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CURRENT ECONOMIC COMMENT BY DISTRICT

Prepared for the
Federal Open Market Committee
by the Staff

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SUMMARY*

Reports from the twelve districts indicate continued strengthening in business activity and greater optimism in general. Consumer spending, which has continued strong in most regions, seems to be the main source of strength. Greater output in industries closely related to the provision of final goods, especially durables, was cited as principal source of expanding manufacturing employment and increased business loan demand. Inventories have, for the most part, remained unchanged. Construction of single-family dwellings has continued to boost overall activity. Loan demand at commercial banks has increased, with consumer and business loan categories up most sharply. In general, wage and price increases have been moderate.

Most districts reported encouraging strength in sales of consumer goods. Part of the gain in consumer purchases was attributed by Atlanta, Richmond and Chicago to stronger auto sales; Dallas, however, reported a decline in auto registrations. Major household items and other consumer durables were strong in some districts. Kansas City, Boston and Chicago specifically mentioned recreational items. While retail sales rose in the St. Louis district, the advance was not as great as anticipated by retailers. Slowness characterized retail sales in the New York district, where the outlook was less bright than a month ago.

Steel production was reported favorable in the Chicago and Cleveland districts. The output levels are considerably different, however, for the various steel industry products. Production of steel sheets for

*Prepared at the Federal Reserve Bank of Minneapolis use in autos and appliances has displayed the most strength in both districts, while demand for steel used in commercial and industrial construction has remained relatively weak.

Manufacturing activity was reported to be increasing in five districts. Sales of both durables and nondurables advanced in Minneapolis and capital goods orders were strong in Boston. Dallas reported gains in industrial production in April with broad-based strength across industry lines. Manufacturers that supply national markets are reportedly optimistic in the St. Louis district. St. Louis, and Chicago as well, mentioned benefits to manufacturers resulting from reduced foreign competition. Richmond reported strength in district industries. Most districts reported little change in inventory accumulation.

Several reserve banks reported signficant employment gains in their respective districts. Philadelphia indicated over 15 percent of the firms responding to a survey added to their payrolls and nearly 5 percent lengthened their average workweek. In the Chicago district, there was an increase in the number of firms adding workers or stretching workweeks, but two major-city governments are still very concerned about unemployment. While Dallas and Boston reported no significant labor market changes, Minneapolis indicated the Ninth District's unemployment rate rose from 5.7 percent in March to 5.9 percent in April.

Construction activity has remained strong in most districts. San Francisco reported that national construction activity gains have aided recovery of the Pacific Northwest because of the greater demand for lumber and wood products. Generally, residential construction has been strong in the nation, but Atlanta reported it appeared to be slowing. Commercial construction has slackened and concern has been expressed for possible overbuilding of multiunit dwellings in the San Francisco and Kansas City districts. Of all the districts, only Atlanta reported anticipation of a surge in commercial construction.

Loan demand in general, and business loan demand in particular, were noted as being quite strong by most districts. Exceptions included New York, where an increase in total loans was not accounted for by commercial and industrial loans, and Kansas City, where business loan demand has also been weak. Richmond and Dallas reported strength in consumer loans, while Philadelphia and Kansas City reported moderate gains in consumer lending. Housing and construction credit were noted as sources of strength in the Dallas and St. Louis districts while in the Philadelphia district future strength in construction lending is anticipated.

Four districts reported continuing strong inflows of savings deposits. One of the four, Kansas City, noted inflows were above year-ago levels but slower than earlier in 1972. St. Louis, Boston and Chicago also mentioned strong savings inflows.

Most districts cited the importance of the Price Commission's role in slowing the rate of inflation. The Minneapolis and San Francisco reserve banks indicated prices and wages were growing at reduced rates, and retail establishments in the Kansas City district have reported no sharp run-ups in suppliers' prices. In the Boston district, suppliers' prices have generally been rising gradually and one director indicated the pace was faster in the second quarter than in the first. In the Philadelphia district, despite expectations of no change in prices paid, 20 percent of the manufacturing firms which responded to a survey were anticipating establishing price increases on their own products in June. Only 7 percent reported price increases in May.

Weather and cattle prices were emphasized in reports on the agricultural outlook. Weather conditions throughout much of the Midwest reportedly had adverse effects on plantings. Excessive rainfall in parts of the Minneapolis and St. Louis districts have retarded crop developments and in the case of Minneapolis caused some switching from corn plantings to grain sorghums and soybeans. Drought conditions have developed in the Atlanta district and the northern part of the St. Louis district.

