CONFIDENTIAL (FR)

CURRENT ECONOMIC COMMENT BY DISTRICT

Prepared for the
Federal Open Market Committee
by the Staff

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SUMMARY*

Judging from the District reports, the effect of the new economic program thus far has been to improve the economic outlook. Spending and production, as yet apparently largely unaffected by the new program, continue a moderate expansion. Strength in consumer spending is expected to continue. There is no sign of a marked change in capital spending plans. The loan demand outlook is mixed. There are some expectations of interest rate declines.

Several banks report that optimism generated by the announcement of the new economic program continues. However, the St. Louis Bank indicates that the original enthusiasm for the program has moderated, and the Philadelphia Bank reports that earlier optimism seems to have dissipated. Kansas City reports that some merchants think the program may be adversely affecting consumer spending. Chicago reports that the program may have resulted in an "air of uncertainty" that conceivably could delay the economic recovery.

The Philadelphia and Chicago Banks report skepticism about the efficacy of Phase II, and one of Boston's academic respondents thinks the control structure is awkward. Chicago indicates that some small firms appear to believe they can evade the controls with impunity and that large firms have almost cut off publicity on price developments.

There is some doubt about the effect of the program on prices and price expectations. The Chicago Bank reports the freeze may have aided the disposal of 1971 model automobiles at better-than-expected prices and that popular 1972 models are being loaded with high-profit

*Prepared at the Federal Reserve Bank of Atlanta.

extras. Philadelphia reports a rise this month in the percentage of manufacturers predicting an overall increase in prices. Dallas reports that economists interviewed indicate little hope for a reduction in the rate of inflation. A Boston director does not feel that the size of a recent wage settlement was affected by the freeze, except that the freeze delayed the negotiated wage increase. The New York Bank reports excellent compliance with the freeze, yet one of the Bank's directors warns of a "head of steam" building under wage demands.

Retail sales were most often described as strong or improving. Robust auto sales were commonly cited. Two banks report a bunching of purchases to beat post-freeze price increases. Two banks also mention that furniture sales are improving; in one case, the improvement was associated with the surge in residential construction.

Several banks mention that no early uptrend in capital spending is anticipated and that inventory plans remain cautious. However, an increase in plant location inquiries is detected by St. Louis. Also, Chicago reports an increase in design-stage activity for some types of long-lead time machinery. Capital goods producers in the Boston District report improved prospects. An academic respondent in the Boston District sees a danger that political pressure to lower short-term interest rates could result in a flood of liquidity that, in conjunction with liberalized depreciation and the investment tax credit, could trigger an excessive capital spending boom in the first quarter of 1973.

Manufacturers in the Richmond District report further increases in shipments, orders, and backlogs. Cleveland also mentioned an increase in new orders and reported that steel companies experienced an improvement in new orders in September, although orders were well below normal. Steel inventory liquidation is expected to continue into December. Philadelphia reports that manufacturers are less optimistic with respect to new orders, shipments, and unfilled orders.

Loan behavior and loan demand outlook are mixed. Several banks note moderate to strong demand for consumer and mortgage loans. On the other hand, three banks report expectations of weak loan demand accompanied by declines in interest rates.

Strength in construction was reported by several Districts, but San Francisco indicated concern over rising vacancy rates in multi-family units and Chicago indicates an excess supply of space in new office buildings. An oversupply of office space and apartments may also slow the growth of construction in the Atlanta area.

FIRST DISTRICT - BOSTON

According to our directors, the consumer sector continued to strengthen during September, but business capital spending has not generally improved. None of the directors reported any declines in their own prices or in the prices of their suppliers.

The consumer goods industries continued to show gains in September, but this was in line with increases experienced this summer. No sudden surge in buying was noted. Dealers in recreational equipment, such as snowmobiles, boats, and camping equipment are very optimistic and are placing large orders to manufacturers. One camping equipment manufacturer still is planning double shifts in October to meet demands--a very unusual situation in this seasonal business.

Consumer loans are reported by a bank director as still doing very well, with home improvement loans growing especially rapidly. The demand for mortgage loans is also still very high.

Capital goods producers noted an improvement in the atmosphere but not in their orders, which have shown only a gradual improvement. This is especially true for the machine tool manufacturers. A large District machine toolmaker stated that they did not expect an improvement in their orders until the second quarter of 1972. An exception to the general picture was a spurt in orders for twin-engine commercial aircraft. Orders for oil field drilling equipment are also continuing to do quite well.

Only one director was involved in wage negotiations during the freeze period. He did not feel that the settlement negotiated had been affected by the freeze, although, of course, the negotiated wage increases would not be paid until after the freeze.

