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CURRENT ECONOMIC COMMENT BY DISTRICT

Prepared for the
Federal Open Market Committee
by the Staff

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SUMMARY*

On the whole, District banks report that the general business climate continues to improve. Industrial activity is increasing in most Districts, but gains on the employment front are less widespread. The retail sector shows signs of improvement in several Districts both for general items and automobiles. Capital spending plans have been stepped up in some Districts, but caution remains among businessmen in other areas. Construction, however, continues to be a strong sector in most of the regional economies. Loan demand at commercial banks, in general, shows increasing strength. Concern about inflation appears in several reports, but there is some evidence that food prices are stabilizing.

Industrial activity is on the upswing in most Districts. Richmond, Cleveland, Boston, and Philadelphia report continued increases in new orders and shipments at manufacturing firms. Other Districts also report gains, with business sentiment stabilized on a moderately optimistic level. Chicago notes particular strength in the steel industry while St. Louis reports improvement in steel and the consumer goods sector. Dallas attributes increases in industrial production in its District to an especially large boost in mining activity.

However, improving trends in business activity have yet to register a nationwide impact on employment. District reports remain mixed. Richmond, Philadelphia, and Boston find firms adding workers to their payrolls. Richmond also reports increases in hours worked per week. Other Districts (Cleveland, St. Louis, and Dallas) report little change in their overall employment picture. Chicago notes that layoffs have become fewer

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*Prepared at the Federal Reserve Bank of Philadelphia.

in recent months and many firms are hiring again after a long drought. Minneapolis expects employment growth to improve but not significantly in the second quarter.

The retail sector shows signs of improvement in several Districts. Richmond reports continuing strong sales, both in general retail items and in automobiles. Dallas cites sizeable gains in department store sales and new car registrations. San Francisco finds durables doing better than average and autos continuing steady. Other Districts (New York, Philadelphia, Cleveland, and Minneapolis) report only moderate improvement but more optimistic forecasts for future months.

Although capital spending plans have increased in some Districts, an aura of caution remains among businessmen elsewhere. Boston reports that expenditure plans range from unchanged to a 10 to 15 per cent increase over last year. Chicago also cites an improved investment outlook with orders for capital goods rising in recent months. St. Louis, however, finds investment remaining sluggish. Profits at area firms, although up, are not sufficient to merit additional capital outlays. San Francisco reports that business investment plans remain cautious with no major revision of expectations apparent.

Construction remains a bright spot in many of the regional economies. Kansas City reports housing starts are considerably ahead of last year and are expected to continue strong. Nonresidential construction is also expected to improve. Richmond, likewise, reports increases in both residential and nonresidential construction. New York reports continued strength but forecasts a possible flattening out in activity. Atlanta finds a near boom in construction in Florida. Other Districts (Cleveland, St. Louis, and Dallas), although reporting a leveling off or even a moderate decline, still show construction at high levels of activity.

Loan demand at commercial banks shows increasing strength. Philadelphia, Cleveland, Richmond, St. Louis, Kansas City, and Dallas report signs of improvement in demand conditions for business loans. New York and Chicago report more sluggish activity and regard alternative sources of funds for business as a prime reason for a slack in loan demand, both now and in the near future. Boston, Richmond, Kansas City, and San Francisco report strong mortgage demand. Richmond, Kansas City, and San Francisco also see increases in consumer installment loans.

Those District Banks reporting on the price situation generally express some reason for concern. Richmond, although noting few changes in prices received by trade and service or manufacturing concerns, reports increases in wages paid by these firms. Chicago reports upward pressure on a wide variety of raw materials. Boston cites many areas in which price increases have become common and, in some cases, quite large. Businessmen in the Boston area convey a growing disillusionment on the effectiveness of Phase II. This sentiment is also reported in the Minneapolis District. New York businessmen, although recognizing that Phase II is not fully adequate, nevertheless feel it is having a favorable impact on current developments.

In the agriculture sector, conditions appear to be improving. Farm income is up and crop production is normal or better. Spot checks by Kansas City at retail food chains reveal greater price stability than a month ago. Wholesale meat prices are expected to decline in the near term but retail prices less so. Dallas finds livestock conditions better than a year ago, with the number of cattle on feed up substantially. San Francisco reports cattle prices holding steady.

FIRST DISTRICT - BOSTON

The Bank directors contacted indicated a recent upturn in the pace of business activity. For the first time our directors show gains everywhere. At the same time, prices are generally reported as rising, and disillusionment of the effectiveness of price controls is widespread.

The directors said that they were now beginning to add a little to their work force. To control costs, manufacturers are holding down overtime and are adding workers instead. Despite efforts to keep inventories lean, one conglomerate manufacturer reported moderate increases in inventories for the first time, while another manufacturer reported no change in overall inventory levels. New orders were reported as up "everywhere," with orders for capital equipment slightly better and with a supplier to the aerospace industry seeing the first quarterly gains in three years. Capital spending plans varied between unchanged and up quite a bit (that is, up 10-15 per cent over last year).

