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CURRENT ECONOMIC CONDITIONS BY DISTRICT

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by the Staff

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SUMMARY*

The language used in the Reserve Bank reports, to summarize the characterizations of the current economic situation by their various sources of information, falls within a rather narrow range. The present recovery is described as weak (Boston), sluggish (Cleveland), sustainable but sluggish (Philadelphia), and modest (Dallas); there is also an expression of renewed doubts about its strength (New York). Economic activity is seen as continuing a gradual improvement (Richmond), expanding at a gradual rate (San Francisco), showing moderate improvement (Kansas City), continuing moderately upward (St. Louis), improving, with the outlook modestly optimistic (Atlanta), giving rise to expectations of a moderate pickup (Dallas), and leading to the anticipation of marked gains by the year's end (Chicago).

The major sources of such strength as is observed in the economy continue to be construction, especially residential construction, and, to a somewhat lesser extent, consumer spending. This statement appears to be true for nearly all Districts, although there are some differences of degree. Nearly all Banks emphasized the importance of retail sales or consumer spending in supporting the observed levels of economic activity in their Districts. However, the relative weakness of automobile sales was mentioned by three Banks—Boston, Richmond, and San Francisco—while Philadelphia, Cleveland, and St. Louis appeared relatively less bullish about retail sales and consumer spending. The tourist trade was reported to be booming in New England, strong in Florida, and off somewhat in New Jersey.

Most of the Reserve Banks continue to mention the importance of strong

*Prepared by the Federal Reserve Bank of Kansas City.

residential construction activity, with Atlanta describing construction as the "leading sector" in that District's improving economic situation. Richmond notes that firms producing output related to housing and construction are doing well, and San Francisco reports production and prices up in the timber and lumber industries as a result of rising construction volume. Possible clouds on the horizon of continued construction growth are the mention of higher mortgage interest rates by several Banks, some concern over possible overbuilding of multiple-dwelling units in southern California, and a report of some softening in occupancy rates in office space and apartments in the Chicago area.

Among those Banks referring to financial matters, there was fairly general agreement on the strength of consumer instalment loans and real estate loans, but more limited reference to, and less agreement on, business loan demand. Richmond referred to strong demand for loans of all kinds, including business loans, while Boston described business loan demand as sluggish. San Francisco sees it as steady overall; Philadelphia, weak; and St. Louis, rising. Although lending volume has not yet strengthened in Chicago, the large banks there report having perceived the early signs of a pickup in business loan demand.

Several Banks—St. Louis, Chicago, and Cleveland—reported a slowing in the rate of inflow (and some runoff) of deposits into financial institutions. Deposit inflows continue strong in the Tenth District and in the Ninth District, outside Minneapolis-St. Paul.

Not all Banks commented on the employment situation in their Districts, although several did. Unemployment remains high in the Far West, with some further aerospace layoffs to come, but is described as stabilized in the Cleveland

District. Steel industry production cutbacks and layoffs are posing special problems in the Chicago and Cleveland Districts, as are layoffs in automobile and ordnance plants in the Kansas City and Atlanta Districts.

There was some expression of feeling that the potential steel strike would be relatively short, if it occurred at all. Two longshoremen's strikes—one now underway on the West Coast, the other a possibility to begin on October 1 along the Gulf Coast—are both feared to be lengthy and serious in their adverse effects.

The demand for short-term farm loans has declined in the Ninth District as farm income flows have improved. Improved farm income is also expected in the Tenth District—drought areas aside—despite anticipated declines in farm prices. But the situation of agriculture in the Eleventh District, where the drought is centered, remains uncertain to critical over wide areas. Increased corn acreage in the Seventh District, along with the planting of some blight-resistant seed, is expected to produce a sizable corn crop and substantially lower prices for it.

FIRST DISTRICT — BOSTON

Business conditions continue to appear mixed, with indications of an economic recovery weak. Business loan demand is sluggish, although firms are asking for future commitments of funds. Consumer spending, other than on autos, appears to have picked up noticeably, but the demand for industrial goods is either still depressed or just beginning to show a slow improvement.

Mortgage interest rates are reported to have risen by a half percentage point in the last few weeks. Mortgage demand appears to be primarily from the turnover of older homes, rather than from the sale of new homes. While business loan demand remains sluggish, it appears that firms are building up loan commitments to be assured of future credit. The banks noted that car sales—both new and used—are very sluggish. One bank mentioned that a long-established Ford dealer switched to Toyota and is now a much happier and more prosperous businessman. One director, whose firm is a supplier to the auto industry, cautioned that high auto inventories have created a potentially dangerous situation in that industry.

There appears to be a mixed pattern in orders for industrial goods. Both bank and business directors pointed out that the machine tool industry is still very much in the doldrums, with order backlogs quite weak. This is attributed mainly to the slow pace of the recovery, but imports are also playing a part in the lack of orders. Industrial products are reported as continuing weak, with sales modestly behind those in the first half of 1970. Orders for capital equipment for the chemical industry were mentioned as quite low. Some capital goods industries have seen an improvement. Orders for heavy engines, while moderate, were still better than anticipated. One director mentioned that his aerospace division, including military equipment, is now doing quite well. His military orders reflect a shift in composition back to a normal, pre-Vietnam mix. Another director perceived a steady but not dramatic revival in orders for his products from the paints, plastics, and paper industries. One director, whose firm is a major steel user, said that he could get through a 90-day strike with little difficulty, although he would probably experience some compositional problems. He said that he had about 100 days' steel inventory on hand.