Three of our academic respondents were available for comment this month. Although Professors Tobin, Eckstein, and Shapiro agreed that there is a good chance of moderating the rate of inflation to the 3-percent upper limit of the Administration's goal range, the announcement of Phase II was criticized by each, though for different reasons. Tobin thought that 3 percent is a modest goal in light of his belief that inflation had been tapering off slowly anyhow. Eckstein felt that the control structure is awkward--with the Cost-of-Living Council having the bulk of the power and the Price and Pay Boards having most of the responsibility. Noting that the highly visible major sectors have lagged behind in recent years, he objected to the fact that notification was required only in the major sectors and voluntary compliance relied upon heavily elsewhere. He questioned the absence of a specific program for the medical services and transportation sectors and the presence of an interest committee, on the grounds that interest controls could be accomplished through open market operations.

Shapiro's objections centered on the failure to mention the demand stabilizing measures which would be necessary to make the program work. In particular, he saw a danger that the political need to lower short-term interest rates would bring a flood of liquidity which, in conjunction with a strong takeoff in consumer spending and the investment stimulus of liberalized depreciation and the investment tax credit, could trigger an excessive capital boom in the first part of 1973. He cited the historical analogy of the expansionary monetary policy of 1954, which led to excessive capital spending in 1955 and 1956. A 6-percent rate of growth in the money supply, he felt, would be sufficiently moderate to avert this danger. Tobin also reasoned by historical analogy, though his argument underlined the danger of excessive monetary restraint. He cited the 1968 experience of excessive reliance upon the potency of fiscal restraint. The danger in the present instance is that of placing too much reliance on the fiscal stimulus of responding to the urgings that the rate of monetary growth be curtailed. Tobin feels that tax reductions for individuals offer a more certain fiscal stimulus than corporate reductions, at least when a rapid stimulus is needed.

Tobin also offered a theoretical argument for an expansionary policy. Without offering an estimate of the relative size of each component, Tobin noted that the current high levels of nominal interest rates contain both real and inflationary anticipations components. If the anticipatory component is large and if the anti-inflationary controls are successful in reducing inflation, the Federal Reserve should accommodate the ensuing fall in rates--to attempt to maintain nominal rates at their previous level would be a policy of raising real rates. If, on the other hand, the anticipatory component is small, then real rates of interest are currently high and would need to be lowered to bring about a sizable expansion of the economy.

Neither Eckstein nor Shapiro was distressed over the current international trade situation. Shapiro recalled the erroneous dire predictions by "officialdom" and private financial analysis that a financial crisis would ensue if gold were "embargoed." Shapiro would be content to let the dollar float, eliminate the import surcharge, and allow foreign countries to acquire dollars, if they wished, while the United States acquired real goods and services. Eckstein felt that the high, short-run price elasticity of traded goods would restore a trade surplus of nearly \$4 billion early in 1972, although this amount would not constitute a solution to the problem.

SECOND DISTRICT - NEW YORK

The improved economic expectations voiced last month by the directors of this Bank and of the Buffalo Branch and by other business leaders continue to be in evidence. A better outlook was seen in the retail trade sector, including automobiles. The employment picture was mixed, with some slight improvement in certain areas. Compliance with the "freeze" was reported to be very good, despite some wage dissatisfaction and some price evasion.

The great majority of the directors of this Bank and of the Buffalo Branch felt that the 90-day wage-price freeze had been very well received. One director, the chairman of the board of a large manufacturing concern, did feel that a "head of steam" was building up on wage demands, resulting from contractual obligations and cost-of-living increases that had been set aside during the freeze.

Two directors referred to the growing bitterness of teachers whose wage increases were denied just as the new school year began. Most respondents felt that the wage-price freeze had been very effective, with nearly 100 percent compliance. However, a director of the Buffalo Branch mentioned that an apparel retailer had told him that some manufacturers are "violating the spirit, if not the letter" of the freeze by making minor style or lot number changes, accompanied by increases in prices.

The majority of the directors and retailers believed that consumer spending was on the rise. Most respondents felt that consumer confidence had improved as a result of the new economic program, although this reportedly was not much in evidence in upstate New York owing to unemployment, prison riots, and other "depressing news."

A number of the directors, particularly those of the Buffalo Branch, attributed at least part of the improvement in retail sales to a temporary bunching of purchases owing to anticipation of price increases at the end of the freeze. One director, the president of a Rochester bank, indicated that retail sales in the city had been adversely affected by bad weather, and an official of a New York City "quality" department store felt that unseasonably warm weather had slowed down apparel sales, even though his store's sales had improved. Three large New York City auto dealers who were contacted reported that the strength in auto sales that had emerged in September had continued into October. "Significant gains" in auto sales were also reported to have taken place in the Buffalo area.

Notwithstanding the improved retail sales picture, most respondents believed that retailers and jobbers were continuing to maintain a cautious inventory policy. Some exceptions were noted, accounted for by special circumstances such as the dock strikes and the seasonal build-up of auto dealers' inventories. In general, the trend toward relying on manufacturers to maintain stocks apparently was being maintained.