Higher beef prices were noted by the Chicago, Richmond and Kansas City banks, and the St. Louis bank reported strong sales of farm equipment.

FIRST DISTRICT - BOSTON

Business is described as strong, with consumer spending very high and capital spending plans being revised upward. Profits are reported as very good. Bankers report deposits are continuing to surge and business loan demand is rising.

Manufacturers of consumer goods and a banker on Martha's Vineyard all attest to higher than expected spending by consumers on leisure-time activities. Recreational vehicles -- campers, trailers, motor homes, boats -- are described as selling like a "house afire." On Martha's Vineyard, business is reported as busier than usual for this time of year, with single-family homes being put up at a record pace.

Despite the rapid pace of consumer goods sales, inventories are not being raised. Two reasons are given. First, sales are so rapid it is difficult to build inventories. Second, the use of computers has cut down on the need for inventory accumulation. One large manufacturer indicated he expected work-in-process inventories to rise when machine tool orders picked up, because of the long work-time involved in their production.

Half of our directors whose firms manufacture capital goods indicated orders were very strong. The other two directors said while machine tool orders were up, they were not coming in as fast as surveys of capital spending plans would indicate. These latter two directors expected the real surge in 1973. Two of our directors indicated their own manufacturing firms were drastically revising upward their capital spending plans.

Despite the brisk pace of business activity, only one manufacturer reported a significant increase in his work force.

Prices paid to suppliers were reported as generally rising by more than 2 percent, with one director indicating the pace was faster in the second quarter than in the first. Natural gas, an important raw material for one manufacturer, has doubled in price since January.

Business loan demand is reported by area bankers as good despite the lack of inventory accumulation. Savings deposits inflows are surging, but there is little or no downward movement in mortgage rates.

Professor Samuelson, the only academic correspondent available this month, said monetary policy should be of an "accommodating" nature in this early stage of expansion. He felt a rate of growth of real output of 6 to 7 percent throughout the rest of the year is a likely and desirable policy target. To meet this goal, he prescribed an 8 percent average annual growth rate in the money stock between now and year-end, even if interest rates were to "ease upward."

Samuelson is not a price optimist. Even if the rate of inflation were to exceed the consensus 3 1/2 percent figure, he would not restrict aggregate demand, since the pressures would be mostly cost-push in origin. He would shift to a 6 percent money growth policy only if the rate of growth of real output exceeds 8 percent. Samuelson also noted Professor Modigliani would regard a 10 percent monetary growth rate as necessary to accommodate the 6 to 7 percent real growth target.

SECOND DISTRICT -- NEW YORK

According to directors of the head office and the Buffalo Branch and other business leaders, Phase II on balance has been relatively successful in curbing the wage-price spiral. New developments in Vietnam have had little or no impact on business and consumer confidence; the recent retail sales picture seemed somewhat less bright than last month's and businesses continue to follow very cautious inventory policies.

Concerning Phase II, respondents' current assessments varied somewhat but can perhaps best be summed up by the view of a head office director, chairman of the board of a New Jersey bank, who stated it had both its good and bad aspects and while a wage problem still existed, it was not as serious as last year's. Among other head office directors, a senior official of a large New York City bank gave the program "'A' for effort and 'B' for performance" and felt there would be a Phase III. The president of a large nonferrous metal-producing corporation thought the program was "hurting" corporate profits and thus making return on investment inadequate by controlling prices more effectively than wages. A senior official of a major metal container firm, however, felt Phase II has helped slow the inflationary spiral and, on the basis of his firm's experience, has been a definite factor in curbing the magnitude of wage increases. A Rochester department store official stated that but for controls, wages in his area would "skyrocket." Buffalo Branch directors generally agreed controls had been "reasonably" effective, and given the number of labor contracts expiring next year, such controls would probably be required for at least another year. Among other respondents, the chairman of a large nonbank financial firm characterized Phase II as a "brilliant stroke," but "regretfully" felt it to be but the "first step" toward more controls. A former senior official of this Bank, while not assessing the program as "brilliant," stated he was surprised by how well it was working.

According to most respondents, recent military developments in Vietnam have had little or no impact on business and consumer confidence. As will be noted below, however, some respondents mentioned the situation as a factor possibly slowing the gradual rise in retail sales that has been under way since last fall.

