism in Florida was reported to be down 10 percent.

The overall attitude of contacts regarding consumer spending is increasingly one of caution and uncertainty. Although some retailers have reported increases commensurate with inflation, most reported sluggish sales. Inventories have been held to manageable, albeit slightly higher than desired, levels. Ordering policies have been adjusted to the uncertain outlook: one major retailer is making smaller, more frequent buying trips; another is keeping cancellation options open. Automobile sales also have been flat or declining. The previously reported inventory imbalance still exists; namely, an abundant supply of new and used large automobiles and a critical shortage of smaller, fuel-efficient cars. The Atlanta area Ford LTD plant was again closed for two consecutive weeks.

A continuing slowdown in single-family housing construction has been evident in many areas of the District, except Florida and Atlanta where a steady influx of new businesses continued. Sales of existing homes are still

considered strong. However, realtors in Nashville, southern Mississippi, and Louisiana reported a tempering of demand by high mortgage rates. Because of anticipated price rises, build-ups of inventories of building supplies, particularly concrete products, have occurred in certain areas. Commercial construction continues to be fairly strong. Various office buildings, hospitals, etc., are under construction throughout the District, and a major redevelopment of Tampa's central business district is now under way.

Districtwide, consumer and business loan demand have remained strong. However, most banking contacts report that deposit growth has not been keeping pace with loan growth. Many bankers are concerned about extremely low personal savings rates and skeptical that the higher rates for passbook accounts and certificates will attract much new money. The net effect, in their opinion, will be a higher cost of funds with minimal deposit growth. The lifting of the usury ceiling in Tennessee, as expected, provided new investment funds, particularly for shopping centers and office buildings.

Industrial activity has continued at a healthy pace. Several corporations announced plans or began construction on new plants or expansions to existing facilities. A new newsprint plant that recycles newspapers as its main raw material began operations in Dublin, Georgia, during May. Construction of an offshore superport in Louisiana began and is expected to produce 35,000 jobs when satellite industries are established. The most significant development in the District was the commencement of the Kings Bay Navy Base project along the southern coast of Georgia near the Florida border. This project is expected to provide employment for 60,000 in the local economy and \$200 million in construction.

SEVENTH DISTRICT - CHICAGO

Fuel stringencies appear to have pushed an already shaky economy into a significant decline. Profound changes in thinking and planning by consumers, businessmen, and lenders are inevitable. Consumer purchases of low-mileage vehicles have dropped very sharply. The Seventh District has not been afflicted with long lines at gas stations, but driving has been curtailed with adverse consequences for tourism and other nonessential activities involving travel. The "strike" of the independent truckers has had some limited effect in reducing availability of produce and fuel. Demand for most types of capital equipment remains vigorous, but some producers report slower orders. Some easing has occurred in demand for basic materials such as steel and paperboard. Price inflation has accelerated, especially products based on petroleum. Major labor contracts have exceeded the guidelines. Residential construction and sales of existing homes remain seriously depressed. Early development of district corn and soybean crops is rated as "good." Higher grain and soybean prices are boosting farm income prospects.

Supplies of gasoline and diesel fuel in the district are probably about 10 percent below year ago, although no one knows for sure. Some stations are on 70 percent allocations or less. Demand would have been up about 3 percent, assuming last year's prices, according to industry analysts.

District states have generally avoided significant lines at gas stations, but this has been possible only because motorists have curtailed non-essential driving. Dealers have used various devices to discourage sales, usually by shortening hours and/or shutting down weekends and some week days. Auto clubs have warned motorists to stay close to home. As a result, those

who have ventured out on trips often report ample supplies. The worst spot fuel shortages have been associated with efforts of independent truckers to impede deliveries. The truck strikes, ironically, have improved fuel supplies in some areas.

Diesel stringencies have caused sharp price increases and are reported to have slowed some construction work. Large truckers report diesel "tight but adequate." The financially troubled Milwaukee Road has indicated that its service, vital to some areas in Wisconsin and Iowa, may be reduced. Diesel fuel for barge and lake-boat traffic is also very tight.

Most large trucking firms have their own storage tanks. They put in reserve supplies in the spring, and seem to be operating normally.

