CONFIDENTIAL (FR)

CURRENT ECONOMIC COMMENT BY DISTRICT

Prepared for the
Federal Open Market Committee
by the Staff

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SUMMARY*

The latest Red Book reports from the District Banks are on the whole more bullish regarding the economic outlook than the reports of recent months. The President's new economic program has been, in general, very well received throughout the country. To be sure, with the possible exception of the temporary "freeze", which appears to have been almost fully accepted by all segments of the economy, the actual impact of the program on economic activity is as yet barely discernible. Consumer spending was already on the rise during the first half of August, before the announcement of the program, and it was generally felt that, apart from some marginal situations, the proposed business investment tax credit is not likely to significantly stimulate capital outlays so long as the rate of utilization of existing capacity remains low. Nevertheless, the program seems, at the very least, to have had a beneficial psychological impact, halting the erosion in confidence that had been developing in previous months. Reports of the effect of the program on domestic business firms' demand for bank credit were mixed.

A rise in consumer spending during August was reported by most District Banks. The St. Louis Bank noted a continued moderate upward movement in retail sales in most major centers of that District, with sales in Memphis rising sharply in recent days. In the Chicago District, sales of domestically produced major appliances were running above last year's level, with the margin of gain widening. A pickup in retail sales was also reported by the Richmond and New York Banks, and retailers in the latter District are looking forward to the Christmas season with optimism.

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*Prepared at the Federal Reserve Bank of New York.

Residential construction has been continuing at a high level in a number of Districts. This development is having a favorable effect on several industries. The San Francisco Bank mentioned the lumber industry in particular, while the Chicago and St. Louis Banks pointed to home furnishing and appliance manufacturers as well as building supply industries.

Near-term prospects for increased business outlays for plant and equipment, however, are not regarded as particularly bright, although respondents in several Districts look for some improvement in the long run. The main deterrent to a pickup in such outlays at this time is, of course, the relatively low rate of utilization of existing facilities. The Richmond Bank, for example, reports that the overwhelming majority of manufacturers contacted believe that their current plant and equipment is adequate, or more than adequate. Most respondent firms in the St. Louis District indicate they are operating at less than capacity and have no immediate plans for plant expansion. In the New York District there are also doubts about any near-term stimulus from the proposed investment tax credit. Businessmen may, in general, be more optimistic than previously, but they seem to be adopting a "wait-and-see" attitude. While they are perhaps reexamining marginal investment projects more closely, they also seem to be waiting for projected sale increases to materialize.

Three Districts reported some pickup in loan demand by domestic business firms that may not have been directly attributable to recent international developments. Some of the bankers contacted in a special System survey by the New York and Minneapolis Banks attributed the increase partly to inventory building. The other seven Federal Reserve Banks that reported on their survey results indicated domestic demand for business loans had remained "weak" or "unchanged". Indeed, Kansas City commented that "the deterioration noted in July appears to have continued into late August", and Richmond observed that not only has there been "no evidence of unusual strength in business loan demand" but "pressure for business loan commitments appears to have abated" since the wage-price freeze. Four Districts commented on bankers' expectations regarding business loan demands over the next few months, noting that these expectations were generally on the "hopeful" side. Interestingly, two of these Districts, Philadelphia and Minneapolis, were among those reporting some recent strengthening. The other two were St. Louis and Dallas.

FIRST DISTRICT--BOSTON

While there is no firm evidence of a strengthening in business activity, expectations are more bullish and there are tentative signs of a quickening in business investment spending.

A special survey of the District's eight largest commercial banks disclosed no pickup in domestic business loans during August and early September. Domestic business loan demand continued sluggish in this period, with only a few banks expecting a revival in the coming months. Five of the banks reported an expansion of credit resulting from the unsettled international monetary situation. These banks reported that outstanding lines of credit to Japanese banks were drawn to their full, and there were reports that some banks were unable to satisfy the demand for foreign credit due to the banks' participation in the voluntary credit restraint program. One bank reported participating in Japanese loans while one or two other banks reached their guideline ceilings.

Most of our directors were on vacation this week and could not be reached. Both directors contacted indicated that President Nixon's economic policies have dramatically changed attitudes in the business community. The directors summarized the response as "a 180-degree shift in regard to prospects". While there is no firm evidence of a pickup in business activity, there are tentative signs of a revival in business capital spending, tied to the passage of the investment tax credit. A large machine tool manufacturer is finding increased interest, but no increase in orders yet. A district railroad is reported to have speeded up the introduction of automatic signaling equipment as a result of the investment tax credit. The processed engineering division of a large conglomerate is now increasing its order backlogs, as is a division manufacturing heavy industrial engines.

No problems were reported by bank directors arising from implementing the wage-price freeze.

All our academic respondents were concerned about the slow pace of the business recovery, despite the President's new economic policies. Professor Wallich was skeptical about the short-term impact of the President's announcement that the freeze would definitely end November 13. He felt that continuance of the freeze was the President's biggest weapon--that too much was given away too quickly. Nevertheless, Professor Eckstein believes improved price performance is a political necessity, and thus is confident that "the necessary steps will be taken after the freeze. Professor Samuelson and Tobin both expressed agreement with the Okun proposal for Phase Two. Tobin is philosophically disposed toward limiting the power of a wage-price review board to publicity and not giving it compulsory powers.