Indeed, the current consumer spending picture that emerges from the views expressed by respondents appears less bright than last month's. Buffalo Branch directors viewed retail sales in western New York as "holding steady," with only minor seasonal fluctuations. A leading Rochester retailer characterized the current retail sales picture in his area as "indifferent," and reported only "guarded" optimism among retailers regarding the outlook for the next few months. He felt consumers still lacked confidence, perhaps because of Vietnam or because of the wage controls. The container manufacturer also was not optimistic over near-term retail sales prospects for a number of reasons, including the uncertainties created by Vietnam, the effects of Phase II and the coming elections. He felt the adverse impact of these factors on consumer confidence being accentuated by the manner in which they have been handled by the news media. The president of a nationwide chain of variety stores stated consumer spending had not been "buoyant" this spring, and "the consumer is not carrying the economy yet." This feeling was shared by the president of a "popular priced" textile manufacturer who, however, looked for a gradual pickup over the balance of the year. A senior official of a high priced, high quality New York City department store reported his firm's business had been fairly good in May and had picked up further in early June. He expected a continued moderate increase in sales over the coming months, but felt consumers remained restrained and reported his firm was only cautiously optimistic.

This relatively lackluster consumer spending picture found its counterpart in reports of a continued lack of strength in business inventories. Some businessmen commented that with the help of computers to determine the minimum required, users and retailers did not wish to tie up working capital to carry excess inventories. The department store official mentioned above stated his firm's inventories were currently somewhat "heavier" than at this time last year, but they were not "crazy" over this situation and were actually trying to reduce them. The Rochester retailer reported stores in his area also were "continually" attempting to control inventories. The nonferrous metal producer reported no increase in copper inventories; the container manufacturer also saw no inventory increases in that industry. A New York City banker saw little evidence of strength in the inventory picture in his bank loan developments: while its total loans are well ahead of last year's, the increase has not been accounted for by "industrial and commercial" loans. Similar views were expressed by the New Jersey banker. And Buffalo Branch directors almost all felt there appeared to be no strengthening in business inventories. The only exception was the director of the upstate food processing firm who reported a buildup of food packaging material in that industry.

THIRD DISTRICT -- PHILDELPHIA

Manufacturing activity in the Third Federal Reserve District remains on the upswing and employment continues to expand. Increased capital spending plans are frequently reported by area firms. Industrial prices are, for the most part, stable in the district, although near-term price increases are anticipated by some firms. The longer-term price picture, however, has improved somewhat over the past few months. Loan demand continues to be strong on a broad front, although a flattening in activity is expected during the next few months.

Area business executives report the regional economy is continuing its upward course. The business outlook survey of large manufacturers in the district shows approximately four times as many responding firms experienced increases in new orders and shipments as recorded decreases during May. Area firms expecting increases in these key indicators outnumber those forecasting decreases by about three to one for the month of June.

This increased activity continues to have a favorable impact on the employment picture in the district. During May over 15 percent of the responding firms added workers to their payrolls while nearly 5 percent lengthened their average workweek. Forecasts for June show nearly 20 percent expecting to add workers, with over 15 percent stretching out the average workweek.

Looking ahead six months, three-fourths of the manufacturers believe the level of general business activity will be higher. Two-thirds of the respondents foresee increasing new orders and shipments a half year ahead for their own firms. In anticipation of increased business tempo, many of these firms plan a pickup in hiring during the next six months. Nearly 30 percent expect to add workers during that time span. Also, plans for capital investments six months ahead continue at a high level. Over 45 percent of the firms expect increases in capital outlays while only 5 percent anticipate cutbacks.

The price report from manufacturing firms gives mixed signals. The month of May appeared to be one of relative stability, with over 70 percent reporting no change in prices paid and over 90 percent reporting no change in prices received. Forecasts for June show a similar report for prices paid, but more firms expect to increase prices they are charging. Nearly 20 percent anticipate price increases on their own products during June. This compares with only 7 percent of the firms that reported price increases for May.

The six-month outlook for prices, however, is becoming more optimistic. In March, over 70 percent of the firms were forecasting increases in prices paid during the following six months; over 60 percent were forecasting increases in prices received. By May, less than 55 percent were predicting increases in prices paid while only approximately 40 percent were expecting to raise their own prices over the ensuing six months.

Area bankers report continuing strength in loan demand. Commercial and industrial loans are growing steadily, although demand for funds to finance inventories has been relatively weak. Real estate loans remain stable while consumer loans show some signs of improvement. The outlook is for a flattening in loan activity during the next few months, although construction is expected to remain a source of strength.