Price increases from suppliers have become very common and in some cases appear to be so large that one director stated that his company has refused payment in some cases until proof of price commission approval is provided. The following is a list of price changes between 1972 - I and 1971 - IV reported by our directors: Steel prices up, die castings up a lot, raw materials for superalloys up 2 per cent, natural gas prices doubled, other costs in the carbon black business up 3 per cent on average. Warehouse steel was up 3 per cent; flat ground tool steel up 3 per cent, electric motors up 4 per cent, marble supplies up 2-3 per cent, and abrasives up 4-5 per cent. While some directors expressed the feeling that most people are getting a little discouraged about Phase II's effectiveness, one director felt that

Phase II has delayed price increases, but even he felt that the wage-price guidelines for the year will not be met.

A bank director said that there was growing feeling that inflation was not going to decrease and that we were not going to control inflation. One bank director noted that savings deposit flows have continued very strong through April (up 18 per cent over last year), but that demand deposits are stable in part due to businesses economizing on their balances. Mortgage demand is reported as strong and rates as stable. Our four academic correspondents -- Eckstein, Samuelson, Tobin, and Wallich -- agreed that the recent course of monetary policy has been "wise." Eckstein and Tobin felt the bill rate was now "in line" and urged holding it near the present level. If the differential between long and short rates begins to rise, Tobin would advocate recalling the "operational twist" policy. Noting that rates abroad have been falling and expecting a rising trend in domestic short rates anyhow, Wallich would allow the bill rate to be "guided" above 4 per cent by international rates in the short run. On the other hand, he warned that a rise in long rates should be taken very seriously, citing several econometric simulations in which a permanent 1 per cent rise in the bill rate resulted in a $10 to $15 billion reduction in GNP. Samuelson felt that the recent increases in short rates have not yet put undue pressure on long rates. Samuelson advocates a 9 per cent rate of monetary growth over the first half of the year, but he was willing to cater to the concerns of "irrational money watchers" enough to prevent a very rapid upshoot.

Most expressed some concern over recent price behavior. While the spurt in food prices is not primarily a macroeconomic phenomenon, Samuelson pointed out that it may have macrorepercussions on wage settlements, for example. Wallich expressed optimism that Phase II will "broadly succeed" in reducing the rate of inflation to 3 per cent or below, but he felt Eckstein's argument -- that inflation rates above a critical level of about 2 1/2 per cent generate further inflationary expectations -- is a serious possibility. Eckstein himself welcomes a restudy of the price commission. He felt the top priority for stabilization policy at present is for Congress to lower the withholding requirements. He also would be pleased if Congress should choose to be more liberal on social security contributions.

SECOND DISTRICT - NEW YORK

The directors of the New York Bank and the Buffalo Branch in general felt Phase II still was having a favorable, if not fully adequate, impact on current economic developments, and that the resignation of the four labor members would not cripple the Pay Board. Most of the directors, as well as the retailers who were contacted, continue to be moderately optimistic, on balance, about the retail sales outlook. Views expressed by the directors, however, on the whole suggested that some cooling of the housing boom may be in the offing. According to most responses of the directors and of a number of bank officials, business loan demand has continued sluggish.

Although the directors at both the Buffalo Branch and the head office were not especially enthusiastic over the impact so far of Phase II, they generally agreed that the President's program was having some effect in restraining inflation. Those Buffalo Branch directors who expressed an opinion agreed that the current situation would have been "far worse" without these measures, but they felt that more stringent action would probably be needed to bring inflation under fuller control. The vice-president of a large upstate firm pointed to the slowing down in the rate of growth of nonfood prices so far this year, and similar sentiments were expressed by the president of an upstate bank -- a head office director. The chairman of the board of a large New York City bank felt that Phase II had been fairly effective, and he also remarked that the Pay Board had done a "fairly creditable job" in view of the "nasty problems" it had faced. Much the same view was expressed by the president of a large nationwide manufacturing concern. All but one of the directors who commented on the subject felt that the departure of the four labor members would not cripple the Pay Board. Indeed, some of the Buffalo Branch directors thought that this move might result in smoother Board operation. A New Jersey banker, however, reported that his staff foresaw more strikes and a "complete breakdown" of the efforts of the Pay Board.

The recent consumer spending picture has been somewhat blurred by the early Easter holiday, which tended to boost March sales, possibly at the expense of April sales. In any event, the directors and the retailers who were contacted still present a moderately optimistic picture, particularly with respect to the coming months. It is true that the president of a Rochester department store, a head office director, characterized current retail sales in that area as only "fair." And Buffalo Branch directors reported only slightly better performance in western New York this Easter period relative to last year. In each case, however, these directors said that businessmen in their area expected sales to pick up as the year progressed. An official of a high price, high quality New York City department store, who last month had reported a spurt in business by his firm in early March, was more restrained this month. He noted that while sales were still picking up, the rise was only "moderate" and smaller than had been hoped. However, he still remained cautiously optimistic, and he felt that 1972 would turn out to be a fairly good year, up to his store's expectations and better than 1971. An official of a nationwide chain of medium-priced stores, on the other hand, verged on the exuberant. He reported that his firm's business had been picking up smartly, that the increased strength in the demand for bigger ticket items he had noted last month continued in evidence, and that his firm was "very pleased" and looking for a good year. The president of the large nationwide manufacturing concern viewed the strength in his firm's corrugated container sales as signaling a rise in consumer demand.