Most directors did not feel that the present employment situation was "overly bright," but some improvement was reported to have taken place in the Rochester and Buffalo areas, and payroll rosters in western New York are expected to expand with an increase in the economic pace. On the other hand, the president of a well-known research organization reported that the unemployment picture in the "nonprofit" and teaching fields was "bad" and was likely to get worse.

THIRD DISTRICT - PHILADELPHIA

Some of the overall optimism associated with the President's mid-August announcement seems to have dissipated, as Third District businessmen are somewhat less optimistic about the weeks ahead than they were a month ago. Bankers are looking for little more than a seasonal pattern in loan demand. They expect interest rates to remain stable or possibly edge downward in the coming weeks. Although there was some increase in consumer activity in recent weeks, retailers and bankers are still cautious in their predictions about future strength in the consumer sector.

District manufacturers seem to be slightly less optimistic than they were a month ago. Fewer predict a pickup in the general business climate one month ahead than was the case in September. More are anticipating either unchanged conditions or a decline in business activity. There is less optimism with respect to new orders, shipments, and unfilled orders. Fewer firms plan inventory accumulations than in September, and a smaller number plan to add workers. On the price front, a greater percentage of firms this month are predicting an overall increase in prices than last month.

Area bankers indicate that loan demand has remained soft, although there was spotty activity in the foreign sector, communications, machinery, and foods. One banker noted that pickup in activity at his bank was due primarily to the aggressive efforts of loan officers. In the months ahead, most bankers see more of the same--little more than seasonal patterns. Possible strength may arise in construction and durables. Only one banker predicted a moderate but steady increase in loans. Bankers expect interest rates either to remain stable or drift downward slowly.

Local retailers noted a strong consumer pickup in the last three weeks but were unwilling to translate this into any longer-term trend. Most were still cautious about inventory building. Bankers confirmed the presence of the yet-reluctant consumer, citing that consumer loans were rising very slowly. One banker, who was particularly disappointed with the auto loan picture, said that dealers were caught with large inventories because of unexpected low sales.

The reaction to the preliminary outline of Phase II was mixed. Most bankers and businessmen want to wait for more details before making any judgment about its effectiveness. However, one banker indicated that he felt the plan would be particularly difficult to implement. Another stressed the necessity to crack down hard on violations by large corporations and labor groups. Still another maintained that we cannot get trapped into relying on the controls for any type of long-run solution.

FOURTH DISTRICT - CLEVELAND

Business conditions in the District are showing some signs of pickup, particularly in the depressed manufacturing sector. It seems likely that September may prove to be the low point in the recent sluggish phase of manufacturing activity, as well as the high point for unemployment. Although depressing effects from steel inventory liquidation are in large part over, near-term improvement in production is expected to be moderate.

Our latest survey of District manufacturers showed an increase in new orders in September, following weaknesses during the previous three months. Firms' anticipations for October call for further increases in new orders and shipments, a leveling in backlogs, which have been declining for some time, and a continued reduction in inventories. Although employment is expected to remain sluggish in October, firms anticipate an increase in the workweek.

The District's insured unemployment rate rose 0.5 percent in September, following an 0.4-percent increase in August. Unemployment began to decline toward the end of September; and it is likely that last month will have been the cyclical peak for the District's insured unemployment rate. Some metropolitan areas that are heavily dependent on the steel industry have recently suffered sharp increases in unemployment. From mid-July to mid-September, the insured unemployment rate went from 3.0 percent to 13.8 percent in Youngstown-Warren, from 4.1 percent to 9.6 percent in Canton, and from 4.3 percent to 6.7 percent in Pittsburgh. There were still scattered reports of layoffs in the steel industry in October.

Economists from the major steel companies in the District all reported an improvement in new orders in September, although two emphasized that their orders were well below normal. Steel orders from the auto industry have been running at about 20 percent of their consumption rate in October, compared with 50 percent during the 1968 inventory liquidation period. Auto firms are expected to be taking normal deliveries of steel by December, however. The economists estimated that steel inventories would be back to the prestrike hedge level sometime in November, but they also expect steel consumers to reduce inventories further in December. The economists asserted that inventory liquidation will definitely be over by year-end. The three steel industry economists agreed that steel ingot production, on a seasonally adjusted basis, would increase slightly less than 5 percent from the third quarter to the fourth quarter.

FIFTH DISTRICT - RICHMOND

Judging from the response of businessmen and bankers, a moderate uptrend of business activity continues in the Fifth District. Manufacturers report further increases in shipments, new orders, and backlogs of orders. Furniture orders and shipments in particular have made substantial gains in the past 60 days. Growing strength is reported in retail trade, with automobile sales especially strong. Although businessmen apparently remain quite optimistic about the impact of the President's new economic program on the economy, 20 of 23 manufacturing respondents reported no recent changes in capital spending plans or inventory policy. The coal strike is affecting some areas of the District economy adversely.