FOURTH DISTRICT -- CLEVELAND

Reports from our industrial directors and from business economists in the area indicate current expansion of business activity in the district is gathering momentum. Market demands for both consumer goods and capital goods generally are improving, although the steel industry has yet to register an across-the-board recovery. Both manufacturing and nonmanufacturing employment are rising, but insured unemployment remains on a plateau.

Comments by our industrial directors about improving business conditions in their firms or industries were nearly uniform, reflecting strong consumer spending, a continued high level of auto parts production and a pickup in capital goods and aerospace business. One director noted that although his machine tool business has yet to experience a significant upturn, he remains optimistic (his firm's specialized type of machine tools tends to be among the last to show improvement). Several directors mentioned top management was providing strong pressures to hold down capital spending, and another pointed out that although capital appropriations in his firm will be up substantially this year, capital spending will not exceed last year's level.

Our latest survey of manufacturers supports the view that economic activity continued on a strong upward course during May. In fact, for the first time in many years firms reported the increase in each of our eight survey items was stronger than expected one month ago. (Survey items are new orders, shipments, backlogs, inventories, delivery time, employment, hours and prices.) Another significant fact revealed in the survey results was that there was a net inventory accumulation in May -- the first time in many months. Survey participants expect strength in manufacturing activity to be sustained in June and do not anticipate a slowing in the rate of inflation. (Thus far this year, our diffusion index for prices paid has been running slightly below the level that prevailed prior to Phase I.)

Economists in the steel industry report steel orders are increasing, but not uniformly among major customers. The strength is mainly in steel sheets, reflecting rising demand from auto and appliance companies. Steel orders for agricultural machinery and equipment are up sharply, as is demand for wire and wire products. The weakness is mainly in orders for heavy plates and structurals, reflecting lack of strength in high-rise commercial building and industrial building. The steel industry itself has not been using those products to any great extent because its capital spending programs have been reduced this year. The economists mentioned steel users are showing little inclination to build inventories; they seem to be operating on a "hand-to-mouth" basis. Our contacts also indicated there is considerable speculation in the steel industry about reasons for the sharp decline in steel imports during April; some industry analysts apparently are doubtful the recent low level will be maintained.

FIFTH DISTRICT - RICHMOND

Results of our latest survey of businessmen and bankers indicate a continuing uptrend in business activity in the Fifth District. In general, shipments, new orders and backlogs of orders are increasing in the manufacturing sector. Retail sales -- especially automobile sales -- continue to reflect the strength evident in our last several surveys. Employment and hours worked per week are reported unchanged in the trade and services sector and increasing in the manufacturing sector. Banking respondents also report increases in employment in most areas of the district. Residential and nonresidential construction activity continues strong. Banking respondents indicate the demand for all types of loans is increasing. Businessmen and bankers continue to be optimistic concerning the general economic outlook.

Manufacturing respondents report further increases in shipments, new orders and backlogs, with gains especially notable in such important district industries as paper, chemicals and primary and fabricated metals. On balance, manufacturers report a decline in inventories and the diffusion of responses indicates inventories in some important lines have fallen below desired levels. Coupled with increased demand for business loans reported by bankers in the survey, this suggests some step-up in the rate of inventory buying by district manufacturers may be under way. Current capacity levels are rated as about right by most manufacturing respondents.

Both banking and retail respondents report further increases in sales. Automobile sales were reported to be especially strong, with more than 50 percent of the banking respondents indicating increases in their areas. Trade and service respondents also indicate inventories are down.

Employment and hours worked are reported to be up in manufacturing but little changed in trade and service. Both manufacturers and trade respondents report increases in wages, with some retail firms expressing concern over the impending minimum wage increase. On balance, trade and service respondents reported no change in prices received while manufacturers reported a slight decline.

According to reports received from district bankers, residential and nonresidential construction activity continues strong in the district. More than half of the banking respondents report an increase in residential construction. Bankers report strong demand for all types of loans. Demand for consumer loans appears to be especially strong, with 17 of 21 banker respondents indicating further increases in their consumer loans outstanding.

This district's January-April cash receipts from farm marketings were 3 percent above a year earlier, but the increase was significantly less than the 16 percent gain nationally. Larger livestock receipts accounted for all of the district increase.

In general, bankers and other businessmen in the district remain optimistic about the general economic outlook. Forty percent of the banking respondents believe business activity in their respective areas will improve in the next three months and the remainder believe activity will stabilize at present levels.