Eckstein's preferred fiscal package would include an increase in the minimum standard deduction, a "permanent" 10 percent investment tax credit accompanied with elimination of the accelerated depreciation allowance, and a "stabilization" surcharge on corporate profits; i.e., raising the corporate income tax rate by 5 to 10 percentage points. He feels that the proposed step-down from 10 to 5 percent in the investment tax credit rate is too disruptive and must be changed in one of several ways: (1) exact a (smaller) permanent credit, (2) make the transition more gradual, or (3) give the President discretion on the date for cutting or eliminating the 10 percent rate. Professor Samuelson felt the 10 to 5 percent step-down in the investment tax credit rate would have good intertemporal effects. He agreed that combining the tax credit with the asset depreciation range (ADR) system was "too much"; Professor Tobin feels ADR should be abandoned in any case. Opposing permanent losses in Federal revenues, Tobin advocates a one-year suspension of the auto excise tax and a one year 7 percent investment tax credit or, alternatively, a net investment credit.

There was some degree of agreement on the appropriate course of monetary policy among three of the professors. To Tobin, "this is not the time for running a restrictive monetary policy." He fears a repetition of 1968 in reverse; i.e., the authorities must avoid overestimation of the fiscal stimulus package. Tobin urges getting interest rates down to the levels of last March and would not be distressed if that entailed a 10 percent rate of growth in the money supply. Although Samuelson wants attention focused on the rate of the business expansion, not on any particular rate of growth of the money supply, when pressed, he said that he would be disappointed by a rate of less than 6 percent. According to Eckstein, the primary responsibility of monetary policy at present is to prevent long-term interest rates from rising. Similarly, short-term rates should be held "relatively easy" to "let the program have its effect". The secondary responsibility of monetary policy during this period of "watchful waiting" is to avoid a rate of growth of the money supply of 10 to 12 percent. If there have not been more tangible signs of improvement in the economy by the time of the next open market committee meeting, Eckstein concluded that monetary policy would have to accept more of the burden of stimulating the economy's performance. Professor Wallich, on the other hand, felt that monetary policy should focus on getting back to a 6 percent rate of money supply, as long as this did not yield "fabulous" short-term interest rates. He cautioned that continued rapid growth of the money supply risks building in future inflation.

SECOND DISTRICT -- NEW YORK

Comments by the directors of the New York Bank and the Buffalo branch and conversations with some large retailers indicate that initial reaction to the President's new economic program has been favorable and that there is cautious optimism regarding the future. An improvement in consumer spending, which had started to manifest itself even before August 15, was reported as the brightest current development, but doubts were expressed about any near-term stimulus from the proposed investment tax credit. Most directors thought there would be good compliance with the wage-price freeze during Phase One, but some anticipated there would be problems if the freeze were extended.

Consumer spending reportedly has shown definite improvement compared with previous months. One of the directors, associated with a Rochester department store, "sensed" that consumers approved of the President's program; he noted that since August 15 the pickup in August retail sales had become more pronounced. The chairman of the board of a large New York City bank and the president of an upstate bank also thought consumer confidence had improved, but the latter director commented that it remained to be seen to what extent, and when, this improvement would be reflected in increased consumer outlays. The two retailers who were contacted by telephone, who have stores nationwide, reported that business had been quite good throughout August and that the President's announcement seemed to have had only little effect in increasing consumer demand further. They observed that other department store officials with whom they had discussed the matter had had this same experience. The retailers indicated they were quite optimistic about the forthcoming holiday season.

The directors thought that although business confidence may have been strengthened somewhat by the President's new program, there was little likelihood that the investment tax credit would bring a significant spurt in capital outlays over the near term, primarily because of the current low rates of utilization of existing plant and equipment. Directors in Buffalo thought that for those businesses that had already made capital spending plans, "the reinstatement of the tax credit would be a windfall", while for those who "had been on the fence" concerning a project, passage of the proposed legislation "might trigger a decision to move ahead". One of the New York Bank directors noted that "much of the American-made machinery and equipment affected by the tax credit uses foreign-made parts". However, the chairman of the board of a large New York City bank believed the tax credit would promote capital spending "ultimately", and another director thought the proposed credit would stimulate those investments that would "save labor costs and cut operating expenditures".

Most directors thought there would be little, if any, erosion of compliance with the wage-price freeze over the ninety-day period. Buffalo branch directors observed that the short period involved and the fact that noncompliance would stand out made the current freeze self-enforcing. Several of these directors, however, looked for enforcement problems if the freeze were extended, while the chairman of the board of a large New York City bank felt that "a myriad of administrative problems would appear" even during Phase One. Another director, the president of a nationwide manufacturing concern, expects an erosion in compliance "as time goes on", and the president of an upstate bank said he believes some people are "trying to find ways to secure exceptions to the freeze".

