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CURRENT ECONOMIC CONDITIONS BY DISTRICT

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SUMMARY

Business conditions in the nation as viewed by businessmen and other observers of economic conditions in the twelve Federal Reserve Districts were slightly improved in late December and early January compared with a month earlier. Retailers report a sizable late spurt in Christmas sales, pushing the dollar volume above expected levels and well above levels of a year ago. However, the recent sales record has not been followed by reported intentions to expand inventories or to increase demand for factory output. The employment situation remains weak and the number of job seekers continues to grow. Some moderate gains are envisioned for industrial output in the months ahead, but capital investment plans continue to be pared. Credit availability is increasing with the rising liquidity of financial firms. Rising prices and price expectations continue to prevail, leading to intensive discussion of additional means of curtailing further advances. Output of most farm products, notably meats, was higher at the close of the year than a year ago, resulting in relatively low food prices and declining farm incomes.

Most Federal Reserve banks reported sharp increases in retail sales just prior to the Christmas holidays, which resulted in total dollar sales well above planned levels, and, in some cases, 5 to 6 per cent higher than a year ago. Pre-Christmas sales apparently started off slow but began to rise sharply just before the holidays, and the higher sales volume is extending into the new year. The sales gains were predominantly in the lower priced items. Higher priced items such as color TV sets and high quality clothing continue to move slowly.

Retailers report that inventories of most goods remain at very conservative levels, indicating considerable doubt that the recent upturn in sales will continue.

Manufacturers are cautiously optimistic compared with the fact that no change was foreseen a month ago. The Cleveland Bank reports that new steel orders have increased sharply since mid-December. Furthermore, steel industry economists expect a big pickup in steel shipments to begin about March and the second quarter to be much stronger than the first. Much of this anticipated gain is based on rising demand in preparation for a steel strike. The Richmond Bank reported an increase in manufacturers' inventories. With the exception of the steel companies, however, manufacturers generally do not indicate great gains in sales expectations. In conformity with this view, some layoffs and plant closings have recently occurred in the electronics and TV industries.

Most Reserve banks indicate that the current high rate of unemployment is likely to continue for several months. Further declines in employment, however, are not expected as most reports indicate that the retrenchment process of firms is about complete. Any future increases in the unemployment rate will primarily reflect additions to the labor force rather than layoffs.

Most reports point to some moderate gains in construction in the months ahead. Reasons given include the more favorable interest rates and easier payment terms.

Capital investment plans apparently continue to be pared. The Richmond Bank reports that manufacturing respondents often cite excess productive capacity as a problem. The Chicago Reserve Bank reports that a number of important firms have decided to keep capital outlays at or below depreciation in 1971. Cleveland reports that the 1971 authorized plant and equipment appropriation of a large rubber firm is only 60 per cent of the 1970 level of actual expenditure. Excluding public utilities, there are no reports of major industrial expansion plans, and when new investment is mentioned, it is in connection with cautious and conservative planning.

All respondents concur that credit became increasingly available in the closing weeks of 1970. Savings inflows at banks and savings and loan companies have been very high in recent months. Business loan demand has been declining, and reports of more aggressive lending policies are more frequent than heretofore.

Inflation and expectations of inflation continue to be a major worry of most businessmen. Practical means offered for stabilizing prices, however, vary widely from one Reserve District to another. Dallas, for example, reports that some form of incomes policy is generally favored as the solution, while Atlanta and Minneapolis report respondents varying from adamant opposition to an incomes policy to support for the adoption of some type of controls.

A leveling out or decline in farm income may be in prospect for the months ahead. Low meat and poultry prices and higher priced feed have reduced profit margins to livestock producers. The large numbers of livestock on farms, however, have resulted in a high level of marketings despite the higher production costs. Readjustments in livestock numbers will likely occur during 1971, resulting in higher returns to farmers and higher food prices.

Apart from noting his belief that the administration will employ more fiscal surprises than we think, Professor Wallich had no essentially new comment this month.

SECOND DISTRICT - NEW YORK

Opinions expressed by Federal Reserve Bank Directors, of both the New York Bank and the Buffalo Branch, and by other businessmen suggest that the increased uncertainties surrounding the near-term economic outlook that have emerged in recent months continue in evidence. Recovery from the GM strike has been slower than had been expected; holiday retail sales have been relatively good, but not booming, and in general no real sustained pickup in consumer spending is looked for until later in the year. The settlement in the forthcoming labor negotiations in the steel industry is not expected to be significantly smaller than in the auto industry. Sentiments were mixed as to the potential level of borrowings in 1971 in the corporate bond market.