The tourist industry appears to be booming, with hotels fully booked. While tourists are flocking to the lakes region of New Hampshire and to the Cape, they appear not to be spending freely on consumer goods. So while hotels are doing well, local shopkeepers are not. A director whose firm manufactures camping and boating equipment also noted that these sales have been excellent. Another director, whose firm manufactures a broad line of consumer goods, noted that this is the one area which is showing modest strength.

Professor Samuelson was the only academic respondent available this month. He sees the economic situation as basically unchanged: the recovery is weak and a 4 1/2 per cent inflation rate is the best we can hope for this year. Because full employment cannot be attained until at least 1973, he said that a more expansionary fiscal policy was needed and that the Fed should not worry about money supply growth rates in the 8-10 per cent range. Professor Samuelson cautioned against excessive preoccupation with money supply growth at the expense of letting interest rates shoot up. He explained the recent rise in rates, accompanied by rapid growth in the money supply, as an indication of current need for liquidity which he feels the Fed can accommodate in the short run without having inflationary consequences.

While conceding that rapid increases in the money supply create the risk of igniting inflationary expectations, he feels we must take this risk. He is in complete agreement with Chairman Burns that an incomes policy is needed. Professor Samuelson said the President must change his stance of salutary neglect in the wage-price arenas.

Professor Samuelson has some doubts about current forecasts for 1972. He feels that people are too confident that inventory accumulation will stay low through 1972. He believes that the fourth quarter will give us a good feel for how things are going.

SECOND DISTRICT — NEW YORK

The opinions expressed recently by Second District Federal Reserve Bank directors seemed to reflect some renewed doubts regarding the strength of the economic recovery. The directors in general foresaw no near-term improvement in the unemployment picture—indeed a few expected further weakening—and some felt that additional disruptive strikes were in the offing. On the other hand, the outlook for consumer spending and residential construction remains good; no significant changes in the trends in these sectors were thought to have occurred in the recent past. Most of the directors felt that a widespread lack of confidence among both businessmen and consumers is a major factor in the disappointingly slow rate of economic recovery.

Concerning the unemployment situation, the directors felt the continuing efforts of businessmen to cut back costs made it unlikely that a significant reduction of unemployment would be achieved in the coming months. The chairman of the board of a large New York City bank said he expected that his firm would have a smaller staff at the end of 1971 than it had earlier in the year, and felt that other financial institutions—the city's strongest employers—also would not contribute much support for the local job market this year. The president of a nationwide manufacturer of plumbing and related products felt that the wage-cost squeeze was forcing industry to cut back on spending and employment. The Buffalo Branch directors agreed that labor markets in their locality generally continue to experience an oversupply of persons seeking a limited number of job openings, and said the permanent closing of some plants has aggravated the situation. Several directors also referred to the fiscal difficulties of state and local governments as a factor inhibiting hiring by these bodies. One exception noted by an upstate manufacturer was that employment in the automotive parts industry has been holding up well.

This rather dim unemployment picture, to some extent, conditioned the directors' views with respect to potential labor strikes. Most directors agreed that further strikes could be expected, since labor leaders felt obliged to attempt to gain at least the same benefits for their members that other unions have received in the recent past. This view was most forcefully advanced by the chairman of the board of the large New York City bank and by the president of the plumbing concern. Upstate directors, on the other hand, tended to see a reduction in labor disputes. Some of the Buffalo directors, for example, felt that there would be no steel strike because steel workers were becoming aware of both the worsening competitive position of U. S. steel in world markets and the fact that strike-hedge inventory-building by steel users would minimize the potential harm of a strike to the steel companies. Moreover, the other Buffalo directors who did believe a strike was in the offing thought it would be a short one. All of the Buffalo directors felt that the settlement would be somewhat less generous than that obtained in recent other major industrial wage agreements, although most felt that the settlement could not depart significantly from those recently negotiated in the aluminum and can industries.

There seemed to be little change in recent weeks in the directors' assessments of the outlook for consumer spending and residential construction. Outlays for consumer goods were generally reported to be running at a level well ahead of last year, but have not as yet reached "boom" proportions. In regard to residential construction, the directors generally felt that activity in this sector was running at a satisfactory level, or would do so soon. The chairman of the board of a large

Rochester department store noted that political problems "sometimes interfere with low- and middle-income housing." The president of an upstate bank felt that home-building activity in his area was strong, but would be stronger except for the resistance of local officials to large projects, and the lack of adequate sewage, highway, and school facilities.

Most of the Second District directors stressed the lack of confidence among both business and consumers as a major factor inhibiting the economic recovery. This feeling was perhaps most forthrightly expressed by the vice president of Rochester's largest firm, who said: "businessmen and consumers had lost confidence in the Government's ability to design and execute programs which would lead the economy back to health along with a reduction in the rate of inflation." He attributed this feeling in part to a "lack of credibility in the economic statistics and forecasts developed by the Federal Government." Another upstate director described the situation as a "nationwide stagnation of enthusiasm."