The independent truckers (owner-operators), who use truck stops almost exclusively, have attempted, with varying success, to block shipments of fuel and farm products. The strikes have been most effective in impeding shipments of animals to slaughter. Operations of some hog-processing plants have been halted temporarily. Receipts of fresh produce at terminals have been reduced, but few stockouts are reported. Deliveries of fuel have been disrupted for varying periods, although tank wagon drivers are not directly involved.

The independent truckers' strikes are not supported by the Teamsters. The independents are only loosely organized. In this area they carry mainly "exempt" commodities which are not subject to ICC rate regulations. They are stopping their "own kind," not wanting to tangle with the Teamsters by stopping regulated truckers. Demands of the independents are somewhat amorphous--adequate fuel and/or fuel subsidies, relaxed restrictions on weight and length of rigs, etc.

Reports indicate a substantial drop in business at distant resort

areas and outlying shops and restaurants in metro areas. A drastic falloff in demand has been reported for RVs (down 60-70 percent), vans, light trucks, and large cars. For the first time in memory there is even a substantial surplus of Cadillacs. Production has been cut back and layoffs have resulted. The model year clean up will involve unprecedented problems. Prices of large used cars have plummeted.

Conversely, long waiting lists are reported for desirable small cars which are selling at full list price. Supplies of four-cylinder engines, unexpectedly, have become a bottleneck.

The gas shortage has aided some activities. Entertainment and recreational areas close to home are enjoying improved business. Sales of bicycles, mopeds, hand mowers, and gas tank locks have boomed (where available).

Commercial construction is booming, particularly in Chicago's Loop, and new contracts for stores and office buildings remain at a high level. Plant construction activity is well above year ago, but new contracts have dropped off. The residential sector is in trouble. Chicago area permits are 40 percent below year ago for five months. Existing homes have sold very slowly, despite sizable price cuts, which have dropped prices below year ago in some areas.

Demand for capital goods, overall, remains vigorous, but some diversified producers report a slower order trend. Machine tool producers are booked well into 1980. Heavy trucks and most types of construction and farm equipment continue to sell at a fast pace. However, a producer of castings for capital goods reports order cancellations for the first time since 1975.

Demand for workers appears to have eased, particularly in the auto centers. However, Chicago help-wanted ad volume is still above year ago.

Demand remains intense for really skilled workers in metalworking trades, the building trades, most white collar occupations, and for professionals generally. Labor pacts have generally exceeded the guidelines. The UAL settlement may be worth 40 percent for three years. Chicago-area carpenters and bricklayers each received a 10 percent boost raising their total compensation to \$15 per hour (\$30,000 per year), with another 10 percent increase slated for 1980.

Collective bargaining is extending to additional fields. A Chicago-area department store chain recently agreed to a union contract, the first of its kind. A strike of 3,000 Cook County nursing-home employees began on July 1, with demands for a 5⁴ percent increase in compensation over three years.

EIGHTH DISTRICT -- ST. LOUIS

According to Eighth District businessmen, the District economy has slowed substantially in recent weeks. Furthermore, some respondents expressed the opinion that more reduction in business activity is likely in the third quarter. The current weakness is centered primarily around consumer durables such as automobiles and houses, but other major industries such as chemicals are also beginning to experience lower sales. Nevertheless, several businessmen, particularly those in the capital goods industry, continued to report strong activity. A marked slowing in saving inflows into financial institutions has continued in recent months, adversely affecting home building. In the agricultural sector, crops are in generally good condition, despite late plantings in some areas.

Consumer spending has slowed in recent weeks and has apparently declined in real terms. Department store representatives noted a definite softening in sales, particularly big ticket items. As a result, some stores are revising downward their sales plans for the rest of 1979. Automobile dealers in the District reported a substantial drop in automobile sales. Retailers report inventories of large cars and department store goods to be somewhat greater than desired. In the St. Louis area, the slowdown in retail sales has been accentuated in the past several days by a shortage of gasoline as shown by long lines of automobiles at service stations. The St. Louis area has been placed on a minimum purchase plan in order to help alleviate these lengthy lines. Gasoline supplies in other major cities in the District have also been tight.