SIXTH DISTRICT - ATLANTA

Businessmen and bankers generally agree the Sixth District's strong economic expansion will continue through the rest of this year and into next year. One of our Tennessee directors expressed the majority opinion in the following: "Most individuals feel optimistic not only about current conditions but about business in general for 1973. They point out problems caused by an increase in the minimum wage; they are aware of the dangers of inflation; and they know uncertainty caused by a possible change in administration must be considered. But, in spite of this, they are confidently planning for an increase in their business in 1973." However, a minority of businessmen feel inflation has not been checked and will accelerate in 1973, to be followed by restrictive economic policies.

Recently, there have been several announcements of major new plants. The most noteworthy is a plant that will build offshore nuclear generators. This facility, eventually expected to employ 10,000, will be located in Jacksonville, Florida. An auto producer has plans to construct a plant in Jackson, Mississippi, that will make electrical components for autos. A major shipbuilding and repairing firm will build an elaborate facility in Tampa. Tampa Harbor is also receiving a new phosphate terminal. A southeast Alabama director reports that during the last 60 days plant announcements have picked up noticeably. In that area, plants will be built to produce such diverse products as charcoal briquettes, ceramics, garage doors and truck beds. There have also been a number of new plants or plant expansions in construction-related businesses, such as cement, lumber, composition board and lighting fixtures. In addition, several firms recently announced large capital appropriations for plant modernization and pollution control. Tennessee is reportedly receiving inquiries from a number of foreign countries concerning locating or purchasing plants in that state. A major electronics firm is locating its first "mini-plant" in Atlanta. This facility will hire about 20 people and will produce a variety of products, emphasizing speedy delivery and individual attention.

Retail sales, especially of consumer durables and autos, have been strong. One department store reports a sharp increase in purchases on time, an indication of strong appliance sales. Auto sales are reported good in several areas. A large Atlanta retailer recently announced it intends to open a store in Birmingham. A nationally known furniture retailer plans to build a combination warehouse and distribution center in Jackson, Mississippi. A slight downturn in loan demand at two New Orleans consumer finance companies has not turned out to be as significant or as long-lasting as earlier thought.

Commercial vehicles and farm machinery are selling very well, and there is a shortage of heavy-duty trucks.

The growth of residential construction may be slowing. Only one major project has been announced recently and Birmingham's apartment market is approaching the saturation point. However, a surge of commercial building is expected in Atlanta.

Drought has damaged corn, soybeans and other crops, and if adequate moisture is not forthcoming soon, damange will become severe. The pine bark beetle has infested timber in some areas of the district. Infested timber must be harvested quickly, at increased cost and then used only for pulpwood.

A telephone company executive has warned a steady increase in phone rates will be necessary if services are to be expanded rapidly.

SEVENTH DISTRICT - CHICAGO

Each passing month has been accompanied by a shrinkage in the number of Seventh District residents who remain skeptical that a broad recovery of activity is indeed under way. In fact, interest in the general business outlook has subsided to its lowest ebb in years, as more and more firms observe improved demand for their own products and services and business loan demand picks up. Remaining doubters commonly cite the national unemployment rate -- prominently featured in newspapers and by television commentators -- which they accept as an equivalent substitute for the trend of employment.

More firms are adding workers or stretching workweeks. The volume of help wanted advertising has increased in the Chicago area in recent months from a low plateau in 1971. But the overall supply of workers, including most skills, remains ample. City governments in Detroit and Milwaukee are much concerned about the extent of unemployment in their central areas. Many students and teachers are expected to fail in their search for summer jobs.

Vigorous demand continues for trucks, trailers and some types of construction equipment. Orders for smaller machine tools have improved substantially. Some district producers of defense equipment are hiring again on a modest scale. Shipments of all types of big-ticket consumer goods -- household durables, recreational equipment, lawn and garden equipment, power tools -- are very strong and above forecasts. Record sales of autos are creating shortages of some favored models -- "the worst in many years," according to one large Chicago dealer.

Steel producers are somewhat more optimistic. Imports are less of a problem than had been feared, with currency realignments and new trade agreements partly responsible. Steel output in the Chicago area has moved closer to the high level of a year ago than is the case for the nation. Demand for steel sheets is far outrunning demand for heavy grades, reflecting the level of usage in the motor vehicle and consumer goods fields.

Permits granted for apartments in the Chicago area have been running well below last year, but real estate circles report a recent improvement in demand for apartments from both renters and buyers. Sales of moderate-priced existing homes are completed in very short periods after being placed on the market, but sales of high-priced homes (over $100,000) are quite slow.