The views expressed on the general economic outlook were not particularly optimistic. The directors felt that economic activity was not recovering as rapidly and as strongly from the settlement of the GM strike as they had expected. The chairman of the board of a large New York City bank stated that he felt less encouraged regarding the overall economic outlook than a couple of months ago, and that he had not felt very encouraged then, while the president of a New York City department store looked for only a moderate increase in economic activity in the later part of the year.

With respect to consumer spending, the retailers that were contacted reported that pre-holiday sales, in dollars, exceeded last year's, primarily because of a big spurt in the week before Christmas. The retailers reported continued consumer resistance to higher priced items, but favorable responses to special sales, and the volume of post-Christmas retail sales so far has been good. These retailers looked for good business through January, a levelling off in sales through the spring and a pickup in the latter part of the year.

On the labor front, opinions were about evenly divided with respect to the duration of a possible strike in the steel industry. Some directors -- including the general manager of an upstate plant of a large steel corporation -- stated that they did not expect a long strike. Others, however, felt that prospects were good that any strike would be a lengthy one. The directors agreed that the settlement would not be significantly smaller than that received by the auto workers. In this connection, other businessmen that were contacted felt that little progress was being achieved toward curbing inflation, and that little could be expected until wage demands abated.

Sentiments regarding prospective borrowing in the corporate bond market were mixed. The chairman of the large New York City bank, the president of a large manufacturing concern, and the chairman of a Rochester bank felt there would be little decline in such borrowings from their 1970 record highs. The president of the manufacturing concern reported that the consensus among corporate executives is that the bond market would be "soft" in the next three or four months, but that rates would be higher by the end of the year. Accordingly, he felt companies would come early to the market. On the other hand, some other directors felt that there would be a significant decline from 1970 levels.

THIRD DISTRICT - PHILADELPHIA

Some cautious optimism appears to be creeping back into the minds of businessmen in the Third District. Retailers report that Christmas sales turned out better than expected. Manufacturers anticipate an increase in shipments during the next six months. Bankers, however, report that loan demand remains soft. Considerable concern persists about unemployment and inflation.

Philadelphia retailers report that Christmas sales "started off as a disaster and then ended up fairly well." The turning point apparently was Christmas week. One large department store in Philadelphia indicates that sales ran only about 2 per cent ahead of last year for the first three weeks of December. Since then the sales pace picked up dramatically, rising to 6 per cent above a year ago. Items under $100 that were marked down in price sold briskly. Radios, portable stereos, other small appliances, and clothing sold particularly well. Color televisions and other big ticket items are not selling, though, report area retailers.

One large retailer reports substantial price shading at the manufacturing level. Some types of men's suits, for example, were marked down 40 per cent by a manufacturer because of high inventories and excess capacity. These markdowns were passed along to price-conscious consumers who quickly purchased the retailer's entire stock. Most retailers expect that sales will probably slide back to their slow motion pace in the coming months. Nonetheless, they are going to try some aggressive advertising that will spotlight "bargain buying" opportunities for the consumer.

For the first time since late summer, regional manufacturers are bullish about sales and new orders. A large majority now believes that the general level of business activity will rise over the next six months. In part this emerging optimism reflects an end to the General Motors strike, but it also reflects a more basic change in business psychology that "things will get better." One director, who is a manufacturer, is suspicious of this budding optimism, however. He says it is based mostly on expectations for the second half of 1971. He adds that there is more "hopefulness" than "substance" to such expectations.

Bankers on the whole still talk about a weak economy and soggy loan demand. Most say that both the economy and loan demand are recovering a lot more slowly than they had anticipated. Furthermore, one city banker notes that because of the normal pay down of loans in the coming months he does not expect any relief from seasonal factors.

Philadelphia banks are actively seeking quality loans because obtaining funds is no problem. One banker says that a drop in the discount rate would help loan demand by improving business psychology. One bank reports that it has made a sizable number of commitments for construction loans which remain outstanding. The businesses to whom these commitments have been made are still looking around for permanent financing, however. Apparently they are shopping for funds with more favorable terms. This shopping around may mean that some people in the construction industry believe that further declines in interest rates are in the wind.

Although there appears to be less pessimism in general now than a few weeks ago in the Third District, most businessmen still express a deep concern about inflation and unemployment. Nonetheless, a feeling seems to be emerging in the business community that the "worst is behind us and somehow things will work out for the best."

FOURTH DISTRICT - CLEVELAND

There has been a rebound in economic activity in the Fourth District as a result of the settlement of the auto strike and an improvement in steel orders; however, there is evidence of persistent underlying weakness reflecting the slowdown in capital goods. The machine tool industry remains in the doldrums, and non-residential building awards continue their sharp decline. The recent recovery in residential construction, however, is continuing. One of our directors expressed the need for policy measures designed to stimulate capital investment and productivity gains.