Regarding residential construction, the overall impression emerging from the views expressed by the directors was that, on balance, it continues strong, but that some flattening-out may be in the offing. An upstate banker reported a considerable amount of apartment and single-family dwelling construction in his area. A New York City banker remarked that a slight rise in the rate of vacancies might not be an unfavorable development, as it might tend to reduce upward pressures on rents. The senior official of the large upstate firm looked for some cooling off of the boom in residential construction as a result of a "slight" rise in the rate of vacancies and in mortgage rates. Buffalo Branch directors reported some concern on the part of builders that supply would soon exceed demand, partly, in the case of Rochester, as the result of a number of urban development projects now underway.

Reports concerning the strength of business loan demand varied somewhat, but, on balance, pointed to continued relative sluggishness. On the one hand, the New York City banker-director reported that demand at his bank was up to levels experienced in a "good year," and an upstate banker-director noted an uptrend of all types of loans at his bank in recent weeks. On the other hand, a Rochester banker, a Buffalo Branch director, while characterizing demand as "fairly good" at his own bank, indicated that reports from the Rochester area suggested such demand continues weak. Similarly, a New Jersey banker reported no pronounced increase in the demand for business loans at his bank. These latter assessments are consistent with the results of a special survey of five New York City banks and four other District banks: four of the five New York City banks reported no, or only seasonal, increases in business loans over the past month, as did three of the four out-of-town banks. A key reason advanced for this weakness was that business generally appeared to be in a fairly liquid position, thus obviating the need for bank credit at this time.

THIRD DISTRICT - PHILADELPHIA

Overall business activity in the Third District remains strong. District manufacturers continue to report increases in new orders, shipments, and employment. And the outlook six months ahead remains optimistic. Bankers report strengthening loan demand and increasing rates on loans and savings certificates. Retail sales show some signs of improvement, with department stores beginning to do some inventory building in particular lines.

District manufacturers responding to the Bank's monthly Business Outlook Survey continue to report a strengthening regional economy. Nearly 50 per cent reported increases in new orders during the month of March, while over 40 per cent noted increases in shipments. For both new orders and shipments, the number of firms reporting increases outpaced those experiencing declines by the widest margin in over three years.

This increased business activity is having a favorable impact on employment at area firms. Over 18 per cent of the respondents to the Survey added employees during March, while only 2 per cent trimmed their work rolls. This spread between the percentage adding workers and those reducing their labor force also represents a three-year high.

Looking beyond the immediate period, manufacturers also remain optimistic. They see continuing strength in the general business climate and in orders and shipments for their own firms. Over 40 per cent are planning to increase employees during the next six months. During that same period, over 20 per cent expect to increase their average employee workweek.

Members of the Bank's board of directors offer confirming reports of a strengthening regional economy. On the whole, the directors seem to be more optimistic than they were a month ago, primarily because they've started to see the recovery show up in their own businessses and industries.

Area bankers report a strengthening of loan demand during the past month. Most see this pickup as broad-based in the commercial and industrial categories, with some help from the consumer and mortgage sectors. Bankers expect further growth in loan demand during the second quarter as businesses transform their increasing confidence into loan requests.

On the interest rate front, most of the bankers see short rates moving up with longer rates remaining stable. Increases in the prime rate are expected. Philadelphia banks recently increased rates paid on savings certificates but have yet to offer higher rates on regular passbook accounts.

Retail conditions appear to have improved slightly over previous months. Department stores reported strength in furniture and stereo lines. In addition, they are building women's wear inventories in expectation of an extremely good fall season.

FOURTH DISTRICT - CLEVELAND

Economic conditions in the District continue to show signs of improvement. Area manufacturers report further gains in key areas during March. The steel industry is returning to normal operating conditions. Residential construction contracts have declined moderately in recent months, however, from their very high level of last November-December. One director reported that a large number of manufacturers and wholesalers of consumer products with whom he has maintained steady contact for several years are quite optimistic about the prospects for consumer spending and that his own business continues to operate at maximum capacity. Business loan demand at the District's largest banks has improved during the past month.

The District's insured unemployment rate has held during the past two months, after having declined during the previous four months. Nonfarm payroll employment has yet to register a strong recovery; manufacturing employment, however, is creeping up. Preliminary results of our monthly survey of manufacturers indicate that further strong increases in new orders, shipments, and backlogs occurred in March. The upward momentum of business is expected to continue in April.