Both durable and nondurable manufacturers continue to experience increases in shipments, new orders, and backlogs of orders. Strength is especially evident in firms providing construction-related items, such as bricks, tile, and plumbing supplies, with delivery schedules running up to three months behind in some cases. Concern was expressed over the already dampening effect of the coal strike on economic activity in parts of West Virginia and the potential impact of a lengthy strike.

Furniture manufacturers participating in our regular survey, as well as others contacted in a special telephone survey, were very optimistic about the outlook for the economy in general and the furniture industry in particular. Shipments and orders were reportedly much stronger in August and September than in the previous 60 to 90 days. Looking ahead, the respondents believe that the prospects for the furniture industry are better than they have been in the last two years. This fall, the industry plans to launch a nationwide advertising campaign which they believe will have a favorable impact on sales. It is not anticipated that the wage-price guidelines will present any unusual difficulties for the furniture industry.

Responses indicate that the retail trade sector is experiencing growing strength. Automobile sales appear to be especially strong, with more than two-thirds of banking respondents reporting an increase in auto sales in their areas. General optimism about near-term retail sales prospects was apparently tempered by high rates of unemployment in some local areas.

Inventories in manufacturing reportedly have declined and, as a result, they are now more in line with desired levels. Trade respondents, however, indicated that their inventories were up over the previous reporting period. The employment picture in the District has apparently changed very little in the last month. On the price front, four manufacturing respondents and one trade respondent indicated that prices received were down since the last survey. No respondents reported price increases.

Residential and nonresidential construction advanced further in the last month. More than 50 percent of banking respondents reported increases in construction in their areas. Bankers also report that loan demand remains strong, with consumer loans showing the most strength.

Damage to the corn and peanut crops from Hurricane Ginger was heavy in east central North Carolina. District cash receipts from farm marketings during January-July were 4 percent below those in the same period last year. The 1971 marketing season on border belt flue-cured tobacco markets set an all-time high, general average price.

In response to a special question concerning recent changes in capital spending plans and inventory policy, 20 of 23 manufacturing respondents reported no change in either capital spending plans or inventory policy. Two respondents indicated that capital spending plans had been increased, and another indicated that long-term capital plans are being reevaluated in light of the investment tax credit proposal. Most banking respondents believe that near-term business activity will either stabilize at present levels or increase. Only two respondents thought that business activity may decline.

SIXTH DISTRICT - ATLANTA

Reports indicate a slight strengthening in the area's economy but, as one Alabama director put it, "On the whole, business confidence continues to hang in an uncertain area between pessimism and optimism, inclining toward the latter." The near-term outlook is viewed with cautious optimism, but there is some doubt about the ability to cope with major economic problems over the longer run. The employment outlook is mixed. Construction activity continues strong, but the rate of growth is expected to slow. Retail sales are strong.

In many areas, manufacturing activity and employment are reported steady, but there are some weaknesses. For example, a metal company in northwest Alabama has cut production by nearly 10 percent. In the Palm Beach area, 1,200 workers have been laid off as a result of RCA's decision to withdraw from the computer field. The spreading effects of the longshoremen's strike are being compounded by a strike affecting 6,100 workers at a Mississippi Coast shipyard. A textile company has closed three old plants in Georgia, resulting in the laying off of several hundred workers. However, another textile plant has reopened and hired 250 workers. Lockheed-Georgia has recalled 2,400 hourly employees that had been laid off for three weeks because of a strike at a wing manufacturer in Nashville.

Although the airline industry continues to encounter a rough year, a major airline company headquartered in Miami is avoiding layoffs. Various other devices are being used, including a reduction in employees through attrition. Additionally, employees are being encouraged to take leaves of absence without pay but with the privilege of guaranteed reservations on company planes. Other workers are rescheduling vacations for slack seasons, and surplus employees are being shifted within the company. Pilots are reportedly cooperating by agreeing to work extra hours at straight pay rather than at overtime rates.

Disney World unofficially opened on October 1. Crowds have averaged about 11,000 per day. Disney officials are reported to be pleased with the reception by visitors and, especially, with the smoothness of traffic flows and overall operation. A massive influx of visitors is anticipated after the official opening later this month. Construction in the vicinity of Disney World remains strong. Reportedly, the Disney site on the Atlantic Coast will not be developed in the near future.

Construction activity continues to buoy the region's economy. A 200-acre research and industrial park is being located northeast of Atlanta, and a $350-million generating plant will be built southwest of Atlanta. A motor inn and convention hall have been announced for Vicksburg. A combination apartment, commercial, and office complex is planned for Baton Rouge. A project of major proportions is reportedly under consideration for the West Palm Beach area. A large parcel of land in the Florida Panhandle has been purchased for residential development. New construction is reportedly increasing "dramatically" in the Jacksonville area. However, a Federal court order has halted the start of construction on the huge Tennessee-Tombigbee Waterway in Alabama. This project is receiving increasing opposition from conservationists.

Retail sales are generally reported strong, with auto sales leading the way. Large shopping malls have recently been opened in Atlanta and Pensacola.