Purchasing agents in the northeastern Ohio area reported a further deterioration in new orders, production, employment, and inventories in December. There were small increases in the per cent of purchasing agents reporting gains in new orders and production last month, but much larger increases in the proportion of firms showing a decline in both those categories. Significantly, December was the first month since late 1962 in which the per cent of purchasing agents in northeastern Ohio reporting price declines outnumbered the per cent reporting increases.

Economists from three major steel companies reported that new orders have increased sharply since mid-December. The orders, however, generally call for delivery in February or later. Extended strikes at three General Motors plants have slowed steel shipments to GM; some of the steel orders placed last fall by GM will not be delivered until February. All of the steel industry economists felt that the big pick-up in shipments would begin about March and that the second quarter would be much stronger than the first. They also commented that the probability of a steel strike occurring this year is the highest it has been since 1959.

Among our directors, one who is associated with a larger rubber firm indicated that the firm's 1971 capital budget contains authorized plant and equipment appropriations equal to 60 per cent of the level of actual expenditures in 1970. He noted that an investment tax credit would have an immediate effect on the firm's cash flow, but would not have a drastic impact on the actual level of capital outlays in 1971. In all likelihood, he added, the major effect of such a program would be to cause the firm to relax slightly the degree of austerity built into its capital budget. The firm would not undertake additional large capital spending programs, however. This director indicated that he is moderately optimistic about the business outlook for 1971, but he did note a recent near-collapse in demand for the firm's nontire products, particularly chemicals and industrial materials. He indicated that the firm is uncertain whether this is a temporary phenomenon or a reflection of a continued downward trend in general business activity.

A second director, who is a management consultant for firms in several industries, reported that the senior management in many of the firms he is associated with remain pessimistic about a substantial recovery in business activity in 1971. This director strongly urges that some form of accelerated depreciation is necessary to stimulate capital spending. In particular, he suggested that accelerated depreciation schedules be instituted for capital expenditures that would result in an immediate improvement in productivity and lead to further cost reductions.

On the retail side, the economist for a large department store chain reported that the firm's Christmas sales volume was 5 to 6 per cent above the 1969 level and nearly 3 per cent more than the firm's internal projections. He also noted that advertising and promotion outlays were increased substantially during the Christmas season. Because of an unchanged number of employees, the improvement in the volume of sales in the fourth quarter should protect the firm's profit margins.

FIFTH DISTRICT - RICHMOND

Surveys of businessmen and bankers in the Fifth District indicate general agreement on the following points: (1) continued weakness in shipments, volume of new orders, and backlogs of orders in manufacturing; (2) general improvement in retail sales and some slight improvement in automobile sales; (3) some improvement in employment; (4) more numerous price declines in manufacturing, but not in retail goods or services; (5) continued weakness in residential construction; (6) cutbacks in business loan demand and mortgage loan demand at district banks, but some increase in consumer loan demand; and (7) a favorable outlook for the immediate future despite discouragement over current business conditions.

Although reports from district manufacturers are mixed, the consensus is that shipments, volume of new orders, and backlogs of orders continued weak during the month of December. Important producers in such industries as chemicals, synthetic fibers, electrical equipment, and nonferrous metals indicate that the weakness of the past several months remains. Reporters in building materials, furniture, and hosiery indicate stability or some improvement.

Businessmen in trade and services and district bankers report improvement in retail sales, in line with seasonal expectations. Automobile sales reportedly remain weak, although some improvement is noted from the dismal auto sales reports of the past three months when reduced output significantly affected district sales.

Manufacturers report further slight increases in inventories of finished goods, while retailers' inventories have reportedly been reduced. In both areas, however, current inventory levels are reported to be higher than preferred.

Reports of further declines in employment have become decidedly less numerous among district manufacturers, although they continue to outnumber reports of increases. Respondents' reports as well as comments received indicate that the district employment situation may be beginning to stabilize. District bankers report that in their respective areas employment declines have tapered off, and reporters in trade and services indicate an increase in employment in December as seasonally expected.

District bankers report that labor supplies in their respective areas remain high, and in the manufacturing sector, some further reduction is reported in the length of the workweeks. Several significant strikes, however, continue to influence the employment situation in the district.

Reports of price declines outweigh reports of price increases among district manufacturers in December for the second consecutive month. Declines are reported by producers in chemicals, nonferrous metals, and coal. Most manufacturers, in both durable and nondurable lines, report no change in prices during the past four weeks. Respondents in retail trade and services, however, report continued price advances. Upward pressure on wages is reportedly continuing strong across the board.