Steel industry economists say their firms experienced a high level of orders in March. Shipments once again are in line with consumption, but they are just beginning to match output, as producing mills have been building inventories. A major firm reports that new orders in March were the best in over a year, with the pickup in demand coming "across-the-board." Another large steel producer said that in recent weeks orders have leveled off on a high plateau. A third steel company also reports that orders have been on a plateau, and that the demand for heavy construction steel is not showing the usual seasonal strength; steel sheet mill employment, however, has returned to the prenegotiation level of last year.

An economist from a large machine tool company reports that machine tool business is improving gradually, although orders remain well below their peak. Small cutting tool orders have been rising strongly since January 1, but aircraft and defense business continues to be weak. Machine tool orders usually lag about nine to twelve months behind orders for cutting tools, according to this economist. The firm is not planning to increase its labor force until their workweek rises to 40 hours. They have built some inventories of cutting tools in anticipation of rising demand, and they expect to work those stocks down before increasing output and employment.

One director, who just returned from a regional convention of hardware wholesalers and manufacturers, reported widespread optimism about current and anticipated developments in consumer spending. The nearly uniform theme of almost all of the participants was that orders and sales are far exceeding expectations. This director has maintained close contacts with this large group of manufacturers and wholesalers for several years, in both good times and bad. Reflecting the overall situation, his own firm is operating at maximum capacity and experiencing a high level of new orders for and sales of a wide range of products for the home and for the hotel and motel industries.

Demand for commercial and industrial loans at the four largest District banks has improved somewhat over the past month or two. One bank reports a strong increase in such lending; another has experienced a modest increase; a third has had an increase in commitments and inquiries; the fourth reports that loans have stopped declining. All four banks expect further improvement in loan demand during the second quarter, as inventory building and capital spending pick up.

FIFTH DISTRICT - RICHMOND

A continuing improvement in business activity is indicated by results of our most recent survey. On balance, manufacturers report continued increases in shipments, new orders, employment, and hours worked per week, and very little change in backlogs of orders. Strength in retail sales is reported by both bankers and trade and service respondents. Little change in prices received was reported, while increases in wages paid were reported by a sizeable number of respondents. More than 50 per cent of banking respondents reported that the demand for consumer, mortgage, and business loans was up. Businessmen in the District continue to be optimistic in their outlook for the economy in the next several months.

District manufacturers report continued increases in shipments and volume of new orders, but very little change in backlogs of orders. Declines in backlogs of orders were reported, however, by several manufacturers of construction related materials. Increases in shipments were reported by textile, hosiery, and furniture manufacturers. Manufacturers report further increases in employment and hours worked per week, while trade and service responses indicate no change in employment but a sharp increase in hours worked per week. The diffusion of responses from bankers indicates that both employment and hours worked per week have increased in their areas.

Retail sales apparently continue to be strong. More than 75 per cent of the banking respondents reported increases in general and automotive retail sales, and all trade and service respondents indicated that sales either remained the same or increased. Few changes in prices received were reported by either trade and service or manufacturing respondents. One-fourth of the manufacturing respondents and one-third of the trade and service respondents reported increases in wages paid.

All trade respondents reported no change in inventories, while slightly more than one-fourth of manufacturers reported a decline in inventories. Inventory declines appeared to be most prevalent among textile and synthetic fiber manufacturers. The overwhelming majority of both manufacturing and trade and service respondents indicate that inventories relative to desired levels are about right. Lower than desired inventory levels were reported by nonferrous metal producers. Most manufacturers report that current plant and equipment capacity is about right.

According to banking respondents, sharp increases in both residential and nonresidential construction have occurred since the last reporting period. Demand for all types of loans is reported to be strong, especially consumer and mortgage loans. All but one banking respondent reported an increase in the demand for consumer loans, and more than 60 per cent reported an increase in the demand for mortgage loans. The demand for business loans, which has been slow for the last several reporting periods, was reported up by 50 per cent of the banking respondents.

District farmers' cash receipts from farm marketings in January were up 3 per cent over a year ago, considerably less than the national gain of 12 per cent.

Businessmen in the District, especially bankers, believe that the moderate uptrend in the economy, evident in the last several months, will continue. More than 80 per cent of the banking respondents reported that they expect an increase in business activity in the months ahead.

SIXTH DISTRICT - ATLANTA

Business sentiment seems to have stabilized on a moderately optimistic level. As one northern Alabama director put it, "The economy appears to be settling down after its transition from recession to recovery." Florida, however, appears to be in the midst of a strong upturn.

Construction activity remains near a boom level in Florida. Building permits in one county near Disney World are up about sevenfold from last year. Motel and hotel construction is strong in many areas of the state. A company that recently purchased property with 40 miles of waterfront on the North Florida Gulf Coast is reportedly planning a $20 million condominium project.

The boom in residential construction may be producing some temporary bottlenecks, but it is also stimulating the building of additional facilities for producing building supplies. Rock mines in central Florida that supply the cement industry are operating at capacity, yet they cannot nearly keep up with demand. Lumber companies are experiencing strong sales, and two have recently announced expansions of mills. One of two plants to be built in Georgia will produce doors and paneling, and the other will produce wallboard.