Most respondents to a survey of six large New York City banks indicated that some unexpected growth in demand for business credit had developed at their institutions in recent weeks over and above the increases that clearly reflected post-August 15 developments in the foreign exchange markets, but the majority had no explanation for this apparent strength or declared their particular bank's experience was related to something unique. The few explanations that were offered focused primarily on inventory building. "Prudent businessmen feel they should get in their stocks while the freeze is on." "Distributors are expecting a very strong Christmas." "Perhaps there is some inventorying in anticipation of a longshoremen's strike on the East and Gulf Coasts." Nonetheless, probably a major part of the huge increase in loans to wholesalers, which constituted the biggest rise, was attributable to borrowings made immediately prior to the flotation of the yen by Japanese trading concerns resident in the United States.

THIRD DISTRICT -- PHILADELPHIA

The increase in optimism about the economic outlook in general that followed President Nixon's speech in mid-August has had little effect on the specific plans of individual firms in the Third District. Most are still taking a "wait-and-see" attitude about how the new economic policies will affect their own firms. Area bankers are generally hopeful of a further pickup in loan demand on a wide front. Several of them also look for higher interest rates near the end of the year and into 1972.

Most businessmen in the Third District are hopefully optimistic about the economy. Before the President's speech, the prevailing view was that business was recovering from last year's recession but that inflation would remain a serious problem because of rising labor costs. The President's new economic policies have been greeted favorably, and did increase the general level of optimism about the economic outlook. However, it is difficult to detect much of a change in the outlook businesses now have for their own firms.

For example, in terms of such key indicators as new orders, shipments, and unfilled orders, District manufacturers are no more optimistic now than they were a month ago. As for capital expenditures, there seems to be a slight boost in outlay plans, but most manufacturers want to wait until the incentives for new plant and equipment are more certain and projected sales actually materialize. There is no noticeable increase in hiring plans since early August. On the price front, area manufacturers are a little less pessimistic than before the President's speech.

Loan demand at Philadelphia banks has shown some pickup in recent weeks, but the increase has been modest for most banks. Most of the increase in loan demand reflects rising business demand for credit. Consumer borrowing is flat at all but one large bank, and in that one only up slightly. Only one of the banks we contacted was willing to attribute much of the increased loan demand to foreign sources, although weekly reporting statistics indicate a strong counterseasonal upsurge in the foreign loan picture.

Looking ahead, local bankers are generally hopeful of a further pickup in loan demand. One banker looked to inventory building as a source of loan demand. Another said that an expanding economy in general would lead to more loan demand. Another thought construction might provide additional stimulus.

As for interest rates, the consensus among bankers is that the Federal funds rate is out of line with other short-term rates and will likely drop in the near future. Looking toward the end of the year, however, several bankers thought rates would start climbing. One banker said as the economy picks up steam, "rates are bound to rise". Another thought the inflation premium would probably increase after the freeze on wages and prices. Still another indicated that the cost of money for banks would likely go up and this would in turn push up bank rates.

FOURTH DISTRICT -- CLEVELAND

Business and bank economists attending the meeting of the Fourth District Business Economists Roundtable on September 10 at the Federal Reserve Bank of Cleveland expect an acceleration in real growth next year, with limited additional stimulus expected as a result of the President's new program. The economists viewed the need to improve confidence as a key element in the domestic part of the program which, hopefully, will be translated into higher consumer and business spending. Our directors reported signs of increased activity appearing in various market areas, but the economists, our directors, and other businessmen contacted are waiting to see what the Congress will do with respect to the Administration's legislative proposals.

The concensus of about forty economists who attended the roundtable meeting at this Bank was that the President's program will add somewhat to the overall strengthening of the business expansion in 1972, and reduce the rate of inflation temporarily. Unemployment is expected to remain high but move down gradually during the year. Beginning with the fourth quarter of 1971 and continuing throughout 1972, the economists projected current-dollar gains in GNP averaging $25 billion per quarter. The group's median forecast called for real growth next year of 5.6 percent, a rise in the GNP price deflator of 3.2 percent (but accelerating to about a 4 percent rate by the end of next year), and unemployment averaging 5.5 percent for the year (but declining to 5.2 percent by the year-end). In general, the economists reported that it was too early to determine what effect the proposed investment tax credit would have on the magnitude and timing of their firms' capital expenditures in 1972.

In most cases, capital spending plans are still in the formative stages and have yet to be presented to boards of directors for approval. Furthermore, many firms are waiting to see what the Congress will do about the tax credit; there was some uncertainty about whether or not the Congress will legislate the full 10 percent tax credit, and then lower it to 5 percent next August.

Steel industry economists reported that the current inventory liquidation is proceeding more rapidly than usual, and should be completed by the year-end. Compared with previous labor-contract years, the liquidation is faster this year not because steel consumption is any faster, but because customers are not placing their usual orders after the contract settlements.