District bankers report that on balance residential construction in their respective areas remains weak, but the proportion reporting increases continues to rise slightly. Comments received from respondents indicate an expectation of increased activity in the residential construction field, but no significant recovery is yet occurring. Nonresidential building, however, reportedly continued to increase moderately in the past four weeks.

The demand for business loans and mortgage loans is reported by district bankers to have declined sharply during December. Consumer loan demand, however, reportedly increased during the same period.

The degree of optimism among district survey respondents concerning the economic outlook has been diminishing since September. While the outlook remains favorable on balance, comments received from respondents indicate some discouragement over the failure of the economy to exhibit stronger signs of recovery. Continued rising prices, weakness in employment, and the effects of strikes have been most frequently mentioned as reasons for lack of confidence. Manufacturing respondents in particular continue to cite high inventory levels and excess productive capacity among their unresolved problems at present.

SIXTH DISTRICT - ATLANTA

A research department survey of department store executives indicated slight year to year gains in sales in December, continued purchases of less expensive merchandise, and an expectation of sluggish sales. According to newspaper reports, a steady stream of price increases continues and consumer loan rates have not been lowered in East Tennessee or Florida. Surveys conducted by directors of the Nashville Branch indicate adamant opposition to any type of incomes policy. The Jacksonville Branch Directors, on the other hand, expect some version of an incomes policy, with businessmen preferring guidelines to rigid controls.

On December 28, seven department store executives in Atlanta, Jacksonville, Birmingham, New Orleans, and Nashville were surveyed. The highest estimated year-to-year gain in December sales was 4.5 per cent. Most of the respondents reported a 1- to 2-per cent gain, though a store in Birmingham indicated that it experienced a 10 per cent decline. However, this was largely attributed to a construction strike that has now been settled. All respondents indicated that consumers continued to practice "buying down," that is, purchasing less expensive lines of merchandise. As might be expected, sales of "high-ticket' items, particularly TV's, were very slow. The sluggishness in TV sales is evidenced by the laying off of 1,600 workers at a TV tube plant in Knoxville. Toys, which are usually big sellers at Christmas, did not move as well as expected. The general consensus was that "sales will continue to be hard to come by" for at least the next six months.

Sluggishness in expensive merchandise was also reported by a factory representative for a high-quality line of men's clothing, who reported that orders were off 30 per cent this spring. On the other hand, retail sales were reported very strong in Orlando and Knoxville.

Many actual or proposed price increases continue to come to our attention: telephone rates for most Georgians and for residents of nine west central Florida counties, intrastate Florida telegraph rates on 15-word messages from \$2.25 to \$2.75, and gas rates in Knoxville up 20 per cent. Airlines have raised cocktail prices from \$1 to \$1.50. TVA recently raised construction workers' wages by an average of 11.35 per cent. A 2-cent per gallon increase in Georgia gasoline tax has been recommended. Railroads have also petitioned the ICC for a rate hike. Louisiana milk prices may be raised.

Special reports indicate that the Florida tourist season is mixed. The Gulf Coast trade is reported to be holding up well, but advance bookings are weak along the Gold Coast. The Tampa and Orlando areas remain prosperous. A 35-story office building is getting underway in Tampa, and the new \$80-million airport will open there in March. Residential construction remains strong in South Florida. The late November freeze cut a swath through west Florida groves, but the crop is still expected to be so abundant that some fruit may be left to rot on trees.

Georgia businessmen surveyed by a local newspaper report they expect a modest pickup in business this year, mainly because of an increase in housing construction and consumer spending. They also think that inflation will be more of a problem in the state than unemployment.

An administrator of a publicly supported two-year college in the Atlanta vicinity reports that his institution has benefited from the transfer of students from expensive private colleges. He attributed the switching to the general economic slowdown. Meanwhile, several private colleges report a drop in enrollment due to economic conditions.

Our Nashville Directors and businessmen surveyed by them are nearly unanimous in their vigorous opposition to wage and price guidelines and in their strong support of a balanced Federal Budget. They argue that the time for jawboning is long past and that formal controls are philosophically repugnant and unworkable. Most of those surveyed are worried that the painful progress made by monetary restraint will be wasted away by easy monetary and fiscal policies. The only support for wage and price guidelines encountered by any Nashville Director was among workers in a barber shop.

According to reports, consumer loan rates have not been lowered in Florida or East Tennessee, although rate reductions are expected during the year. One explanation for the stability of consumer loan rates is that such rates did not rise along with other rates during 1969 and 1970. An increase in consumer loan delinquencies is reported at one Atlanta bank, especially in the Lakewood area, where workers are still striking at GM.