Plant announcements continue at a steady pace. In Panama City, Florida, construction is expected to begin this summer on a $50 million plant to produce steam-generating components. A $25 million expansion has been announced for a brewery in Jacksonville. Jacksonville is also expected to be the site of a huge operation to build offshore nuclear generators. Two warehouses and a food processing plant will be built in Jackson, Mississippi.

Shipyards are also experiencing improved business. A large order for barges was recently booked by a New Orleans yard, and the Jacksonville shipyard is planning an expansion.

Other scattered signs of strength include a substantial increase in the volume of telephone business in Alabama. In the first two months of this year, long distance telephone conversations have increased 11 per cent over the comparable period a year ago. Aluminum ingot production is gradually expanding in north Alabama.

The agricultural outlook is generally optimistic, and Florida's citrus industry is enjoying a record year.

Directors from slow-growth areas in Louisiana and Alabama are not optimistic about the outlook for their areas. Furthermore, Lockheed has announced another gradual layoff of 5,500 employees at its Marietta, Georgia, plant.

SEVENTH DISTRICT - CHICAGO

The business uptrend appears to be gathering momentum in the Seventh District. Psychology and attitudes have improved markedly in recent months, as uncertainties have diminished. Moderate increases in employment are reported from most areas, and further gains are expected in the months ahead. A trend toward inventory building on a broad front is underway. Manufacturers' order-backlogs have increased and lead times are lengthening. Strength in residential construction has been maintained, and capital expenditure plans are being increased. Farm income prospects are favorable. Despite some recent pickup in loan demand, lenders are willing and able to expand credits substantially further. Upward price pressures are evident in raw materials such as nonferrous metals, steel, hides, and lumber.

The steel industry has led the rest of the economy in the past month or two. The pickup in orders and production in the Chicago area has been somewhat stronger than in the nation, with cold-rolled sheets doing especially well. Order lead times for steel have lengthened and discounts from list prices have largely disappeared.

The Detroit auto firms apparently are not unhappy with the relatively large inventories of cars, and they expect a good second quarter, perhaps bettering the advanced March pace. Sales of trucks have been phenomenal. A strike at a District plant that produces about half of the heavy truck engines has continued for five weeks, and is holding back heavy truck assemblies.

Orders for capital goods have been improving in recent months. Even machine tool builders are experiencing a rise in orders and inquiries, but from a very low base.

Defense orders are coming through again for producers that were hit very hard in the cutbacks of recent years. Defense is a relatively small factor in the Seventh District, but a reversal of the decline in procurement will be beneficial to some areas.

Layoffs have been fewer in recent months, and many firms are hiring again selectively after a long drought. Job prospects for college graduates with engineering or business training are better for the first time in three years. But the market for liberal-arts types remains weak. Skilled white-and blue-collar workers, including supervisory types, are in demand again, but the unskilled and inexperienced remain at a disadvantage. Want-ad volume has increased moderately, and executive recruitment agencies report more requests for their services.

Crop preparation activities are proceeding normally in the District despite cold, wet weather. In contrast to the situation in the Southwest and on the Great Plains, moisture conditions are adequate here. Recent price increases for corn and soybeans (associated with speculation surrounding the visit of Butz to Moscow) could increase planting intentions of District farmers, especially for soybeans.

A majority of large District banks have reported some increase in business loan demand in recent weeks, but they do not expect this trend to accelerate substantially through the remainder of 1972. Funds generated from higher profits and depreciation, together with funds obtained from the capital and commercial paper markets, are expected to hold down demand for bank loans even if the rise in business activity matches optimistic projections. Some bank executives describe their loan deposit ratios as "too low," although these ratios are quite high by the standards of ten years ago. In order to compete with the capital market, some banks are offering five-to seven-year credit at 1 per cent over the prime rate, with no compensating balances required. There is an undercurrent of apprehension concerning speculation (with the use of credit) in the stock market. A large number of new equity issues of doubtful quality are being offered, as was the case in earlier periods of stock market strength. Moreover, it is said that "bonds have no friends," partly because inflation fears cause many investors to shun long-term bonds.

EIGHTH DISTRICT - ST. LOUIS

Business prospects continue to be viewed with optimism, according to a sample of businessmen in the Eighth District. Economic activity continues to expand on a broad front. Department store officials report that Easter sales exceeded expectations and that the post-Easter trend continues upward. Manufacturing activity is increasing throughout the consumer products sectors. Farm production is expected to remain about the same as last year, but higher farm incomes are in prospect. Residential construction remains near the relatively high level of the past year. Few firms report additions to the work force, however some manufacturers are beginning to discuss the possibility of additional hirings for a second shift. Investment in new plants and commercial buildings remains generally sluggish. Savings continue to flow into financial agencies at a high rate and loan demand is picking up, but profits of these firms for the year are expected to be less than in 1971.

While not considered spectacular, sales of goods and services are moving ahead of year-ago levels over a wide range of products. Department stores reported sizeable gains in Easter and post-Easter sales compared with year-ago levels. Hardware and automobile sales are up. Hotels and restaurants likewise indicate gains, and the uptrend in airline traffic which began last fall is continuing.