Business economists whose firms and industries are dependent on the automotive market agreed that a reasonable forecast for new car sales next year is 10.5 million units, with imports accounting for 1.7 million units. These economists estimated that about 200,000 cars were added to 1971 sales as a result of last year's General Motor's strike, which should bring this year's total to about 10 million units. A normal auto year in 1972, according to these economists, would have called for sales of 10.2 million. Thus, the proposed repeal of the 7 percent excise tax credit on new cars is expected to stimulate next year's new car sales by roughly 3 percent.

Most of the economists attending the meeting were somewhat dubious about the likelihood of limiting wage-price increases after the "freeze" expires, and thought that any guidelines established would eventually be eroded. In that connection, Professor Richard Selden, University of Virginia, who attended the meeting as a guest speaker, was critical of incomes policies (citing the usual arguments) and noted that such policies were not particularly successful in many European countries. His view was that inflation could be eliminated only if the central bank maintained the money supply growth at a rate consistent with the nation's rate of potential real economic expansion.

Our industrial directors commented at meetings held in early September that the President's program had not yet had visible impact on their firms' sales or production. One director, the president of a machine tool company, expects a short-run depressing effect in his industry until the Congress acts on the investment tax credit. If it is approved, he believes small companies will be the first to place orders for machine tools, and large companies the last to react. A long lag is likely on the part of large companies because the ordering of machine tools starts in the engineering deparment and works its way up to the board of directors for approval. The directors did not think it likely that the machine tool industry would begin to benefit from the tax credit until about mid-1972.

On the financial side, our Bank directors commented that they would be willing to keep interest rates down on the asset side of their balance sheet but they were concerned over how to keep interest rates from rising on the liability side. Other bankers in the District recently contacted said the only real strength during August was a "phenomenal" rise in bankers' acceptances from foreign customers.

FIFTH DISTRICT -- RICHMOND

Latest survey data, coupled with informal reports from this Bank's directors, indicate that economic conditions in the Fifth District continue in a moderate uptrend. The manufacturing sector has apparently registered some further improvement over the past four weeks, while retail sales continue to expand at the recent moderate pace. Construction activity remains strong in all District states. Banking respondents report strong demand for consumer loans but no unusual strength in demand for other classes of loans. All of our contacts indicate that confidence among both businessmen and bankers has been sharply improved since announcement of the President's new economic program.

Manufacturers in our latest survey report further increases in new orders and shipments and a small increase in backlogs. A reduction in inventories is also indicated, although many manufacturers continue to view their inventory levels as high relative to sales prospects. Employment is down in some industries, notably steel, electronics, paper, and chemicals, and a number of manufacturers report a small reduction in the length of the workweek. The overwhelming majority of manufacturing respondents believe that current plant and equipment is adequate or more than adequate.

In the trade and services area, respondents report that retail sales continue to rise at about the same pace as in the preceding reporting period. Banking respondents report further gains in automobile sales and sizable increases in consumer loan demand. Trade respondents believe that their inventories, which have risen somewhat over the past four weeks, are high relative to current and prospective sales. No change is indicated in trade and services employment.

Construction spending continues strong in all District states, although the number of respondents reporting increases in residential building is down from the preceding survey. Bankers report some slackening in the demand for mortgage loans but demands for such loans have been unusually heavy in recent months.

The diffusion of responses from bankers suggests little more than seasonal increases in business loan demand. A special telephone survey of senior officers of large District banks turned up no evidence of unusual strength in business loan demand since announcement of the President's new economic program. These bankers indicated, as a matter of fact, that pressure for business loan commitments appears to have abated since the wage-price freeze was instituted.

Cash receipts from farm marketings in the District in the first half of 1971 were 2 percent below the comparable period a year earlier, with reductions in livestock receipts accounting for all the decline. The season's gross returns from flue-cured tobacco marketings through September were up 12 percent, as prices were 4 percent higher and volume of sales were up 7 percent.

Both businessmen and bankers have reacted favorably to the wage-price freeze, although both groups remain concerned about the shape of the program for Phase Two. Our latest survey showed a sizable jump in the number of respondents expecting improvement in general economic conditions in the near future. More than half the banking respondents now fall into this category.

SIXTH DISTRICT -- ATLANTA

There has been a favorable reaction among businessmen and bankers in the District to the President's program, and it is hoped that some sort of controls will be continued at the end of the freeze. There appears to be an anticipation of increased consumer confidence that will eventually increase consumer spending, but there is skepticism about the overall effectiveness of wage and price controls in Phase Two unless wage increases can be effectively controlled. Agriculture and tourism are bright spots in the region's economic outlook. Construction is showing evidence of strength in some areas and overbuilding in others.

Residential construction continues to pace the economic recovery in the Southeast. Activity is particularly strong in much of Florida. Large condominium projects have been announced for the Jacksonville and Ocala areas. A retirement community and a city for 7,000 have been announced for central Florida. A large condominium is also being constructed in the Nashville area.