SEVENTH DISTRICT - CHICAGO

Retail sales increased in late December. The supply of labor continues to outrun demand. Demand for capital equipment remains very slow. New order trends indicate a rise in steel shipments in the first quarter. Motor vehicle output will be very large in the first quarter for G. M., but other producers are cutting output schedules. Savings inflows have been excellent. Liquidity positions of business firms and financial institutions are improving. Lenders remain cautious on new commitments. Price inflation has moderated somewhat. Overall, business and financial leaders anticipate a gradual rise in total activity in 1971, but with relatively high unemployment and continued general price inflation.

Total retail sales apparently surged in the last week before Christmas, and a stronger tone has continued in the post-Christmas weeks. Results have varied greatly among retailers, however. Downtown shopping areas are continuing to lose trade to suburban shopping centers. Customers are said to be responding to sales promotions (started before Christmas in many cases) but are avoiding luxury goods and big ticket items. Price reductions on sale merchandise appear no more drastic than in past years.

The number of job seekers continues to grow. The labor supply is expanding for a number of reasons, other than natural growth: the number of ex-servicemen, reduced enrollment at some colleges, and the number of secondary workers attempting to supplement family income. Unemployment has hit people in all categories of training and experience. The quality of applicants for less desired jobs, such as door-to-door selling, has improved. Meanwhile, managements continue to sharply restrict new hirings. Despite these signs of easing labor markets, demands of organized worker groups remain heavy by past standards.

Orders for most types of business equipment remain at reduced levels. Inquiries are said to be numerous, but these are not translated into actual sales. Public utilities are going ahead with plans for expansion and service improvement. The slump in the aircraft industry has hurt some district producers of machinery and cutting tools. A number of important firms have decided to keep capital outlays at, or below, depreciation in 1971.

Steel orders began to improve on a broad front about a month ago. Some customers delayed December deliveries to minimize year-end inventory values for tax purposes. Foreign demand for American steel has faded in recent months and is not expected to revive. Auto companies are encouraging their suppliers to lay in 60-90 day inventories of steel as strike protection. Some steel orders will be stimulated in the next several months prior to the expiration of guaranteed prices fixed for a full year ahead at various dates in 1970.

Some local governments, especially in Michigan, are curtailing programs for lack of funds. Higher wages and salaries coupled with reduced revenues necessitated these decisions.

Savings inflows at banks and S & Ls have been at very high, often record, levels in recent months. This is true of institutions in both large and small cities. Business loan demand at commercial banks is far below last year's levels. Policy loan demand at life insurance companies continues to moderate.

One large bank decided recently to maintain its Eurodollar base, despite the relatively high cost of these funds. This decision was apparently based on the expectation that some other actions will be taken by the Federal Reserve System to reduce the effective cost of retaining Eurodollar balances.

EIGHTH DISTRICT - ST. LOUIS

Reports from a sample of businessmen are slightly more optimistic regarding the economic outlook than a month ago. Christmas sales were generally above expectations, and the higher sales levels are continuing into the new year. Although still indicating that they are reducing the rate of investment and holding employees constant, larger manufacturing firms expect some gains in demand and output this year. Home builders point to the moderate gains already achieved and expect this higher rate to hold through the current year. Belt tightening of planned capital investment continues to prevail with respect to both production capacity and inventory accumulation. Respondents believe that the current high rate of unemployment and substantial inflation will continue throughout most of the current year.

Although customers began their Christmas shopping later than normal in the Eighth District, leading retail chains report sales to be well above expected and year earlier levels as Christmas approached, and the higher sales levels have been maintained into 1971. This increase in retail activity over expected levels in part reflects the depressed conditions in St. Louis for much of 1970; the extended General Motors and Teamsters strikes had a depressing influence on business during a large part of the year.

Cautious optimism as to the business outlook is expressed by most of the manufacturing firms. A period of general retrenchment, however, continues as no major expansion plans are in prospect, and hiring of new employees is generally limited to replacement personnel. New capital investment plans are generally restricted to labor saving equipment and the replacement of obsolete facilities.

Home building has already turned up in the St. Louis area, and this industry expects new construction in 1971 to average 15 per cent above the relatively low level of 1970. Last year the number of new housing units constructed was down 55 per cent from a year earlier, and expenditures for new homes were down 35 per cent. Home builders point to the lower interest rates as an optimistic sign, but they also observe that the higher rate of unemployment tends to retard demand for new homes.