Major construction projects in the Chicago area have been held back by strikes. The elevator constructors' strike continues, halting steel erection. A lathers' strike stopped most work for two days as other trades honored picket lines. A masons' strike is threatened. Construction laborers in Indiana and Illinois recently settled for an immediate boost in total compensation to about $7.50 per hour. While huge office buildings will add substantially to the supply of office space when completed, the vacancy rate for office space in the Chicago loop is two and one-half times the relatively low rate of two years ago.

Retail beef and pork prices are being pushed up as the volume of marketings of cattle has lagged expectations. One large district retail food chain recently announced a boost of 6 to 8 percent in beef prices, citing higher wholesale prices. Poultry and eggs are in good supply. Crop prospects are favorable with growing conditions "better then average" despite a late start.

Some of the largest district banks report loan demand higher than anticipated "across the board." The reversal in business loans has been "dramatic" with a substantial year-to-year decline in 1971, replaced by a substantial increase this year. A large share of the recent rise in business loans has been in term loans -- three to seven years to maturity -- in competition with capital markets. These loans feature many variations in rate terms and other features, depending on preferences of the various banks and their customers. Savings inflows are holding up well in view of the improved level of retail sales. Two large Chicago banks are outrunning competitors for savings by offering stuffed animal "mascots" -- a lion and a kangaroo -- as premiums for opening new accounts.

EIGHTH DISTRICT - ST. LOUIS

A sample of Eighth District businessmen reports improved sales and expects future moderate gains. Employment is holding steady in the major cities, while smaller metropolitan areas are reporting additional hirings. Firms that compete with foreign suppliers are more optimistic since they are beginning to feel some effects of the dollar devaluation. Farmers in some areas of the district are experiencing adverse weather conditions. Retail sales have improved over last year and the housing industry continues to show strong advances. Credit is plentiful as savings continue to flow into thrift institutions at a high rate. Loan demands by businesses have increased in recent weeks.

Manufacturing firms in the St. Louis metropolitan area that supply customers in national markets are generally more optimistic than locally-oriented firms, except those related to residential construction activity. A large food processing firm is experiencing the expected modest increase in sales and feels prospects are good for the remainder of the year. Shoe manufacturing plants are at full capacity, but expect no additional employment at this time. The dollar devaluation and inflations in foreign countries have made the shoe industry optimistic about further advances in sales because they now have a better competitive position with respect to imports. Suppliers in hotel, restaurant and airline industries are continuing to experience an uptrend in business, reflecting improvement in these leisure-service industries.

Farmers in many areas of the Eighth District are experiencing poor weather conditions. A drought situation is developing in the northern half of the district and is seriously hurting newly planted crops. In some areas of the central Mississippi Valley, rains and floods have slowed the planting of crops. Strong sales of farm equipment are reported. Sales of one large manufacturer of agricultural equipment are up 25 percent from last year and the firm feels a solid basis for further growth is present. Retail sales exceed the slow pace of last summer, but are still not as high as hoped. Retailers generally feel sales will improve with economic conditions. Stores in the downtown area of major cities have been experiencing poor sales performance.

The construction industry is still a bright spot. The pace of housing construction is good, but commercial construction is sluggish. The continued strong pace of home construction is making builders optimistic as they move into the summer, typically their busiest season. Building suppliers' sales are up over a year ago, and in some cases further hirings are planned if sales continue upward through the remainder of the year.

Housing credit remains plentiful as savings continue to flow into S&Ls at the high rates of the past few months. Expected slowing of the rate of savings inflows has not occurred, and as a result mortgage rates in the district are generally holding steady, with slight declines reported in some areas.

Loan demands at eight district banks are strong, especially for commercial and industrial loans. One major bank reports loan demands increased by 6 percent in the last four weeks and expects strong loan demands to continue. Bankers see the prime rate rising by the end of the year to perhaps 6 percent.

NINTH DISTRICT -- MINNEAPOLIS

Despite the fact the unemployment rate in the Minneapolis/St. Paul metropolitan area remained unchanged this spring, the district's overall rate of joblessness rose as unemployment increased in other areas. District businessmen doubt Phase II can achieve its goals, but do believe the Administration's efforts are helping curb inflation. A recent newspaper poll disclosed Minnesota residents were far from unanimous in their economic outlook. The results of our second-quarter Industrial Expectations Survey suggest continued improvement in district manufacturing activity. Also, district resort and motel managers are looking forward to a good tourist season this summer. District crop development has been retarded, however. Weather-caused delays are forcing farmers in some areas to plant less profitable crops on remaining unseeded acreages.