Nonresidential construction is highlighted by the start-up of work on the Louisiana domed stadium. This project, it is hoped, will revitalize the New Orleans economy. Two bridges are to be built along the Gulf Coast in north Florida. Plans for two nuclear generating plants have been announced. One is to be built in Tennessee and the other in Georgia. A new convention center is planned for the Orlando area. Ground will be broken in the fall on a $100 million office park and distribution center located in the Miami area. However, there is also evidence of overexpansion, at least in the Atlanta area. It has been reported that nearly 25 percent of the space in Atlanta office parks is vacant and that total available space is expected to increase by more than one third by next summer. The market for apartments and warehouses in the Atlanta area has also been saturated. The vacancy rate for apartments and unused warehouse space is rising rapidly. With construction still under way, it may take several years for demand to catch up with supply.

The agriculture outlook is very promising. Tobacco farmers are benefitting from large crops and firm prices. Cotton, corn, soybean, peanut, and sugar cane crops are all expected to be good to excellent. The movement of frozen orange concentrate is holding up extremely well.

The recreation and tourist industries are enjoying prosperous conditions and prospects are good. Disney World will open on October 1, and the estimated first-year attendance has been increased to 11 million. Employment at this project will total about 6,500. Moreover, land prices around the project continued to advance. Disney Enterprises have reportedly purchased a large tract of land along the Atlantic Ocean for development as a beach resort. Most major resort areas in the District report a good summer season. Hotel and motel occupancy on Florida's Gold Coast is running well ahead of last year. Auto racing events are having a favorable impact on income in central Alabama. Attendance at the annual Walking Horse Celebration in Shelbyville, Tennessee, increased to 120,000 this year.

The depressed airline industry in the Miami area is reportedly bottoming out and headed for improvement. A textile mill that recently closed in Alabama may be reopened by another firm. Plant announcements include a conveying equipment plant in Mississippi, a stove manufacturing plant in Georgia, and a plant to manufacture campers in Tennessee.

The retail sales outlook is mixed. An improvement in consumer sentiment is reported in some areas, but no substantial or widespread pickup in consumer spending is reported.

SEVENTH DISTRICT -- CHICAGO

Observers in this District are in general agreement that 1972 will see a substantial 5 to 6 percent rise in real output, with some abatement of the rate of price inflation. These views have been strengthened by the President's program. All evidence available to us indicates that business firms, labor unions, and state and local governments are cooperating with the "letter and spirit" of the wage-price freeze. Limited information provided by retailers indicates that sales picked up after mid-August. New hirings have not accelerated, but layoffs are less frequent than was the case last spring.

Many employees have been promised increases in compensation to be effective as soon as the control is removed. Moreover, there is strong dissatisfaction with the price freeze on the part of manufacturers that had planned price increases, after having previously granted wage increases.

The proposed reenactment of the investment tax credit is very popular with both producers and purchasers of capital goods. There was no immediate, discernible impact, however, on orders for new equipment. Large firms that always have a "shelf" of investment projects are reexamining marginal situations. But there is concern that the Congress will cancel the Treasury's liberalized depreciation rules, which are believed to be about as important as the investment tax credit as a stimulus to capital outlays.

The import surcharge, and devaluation of the dollar, may deter imports of finished capital goods. However, some foreign components (such as ball bearings from Japan) have been selling at prices 30 to 40 percent below prices of domestic counterparts. The deterrent to auto imports will be minimized because the two principal domestic subcompacts are now being produced at capacity. Imports from the Orient now hold virtually the entire domestic market for smaller consumer electronic products, including TV sets with screens under 16 inches. These markets are not expected to be recaptured, but inroads in other product lines may be slowed. Imports of small washers and refrigerators, which have become significant this year, face no domestic competition at present.

Employers hope that a guideline framework will help hold down increases in worker compensation in post-freeze negotiations, from the recent standard of 10 percent or more annually, to perhaps 6 percent. The continuing ample supply of people seeking work will tend to aid such negotiations.

One result of the wage-price freeze has been a near blackout on publicity on price developments--up or down. Some businesses suggest that price discounting will be restricted to compensate for inability to raise prices of other products.

Sales of domestically produced major appliances are running about 5 percent above last year with the margin of gain widening. Purchases of these items appear to be related to the rising number of house completions. Demand for furniture has been excellent in recent months.

Steel producers are experiencing a somewhat more rapid pickup in orders than had been expected a month ago. Auto firms now expect to be ordering steel on a normal basis in November, rather than in early 1972. Inventories of steel are "unbalanced" in some cases. About two thirds of the strike-hedge steel inventory is expected to be used up by the end of September.

Residential construction continues to boom, with the Chicago area especially strong. Mobile home output is at capacity. Existing homes are selling readily. Contracts for new commercial and industrial structures, however, are down sharply with no revival in sight. Public construction activity is rising. Work has started again on a large Federal office building in Chicago. Foundations of this building were completed in 1968.

Inflows of savings to commercial banks continue at a reduced level.

Checks with large District banks show no significant pickup in business loan demand following the rise in commitments noted in recent months.

EIGHTH DISTRICT -- ST. LOUIS

A moderate uptrend of business activity continues in the Eighth Federal Reserve District. Businessmen report some improvement in the economic atmosphere as a result of the President's new economic program.