Overall, manufacturing activity is weakening, reflecting the slower

growth in final demand. Most visible has been the shutdown of some automobile assembly plants in St. Louis and Louisville in order to reduce inventories of large cars. Appliance manufacturers note that sales have slackened and that inventories of some items are excessive. Manufacturers of items used in home construction and furnishing reported that sales have been flat in recent weeks and that prospects are for sales to decline if the present slowdown in home building continues. A representative of a major chemical firm reported that sales of a variety of chemical products including fibers and plastics began to soften in late May. Continuing to show some strength are sales by firms in the capital goods industry. Manufacturers of welding and cutting equipment, lubrication equipment, industrial lighting fixtures, valves, and fittings all reported strong sales and sizable order backlogs. However, order backlogs were reported to have stabilized in recent weeks after substantial increases earlier in the year.

Construction activity continues at a high level, spurred by gains in nonresidential construction. However, new home construction has slowed well below year-ago levels. Builders in the St. Louis area report a sharp drop in the past two months in people looking for new homes, and sales have subsequently fallen. Observers of the St. Louis homebuilding market now estimate that housing starts in 1979 will decline in the range of 20 to 40 percent from last year.

Substantially slower growth in deposits at savings and loan associations is apparently having an impact upon effective housing demand. Deposit inflows at St. Louis savings and loan associations are expected to exceed outflows for the month of June, but are expected to total only about one-fifth of the normal net inflow. Those associations which are gaining new

funds are advertising heavily. Some feel that their deposits will remain relatively flat for the rest of the year unless interest rates decline substantially. In Missouri, where a 10 percent usury law is in effect, nonprice factors have been used to ration mortgage funds. Currently, mortgage funds are very difficult to obtain except through arrangements made by the builders. Legislation which would raise the usury ceilings has been passed by the Missouri House and Senate and awaits the signature of the Governor.

The planting of crops is virtually complete in the District except for some soybean planting following wheat harvests. Wheat harvesting is now proceeding satisfactorily and reports indicate generally good yields. Other crops are reported to be in generally good condition as soil moisture has been favorable for rapid growth. Further increases in crop prices in recent weeks and relatively high livestock prices point to increases in farm income over last year's level.

NINTH DISTRICT--MINNEAPOLIS

The Ninth District economy is not now in a recession, but there are several troubling developments. Nonagricultural output and employment continue to expand, business loan demand remains strong, and agricultural conditions are still good. Yet, energy problems, a slowdown in consumer spending, and some reduction in the rate of homebuilding are worrisome signs.

The district economy remains very prosperous.

Nonagricultural output continues to expand. Manufacturers responding to our latest Industrial Expectations Survey report no letup in sales growth. They expected their year-to-year sales gain in the second quarter to be 13 percent, matching their first quarter's sales gain. In addition, Minnesota Industrial Development Association members report that commercial/industrial building in Minnesota is still very strong. And this Bank's directors from Montana, South Dakota, and the Upper Peninsula of Michigan report gains in their areas' industrial sectors.

Consistent with these output gains are the continuing increases in jobs and bank lending. Employment in the district in May was up 2.9 percent from a year ago and is still climbing, as the high level of help wanted advertising suggests. Another indicator of strength is the persistent, strong demand for business loans at most district commercial banks.

Agricultural conditions also remain favorable. Crop production is likely to be good again this year. While unfavorable winter and spring weather did damage the winter wheat crop and hold up planting, growing conditions are now quite good in most areas. If current high prices hold up, farm earnings

will probably continue to be quite strong. Although crop production will probably not reach last year's record high levels, this will probably be offset by the recent increase in grain prices. Livestock producers should also benefit from record high prices.

But several developments threaten this prosperity.

Energy developments are beginning to curb economic activity. Businesses, for example, have been disrupted by the trucking strike. The inability to obtain inputs and ship finished products has forced two Montana packing plants to curtail operations. Furthermore, two directors, who head large manufacturing firms, report that the trucking situation has hampered their companies' ability to move goods.

Restrictive diesel fuel and gasoline allocations are also holding back business activity. A lack of diesel fuel is interfering with coal mining in Montana. Although gasoline shortages have been serious only in the Minneapolis/St. Paul metropolitan area, concern about gasoline availability is curbing travel throughout the district. Some examples: An estimated 8,000 out of 30,000 Shriners canceled plans to attend their international convention in Minneapolis/St. Paul in mid-July. In western South Dakota, tourist business is down 20 to 30 percent from a year ago. About 40 percent fewer cars than a year ago travelled across the Mackinac Bridge to Michigan's Upper Peninsula in late June. Fears about gasoline availability are also hampering auto sales. Directors' comments indicate that, primarily due to the gasoline situation, large car sales are down throughout the district. Some dealers now have excessive inventories of large cars.