THIRD DISTRICT — PHILADELPHIA

The general consensus in the Third District is that the economy is in the midst of a sustainable but sluggish recovery. Manufacturers report some slippage of activity in July, but look for a pickup in August. Their capital spending plans remain essentially flat, and they foresee little stockbuilding until late this year or early next year. Consumer activity is mixed, with department store sales trending upwards but vacation spending apparently off from a year ago. Bankers report weak loan demand and cost pressures. Thrift institutions in Philadelphia experienced a sharp increase in mortgage repayments during June, particularly for older, lower rate mortgages.

Manufacturing activity in the Third District shows signs of weakening some in July. Our latest polling of District manufacturers indicates that more of them are experiencing decreases in sales and new orders than are realizing increases. The consensus, however, is that this setback is only temporary, and that shipments and orders will rebound in August. According to directors the weakness in manufacturing stems from a slippage in industrial demand and "zipless" consumer demand.

Our survey of manufacturing firms also indicates that the business expansion now underway will receive little help from capital spending. Most of the firms canvassed plan "no change" in outlays for plant and equipment for the rest of 1971. As for inventory accumulation, area firms on balance plan to add little if anything to their stocks through the summer months. Looking ahead six months, though, about 40 per cent of the firms contacted say they will be increasing inventories, compared to 20 per cent who plan decreases. The remaining firms look for "no change" from their present stock levels during the next half year.

Retailers in the Philadelphia area seem a little more confident about the outlook for consumer sales. Area department stores report a pickup in sales for June and they are hopeful this increase will carry forward into the second half of the year. Shoppers, however, continue to be price-conscious. Local retailers indicate, for example, that in the home appliance and hardware departments lower priced items are moving but the higher priced lines are selling slowly.

In another sector of consumption, resort business along the New Jersey shore is off from last year. A director from the shore area reports that, while weekend business is holding up, restaurant and motel business Monday through Friday is down substantially from last year despite excellent weather.

Bankers report that business loan demand is "blah." Consumer loan demand has improved but is a long way from being strong. One bank president expressed disappointment at the small gains from his bank's promotional campaign to stimulate consumer loans. In addition, bankers report competition is stiff for certificates of deposit. They also say cost pressures are great and bank profits will continue to be poor. Bankers further indicate that the quality of their loan portfolios is still a big problem, and a great deal of effort is being directed at easing the situation.

Several large thrift institutions in Philadelphia report sharp increases in the amount of mortgage repayments during June. These repayments are for hundreds of mortgages around the country processed through mortgage service companies. For the most part, these repayments are for older, low rate mortgages. One thrift institution president speculates that "savings balances are high and people just want to get out from under any debt obligation, even a low interest rate mortgage."

FOURTH DISTRICT — CLEVELAND

The pace of the recovery in the District remains sluggish. Particular areas of strength—as indicated by specific reports received in June—were certain types of office equipment, certain consumer goods and replacement tires. As a general matter, business activity in June was below the previous expectations of most of the major manufacturing firms in the District, and no particular strength is anticipated in July. The employment situation has not improved in recent months, but at least unemployment has stabilized since mid-June, following upward tendencies in May and early June. The steel industry, however, is exerting more of a retarding influence on the District's economy, as evidenced by production cutbacks and spreading layoffs.

Our most recent survey of manufacturers indicates a noticeable slackening in the upward pace of District manufacturing activity during June. There were significant declines in the diffusion indexes for new orders, shipments, and backlogs. Price increases, on the other hand, were more pervasive. The per cent of firms that reported paying higher prices was the largest so far this year. Anticipations for July include a virtual flattening in new orders and shipments, further reductions in backlogs and inventories, a softening in labor utilization, and no abatement in the recent pace of inflation.

Our latest survey of capital spending plans indicates that major manufacturing firms in the three largest metropolitan areas of the District expect to spend less for new plant and equipment this year than last year, while public utilities plan to exceed last year's capital outlays.

In general, comments from our directors representing industrial concerns confirmed the lack of strength in District business conditions. Two directors associated with office equipment companies, however, mentioned a recent pickup in their sales (considered by one firm to be a good coincident indicator of economic activity). Other directors noted improved consumer business and very strong tire replacement business.

One particular item of interest that provides some additional insight into the District's employment situation came from a director who is president of a large state university. His institution is having the largest summer school enrollment in years, reflecting the fact that sutdents were discouraged in their attempts, or unable, to find work and therefore chose to remain in school.

Our steel industry economists informed us that the steel inventory buildup by the end of July will be about one million tons larger than it was in July 1968 (the month prior to the last labor contract expiration). The inventory buildup during the spring, however, was larger this year than in 1968, chiefly because of recent price increases. On the other hand, steel shipments this month are expected to be roughly two million tons lower than in July 1968. Orders for third quarter delivery are extremely depressed, particularly for August. (During a contract expiration year, steel users ordinarily place some orders on the books to be first in line for delivery following a strike settlement.) One major steel company interprets the sparsity of August orders as a sign that steel consumers are not anticipating a strike. The steel economists noted that a record level of steel imports and rising imports of steel-using products, such as cars and appliances, are dimming prospects for any upturn in orders during the remainder of the year.