Most sectors of manufacturing continue to move ahead. Manufacturers of consumer goods, including such industries as packaging, clothing, uniforms and small tools, have all made gains in recent weeks. Some steel firms report moderate increases in orders.

Net farm income in the District is expected to rise 10 to 15 per cent from year-earlier levels. Higher prices are being realized for most farm products, especially meat animals, with little change in real output. Farm costs are up, but the increase is less than in most recent years.

While residential construction may have leveled off somewhat in recent months, it continues at the relatively high rate of last year. Reports indicate that most construction activity in the District is concentrated in one-family houses. A few multi-family units are being constructed in the outlying metropolitan areas. Activity in commercial and office building, however, is generally limited to a few schools and hospitals.

Employment by surveyed firms has remained relatively stable despite sizeable gains in output. Some have called back employees which were laid off last year, and, in a few cases, plans are being made for some additional hirings. From the comments received, however, the outlook is not good for a rapid reduction of the unemployment rate.

Investment in new plants and commercial buildings remains sluggish. Despite operations of near to capacity levels by many manufacturers, no great change in plant capacity is being planned. Businessmen report that while profits are up from last year's levels, prospects for future profits are still not sufficient to merit additional capital outlays.

Financial firms in the District are predicting lower profit levels this year than last as a result of lower interest rates. The volume of assets and of liabilities are up, but the margin between rates paid and received is down. Loan demand is rising, but the rate of increase in the flow of savings appears to be tapering off. Some further decline in mortgage interest rates is expected.

NINTH DISTRICT - MINNEAPOLIS

According to bank directors, District businessmen believe that Phase II has not been very successful in bringing inflation under control and stated that the Pay Board's recent reorganization would not alter its effectiveness. Although employment growth was expected to improve, no significant reduction in unemployment was foreseen for the second quarter. Twin Cities retail sales in the first quarter were up modestly from a year ago and are expected to improve in the second quarter. In addition, District first quarter new car sales were quite strong and, due to improved farm income, District farm machinery sales strengthened in the first quarter.

Although they feel Phase II has helped, bank directors reported that District businessmen are not convinced that the Administration's efforts are bringing inflation under control. Given the large wage increases that have been permitted, one director reported that his area's businessmen consider further inflation inevitable. The only alternatives to Phase II mentioned by District businessmen were a wage-price freeze or some type of rigid controls. Because they felt both alternatives are unworkable, the general feeling was that now inflation would persist.

Bank directors indicated that the recent resignation of labor leaders from the Pay Board would not jeopardize that body's effectiveness. In fact, the consensus was that the labor leaders had thwarted the Pay Board's past efforts and that it would probably be more effective in the future.

Although employment growth was expected to improve, a survey of employment security offices in 16 of the District's largest labor areas revealed that generally no reduction in unemployment was anticipated. When asked to characterize the outlook for employment growth during the next 90 days, one respondent termed it as "excellent," nine considered it "good," and five called it "fair." Ten of the respondents looked for job openings in their areas to be up from a year ago, with eight terming the increase "slight," while two expected job openings to match last year's level. Four respondents anticipated job openings to be down from a year earlier. In spite of these encouraging responses, no reduction in unemployment was foreseen. Eight respondents indicated that second quarter unemployment would be up from a year ago with five respondents calling the increase "slight." Seven respondents disclosed that unemployment would probably match last year's second quarter level in their areas. However, a labor market analyst for the Minneapolis/St. Paul Metropolitan Area, which accounts for a third of the District's employment, looked for second quarter unemployment to be down slightly from a year ago.

A telephone survey of five major retailers located in the Twin Cities revealed that their sales were up from a year ago. One respondent, however, called his firm's first quarter sales growth soft and the increase experienced by three other firms could be termed moderate. The first quarter Minnesota sales of one large company's department and discount stores were up 4.2 per cent from a year ago, while a chain of discount stores reported a 5 per cent year-to-year sales increase in February and March. All respondents indicated that their sales gains in

March were stronger than those recorded in January and February. In general, these respondents were optimistic about their expected second quarter sales.

According to a regional sales manager, new car sales were quite strong in the first quarter. The sales of automobiles produced by Ford and Chrysler were up markedly from a year ago. Chevrolet sales exceeded last year's level by 35.0 per cent in February and 9.1 per cent in March. Although other GM Divisions experienced first quarter year-to-year sales declines, these managers were quite pleased with this year's sales, as these decreases can be attributed to the recovery from the 1970 automobile strike which inflated their first quarter automobile sales last year. First quarter American Motors sales were only 1.4 per cent above a year ago.

District farm income strengthened in the first quarter which induced District farmers to spend much more heavily on farm equipment. An _ad hoc_ survey of Ninth District area sales offices of farm equipment and farm supply firms revealed that equipment sales ranged from "no change" to "20 per cent greater" than sales in the first quarter of 1971. The latest published data on farm tractor sales show that the number of units sold in the District during January was 19 per cent larger than the number sold one year earlier. Practically all of the equipment manufacturers in our _ad hoc_ survey reported that their first quarter sales could have been greater had not the increase in demand caught them without adequate inventories.