After averaging 5.3 percent in January and February, the district's unemployment rate, seasonally adjusted, jumped to 5.7 percent in March and rose to 5.9 percent in April. Much of the recent rise in unemployment can be traced to northeastern Minnesota. In addition to U.S. Steel closing a plant in Duluth, a banker there reported the delayed opening this year of the Great Lakes shipping season had also retarded employment expansion in his area. Furthermore, Minnesota this spring experienced its smallest seasonal rise in construction employment in ten years. Unemployment is also a problem in Montana, and a branch director reported the Anaconda Company this year is laying off approximately 1,500 people in that state. In addition, cessation of construction on the ABM site at Malmstrom Air Force Base has already cost the Great Falls area 1,000 construction jobs.

On the other hand, the unemployment rate in the Minneapolis/St. Paul metropolitan area has not risen this spring and a Minnesota Department of Manpower Services spokesman reported jobs were more plentiful this spring than twelve months earlier. Directors from North Dakota, South Dakota, the Upper Peninsula of Michigan and northwestern Wisconsin reported some improvement in labor market conditions this spring.

Although district businessmen are skeptical of whether or not Phase II will be able to achieve its goals, bank directors indicated their contacts believe the Administration's efforts have slowed the rate of inflation. In addition, one director reported district businessmen currently were more optimistic about expected price performance than they were at the beginning of the year. Another director stated his area's recent pickup in business activity had lessened businessmen's concern over wage-price controls. No directors foresaw any shift this year in the Administration's program to combat inflation. One director, however, reported the Pay Board was getting tougher in its rulings.

A recent Minnesota poll revealed district residents have mixed expectations about economic activity during the next six months. In assessing the overall economy, 50 percent of the respondents looked for "good times" while 44 percent anticipated "bad times." When asked to comment on labor market developments, 35 percent expected employment to increase, 41 percent foresaw no change and 23 percent anticipated the number of people holding jobs would decrease. Survey respondents were more optimistic about curbing inflation than they were a year ago. In this current survey 50 percent indicated they expected the prices of most things they buy to increase as compared to 73 percent who gave this reply a year ago.

Responses to our second-quarter Industrial Expectations Survey suggest continued expansion in district manufacturing activity. The strongest year-to-year sales increase in ten quarters was achieved in the first quarter, when district manufacturing sales advanced 12.2 percent. This gain surpassed the 6.5 percent sales advance expected last February and resulted from an unexpected strengthening in both durable and nondurable goods sales. Despite their heartening first-quarter performance, however, district manufacturers only modestly revised upward their expectations for the second and third quarters.

District motel and resort managers, according to a telephone survey, are optimistic about this summer's tourist business. When asked to characterize their outlook for this summer, eleven respondents expected their business to be "excellent," three termed their anticipations "very good" and eight foresaw a "good" tourist season. In the western portion of the district, Yellowstone National Park's centennial is expected to attract additional tourists.

Crop development has been retarded throughout the district. Generally, spring weather was late, but the greatest delays were caused by recent excessive rainfall in feedgrains-producing areas of southern Minnesota and eastern South Dakota. Estimates of the degree of lateness are greater in the western portions of this region. A director from east-central South Dakota places the overall stage of crop development at three weeks behind normal and reports much of the acreage prepared for corn (principal crop of the region) is being switched to less profitable grain sorghums. Other reports indicate switching to soybean production in southern Minnesota.

TENTH DISTRICT - KANSAS CITY

With the possible exception of inventory loans, business loan demand at commercial banks in the Tenth District has weakened recently. Real estate and personal loan demand remains strong, however. Mortgage commitments and savings inflows to savings and loan associations continue well above their year-ago pace. Department store sales, especially of household durables, are still advancing vigorously. Prices generally are perceived by marketing men and purchasing managers alike to be rising moderately (as one said, at a "manageable" pace), but recent performance of meat-animal prices bodes ill for retail meat prices in the near future. Overall, respondents were almost uniformly optimistic about the business situation for the rest of 1972.

Tenth District bankers report little change in overall conditions of loan demand, with continued strength in real estate and personal loan categories partly offset by some signs of weakness in business loans. Strength in real estate loans appears broadly based, including both residential and commercial mortgage loans. Most bankers interviewed indicate installment lending is moderately strong and some report exceptional gains. Several Tenth District bankers single out credit card purchases as accounting for increased installment loans.