Economists from two major banks in Cleveland reported their banks had begun to experience a runoff in deposits. One bank had a "serious" reduction in time and savings deposits recently, while the other bank had a marked slowdown in net savings inflows. One of our banking directors (country bank) also mentioned a slowdown in all types of deposits in recent weeks.

FIFTH DISTRICT — RICHMOND

According to reports from businessmen and bankers, no important changes have occurred in the Fifth District economy during the last three weeks. In general, the gradual improvement in economic activity which began some months ago appears to be continuing. Bankers report continuing strong demand for all types of loans, and retail sales are reported as rising, although there appears to be some slackening in automobile sales. The District employment situation remains unchanged.

District manufacturers report that the volume of new orders continued the upward trend which began in January of this year. Shipments, backlogs of orders, and inventories were little changed from the previous reporting period. Furniture manufacturers again reported declines in the volume of new orders and backlogs of orders, and increases in inventories. Firms producing products related to housing and construction continue to report upward movement in shipments, volume of new orders, and backlogs of orders.

Survey results indicate that retail sales of goods and services improved further during the past three weeks, but the number of banking respondents reporting increases in automobile sales in their areas declined. The picture on changes in inventories since the last survey is mixed; however, a majority of respondents in manufacturing and trades and services believe that current inventory levels are too high relative to desired levels.

The District employment situation apparently remains about the same. In general, respondents indicated that there were no major changes in employment or hours worked per week since the last survey. A number of respondents, however, reported increases in wages paid. Upward wage pressure appears to be most prevalent in the trades and services area, with all but one respondent in this group reporting increases in wages paid.

No important changes in the pattern of prices received were reported by manufacturing or trades and services respondents.

Residential and nonresidential construction apparently continues to advance in the District. The majority of the banking respondents in the major cities of the District indicate a continuing surge of residential building. Bankers also report on balance that nonresidential construction activity is strong in their areas.

Banking respondents indicate that demand for business, consumer, and mortgage loans continues strong. There was a sharp increase in the number of respondents reporting an increase in business loan demand. While no banking respondent reported a decrease in mortgage loan demand, the number reporting mortgage loan demand up declined from the previous period.

District agricultural crop prospects on July 1 were generally good to excellent, although only fair prospects were reported in some parts of the District.

In general, respondents appear to remain cautious in their outlook for the District economy. Comments received from reporters indicate concern over the persistence of inflation and unemployment. The majority of banking respondents believe economic activity in their areas will increase in the near future, but there was a decline from the previous survey in the number reporting a probable increase.

SIXTH DISTRICT — ATLANTA

Businessmen and bankers generally report improving economic conditions. The short-run outlook is modestly optimistic but, underlying this, there remains some deep-seated concern about the fundamental health of the economy and the ability to control inflation. Construction continues to be the leading sector, although two large projects have been delayed and one canceled. Manufacturing continues to gradually increase, except for primary metals and aerospace. Tourist trade is reported strong in several areas. A lengthy longshoremen's strike is expected to start on October 1.

Construction activity is reported to be strong in most areas of the District. In Baton Rouge, residential construction is occurring at a record pace and two office buildings have been announced. A construction boom is continuing in Tampa, with shopping center construction leading the way. Residential construction is also reportedly leading an economic upturn in South Florida. Construction activity is reported at a fast pace in most parts of Tennessee with one businessman claiming that it is difficult to obtain bids from contractors because of the high level of activity. A large refrigerated warehouse has been announced for Atlanta. On the other hand, financing difficulties are blamed for delays in two large projects, and another proposed project has been canceled. A "new city" previously announced for Central Tennessee has been stalled by an inability to obtain adequate financing. Construction of the New Orleans domed stadium is being held up because there were no bids on the stadium bonds. The bonds have been readvertised and bids, if any, will be opened on August 11. If the bonds sell on that date, construction will be delayed only three weeks. Any further delays in the project could jeopardize the stadium as presently planned, because the Louisiana legislature has set a ceiling cost of $129.5 million for the stadium. A $100 million plus hotel-office complex planned for downtown Atlanta has fallen through.

Manufacturing activity is reported to be improving. An auto parts producer is reported operating near capacity as is a pleasure boat manufacturer. Furniture producers report greater than anticipated sales. Farm machinery is also moving well, partly because of large exports. Primary metals and aerospace remain weak, however. The aluminum industry has reportedly laid off 1,200 in the past month. Steel production is considerably below capacity. A subcontractor for the aircraft industry and an aerospace research firm have both laid off workers in Tennessee. Five hundred have been idled at an automobile assembly plant in Atlanta, evidently because of switches in model mix and a return of normal production after the post-strike period.

New plant announcements continue at a modest pace. A plant to liquefy and store natural gas and a water meter manufacturing plant will be built in South Alabama. A plant to manufacture gas heaters and air conditioners for recreational vehicles is planned for Central Tennessee. A plant to manufacture mobile homes and another to manufacture wearing apparel have been announced for Tennessee.

The tourist season is reported to be strong in the mountain areas of Tennessee and in most of Florida. Motels along Florida's north Gulf Coast are reportedly booked for the remainder of the summer. Occupancy rates along Florida's Gold Coast are high.