TENTH DISTRICT - KANSAS CITY

Construction is still an important source of economic strength in the Tenth District. Housing starts, which have been considerably greater than last year, are expected to continue strong through the year, and nonresidential construction activity also is expected to improve. District savings and loan associations report continuing large inflows of savings and substantially increasing mortgage commitments. Real estate lending by banks remains strong, and banks' construction loans are on the rise throughout the District. Other business lending is growing, though less universally than construction loans.

In the last Red Book, it was reported that retail meat prices had risen sharply and that further increases would likely occur. The most recent consumer price index confirms the reports made a month ago, as meat prices accounted for 70 per cent of the sharp advance in retail food prices posted in February. With all the national attention on food prices, spot checks were made with a few retail food chains to determine what changes, if any, have occurred in meat prices in recent weeks. Modest increases have occurred in some cases but the general tone reflected greater stability than was anticipated a month ago. Very recently, meat prices have weakened, with the respondents reporting that the prospects for further declines are good in the near term. Nevertheless, it is unlikely that any downward adjustment in wholesale prices will be passed on fully to the consumer; thus, retail meat prices, after a brief period of uncertainty, may show less downward movement than currently reported.

Construction activity continues to be a source of strength for

Tenth District economic activity. Commercial and industrial construction in the District are expected to be better this year than last year, with the last half of 1972 expected to be better than the first. Road and heavy construction activity are expected to improve in Kansas and Missouri due to actual and anticipated increases in funding of new state highway building programs. The housing market is good, and housing starts continue well above the same period last year. Several large housing contractors interviewed believe that 1972 as a whole will continue to surpass 1971 in housing starts, although one respondent feels that the national housing boom may be peaking out.

Homebuilders interviewed have varying feelings about the possible effects of changing finance costs. One company doesn't anticipate much effect on housing starts this year from any firming of mortgage rates, while another expects a quick change in the rate of housing starts if mortgage rates go up later this year. A third respondent thinks that loan rates could rise one-fourth of 1 per cent with no slowdown in construction, but that a larger rise would lead to a tapering off in housing starts after a three or four month lag.

Interviews with a number of large savings and loan associations in the District suggest that home mortgage interest rates are expected to remain the same or rise slightly in the near future, following a general decline in the last three months. Most associations reported no change in nonrate terms. Savings inflows continued to be strong through March at nearly all institutions interviewed, in some cases, especially so.

There were two exceptions noted to this pattern: one firm reported March inflows not so good but noted that its competitors were doing better because the respondent firm is refusing "big ticket depositors who are too unpredictable;" a second respondent attributed a March slowdown in inflows to its dropping of 6 per cent savings certificates. Mortgage commitments were uniformly reported as very strong and increasing substantially. Of those firms making loans on both single-family and multi-family units, most report a greater emphasis on single-family dwellings.

The upturn in business loan demand at commercial banks, seen as only quite tentative by Tenth District bankers at the time of the last Red Book, has gained in scope and size over the last several weeks. Nearly all of the gains are emanating from local borrowers -- no upsurge was reported among national accounts. This imbalance, which may be due to many Tenth District banks not following the prime rate when it went below 5 per cent earlier this year, is expected to diminish with the rise of the national prime rate back to District levels.

The upturn is least evident in Kansas City, where business lending seems fairly flat, while the most vigorous growth was reported in Tulsa. Construction loans were on the rise everywhere. The advance in loans to other types of businesses is broadly based, with many industries borrowing for a variety of purposes. Moderate gains in business loans are expected during the second quarter. In other loan categories, real estate lending remains quite strong, and consumer installment loans continued to rise in March, at what some bankers feel is a faster pace.

Demand deposits were steady or declining in March at District banks, while time deposits continued to climb. The several-months-old pattern of decreases in large CD's and increases in consumer savings and time deposits continued to hold, although rising marketable CD rates are expected to moderate these trends.

ELEVENTH DISTRICT - DALLAS

The economy of the Eleventh District continues to show moderate strength. Industrial production in Texas increased moderately in February, and employment in the five District states held steady. Sales of department stores continued to experience significant year-to-year gains in February and March, and new automobile registrations rebounded in February after experiencing a sharp drop in January. Construction activity slackened in February but was still well above its year-earlier pace. The outlook for agriculture also remains generally favorable.

The seasonally adjusted Texas industrial production index rose moderately in February following a sharp advance in January. All of the February increase resulted from a large boost in mining -- especially the production of crude petroleum which rose in response to the higher oil allowable. Utility output was about unchanged from January, while manufacturing production slipped nearly 1 per cent. The decline in manufacturing was due primarily to sharp drops in output of the petroleum refining, printing and publishing, transportation equipment, and apparel industries. These declines were partly offset by sizeable gains in production of electrical machinery, food, textiles, and paper.