Most manufacturing industries in the District have gradually increased their rate of operations in recent weeks. One box board company reports that it is operating with some overtime now, whereas in the early summer months overtime was eliminated altogether. A number of other firms which were operating at less than full time are now back on a forty-hour week. Most firms, however, indicate that they are operating at less than plant capacity and have no immediate plans for plant expansion.

All industries associated with home building generally remain strong. Housing starts continue at a high rate, and such activity is having a favorable effect on both the industries that manufacture building supplies and those that manufacture refrigerators, stoves, and other appliances for furnishing new homes.

Despite the general uptrend, layoffs and rising unemployment were reported in some scattered geographic areas. For example, one plant which produces flash bulbs in a small Eighth District community reports a 50 percent reduction in its work force, which had a major impact on the community's economy. In contrast, another small community reported an unemployment rate in excess of 20 percent in April as a result of a major reduction in the work force at two specialized firms, but at the most recent reporting date the rate had declined to about 14 percent.

Retail sales continue to move moderately upward in most major centers in the Eighth District. Memphis reports a significant increase in sales during the past ten days. Major retailers in St. Louis report little change in sales, but quickly add that there has been a rising number of competitors in the area and that individual firm data are a poor indicator of total sales.

Bank loan demand remains almost unchanged after adjustment for seasonal factors. Increases in loans to primary metals produced in recent weeks were offset by net repayments by commodity dealers. Most banks interviewed expect a moderate strengthening in loan demand during the next few months. Bank deposits of large member banks have declined slightly in recent weeks, but savings and loan associations report savings inflows are again at a high rate following a dip in July.

Most firms interviewed expressed a favorable attitude toward the President's new economic program. Representative comments were that it was long overdue, it should not be placed on a voluntary basis, and there will be a surge in prices once the freeze is lifted. Some expect to benefit over the longer run from the higher tariff on imports. It was pointed out that such gains will not come immediately because of the established channels of trade and the numerous contracts which have already been placed with foreign firms for goods. American manufacturers will thus require several months to recapture these markets.

All the firms which commented on the program are well pleased with the investment tax credit and excise tax reduction proposals. An official of one manufacturing establishment reports that his company has already started plans for the installation of some new equipment in anticipation of the more favorable tax treatment.

NINTH DISTRICT -- MINNEAPOLIS

Although bank directors have noticed very little change in District business activity since President Nixon announced his new economic policy, they do feel that the new program has acted to build consumer confidence. The directors consider it still too early, however, to assess the impact on investment spending. At the same time, the recent changes instituted by the Federal Home Loan Bank Board (FHLBB) are not expected to have a significant effect on housing in this District.

Several directors reported a modest pickup in consumer spending in their areas since August 16, but no consensus exists as to how the President's program has affected District automobile sales. Three directors reported poor car sales due to consumer uncertainty over whether or not the excise tax will be eliminated, while two others reported a strengthening in automobile sales in their areas since August 16. A newspaper survey of Minneapolis/St. Paul automobile dealers revealed that car sales improved during the last two weeks of August.

In assessing the impact of the President's program on business investment spending, directors' replies varied from it would have "no effect" to it was "too early to assess its impact". In addition, responses to an informal telephone survey of ten Twin Cities manufacturing firms agreed with the directors' observations.

When asked what would be an appropriate follow-up to the wage-price freeze after November 12, the directors advocated everything from a continuation of the freeze to a strong "jawboning" program. In general they felt that jawboning alone would not be sufficient to restrain inflationary pressures, but they opposed the imposition of an elaborate set of wage-price controls. Several directors favored a program that would allow major industries to grant wage increases in line with productivity gains. They realized that such a program would be difficult to administer and would require some type of bureaucracy. One director felt that people expect more controls and bureaucracy, while another stated that "such controls would be easier to administer today than during World War II and the Korean war because goods are not as scarce as they were and purchasers have more than one supplier from whom to obtain goods and services". Still another director said that dividends should be frozen for some time in the future, and something should be done at least to give the appearance that interest rates are being controlled. These steps would make wage-price controls more palatable to the man on the street. A freeze on taxes, especially property taxes, was advocated by one bank director, and another recommended the elimination of the 10 percent surtax on imports.

Indications are that the unsettled foreign exchange rate situation of recent weeks has had little effect on business loan demand among large Ninth District banks. At several banks, inactive lines of credit extended to Japanese banks have been reactivated since mid-August. The amounts involved were relatively small, however, and did not cause an unusually large increase in business loan demand.

Some strengthening in business loan demand has developed for inventory buildups and public nonresidential construction. No Reserve city banks, however, have experienced unusually strong demand for business loans recently, and most have revised downward their expectations for the next several months. While not anticipating greater-than-seasonal expansion, about half of the bankers sense underlying strength in business loan demand and expect to see positive results of policy changes.

Contrary to the opinions expressed by FHLBB officials, the general feeling among industry people in the Twin Cities is that recent changes by the FHLBB will have only a marginal effect on housing in this area. The lower liquidity requirements will have no effect, as local savings and loan associations had higher-than-required liquidity ratios and savings and loan associations in this area have not been selling mortgages to the Federal Home Loan Mortgage Corporation to any great extent. The change to 95 percent for mortgage loans, however, is expected to result in higher loan activity. Savings and loan associations prefer to make conventional loans, and the lower downpayment requirements will make this type of borrowing more attractive to potential homeowners.