One New Orleans banker reports that he expects delinquencies to increase slightly in the coming months. Collections remain a problem, particularly because of bankruptcies. Also, a Tennessee banker thinks that farmers are over-extending their credit to buy machinery in order to avoid farm labor difficulties.

A longshoremen's strike is expected to start along the Gulf Coast on October 1 and last for 60 to 75 days. The union is reportedly asking for a one-year contract that would raise base pay from \$4.50 to \$7.50. Work over 30 hours would receive time and one-half, and six more holidays are requested along with increased employment security benefits.

SEVENTH DISTRICT — CHICAGO

Observers in the Seventh District report the rebound from the economy's low point as slower and less vigorous than anticipated. Confidence remains, however, that an uptrend is under way and that the fourth quarter and early 1972 will see marked gains in real growth and activity. Price expectations are bearish, however. Little indication is seen of slowing in the rate of price advance and some expect acceleration toward yearend.

The business economists present at the regular monthly meeting held here on July 14 continue to expect improvement in activity during coming months, particularly toward yearend and into 1972. Thus far, however, the economy's performance has lagged behind the pace expected earlier. The inflow of new orders has been sluggish—utility business and orders for pollution-control devices are exceptions—and profits have been under pressure; cost-cutting efforts continue to be pushed vigorously. Steel is in the doldrums. Scattered layoffs have occurred in advance of the strike deadline date. Users' inventory reductions are proceeding; Detroit's largest user is expected to complete its steel inventory rundown by mid-November. Fixed investment outlays are being held down to a replacement level (the utilities industry was not represented at the meeting).

Representatives of the large loop banks reported early signs of a pickup in business loan demand. Inquiries on the availability of term loans and revolving credit arrangements have grown more numerous, but lending volume has not yet strengthened. Savings inflows are down from earlier in 1971. Runoffs in large certificates of deposit have been increasing recently.

The major retail chains report a sharp pickup in sales during June, with gains over the year-earlier month in the 9-12 per cent range for three of the leading firms. Another bright spot, locally, is real estate, with a volume of sales recently of boom proportions. Several of those present expressed dismay over price prospects. Confidence that the inflationary thrust would weaken later this year seemed to have dissipated altogether (the second quarter GNP and deflator readings had not yet been released).

A director of the bank who is closely identified with real estate confirms the indications of continued strength in both sales of new and existing homes and home-building activity in the Chicago area, while viewing with much concern the implications of FHA's adherence to the present 7 per cent ceiling on contract rates. Loan discounts running from 7 to as many as 10 points are substantially raising, sometimes even doubling, developers' equities in new income properties (commercial buildings and multi-family housing). This could become a strong deterrent to construction in a market that already has shown signs of tapering off, under the impact of some softening in occupancy rates in office space, high-rise luxury apartments, and suburban walk-up apartments.

Farmland values in many parts of the Seventh District have strengthened from a year ago—particularly during the past three months. Overall average values for the District, according to a July 1 survey of rural bankers, rose more than 2 per cent from first quarter levels and were about 3 per cent above year-ago levels. Although the year-to-year increase is small historically, it represents a marked recovery from the sluggish farmland market of 1970. Greater availability of mortgage funds and accompanying lower interest rates have likely boosted demand for farmland. High corn and soybean prices have also likely created buying enthusiasm.

Corn acreage is up substantially from last year, according to the official July 1 crop report. Acreage to be harvested for grain was estimated at 64.5 million acres—12 per cent above a year ago and over 6 per cent larger than in the bumper crop year of 1967, when 60.5 million acres were harvested.

Leaf blight disease has been discovered in varying degrees throughout most corn-producing states. But, unlike last year when virtually all of the crop was susceptible to the disease, nearly 30 per cent of this year's crop was planted with blight-resistant seed. Another 30 per cent was planted with varying blends of resistant and susceptible seed. Thus, between 30 and 45 per cent of the crop is resistant to blight.

A precipitous drop in cash prices for corn does not appear imminent due to the current low level of corn supplies—carryover stocks are expected to be one-third smaller this fall—and uncertainty about the final size of this year's crop. If present production prospects become a reality, however, corn prices will be substantially below current levels by late 1971.

Conversations with contacts at major commercial banks in Chicago did not reveal any significant change in credit demands over the past month. Business loans appear to be still falling somewhat short of projections based on normal seasonal patterns, but by less than a few months ago. No further increase in the prime rate appears to be expected until possibly well into next year. There was a general pessimism about the pace of economic recovery, but part of this appeared to be a reaction to the recently published second quarter GNP figures and revisions for earlier periods.

Concern was again expressed about what has happened to savings inflows, especially in passbooks. One large bank thinks some disintermediation is again taking place, but is puzzled over where the funds are going. They have lifted all restrictions on terms offered on consumer deposits (within ceiling requirements) and are aggressively trying to compete for consumer funds.

EIGHTH DISTRICT — ST. LOUIS

Economic activity is continuing moderately upward in the Eighth District according to a survey of leading businessmen. Retail and manufacturing sales continued to expand in early July on a seasonally adjusted basis. Reflecting the rising demand for output, the employment picture is beginning to show improvement. Some manufacturers have begun reinstating production workers who were laid off last fall. The flow of savings into financial agencies has apparently decelerated in recent weeks from the very rapid rates of the first half of the year. The uptrend in loan demand which began in mid-1970 continued through the early weeks of July. Construction activity likewise continues upward.