Financial institutions report increasing liquidity, and some express concern at the declining demand for credit while rates paid savers remain generally stable. One banker referred to this tendency as the prospective profit squeeze in banking. Banks report a rising number of checks drawn against insufficient funds and more past due business loans.

Agriculture in the Eighth District was adversely affected by poor harvesting weather during the autumn months. Cotton production was reduced substantially by adverse weather, and the cotton harvested was of below average quality, causing a further reduction in returns to cotton farmers. Returns to livestock and poultry production have been relatively low in recent months, while rice and soybean producers have fared quite well.

The continuing inflation despite the slowdown in business activity is of concern to most businessmen interviewed, and many are planning further upward price adjustments. There is general agreement, however, that moderate policies should prevail with respect to total demand, and that the fight against inflation should continue.

NINTH DISTRICT - MINNEAPOLIS

Businessmen in the Ninth District continue to be concerned about the economy's performance, and many feel that some type of "incomes policy" will be necessary if further reductions in the rate of inflation are to be achieved. Although the District at present is free of major labor disputes, district labor bargaining is expected to be difficult in 1971, due to the large wage concessions granted in 1970. Christmas spending in the district probably equaled if not bettered last year's sales level. Reports also disclose that district consumers look for a modest recovery in economic activity next year. According to our latest agricultural credit conditions survey, district farm income and spending are depressed, and farm loan demand is high because of credit extensions and refinancing.

In response to a question on the desirability of an "incomes policy" as a deterrent to further inflation, bank directors indicated that many district businessmen support the adoption of some type of "incomes policy." Businessmen are, however, very vague as to the form such a policy should take and generally favor some type of voluntary program and abhor any type of rigid wage-price controls. One director reported that businessmen in his area did not support an "incomes policy" for they believed that a jawboning or voluntary type program wouldn't work and that a rigid involuntary program would not be acceptable. Another director stated that businessmen in his area did not favor an "incomes policy" and felt the problem could be corrected by breaking the monopoly power of labor. Two directors reported that labor leaders they talked to were reluctant to support the adoption of an "incomes policy." One labor leader did state, however, that he would go along with wage-price controls if such a policy was broadened to include, besides wages, profits and dividends.

The settlement of the Northwest Airlines strike in early December left the Ninth District free of major labor disputes for the first time in seven months. A survey of bank directors reveals that labor negotiations are scheduled in 1971 for the mineworkers and for several construction trades. One director indicated that union membership will be hard to satisfy because of the large wage concessions granted in 1970 and that bargaining will be difficult for both management and union leadership.

District consumer spending during the Christmas season probably equaled if not bettered last year's sales levels. Consumers, however, were cautious and price conscious in their spending and tended to purchase items that were less expensive and more practical. As one director indicated, retailers who are aggressive and offered the consumer value had a good season, while those who conducted business as usual probably did poorly. Reports indicate that the sales of big ticket and luxury items were off this year. A newspaper survey revealed that reservations for New Year's Eve at Twin Cities hotels and restaurants were down this year. Automobile sales in one area of the district were reported to have improved in the last couple of weeks. Upper

Michigan has excellent snow conditions this year, and its ski business is very good. Also, one director disclosed that farmers in his area recently have been shopping around for farm machinery and were making purchases if they received price concessions.

Bank directors generally report that district consumers expect economic conditions in 1971 to be somewhat better than in 1970. One director, however, reported that merchants in his area are going to take their time in rebuilding inventories depleted by Christmas buying.

The preliminary results of our January 1 quarterly survey of agricultural credit conditions reveals depressed farm income in the district a reduced level of farm purchases and a stronger than usual demand for short-term loans caused by tide-over needs and requests for loan extensions or credit consolidations. Although agricultural bankers' willingness or ability to lend has increased because of seasonal factors, the banks have abnormally high loan-to-deposits ratios. Bankers expect that in the next three months there will be even lower farm income and spending and more demand for credit extension and refinancing. Practically no agricultural bankers, however, expect any difficulties in meeting credit-worthy loan requests in the next three months. The survey also revealed that a significant number of bankers in the district's corn and small grains producing areas expect the new farm program legislation to adversely affect farm income during the 1971 crop year.

TENTH DISTRICT - KANSAS CITY

The economy lacks buoyancy in most parts of the Tenth District. This is reflected in continued sluggish business activity, although there is substantial variability by region and sector. This weakness, combined with the easing monetary policy stance, is having an impact on district commercial banks. With loan demand easing and more funds available, banks generally are emphasizing investment portfolios which are aimed at improved liquidity positions. They want to remain flexible because of uncertainties they perceive relative to future rate movements.