Bountiful crops are being harvested throughout much of the District. The Georgia tobacco market closed with record receipts. The cotton crop is in good condition. The rice harvest in Louisiana was large, but shipment is now hampered by the dock strike. It is estimated that the sugar cane crop in Louisiana has been reduced by 11 to 15 percent by Hurricane Edith. There is considerable weakness reported in grain prices. High consumption of frozen orange juice has reduced the carry-over inventory to low levels. This should assure firm or rising prices in 1972. There is growing concern over massive fish kills in Escambia Bay and Santa Rosa Sound in northwest Florida. There have been 16 major kills this year, the worst one commencing on September 4 and still continuing. The kills are blamed on low oxygen content in the water caused by poor water quality.

SEVENTH DISTRICT - CHICAGO

Public responses in this District to last week's Phase II announcements were similar to those noted following the NEP speech in August. Executives of large businesses and financial institutions lauded the proposals and pledged cooperation. Some prominent academicians, especially of the "Chicago School," were sharply critical. Union leaders condemned any program that did not control profits and interest rates.

A number of spokesmen criticize the "vagueness" of the Phase II proposals and question the efficacy of controls administered by part-time boards without elaborate enforcement machinery. Some small firms appear to believe they can evade the controls with impunity. Large firms have almost cut off publicity on price developments and other matters that may come under the perusal of controllers. Compliance by large firms, moreover, may be more apparent than real. Reports from Detroit indicate that the freeze has aided the disposal of 1971 models at better-than-expected prices and that popular new models are being "loaded" with high-profit margin "extras." Some direct opposition is also apparent. The head of the U.A.W. announced (October 8) that he would refuse to serve on the Pay Board, and he complained of "conflicting interpretations" by Administration spokesmen.

There is some evidence that business decisions are being delayed, pending fuller understanding of the control program. Lifting of the absolute freeze in November will be the signal for attempts to activate dormant decisions to increase wages, prices, and dividends. An air of uncertainty exists that conceivably could delay the economic recovery. Although not voiced publicly, there is widespread distrust of direct controls by businessmen and lenders--based in some cases on recollections of the workings of such controls during and after World War II.

Retail sales in this District apparently were strong in September, especially autos and household durables. Orders for producer equipment remain at a low level, but there has been a rise in design-stage activity for some types of long-lead time machinery. An important producer of diesel engines is expanding capacity to provide for an expected upsurge in demand some time in 1972 to avoid allocations required in the late 1960's.

Some evidence points to a rise in the demand for workers, especially those with special skills. But layoffs are still about offsetting hirings. Overall employment in this District has changed little in recent months, after allowance for seasonal variation. Various municipalities have been forced to curtail programs, including education, because of financial stringencies. Among the domestic changes in the employment picture in the past two years has been the shift in the supply of teachers from shortages to substantial surpluses.

Unemployment rates in the District are generally below the national average, except for auto industry areas and some centers producing steel and producer equipment. Estimates of both employment and unemployment, however, have been below those of last year in recent reports on local labor markets, indicating labor force withdrawals. Unused labor resources in these areas probably are not adequately represented by unemployment estimates.

The residential construction picture remains vigorous here, especially in the Chicago area. Financing, including construction loans, is readily available. The market for luxury-type apartments has weakened, but important new projects are being announced. Meanwhile, space in new office buildings in downtown Chicago, completed or nearing completion, is in excess supply. Prospects for new commercial projects are poor throughout the District. Starts on manufacturing buildings are at an extremely low level with no prospect for early improvement. Important municipal projects are being postponed for lack of funds, but some Federal projects have been activated.

Sales of life insurance policies have strengthened substantially in recent months, possibly reflecting an upgrading of the sales force. Disbursements on life insurance policy loans have increased moderately, following a sharp decline earlier in the year. Life insurance companies continue to be cautious in making new investment commitments.

District banks are avoiding investments in long-term municipals. Business loan demand is still relatively weak. Partly for this reason, banks are not seeking CD money aggressively, despite a slower inflow of savings in recent months.

EIGHTH DISTRICT - ST. LOUIS

Businessmen in the Eighth Federal Reserve District are increasingly optimistic as to the business outlook. Most of those interviewed report that conditions are improving at the moderate rate of recent months. Retail sales in the suburban areas continue to expand, but central city sales have remained unchanged from the relatively low spring and summer levels. Major gains from a year ago in residential construction continue. Construction-related manufacturing firms, likewise, report sales gains and prospects for even larger sales in early 1972. Inquiries to industrial development agencies relating to investment opportunities have increased in recent months. Savings flows through financial institutions have accelerated in recent weeks. Interest rates on mortgages remain relatively stable, indicating that demand for savings has, likewise, accelerated.

One comment frequently heard in recent discussions with business leaders is that people are becoming more optimistic. One businessman suggested that confidence was the major problem with the economy and that the President's program will serve to restore it. Some, whose business is primarily agriculturally related, have expressed apprehension about the 10-percent surcharge in the President's new economic program. They fear foreign retaliation to this increased trade restriction. Other reports indicate that some of the enthusiasm expressed immediately following the wage-price freeze has moderated, but these reporters remain mildly optimistic.