Another development that could threaten the prosperity of the district is that residents are more hesitant to make purchases. A director whose firm

operates speciality shops and restaurants reports that business has recently been "spotty." In the Minneapolis/St. Paul metropolitan area, several major department stores recently observed a weakening in their sales. Directors from outside the Minneapolis/St. Paul metropolitan area likewise report a weakening in retail sales, especially for soft goods. They also detect some unwanted buildup in inventories.

A final troubling development is that housing activity has slowed down. Building permits for new homes recently declined in the district. In addition, some directors report that home sales have let up and that housing is more available. In one large Minnesota community, for example, approximately 950 homes are listed for sale as contrasted to about 650 last year.

TENTH DISTRICT—KANSAS CITY

Economic activity in the Kansas City District remains strong, although signs of future weakening are beginning to emerge. Purchasing agents in the Tenth District report rapidly rising input prices and difficulties in obtaining materials and labor. Retailers report that sales are weakening and that inventories are growing above desired levels. The winter wheat harvest has been excellent and has not been hindered by serious fuel shortages. Commercial and industrial loan demand is strong, although real estate lending has likely peaked. Further increases in interest rates are not anticipated.

Tenth District purchasing agents report that the prices of most major inputs are currently 8 to 10 per cent higher than at this time last year. The prices of metals, wood products and petroleum based products have risen particularly rapidly during the past three months. Further increases are expected throughout the remainder of the year, although uncertainty regarding the energy situation makes estimating the magnitude of these increases difficult. Lead times have lengthened slightly for most industries contacted, creating availability problems for some inputs. In general, however, material inventories are at satisfactory levels. With few exceptions, labor remains in short supply. In describing the region's labor market, one director states that "anyone who wants a job can get one." Limited plant capacity is also a problem in several industries.

Retailers report sales to be significantly above those of a year ago, although by a smaller amount than had been expected. The rate of growth

of sales has been slowing over the past three months and gains during the remainder of the year are expected to be moderate. Nondurables such as men's and women's apparel have been among the strongest selling items, while durables such as furniture and appliances have been among the worst. Price increases are reported to have been moderate during recent months, as retailers claim to have been trying to follow President Carter's price guidelines. Retail inventories are scheduled for trimming over the near future, because they have recently grown above desired levels.

Somewhat more favorable growing weather for spring planted crops in the United States and Russia, along with an excellent U.S. winter wheat harvest, may result in some tempering of wheat price increases. With the wheat harvest about 90 per cent complete in Oklahoma, a director characterizes the crop as "absolutely excellent with 40 bushels per acre yields common." The Kansas wheat harvest, just beginning, also promises to be one of the largest in recent years. No serious fuel shortages are apparent in those states to hamper either harvest or transportation of farm commodities to market. In Nebraska, however, fuel supplies are tight and considerable concern is expressed about availability of fuel to power irrigation pumps and to transport cattle to market.

Farm level wheat and feed grain prices across the United States have increased sharply in recent weeks, reaching the price trigger levels at which grains can be sold without penalty from the three-year farmer-owned reserve stocks. Moreover, it is possible that wheat and corn prices could continue to increase to levels at which the Commodity Credit Corporation (CCC) would call for repayment of CCC loans on grains in the reserve, as has already occurred with barley and oats. U.S. average farm level prices of 175 per

cent of the national loan rate for wheat and 140 per cent for corn are sufficient to trigger calling of the loans. CCC loan rates for wheat and corn are \$2.35 and \$2.00 per bushel, respectively.