Business activity in Kansas and Missouri has been most affected by the current economic slowdown. Employment in the aircraft industry, particularly in Wichita, remains soft -- as corporations have curtailed their purchases of executive planes and Government contracts remain weak. In addition, Kansas City is still suffering from the impact of the long construction and General Motors strikes. Business activity in Oklahoma, Colorado, and Nebraska has not been affected as much by the current slowdown, largely because they have not experienced the severe economic misfortunes of the other areas. Business in Colorado is also being sustained by a strong outdoor recreation industry. Activity in ski areas continues to increase at rates that are normal or better. Mining activity is depressed. Domestic oil exploration is down because of various Government actions discouraging such activity. Economies of cities where uranium mining is important such as Grand Junction, Colorado, have been adversely affected by curtailment of Government uranium purchases.

Since retail sales are so important at this time of year and consumer spending is being closely watched as a clue to economic growth in 1971, district retail stores were again surveyed this month. Reports were mixed -- with some department stores and discount houses reporting a decline in sales during December, as compared with the same month last year; while others reported gains, mostly of a modest nature. After having generally good sales in November, several stores reported that sales in early December were disappointing but then improved substantially again just before Christmas. Weather conditions may have been partly responsible for this pattern. Generally, stores that had the best gains were the large combination mail order-department stores. One regional controller of a chain of such stores said that their sales usually hold up quite well during economic slowdowns when customers are interested in good quality at reasonable prices. Somewhat surprisingly, a large store that specializes in luxury gift items and caters to above-average income customers reported sales this fall increased by about 10 per cent. Generally, stores that had strong sales just before Christmas also report strong post-Christmas sales, while stores with weak pre-Christmas sales continue to exhibit weak sales.

The surveyed retail stores were also asked whether they had used any extra promotional activities such as intensified advertising campaigns or earlier price reductions this year due to the economic slowdown. Most stores that reported generally good sales in December said that they had not made any special promotional efforts this year. On the other hand, many of the stores with disappointing sales records said that they had undertaken special advertising -- with stress on value -- and had used more price promotion sales.

Generally, auto dealers in all parts of the district indicated that sales of new American cars in December 1970 were lower than during December 1969. However, they report that sales of 1970 models through November were above the comparable year-earlier period. Shoppers are showing some interest in the subcompacts, but dealers say that these new domestic introductions are not especially popular. What success they are achieving appears to be at the cost of one-size-larger, American-made models. Foreign cars seem to be selling well everywhere. GM dealers blame slow sales on short supplies, while some dealers in foreign makes say they are continually sold out. Little showroom traffic is making many dealers in domestics pessimistic about sales prospects for coming weeks.

Loan demand is continuing to ease at many Tenth District banks. Banks with ample investable funds are reacting to the weak loan demand in several ways. In addition to a continued repurchasing of loans from holding companies, a more aggressive loan policy appears to be developing in some cases. More generally, however, banks continue to fortify their liquidity positions. In their investment policy, most are cautious -- placing funds in shorter-term notes and short-term municipals, and, in some instances, selling Federal Funds where, until recently, they were purchasing them. Some banks expressed the view that long-term interest rates are likely to come under renewed upward pressure in the coming months, and that loan demand is likely to strengthen. This partly explains the continued cautious approach toward liquidity.

ELEVENTH DISTRICT - DALLAS

The outlook for the first half of 1971 is currently viewed with guarded optimism by a sample of fifteen academic and business economists in the Eleventh District. While they expect a substantial recovery in economic activity along with some decline in interest rates and the rate of inflation, the majority also anticipate that the unemployment rate will remain fairly high. Moreover, they see inflation as still the major problem facing policy makers -- with cost-push pressures being the primary cause of the continued inflation -- and some form of incomes policy is generally favored as a solution.

The economists expect a sharp rise in both current dollar and real GNP in the first and second quarters of 1971. Most anticipate continued strong performance from residential construction and a healthy recovery in consumer durables (the latter resulting from a makeup of production and sales in automobiles lost during the General Motors strike). A buildup of steel inventories by manufacturers as a hedge against a possible steel strike was also widely mentioned. In addition the more bullish of the respondents look for strength in state and local government expenditures, while the more bearish expect either only a mild increase in automobile sales or make no assumption regarding hedging in steel inventories. Virtually none feel that business-fixed investment will be a contributory factor to the recovery.

The respondents also anticipate very little change in the unemployment rate during the first half of 1971. While they generally believe the rate of inflation will moderate further over the next six months, the current wage-price situation is viewed as a critical problem and the main factor accounting for the continued persistence of inflation. Some suggest, however, that a temporary incomes policy might be necessary and a few even support full-scale wage and price controls. Thus, even though the unemployment rate is expected to remain high and inflation moderate, it is clear that the respondents are more concerned over inflation and consider it to be the primary problem facing policy makers.