Retail sales have generally continued to expand. Automobile sales are reported to be either good or excellent. Reports from department stores in the larger cities indicate that sales have continued moderately expansive in the newer outlying stores but that little change was noted in the older inner city stores. Those firms which are located entirely in the older sections of the city often report no recovery since the beginning of the year. Over the last few years, several retail stores have closed in downtown St. Louis, including one of the three largest department stores. Also, a major department store in downtown Louisville recently announced the intention of closing.

Residential construction has continued strongly upward. Since January 1, the number of one-family units built in the St. Louis area is 50 percent greater than in the same period last year. Multi-family units constructed and mobile homes sold are, likewise, up but at a somewhat slower rate than single-family homes. Reports given at directors' meetings in the three branch cities indicate a similarly strong residential construction trend throughout the District.

Interest in investment opportunities by Eighth District businessmen is apparently reviving. A St. Louis industrial development agency reported that the number of inquiries by both national and local firms concerning plant locations has increased in recent months. Reports from Louisville, likewise, indicate that more potential new plant sites are being studied than during the past two years.

Savings flows into financial agencies have remained at the high rates of a month ago, following the midsummer dip. One of the larger St. Louis savings and loan associations reported that both gross and net savings in September were the largest on record. Interest rates on mortgages are relatively stable in the St. Louis area, but some savings are being channeled to other areas of the country where demand is rising more rapidly.

NINTH DISTRICT - MINNEAPOLIS

With the exception of a pickup in automobile sales, Ninth District consumer spending has not changed noticeably since President Nixon announced his new economic program. Directors of this Bank, however, feel that retailers in their areas expect good sales in the latter half of the fourth quarter. Results of our latest agriculture credit conditions survey reveal that farm incomes have improved in recent months, but there is some doubt as to whether these higher income levels will be sustained.

Bank directors in general felt that the President's tax proposal would have a positive effect on business activity. They were uncertain, however, as to whether modifying the proposal to grant more tax relief to consumers would achieve greater fiscal stimulus. Most felt that the investment tax credit was necessary, and one director indicated that it would be particularly beneficial in the long run.

Several directors reported improved new car sales, and this was confirmed in a survey of nine regional automobile sales managers whose areas included Minnesota and the Dakotas. New car sales in August and September were up approximately 37 percent from a year ago in South Dakota, North Dakota, and Minnesota, and this sales gain occurred after the 15th of August. New car sales during the entire month of August only matched year-ago levels, while in September they surpassed 1970 sales by around 85 percent. There seemed to be a majority opinion that the prospect of a repeal in the automobile excise tax has stimulated car sales. Two of the nine sales managers, however, felt its effect had been minimal, while another felt the freeze had been more important in stimulating car sales than the proposed repeal of the excise tax. Also, District consumers are reported to have been favorably impressed by the 1972 models.

Bank directors were guardedly optimistic about business activity in the fourth quarter. Most reported that retailers in their areas were looking forward to a good Christmas season. Many felt that the level of fourth quarter economic activity would be significantly affected by the public reaction to Phase II. Local conditions in certain areas of the District, however, will have more influence than the President's economic program. Areas in Montana and upper Michigan are still feeling the effects of strikes against two large copper producers, although disputes were settled in late September. One director, who looks for a good fourth quarter, attributes it to good crop conditions, rather than the President's program.

The District's farm income situation seems to have improved further recently. Good harvests have swelled farmers' stocks of saleable commodities, and the price outlook for the District's fall crop of feeder calves from western ranges is generally thought to be excellent. According to this Bank's latest agricultural credit conditions survey, District farm earnings (which include cash receipts, the value of stored products, and items in the process of production) have improved noticeably since midsummer. By the end of September, record wheat harvests had been completed, and even though local prices were down due to the general abundance of wheat and the West Coast dock strike, the overall improvement in productivity more than compensated for the price losses.

The overall picture of District farm income, however, obscures the problems of some farmers. In late summer, many of the District's cornfields in southern Minnesota and eastern South Dakota suffered crop damage due to dry weather, a problem which was compounded by low corn prices. Hogs, which are important in the same areas of the District, have also brought low prices. Unfortunately, the current strength in farming and ranching has not caused increased business activity in the industries supplying agricultural inputs. Farmers have again grown cautious in purchasing input items, especially machinery and equipment. District bankers indicated that this caution was partially responsible for some softness in the demand for intermediate-term agricultural credit. Comments received in our agricultural credit conditions survey revealed that recent declines in product prices were causing farmers to evaluate their possibilities for new resource commitments more critically.