TENTH DISTRICT--KANSAS CITY

Support for the President's new economic program in the Tenth District is widespread among businessmen and consumers. At least one labor group has postponed bargaining sessions, and one union has taken a case to the United States District Court asking that employers be ordered to comply with a bargaining agreement reached last year calling for a wage increase on September 1. District bankers report no moves to increase interest rates. Aside from special factors, business loan demand remains weak.

The results of a survey of members of the boards of directors of the Federal Reserve Bank of Kansas City and its branches, and of other business in the Tenth District, indicate that the President's new economic program has been favorably received by both business and consumers. The psychological impact on both groups was described as excellent, and most parts of the program are generally receiving strong public support. In several instances, respondents voiced the view that they would have preferred to see the wage-price freeze instituted earlier, by from six months to two years.

There was wide agreement that the time period since the new program's beginning has been too short to permit an accurate overall assessment of its impact on economic activity. An important Omaha-based mechanical contractor noted that companies are apparently holding off on new plant and equipment spending until they see Congressional disposition of the proposed investment tax credit. If the Congress approves the credit, he expects increased activity in commercial and industrial construction in the Tenth District.

Increased consumer confidence, as a result of the new program, was cited by persons from several states as providing a stimulus to retail trade with some increases already apparent. Automobile sales are generally good. A survey of new car dealers in the Kansas City area showed that customers and dealers alike are confident that the Federal excise tax on new cars will be repealed on a retroactive basis. Although the dealers, like other businesses, were generally pleased with the wage-price freeze, some were apparently having difficulty in providing an attractive price on leftover 1971 models.

A representative of a large airline company reported that domestic air transport business on east-west routes continues to be weak. With revenues not reaching expectations, this airline is making further employment reductions in an attempt to keep its costs down. As a result of the wage-price freeze, the company's bargaining sessions with its 20,000 mechanics have been postponed. One special case of interest concerns a Kansas City International Brotherhood of Electrical Workers Local which filed suit in United States District Court asking that electrical contractors be ordered to comply with a collective bargaining agreement reached last year, under which the electricians were to have received on September 1 wage and fringe benefit increases totaling \$1.00 per hour. The union maintains that the contractors will be receiving windfall gains, due to their bidding of contracts at prices which included the expected wage increase, and that this is an inequity that will not be righted after the freeze ends. The contract involved was settled by compulsory arbitration, without a strike and at wage increases described by the local's business manager as substantially below those received by other construction industry unions here. There has been no court decision yet in this case.

Deposit flows into Tenth District banks in the last half of August have shown greater strength than the moderate pattern that characterized July and early August. This was true for both demand deposits and time deposits. Although a moderate increase occurred at the larger banks in consumer type time and savings deposits in late August, these accounts have shown virtually no net change at large banks since midyear. Bankers queried on this point do not appear concerned with this development, although some expressed relief that market interest rates have declined since mid-August. As in July, Tenth District banks increased their holdings of large CDs in August.

With regard to loan demand, residential mortgage and construction loans along with consumer instalment loans remain the areas of strength in the Tenth District. Bankers contacted have detected no unusual increase in applications for consumer loans since mid-August. However, some are anticipating an increase and have stepped up their promotional activities since the announcement of the new economic program. Aside from special factors related to the international situation, business loan demand remains weak. The deterioration noted in the July report appears to have continued into late August. Respondents profess to anticipate some improvement, but are not overly optimistic.

Bankers in the Tenth District appear to support the new economic policies. There are no moves to increase interest charges on any loans. On the other hand, there appearsto be no rush to lower interest charges. Most respondents are adopting a "wait-and-see" attitude toward the changed economic and financial situation.

ELEVENTH DISTRICT -- DALLAS

President Nixon's new program for economic stabilization improves the prospects for the economy of the Southwest, in the opinion of past and present nonbank directors of this Bank and its branches. Most expect moderate increases in economic activity and employment for the remainder of this year and the first half of 1972, coupled with a lower rate of increase in retail prices. However, some believe that greater price stability will be attained only if some kind of guidelines program follows the ninety-day freeze on wages and prices. Most felt that planned plant and equipment expenditures, inventory investment, and employment in their firms would not be greatly influenced by the President's program within the next nine months. The floating of the dollar is expected to have a small favorable impact on the export sales of the firms of these directors, while the cost of imported materials and supplies used by the respondent's firms is anticipated to increase moderately.

Although two thirds of the directors expect that the President's program will increase demand for their firms' products over the next nine months, only a minority feel that capital expenditures, inventory investment, and employment in their firms will be materially increased as a result. About a third of the respondents think that the proposed investment tax credit will increase planned plant and equipment expenditures through mid-1972. And about one half of those expecting an increase indicate that the rise would be a net addition to already planned expenditures. Others state that the increase should be attributable mainly to a moving ahead of expenditures planned for some later time. Close to two-thirds of the directors do not anticipate that the proposed economic package will affect their planned inventory investment. Also only about a third feel it will increase employment in their firms over this period.