Retail sales at most major department stores in the District continued to rise in July, although gains were not reported for all major cities in the District. For example, leading St. Louis stores which experienced a sharp spurt in June sales have had a turnabout in early July. This loss, however, was more than offset by gains at Louisville, Memphis, and other parts of the District.

Leading manufacturers continue to express cautious optimism. Orders are expanding moderately over a wide range of products, and midyear profits are generally higher. Plastics, fibers, other organic chemicals, and automated equipment were mentioned as specific areas of expansion.

Financial agencies report some slowdown in the rate of savings inflows from the very rapid rates of early this year, as well as a lessening of the retention rate. Loan demand, however, continues to expand. Part of the expansion, especially that of mortgage loans, reflects national rather than local conditions. The larger savings and loan associations in St. Louis report major purchases of out-of-District mortgages, but business and other bank loans which are primarily local have also expanded at rising interest rates. Mortgage loan rates on homes were reported to be one-fourth to one-half a percentage point above the level of three months ago.

Investment plans by manufacturing firms generally remain unchanged. Plant capacity is reported as adequate, but a local agency which provides information to business about opportunities in the area reported a substantial pickup of inquiries about possible new locations for investments. The major thrust of new investment, according to one manufacturer, is toward greater automation of high labor input activities.

The employment picture is beginning to show some slight improvement. None of the businessmen interviewed reported major hiring plans. All, however, are replacing those lost by attrition, and a few report some recalls of laid-off workers. A check of numbers employed by major firms reveals that a low point in the total has been reached and that the uptrend has been fairly consistent since the turning point. Although St. Louis was placed on the "substantial" unemployment list in June, the local job market improved in July according to the Missouri Division of Employment Security. Unemployment claims filed during the week ending June 9 were 1,300 less than a month earlier and 1,400 less than a year ago.

Construction activity in the District generally continues upward, despite some leveling off of residential construction in St. Louis. Both residential and commercial construction elsewhere in the District continue to expand.

NINTH DISTRICT — MINNEAPOLIS

Judging from the responses of the directors and branch directors of this bank, consumer spending in the District has increased over the last month. At the same time, savings flows to commercial banks are still relatively strong, although there are indications that some tapering has occurred at reserve city banks. Unions in the District do not seem to have tempered their wage demands in recently settled wage contracts or current bargaining sessions. The demand for agricultural loans seems to have abated over the past few months.

Retail sales in various parts of the District seem to be strengthening, and a few directors felt that retailers in their areas were optimistically looking at the future. Most responses were that retail sales in June and early July were better than in May and considerably above a year ago; a number of directors were aware of June sales by individual retailers in their areas which were more than 15 per cent above a year ago. Those directors who felt that retail sales had not risen, particularly in Montana, were careful to point out that retail sales in their areas were relatively strong in earlier months this year and therefore would not be expected to rise dramatically.

There appear to be divergent trends in various components of retail sales. Soft lines seem fairly strong, while consumers apparently are limiting purchases of durable goods and luxury items.

Savings patterns in the District seem to be diverging as well. With one exception, savings flows to District banks outside the Twin Cities continued as strong in June as in earlier months this year. The one exception was in the Sioux Falls area, but the slowing, according to one banker, was not really enough to mention. Savings flows to reserve city banks have slowed, however. One director noted a savings run-off at a reserve city bank following the July 1 interest crediting period and inflows during early July which were a little slower than in previous months.

With a number of major labor contracts currently being negotiated in the District, it does not appear that union wage demands have eased. In upper Michigan, the contract between the White Pine Copper Company and the United Steelworkers is scheduled to expire at the end of July, and negotiations began earlier this month. It was not possible to learn what terms are being considered, as neither negotiating team was willing to divulge this information. In the Twin Cities, a strike by sand and gravel haulers, which began during the first weekend in June, seriously curtailed construction activity until early this week. The union asked for an increase of $3.00 per hour over the next three years, but was content to settle for $2.75 over the three-year contract period. This was essentially the same size of settlement that other construction unions have won over the past two years.

The Anaconda Company, with a Montana employment in excess of 6,000, was struck on July 1, but the directors from that area were optimistic about the duration of the strike. The company has offered a 32 per cent increase in wages and fringes over the next three years, but this was rejected by the union. Although it was not possible to determine the counter offer, the directors felt that unsettled issues were more concerned with work rules and productivity problems than with the size of the offered wage increases.

Partially reacting to the high rate of unemployment in the area, unions in the La Crosse, Wisconsin, area seem to have lowered their sights somewhat and have been accepting contracts calling for wage increases of about 6 per cent. This philosophy has not permeated the construction industry, however, where laborers and carpenters are currently striking for a 12 per cent pay increase.

Demand for agricultural loans at banks in the Ninth Federal Reserve District has moderated somewhat in recent months, according to our latest agricultural credit conditions survey. This phenomenon has occurred as a result of the improved flow of farm income during the second quarter which lessened the strong need for short-term loans. On the other hand, the demand for long-term, or real estate, loans has increased because of a decline in long-term interest rates. These declining rates have been particularly effective in encouraging more loan requests due to the backlog of farmers' long-term spending plans.