The survey also indicated that farm earnings for the final quarter of this year are not expected to be as high as they were in the third quarter. Crops yet to be harvested as of October 1 were in poorer condition because of the dry weather; and the high feeder cattle prices, which currently indicate high incomes for the District's ranchers, will subsequently be a profit-squeezing cost to District cattle feeders. A few survey respondents even speculated that District feedlot operators would not be able to bid as much for input cattle as operators in other areas, resulting in a decline in District feeding.

TENTH DISTRICT - KANSAS CITY

Although retail sales were relatively slow in many parts of the Tenth District in August and September, most major retailers are anticipating a better performance for the rest of the year. A number of firms will be increasing inventories because of their optimistic sales outlook. Few retailers attribute their optimism to the new economic programs. Automobile sales and residential construction have remained generally strong across the District, despite some weakness in other large-ticket items. Demand deposits have declined recently at Tenth District banks, and business loan demand remains sluggish. Some bankers feel that the new economic programs have adversely affected consumer attitudes and consumer loan demand.

Major department stores were surveyed in Kansas City, Wichita, Denver, Omaha, and Oklahoma City--some of which were able to supply information about a wider geographic area. Retail sales in Denver showed a mixed picture, with reports varying from reluctance to make commitments for large appliances to software sales remaining strong. The general feeling among Denver merchants is that, so far, the new economic program has had little impact on retail sales. Several merchants reported that some major purchases were being postponed because of uncertainty and the pay freeze.

Omaha stores reported considerable gains in sales this year over last year but very little gain in August and September. They felt that there would be good sales the rest of the year for big-ticket items, with the advantage going to automobiles to the possible impairment of softgoods sales. On the whole, they expected only a moderate increase in sales this Christmas season. In the Oklahoma City area, a downtown store reported a moderate sales increase this year, while a major suburban store reported a larger increase. Both were somewhat optimistic about the rest of the year, but neither credited the expected improvement to the new economic programs.

Department stores in Kansas City reported sales this year as being generally better than last year; however, there was considerable variability. Most retailers reported sales for the year as being good. However, some reported sales in August and September as being unusually strong, while others reported sales in these months as being much slower than earlier this year. The stores reporting unusually strong sales attributed the strength to factors other than the new economic program. Merchants in Kansas City generally are optimistic about the rest of the year and have purchased inventories in anticipation of a slight increase in sales over last year's very good December performance.

There is considerable variation across the District in other parts of the economy both by industrial sector and geographic area. Automobile sales are strong but, in many parts of the District, are not reflecting the strength shown nationally. Residential construction appears to be booming nearly everywhere except in Wichita, where housing activity is slow. Wichita is still an area of substantial unemployment (more than 9 percent), and it may be noted that retail sales there present a mixed picture. However, August was a good month for shipments of general aviation aircraft from Wichita, and continued employment gains in the aircraft and parts industry are expected in the near future.

Demand deposits have declined noticeably at Tenth District banks in recent weeks, a period in which rather sharp gains typically occur. Some of the decline is accounted for by correspondent balances, but IPC deposits have dropped also. Bankers interviewed fail to detect any tendency for this weakness to be concentrated in either business or personal accounts. Some indicated that local business accounts are holding up better than their national accounts. The weakness in consumer-type time and savings deposits noted in the past two reports has not continued, as these accounts have expanded rather sharply in recent weeks. Growth in large CD's continues but at a slower pace than in July and August.

Business loan demand remains quite sluggish at District banks. Residential mortgage and construction loans and, to some extent, consumer instalment loans remain the areas of strength in the Tenth District. Bankers contacted still have detected no impact on consumer loan demand from the new economic program. Indeed, some profess to detect an adverse note. It is stated that consumers are impressed by the fact that their incomes are frozen but have some doubts about the effectiveness of the freeze on prices. This attitude, some bankers felt, appears to be solidifying existing consumer caution.

ELEVENTH DISTRICT - DALLAS

A substantial upturn in national economic activity in the near term is generally expected by a sample of business economists in this region. These economists, who indicated that economic activity was improving moderately in the Southwest before August 15, believe that President Nixon's new program will also bring gains to the states of Texas, Louisiana, New Mexico, Oklahoma, and Arizona during the remainder of this year and in the first half of 1972. It is anticipated that these gains in economic activity will increase employment in the District moderately over this period, while the unemployment rate will fall. The banking directors on the Boards of the Head Office and Branches of the Federal Reserve Bank of Dallas similarly believe that local economic conditions will improve. In addition, they anticipate that loan demand will be moderately stronger in their respective areas.

Six of the economists are expecting a substantial upturn in economic activity in the nation for the near future. Housing, consumer spending, and business fixed investment are the sectors which will be the major contributing forces to this development. They believe that this upturn has already started, or is in the process of beginning, and that the improvement will spread throughout the economy during the remainder of this year and the first two quarters of 1972. While the economists are optimistic about economic activity, they indicate little hope for a reduction in the rate of inflation. By a slim majority, some reduction in the rate of inflation is anticipated for the remainder of this year. However, during the first six months of 1972, there is an even split between those economists who expect the rate of price increase to fall and those who expect it to rise.