The President's freeze is apparently having a significant impact on both the wages and prices of the respondent's firms. When the freeze was announced, two thirds of the firms had planned wage increases, while half were anticipating raising their prices. These planned wage increases would have averaged almost 7 percent, while anticipated price advances would have totaled almost 4 percent. If the wage-price freeze ends after the ninety-day period, and no other limitations are imposed, nearly half believe that their firms would increase wages and prices.

On balance, President Nixon's economic package is expected to have little impact on the profits of the firms of the directors through mid-1972. Forty percent feel there will be no impact on profits, while 30 percent expect profits to rise as a result, and 30 percent anticipate they will fall.

The floating of the dollar in the international exchange markets affected only about half of the respondents' firms. For those that were affected, only a few anticipate that their export sales and foreign investments will increase over the next nine months. On the other hand, most anticipate that the cost of imported materials and supplies will rise moderately. In the current situation of the floating of the dollar, a majority of those directors' firms affected indicate that their firms absorb the foreign exchange risk on both exports and imports. In a few cases, the foreign exchange risk is shifted to the trading partner, and in one case the risk is shared by the director's firm and the trading partner.

District data indicate that recent economic conditions were sluggish. Preliminary estimates indicate that the seasonally adjusted Texas industrial production index fell slightly in July, with all sectors sharing in the drop except utilities, which remained unchanged. Durable goods manufacturing was off somewhat from the month before; the only industry group in durable goods showing a significant increase over the previous month was that producing lumber and wood products. In nondurables manufacturing, textile mills showed the only significant gain. Registrations of new passenger automobiles in four major reporting areas in Texas were 12 percent lower in July than in June. Department store sales were 4 percent higher in the four-week period ended August 28 than in the corresponding period a year before. Total nonagricultural wage and salary employment fell slightly in July, interrupting a fairly slow but continuous rise since January. Oil allowables for both Texas and Louisiana have been cut for September. This was the fifth consecutive monthly drop for Texas. Agricultural conditions in the Eleventh District are generally improved as rainfall has increased the production outlook for several crops and offered relief to livestock. However, the rains now present some threat to crops, especially cotton and sorghum, as harvest is being slowed and some quality damage noted.

TWELFTH DISTRICT -- SAN FRANCISCO

Our directors were asked to comment on the recent changes in domestic and international policy by President Nixon. The general reaction is favorable, with most directors expressing the view that there would be beneficial effects on the economy, especially in controlling inflation. The impact on current economic activity is small--except perhaps for automobile sales--for future prospects are seen as being improved.

The wage-price freeze is thought to be helpful in reducing inflationary expectations and in improving consumer attitudes to some degree. On the other hand, several directors commented on the need for continuing some form of restraint after the ninety-day freeze is over, including provisions to prevent retroactive wage increases.

Of the proposed tax changes, the removal of the automobile excise tax is expected to have the greatest immediate impact. Automobile sales already have increased in some areas and are expected to do so in others. This sales increase will apply to foreign as well as domestic cars. The tariff surcharge on imported cars will be offset by the lower excise tax so that their prices may not change very much even after allowing for exchange rate revaluations. The investment tax credit is expected to stimulate some more investment in the future when plans can be revised. One director whose firm produces heavy industrial machinery reported that, although orders have not risen, requests for quotations have started to increase, and he regards this as a sign of more capital spending.

The reaction to the international policy changes, although favorable overall, was qualified by several directors who expressed concern over foreign retaliation, especially if the surcharge is maintained for any period. One director reported that there is some evidence that oil exporting nations will be pressing actively for price adjustments that will result in higher dollar prices for oil. The amount of benefits of the surcharge to domestic producers will vary according to whether or not a full 10 percent surcharge could be applied. A producer of structural steel sees little benefit for his company's sales prospects; foreign structural steel will be taxed only 2 percent more and he said Japanese producers indicated that they would absorb any difference arising from the appreciation of the yen.

On the international side, the West Coast dock strike is perhaps of greater concern at the moment than the possible effects of the surcharge and any changes in the external value of the dollar. This strike continues to hurt domestic exporters (of wheat and rice, for example) and it may cause the loss of foreign markets if it continues.

Construction, especially residential construction, continues to be a source of strength. The wage-price freeze is expected by some of our directors to help further by reducing cost increases. The only evidence of weakness consists of high apartment vacancy rates in some areas--southern California, for example. The lumber industry is benefitting from this level of construction activity, and the wage-price freeze happened to result in a structure of prices favorable to further activity.

Prospects in agriculture are improved both because of good crops and the freezing of costs. In particular, the outlook for fruit and cattle is good. The only major problems are faced by those producing for foreign markets because of the dock strike, and some crops facing limited storage space. Bankers reported willingness to cooperate in keeping interest rates level over the longer period. Loan demand, both by business and consumers, is expected to rise, but no major adjustment will have to be made by bankers as a result of the new economic policies.