The Texas Railroad Commission raised the state's oil allowable for April to 100 per cent of maximum efficient production, allowing for full production for the first time in a quarter century. Shortly after its announcement, however, the allowable for the giant East Texas field was cut back to 86 per cent. Other District states left their allowables unchanged.

Seasonally adjusted total employment in the five southwestern states changed very little in February. And with the labor force about the same as in January, the average unemployment rate for these states matched the 4.5 per cent of a month before. This rate was down from 4.9 per cent a year before. Nonfarm payroll employment edged up slightly as nonmanufacturing employment increased enough to more than offset a slight decline in manufacturing employment.

Retail sales in the District continue to register sizeable gains. Registrations of new passenger cars in Dallas, Fort Worth, Houston, and San Antonio rose 16 per cent in February, with all four metropolitan areas posting increases. Moreover, department store sales in the District were 17 per cent higher in the four weeks ending March 25 than in the corresponding period a year ago.

Construction activity in the five southwestern states, as measured by the value of contracts awarded, fell significantly in February, with all three major categories of construction sharing in the decline. However, the total value of contracts in the five-state region was still nearly a fourth larger than in February a year ago. The decrease from January resulted from large declines in Texas and Arizona.

District agriculture is progressing well. Planting intentions show an increase of cotton acreage in the five-state area, and planting is off to a good start. Range and livestock conditions are substantially better than a year ago and are somewhat better than the average for the past ten years. The wheat crop is making excellent progress, and cattle on feed is up substantially from a year ago. The index of prices received by Texas farmers and ranchers fell nearly 4 per cent in the month ending March 15, with most of the drop centered in commercial vegetables, cotton, and meat animals.

Total credit at weekly reporting banks in the Eleventh District rose sharply in the four weeks ending March 22. Demand for business loans was especially strong. Inflows of demand deposits moderated while net withdrawals were reported in time and savings deposits.

TWELFTH DISTRICT - SAN FRANCISCO

In the view of our directors, economic conditions have changed little from those of previous months. Consumer spending and construction remain the most important sources of strength. The agricultural outlook is also favorable in most areas and for most crops. On the other hand, business investment expenditures continue to be relatively cautious, and this situation is mirrored in bankers' reports of moderate, rather than strong, business loan demand.

Our directors were asked to assess prospects for construction during the coming year. Most directors expect a continuation this year. Single-family home construction has been stimulated by the recent reductions in interest rates and the greater availability of finance. Developers in many areas have had little trouble in selling houses, especially in the medium-priced range. But nevertheless, developers have been somewhat cautious. For example, new tracts have tended to be moderate-sized, and construction has been kept reasonably close to sales. As a result, there is little evidence of large-scale speculative building of homes. The areas with strongest demand are southern Arizona, the San Diego and Orange County areas of southern California, and Portland.

Commercial building and government projects,particularly for highways and bridges, provide the other major components of construction demand. In particular, there are good prospects for maintaining the recent pace of construction of office building in the San Francisco area and in Los Angeles. A major redevelopment project is being considered in the San Francisco area, and several large buildings have been announced for Portland. State expenditures for highways and bridges in California and Oregon are expected to contribute to construction activity.

Apartment construction, in contrast, shows a more mixed pattern. In some areas, multi-unit construction is strong and vacancy rates are low -- for example, Portland and much of southern California -- but in other areas there is concern about overbuilding and the possibility of higher vacancy rates -- for example, Salt Lake City and Los Angeles.

The state of Washington, which still suffers from high unemployment, remains the major exception in this favorable construction picture. Construction activity has recovered from the low levels of 1970, but, in general, it is not expected to be much higher than that of 1971. Residential construction in the Seattle-Tacoma area is described as "sporadic," and there is little incentive for much new construction. Commercial and government projects have helped, but overall the rate of growth of construction is expected to be moderate. Within the state, only Spokane is expected to have a record level of construction activity during the coming year. Spokane had not expanded as much as Seattle or Tacoma during the previous years, and the local economy has buoyant prospects for the immediate future.

Retail sales have remained good, with increases in the 5 to 10 per cent range being common. Durables seem to have done better than average, but occasional weakness in soft goods lines has been reported. Both domestic and foreign automobiles are continuing to experience steady sales, even though the latter have had some inventory shortages. At the moment, auto dealers expect one of their best spring seasons, even in such high unemployment areas as Seattle.

Most of our directors in agricultural areas report good prospects for the coming year. Wheat prices are described as rising, and cattle prices are holding steady. Certain fruit crops remain exceptions, and recent late frosts resulted in serious losses for various fruit crops in Utah and for grapes in California.

Business investment plans remain cautious, and no major revision of expectations is apparent. As an indication of this situation, most bankers report that business loan demand has been steady rather than strong. There are a few exceptions where individual banks are experiencing strong demand, but the majority indicate little change from recent trends. The one major exception remains construction and related loans, where demand is strong. Real estate and consumer installment lending are also continuing to rise.