Bankers seem to expect that the overall farm credit demand will continue somewhat lower. These anticipations reflect both the recently improved farm income situation and the expectation that farm incomes will continue to improve. Some respondents expressed caution in this outlook, however, pointing out that higher incomes were the result of currently high prices for several important farm products, and that it was very possible that these prices could fall over the next few months.

TENTH DISTRICT — KANSAS CITY

Economic activity in the Tenth District apparently is continuing to show moderate improvement, but a high degree of variability prevails by region and sector of the economy. The ordnance, oil and gas exploration, aircraft production, and airline transportation industries remain weak. However, much of the weakness in these areas is offset by improved activity in such other areas as construction, food processing, and agriculture outside the drought area. Financial activity reflects this variability in the economy. Residential mortgage and construction loan activity is generally strong, consumer instalment loans are showing steady growth, and commercial loan activity is spotty.

A number of large Army ordnance plants are located in different parts of the District. Civilian employment in these plants has declined by roughly 43 per cent during the past six months. More layoffs are expected in the coming months at two of four plants contacted. Surprisingly, bankers in these areas report no marked local impact from the cutbacks to date. The employees, many of whom were working to supplement family income, frequently left the labor force upon termination of employment or were absorbed in other sectors of the economy where activity was expanding.

The General Motors Corporation laid off 900 employees—about 25 per cent of total employment—at their Chevrolet assembly plant in Kansas City during the past week. They indicate that many of these employees will not be hired back after model changeovers. When production starts on '72 models in late August, employment at the Buick, Oldsmobile, and Pontiac plant is expected to continue at normal rates. The Ford assembly plant is not planning any permanent reductions in its labor force, but will lay off some employees during the retooling period for the '72 models.

An executive for a large airline reported that domestic revenues were not improved by the fare increases granted in recent months. The impact of the higher fares has been offset by reduced passenger travel.

Contrary to national trends, two steel mills in the District report operations are going ahead at full tilt. Strength in the construction industry has served to prop continued strong demand from these mills. Both report that activity in their particular plants is not as vulnerable to national trends as is that of many steel mills.

Excluding western Oklahoma and New Mexico—where severe drought continues to prevail—agricultural conditions in the remainder of the District are excellent. Wheat production in the District will virtually equal last year's levels, despite the drought in part of the District and the reduced acreage planted. The condition of spring planted crops and ranges outside the drought area is excellent, and production for the District is likely to surpass last year's levels. Agricultural production for the Nation also is expected to be substantially above last year's levels, so farm prices are likely to decline this fall. Despite the anticipated decline in farm prices, farm income for the year as a whole is expected to be above that of last year. In addition to larger production, farm prices are likely to average higher for this year as a whole than last year because grain prices are not likely to decline substantially until later in the year, and livestock prices are expected to remain above the depressed levels of last fall and winter.

Residential mortgage and construction loan activity at District banks continues strong. Consumer instalment loans are showing further steady growth; and some bankers are expecting an acceleration in this category. The commercial and industrial loan picture, aside from residential construction loans, appears rather spotty, though a strong volume of loan commitments is widely reported.

District bankers generally feel that the prime rate increase to 6 per cent was fully justified by cost-of-funds considerations and the demand for loans. They view the current rate structure as one they can live with—though not in great comfort. Deposit inflows continue strong, but higher short-term rates are causing some passbook account holders to move to consumer certificates of deposit, and banks are finding large certificates of deposit a little harder to obtain and hold. There is a widespread expectation that the prime rate will be at 6 1/2 per cent by yearend unless, as one respondent put it, the Fed "opens the gates" to restrain rates.

ELEVENTH DISTRICT — DALLAS

The presidents of large District savings and loan associations generally expect economic activity to pick up moderately in their areas. They reported that increases in construction activity have bolstered the demand for mortgage loans in recent months. Moreover, the greater amount of construction activity, and associated mortgage demand, is expected to continue through yearend. They also indicated that they have raised their lending rates recently and expect to raise them again before the year is out. The banking directors on the boards of the Federal Reserve Bank of Dallas similarly expect local economic conditions to improve, but, in addition, they anticipate that the rate of inflation and interest rates will increase over the next six months. They also feel loan demand will increase over this period.

The presidents of savings and loan associations generally reported the demand for mortgage credit in their areas to be somewhat stronger than three months ago. Most attributed this strength to an increase in construction activity. But in spite of the number of new houses constructed, no buildup of unsold houses has been apparent. About half of the respondents reported that the number of unsold houses in their areas has remained about the same as three months ago, and a third indicated a decline in the number of unsold houses in their areas. Moreover, it was felt that these trends in construction activity, housing sales, and demand for mortgage credit will continue through the next six months.

At the respondent savings and loan associations, current lending rates on 80 per cent conventional home mortgages range from 7 1/2 to 8 3/4 per cent, averaging slightly less than 8 per cent. Most, however, ask for points above these rates. About half of the respondents reported that both their mortgage rates and the number of points they are asking are higher now than they were three months ago. Most of the remaining half reported that their rates and points have remained at about the same level as three months ago. The overwhelming majority reported no change in their minimum down-payment requirements or maximum maturities on mortgage loans compared with three months ago. About two-thirds of the respondents felt that rates on their 80 per cent conventional home mortgages would be from 1/4 to 1 per cent higher at yearend than they are currently.