Most bankers contacted in the Tenth District report that loan demand has been strong. A number of smaller banks report heavy seasonal demand for agricultural loans. Most large banks indicate strong demand for commercial and industrial loans, with inflation apparently accounting for much of the strength. However, bankers generally feel that real estate lending has peaked, and they do not plan to actively pursue this type of lending. Some bankers also anticipate a reduction in loan demand because of a potential slowdown in industries that are heavily energy dependent. Some large city banks have lowered their prime lending rate to 11 1/2 per cent, and they expect further decreases in their prime rates due to an anticipated slowdown in the economy. Most rural banks contacted expect their rates to be flat during the remainder of the year. Some bankers report slightly more restrictive lending policies, while others report that credit standards have not changed since the beginning of the year.

Deposit growth has been moderate to flat at most banks contacted. Demand deposits have been flat or up slightly at most banks. Savings deposits are down from a year ago due to shifts to money market CD's and other time deposits. Most bankers contacted are not overly concerned about the future of their AT programs because of the recent court ruling, but there has been a noticeable decline in advertising throughout the District.

ELEVENTH DISTRICT--DALLAS

Economic activity in the Eleventh District is slowing, but it does not appear to be directly attributable to the current energy situation according to Directors and businessmen surveyed this month. Department store sales continue to run just ahead of the pace of inflation even though auto sales appear to be slowing somewhat. The gasoline shortage and truckers' strike are having a mild effect on industrial output. Many industrial firms report some softening in demand for their products, and overall industrial activity appears flat. Bank lending at large banks remains very active; smaller banks, however, report some softening in loan demand. Deposits at banks and savings and loan associations continue to show moderate growth.

Department store sales are running slightly ahead of the 6- to 7-percent rate of increase in merchandise prices. Although unit sales are flat, a gradual erosion of unit sales is expected through the remainder of the year. Summer clearance sale promotions and price cutting are contributing significantly to sales. Retail executives expressed a need to cut inventories to bring them in line with the expected slowdown in sales. Auto sales are slowing and have fallen below last year's level, but the decline does not appear to be as steep in the Southwest as for the nation as a whole. Sales of fuel-efficient cars remain brisk, and inventories are tight. Dealers report delivery times for compact cars are lengthening.

Lending activity at weekly reporting banks remains very strong. Commercial and industrial loans, especially to energy-related industries, and construction loans continue to be among the strongest areas of loan demand. Consumer lending is also exceptionally active, prompting a few banks to be more

selective in granting consumer loans to keep them within planned levels. Loan demand is somewhat softer and liquidity is tighter at smaller banks in the District. Many small banks report loan growth is currently flat and are anticipating a slowdown in coming months. Deposit growth is accelerating moderately at both large and small banks.

Net deposit inflows at savings and loan associations showed further improvement in recent weeks but remain well below a year earlier. The higher interest rates on savings accounts starting July 1 are not expected to either improve deposit flows or slow the transfer of funds from savings accounts into time accounts. Mortgage lending remains very sluggish in Texas apparently because of the state's 10-percent usury ceiling. The ceiling will be floated two percentage points above the 10-year Treasury bond rate starting August 28. The new ceiling is still expected to be somewhat restrictive, and lenders are also concerned that prospective borrowers will be reluctant to pay the higher rate.

The overall impact of the independent truckers' strike on District agriculture appears minimal thus far. Transportation bottlenecks occurred in the watermelon producing areas of South Texas where the greatest impact was on small farms that lacked storage facilities. Shipments are again in progress although some shortages of trucks to haul vegetables and cattle are still being reported in the District. The wheat harvest is well underway, and record output is projected. In Texas, production is estimated to reach nearly 115 million bushels, more than double last year's crop. Yields are projected at 40 percent above last year. Estimated yields and output are also substantially greater than last year in Oklahoma and New Mexico.

Dallas-Fort Worth and Houston are now on an odd-even gasoline rationing plan, and the long lines at gasoline stations have shortened, but many stations are open only briefly and intermittently. There has been no major disruption of business because of the gasoline shortage thus far. The independent truckers' strike appears to be having only isolated effects on manufacturing activity. Only a few of the firms surveyed reported problems arising from the independent truckers' strike. A few other firms see a potential supply problem developing if the strike continues much longer. The strike has not affected movement of cargo through the ports of Houston or Galveston.