During the two months immediately preceding the President's announcement of the new program, seven of the ten economists surveyed indicated that the pace of economic activity in their states was improving. Five of the economists stated that the unemployment rate in their states was remaining about unchanged, while three observed some decline and two noticed a small rise. In light of the President's new policies for economic stabilization and assuming Congress passes tax legislation similar to that requested by the President, most expect economic activity in the District to increase moderately during the remainder of this year and in the first half of 1972.

Eight of the economists believe that these developments will moderately increase employment in the District over the rest of this year. However, all anticipate further employment gains during the first six months of next year. The President's plan to reduce Federal employment by 5 percent is anticipated to have very little impact upon employment in this District. Nor do the economists expect that the East and Gulf Coast dock strikes will have much of an impact in the Southwest.

Little change in business investment for plant and equipment in this District is anticipated for the rest of this year. In 1972, most, however, believe that business investment should expand somewhat. Little change in Federal Government spending in this District is anticipated in either this year or the first half of next year. There is an even division among the economists on whether or not there will be further cuts in defense contracts and military spending in this District.

Ten of the fourteen banking directors who were surveyed indicated that business loan demand has been essentially unchanged in the past three months, while five indicated some improvement. A clear majority of the banking directors, however, noted moderately stronger consumer and mortgage loans. On balance, the respondents indicated a greater willingness to make more business loans in the past three months, while the sample was evenly divided among those who had unchanged or improved their willingness to make consumer loans. Willingness to make mortgage loans has, however, remained unchanged during the past three months. Nine of the fourteen respondents expected moderately stronger overall loan demand in their areas in the near term, while five believe that essentially no change will occur.

The current prime rate charged at the banks of these directors ranges from 6 to 8 1/2 percent. However, eight of the bankers are at the 6-percent level. Two of the fourteen banks have reduced their current prime rate recently. Only one of the fourteen directors anticipates a reduction in the prime rate in the near future. The respondents indicated that slightly less than 14 percent of the outstanding loans were lent at the prime rate, while 18.5 percent of their outstanding loans were closely tied to the prime rate. The current rate on consumer, real estate, and security loans varies widely for the banks surveyed. However, the average in each case is close to 8 percent. The average rate paid on passbook savings accounts is 4.5 percent and that on three-month, small-denomination certificates of deposit is 5 percent.

TWELFTH DISTRICT - SAN FRANCISCO

In the view of our directors, the recent changes in economic policy have had a favorable impact on creating a more optimistic outlook but without yet producing a major upswing in business activity. Consumer spending is continuing to rise, with automobile sales registering a generally satisfactory increase. Residential housing and agriculture are providing other sources of strength. The West Coast dock strike had been causing serious problems for many producers, but with the imposition of a Taft-Hartley injunction, this problem has been removed for the time being.

Consumers are maintaining their spending at rates somewhat above last year. There are some reports of more numerous purchases of large-ticket items such as television sets and furniture. Some of this increased spending is ascribed to anticipation of still higher prices after the wage-price freeze ends and some to demand associated with purchases of new homes. The large chain stores seem to have had above-average sales in September. Automobile sales also have increased. Sales of 1971 automobiles are generally good, and the reception of 1972 models is described as favorable. Nevertheless, there is variation among dealers so that overall they expect a moderate, rather than strong, increase in sales.

The dock strike had been a source of difficulty for many firms, and its cessation under a Taft-Hartley injunction is a favorable factor. However, agricultural producers in some areas fear that they may have suffered a permanent loss of their foreign markets. For most other firms, the strike represented a temporary, though serious, dislocation.

With the exception of those producers whose disposition of crops was affected by the dock strike, there are good prospects for District agriculture. The wheat crop in the Pacific Northwest is described as considerably ahead of last year, and the Idaho potato crop is expected to have an above-average yield. Cattle prices are also favorable. The Alaska fisheries have had a satisfactory salmon catch, and the shrimp harvest was at a record level.

Residential construction is maintaining a strong pace in most parts of the District, and this activity is helping the timber industry in Oregon and Washington. The only sign of weakness is in construction of multi-family units, and several directors report concern about over-building and high vacancy rates for apartments in southern California and Arizona.

Despite these elements of strength, unemployment remains high in many areas and businessmen still seem to be cautious in their plans. There is no sign of a marked increase in business investment or in business inventories.

In line with this general picture, banks report a slight weakening in business loan demand. The banks are gaining deposits and looking to other uses for their funds. Several bankers reported a policy shift in the direction of emphasizing more consumer lending and automobile financing. At some other banks, consumer borrowing is increasing without special encouragement. One bank's credit-card outstandings in September were 28 percent above the previous year's level, and most of this increase is accounted for by larger balances in existing accounts rather than the addition of new accounts. With regard to interest rates, there has been a weakening since August in the upward pressures on rates and the current tendency is toward lower rates, but there have been no major moves in this direction as yet.