Savings and loan association presidents indicated that they are having either about the same or slightly less difficulty obtaining interim financing as they did three months ago. Most report that they are paying about the same rate for these funds as they did at that time.

The banking directors similarly expect the trend in economic activity in their areas to improve moderately, particularly in construction, industrial goods, and petroleum. But they also anticipate that both long- and short-term interest rates, and the rate of increase in consumer prices, will rise moderately over the balance of the year. Most banking directors feel that loan demand will pick up in the next six months, particularly in the consumer and construction areas. But they are also looking for the demand for agricultural loans to moderate further.

Banking directors were also questioned about demand for lines of credit and their policies on certificates of deposit and purchases of municipal securities. Demands for lines of credit by their large business customers have not changed much recently, although a few indicated these demands have risen. Most of the recent lines of credit have been arranged on the basis of verbal agreements (no fees attached). Two-thirds of the respondents said that they have recently changed their policies for purchasing municipal securities. Of those changing their policies, more than half are buying less, mainly to purchase more liquid securities or because they feel that interest rates on municipals will increase. Those purchasing more municipals indicated they are picking up mostly shorter term issues. Only about half of the directors' banks are seeking funds by issuing long-term certificates of deposit and are paying from 5 to 5 7/8 per cent for six-month funds.

District data continue to indicate that a modest economic recovery is taking place in this region. Texas industrial production continues to increase slowly. Registrations of new cars in Dallas, Fort Worth, Houston, and San Antonio in May were 7 per cent above the level for May last year. Similarly, department store sales for the four-week period ended July 10 were 6 per cent above the level for the corresponding period a year ago. However, Texas dropped its oil allowables 2.5 points to a level of 66.2 per cent for August in response to seasonal demand conditions. But the other District producing states were able to keep their allowables unchanged.

The situation for District agriculture continues uncertain to critical for several areas and enterprises because of drought. In some localities cotton plantings may be lost, and many cattle herds have been drastically cut back or totally eliminated due to feed shortages and lack of water. Most recently, the appearance of Venezuelan equine encephalomyelitis has plagued herds of horses.

TWELFTH DISTRICT – SAN FRANCISCO

Economic activity is expanding at a gradual rate according to the directors of this bank's head office and branches. There are elements of both strength and weakness present. Construction and consumer spending continue to expand but the manufacturing sectors present a mixed picture. Labor disputes are causing some problems. Banks in general report both higher loan demand and rising deposits, and their experience is consistent with a view of overall expansion.

Consumers are continuing to increase their spending at a gradual rate. Increases over last year in the 10 per cent range are typical. This spending activity is not uniform, however. Automobile sales, for example, are described both as spotty and as improving, depending upon location.

Unemployment remains high. Further layoffs are expected in aerospace; Boeing expects to lay off an additional 8,000 to 9,000 workers in the Seattle area this year. Manufacturing does not seem to be expanding fast enough to bring about marked reduction in unemployment. Domestic demand is not that strong and in some cases foreign competition is strong. For example, steel fabricators on the West Coast are experiencing strong competition from imported steel. Labor disputes are also a factor in reducing output and demand. To obtain some supplemental information about trends in employment, our directors were asked to comment about recent and prospective changes in employment in their companies. Of the nonbank directors who commented, two planned increased hiring; two were still cutting back on their work force; and five reported no change from current levels. Of the bank directors who responded, only two said that they planned some increases in their staff; two planned further reductions; and seven reported stable levels with little or no change expected.

Labor disputes are causing difficulties for some industries and areas. Strikes in the copper industry are adversely affecting Arizona and Utah. There have been stoppages of various lengths in some lumber mills and in the building trades. The strike which could cause the most disruption, if it continues, is that by longshoremen at West Coast ports. Industries exporting goods are being adversely affected and some unemployment already is reported as a consequence. This strike is not expected to be settled quickly, and therefore its effect should continue to grow.

Construction remains a source of strength throughout the District, despite recent increases in the cost of mortgage funds. Labor disputes have caused some stoppages, but these have not been prolonged in most cases. Building permits and housing starts are continuing to rise. The pace of activity is causing concern in some areas, such as Southern California, about the possibility of overbuilding of multiple units. One consequence of this rising construction volume has been a recovery of lumber and plywood prices, and greater production by the timber industry.

Conditions in District agriculture remain promising. Good prospects are reported for wheat and some fruit crops in Oregon, Washington, Utah, and Idaho. Eastern Washington did have a lighter apple crop than expected, but cold storage facilities are still being expanded.

Banks in most District states report higher levels of loan demand. Real estate loan demand in particular continues to be strong. Business loan demand appears to be more mixed, but overall it is steady. In one case, a bank reported that it is being more selective in making loans to national companies in order to meet local demand. Deposits are higher for most banks but interest rates also are higher. Not only have rates on negotiable certificates of deposit risen, but many banks have announced the restoration of the rate on passbook savings accounts to 4 1/2 per cent, effective August 1.