Industrial growth appears to be slowing in many major industries, and unemployment has begun to rise slightly. Durable goods manufacturing is the area of greatest softening with small declines evident in machinery and metal production. Most drilling equipment manufacturers, however, have not felt any major effect from the decline in drilling rig count. They expect demand to remain strong for several years to come. Responses in the apparel and textile industry are quite mixed according to type of product. Jeans and skirt manufacturers continue to report healthy gains in new orders. Apparel manufacturing activity overall, however, has shown several months of decline. Newsprint remains in tight supply, and paper producers continue to operate at capacity.

TWELFTH DISTRICT - SAN FRANCISCO

Although doomsday warnings about recession and inflation are being heard, the Western region of the country is still moving ahead sharply on many fronts. Capital spending plans for the remainder of 1979 are well ahead of 1978--and higher capital-investment projections are being made through 1980.

On the West Coast in particular, commercial building and industrial-plant construction are continuing at a brisk pace. Nonresidential construction in Los Angeles is booming at a fever pitch, with labor, materials, and equipment all in short supply. In both Seattle and Spokane, ground has been broken for two major office towers, which represent the largest construction program ever undertaken by the Seattle First National Bank. And these two new buildings represent only a part of an exceptional surge in construction of new office, hotel, and retail space in the major cities of Washington State. In central Seattle alone, announced downtown construction projects total \$386 million for 1979--more than double 1978's construction pace.

In addition, a significant number of new banking, university, and manufacturing plant facilities are under way in the Northwest, as well as building and parking-lot expansions and rehabilitations. All of this will add significantly to regional production capacity in forest products, electronics, aircraft construction, cement, and metal fabrication. Kaiser Aluminum expects record capital spending for the current year and anticipates even higher expenditures in 1980. The same is true of truck manufacturers, swimwear, and apparel makers, and wide-body jumbo jet builders. All predict capital-spending outlays to increase over 1978 figures by 20 percent or more.

Employment continues strong in California and Washington, and the large influx of orders to their electronic, aircraft, and other manufacturing industries should produce steady gains in income. Employee recruitment continues vigorously in most areas and in most lines of business. Unemployment in the city of Los Angeles is at a new five-year low of 4.8 percent--below the current 5.8-percent national average, in a reversal of earlier relationships.

Several negatives, unfortunately, tarnish the relatively strong outlook for the future. The reduced availability and skyrocketing cost of gasoline have helped fuel the inflation while significantly changing the pattern of consumer spending in the West. Small "mom and pop" neighborhood retailers have experienced higher customer counts and sales increases of up to 40 percent in the first five months of 1979 over the same period in 1978. But sales at large regional and suburban shopping centers are down, due to the public's reluctance to use gasoline to drive substantial distances.

This resistance has also been felt in the tourist industry, where long-distance travel and vacation activities have been sluggish, with spending volumes down at resort, amusement park, and motel complexes. Oregon's tourism, the state's third largest industry, is down an estimated 25 percent from last year, with attendant summer employment losses. The restaurant business in Seattle is down approximately 20 percent. Reduced tourism in Utah has been most keenly noticed in the national parks in the south of the state. And California's out-of-state visitor flow has dropped noticeably.

Other gas-related industries also are suffering a slowdown in consumer spending. While the sales of economy import cars are going wild (up 36 percent in Oregon), large domestic cars and run-about trucks, moderately priced pleasure boats, travel trailers, and recreational vehicles just aren't

moving. One Portland auto dealership which could not meet its financial commitments has already shut down, and three others are up for sale because of the decline in domestic sales. The Santa Clarita National Bank reports that large used cars currently are selling at only about half of wholesale book value in southern California. Even summer registrations at Seattle University are down significantly because of the uncertainty about gasoline availability over the summer months.

Because of the gas crunch, Seattle area public-transit ridership was up 12 percent over the year ending in April, and the system reports even bigger gains in May and June, straining the system's capacity. Boise (Idaho) and the San Francisco Bay area also report increases in the use of public transportation. With the gasoline and diesel price rise expected following OPEC's latest hike, further downward pressures on business activity are likely to result.

The West's housing market remains mixed with both ups and downs. The housing boom continues strong in San Diego County, particularly for homes under \$100,000. But real estate sales are beginning to slow in the Central Valley and in suburban areas of southern California which are distant from Los Angeles. While financing in the Los Angeles area is very difficult, demand for residential housing continues strong. This demand is greatest and supply the shortest in the "low-priced" \$125,000-and-under range.