Nearly all feel that both short- and long-term interest rates will continue to move lower in the first half of 1971 -- but only slightly so -- with some citing easier monetary policy, slack demand for funds, and an abatement of inflationary expectations as the primary reasons for the expected declines. But a few anticipate relatively little change in long-term interest rates, largely due to the rising need for funds by the Federal Government.

Opinion is about evenly divided on the impact of the projected $10-15 billion Federal Budget for the fiscal year 1971. Some express concern that a deficit of this size will tend to aggravate the inflationary problem. Others, in view of the high unemployment rate and sluggish economic activity, are unconcerned, stating that the deficit is a result of the shortfall in Government revenues and is to be expected under such circumstances.

With regard to the year 1970, it should be noted that this region fared unusually well, in many respects, in comparison with the rest of the nation. The favorable showing of the district economy reflected in part a sharp increase in the output of crude petroleum in the second half of the year as oil regulatory agencies in Texas and Louisiana raised oil allowables to record heights. In turn this increase contributed to a small rise in industrial production in the region in contrast to a decline for the nation as a whole. Moreover favorable weather conditions resulted in an increase in crop production in 1970, following a decline in the preceding year. Finally, construction activity here, particularly in apartments and office buildings, was markedly stronger than in the nation as a whole.

TWELFTH DISTRICT - SAN FRANCISCO

Businessmen and bankers in the Twelfth District report a continued slow pace in economic activity. One effect of this situation is apparent in the behavior of Christmas retail sales. In most areas, retailers report relatively small increases and in some areas sales were below those of the previous year. There are reports of further cutbacks in industrial production. As a reflection of this situation, banks are experiencing a lower level of demand for loans.

Retail sales during the Christmas season did not match the increases of recent years. In general, sales were up somewhat but much of the increase in dollar terms was due to higher prices rather than a real increase in volume. By region, the most buoyant sales were in Arizona and Utah; the least were in Washington. Most of the increase seemed to be registered by the big retailers concentrating on medium-priced lines and the discount stores based in suburban shopping centers. Even here some of the increases were due to the spread of Sunday openings by regular-line department stores. Higher-priced lines, and the stores specializing in them, seemed to have difficulty in even matching last year's sales. One regional chain of high-priced women's clothing reported only a 1 per cent gain in dollar sales and there were marked declines in sales of such specialties as furs and fine jewelry. Buyers seemed to be price-conscious and more reluctant to buy on credit.

As has been the case, Washington continues to have the greatest problems. Retail sales in the Seattle-Tacoma area were described as down from 1969 and about equal to those of 1968. Delinquencies in consumer loans and mortgages are up somewhat but yet not out of line. The lumber industry, which has been a source of some support to the local economy, is experiencing difficulties in maintaining output; the largest pulp and paper mill in Tacoma closed in mid-December until sometime in January. Some smaller firms producing for the national market have had increases in orders. Overall, in the Seattle-Tacoma economy, unemployment is still high and retail sales and housing starts have fallen.

The pace of industrial activity shows no sign of increasing, and further reductions are continuing in some areas. A few of Oregon's larger manufacturers -- particularly in electronics -- have announced layoffs for the first of the year. In Orange County of Southern California and Arizona, industrial cutbacks are continuing. A builders' supplies firm in Northern California shut down for ten days in December to avoid further layoffs of its staff. On the other hand, copper or steel production continues to be strong in Utah. District agriculture seems to be doing relatively well. The Washington fruit crop has been selling well and local cold-storage facilities are being expanded. Similarly, farmers in Oregon have experienced a better than average year.

The slower rate of economic activity is reflected in the lower level of demand for loans at district banks. Bankers have reported improved liquidity positions and they are making changes in their asset portfolios. Some banks are increasing the average maturity of their outstanding CD's and others are now buying tax-exempt municipal bonds. As part of the national trend, they are paying lower interest rates on their CD's and charging less on their loans. One large bank reported that it has lowered the rates paid on some of its "saver-type" time deposits of one year and more maturity. More bankers are now shifting their lending policies to a more aggressive or active search for new business. Despite this shift in policy, total loans are lower both in business and in consumer loans.

In summary, consumer spending, although a source of support to the economy, has not been rising rapidly. Business activity has not been increasing, and, in consequence, businessmen are remaining cautious in their investment and production plans. The banks are in a better position to lend when demand does finally begin to increase more strongly.