The recent weakness in business loans reported by most bankers interviewed is in contrast to the steady and strong growth in business lending in the Tenth District noted in the last three Redbooks. No clear pattern emerged in the reasons given for the decline; one Kansas City bank reports a large corporate customer has engaged in a public financing in order to reduce its bank indebtedness Oklahoma banks, however, report strong business loan demand -- for example, for expansion by oil drilling companies. Although overall district business loan demand appears to have weakened somewhat, several banks have recently experienced rising volumes of business loans to finance inventory accumulation.

Savings inflows to savings and loan associations in the Tenth District continue above those of a year ago, but appear somewhat smaller than earlier in 1972. Mortgage commitments remain generally strong, although some apprehension about possible overbuilding of multiunit structures was expressed by associations in Omaha, Oklahoma City, Topeka and Denver. Rates paid on savings are stable and rates charged on mortgages are generally reported as steady, though a tendency toward stiffening was noted by a Topeka correspondent and an Omaha firm suggested a slight softening there.

Stable or slowly rising prices since early this year were reported by a majority of purchasing managers surveyed. But more rapidly rising prices were noted by a manufacturer of construction-related products, a maker of electric cable and associated products and by a rubber-tire manufacturer (with reference to textiles and paper). Major retail establishments across the district report no sharp run-ups in their suppliers' prices, although increases are occurring. Some department stores report they are absorbing such price increases at the cost of a profit margin squeeze, but more indicate they are passing their cost increases on to customers.

Most purchasing managers interviewed indicate little if any significant change in the terms and conditions of the purchases they make. The only firms mentioning longer lead times were lumber and construction products firms and an electric cable manufacturer. One of these firms has increased inventories to compensate for extended lead time, but otherwise there were no inventory changes reported due to general economic conditions.

Department store inventories appear to be behaving about as desired by retailers, with several respondents noting inventories were running as planned, or budgeted, for this year. In no instance were inventories reported to be lower than desired.

Sales thus far in 1972 continue to be above those in the same period of 1971 in Tenth District department stores, with durable goods sales generally stronger than sales of nondurables. Nearly all sales categories showing special strength this spring were durables: building materials, furniture, major appliances and other home furnishings and bicycles and sporting goods. When areas of weakness in sales were mentioned, they generally were specific soft goods items. The major exception was men's apparel, an area of special sales strength in department stores in several district cities.

After declining slightly more than 2 percent in March and April, farm prices rose 3 percent during the month ending May 15, mostly on the strength of higher meat-animal prices. Slaughter steers have since registered further price gains while hog prices have remained steady to weak. Seasonal factors, brisk demand and some tightening in pork supplies point to a firm price structure through the summer, after which meat-animal prices may ease off. Thus retail meat prices, after showing some stability during the last two months, likely will face strong upward pressures over the next few months.

Wheat producers in Oklahoma and southern Kansas are making good progress harvesting the new crop. Yields are running somewhat higher than expected, particularly in those areas of Oklahoma that sustained drought and frost damage earlier in the season. In Kansas, opinions on wheat prospects are mixed, but a growing feeling is that total production may approach the record 312 million bushels produced last year.

ELEVENTH DISTRICT -- DALLAS

Recent economic indicators reflect growing strength in district economy. The Texas industrial production index rose in April for the fourth consecutive month. Construction contracts in the district reached a record level, and the unemployment rate declined slightly. A survey of head office and branch directors revealed a clear majority expect economic activity in their community and industries to increase moderately over the rest of 1972. However, directors believe the improving economic conditions will be accompanied by rates of price increase about equal to or somewhat faster than recent rates. Despite the expectation of improved economic conditions, directors from district industries anticipate levels of employment, plant and equipment expenditures and inventory investment at their firms to remain about unchanged during the remainder of 1972. Banking directors now expect a moderate increase in market interest rates.

Almost three-fourths of the directors feel economic activity in their area was somewhat stronger in May than during the first quarter, and two-thirds of the directors foresee a moderate further gain in activity during the next six months. Directors from commercial banks were more optimistic about economic conditions during the rest of 1972 than were directors from business firms in the district. The outlook for prices by both businessmen and bankers was not optimistic. Eighty percent of the directors expect prices to be rising at the end of 1972 at about the same rate or somewhat faster than in recent months. Only 20 percent of the directors felt prices would be rising at a somewhat slower rate by the end of 1972.

Directors associated with nonbanking business were surveyed with respect to the outlook for their firms and industries. A majority anticipated employment, plant and equipment expenditures and inventories for their firms will remain about the same between now and the end of the year. None of the respondents was anticipating higher employment by the end of the year, and one was anticipating substantially lower employment. Only two directors rated summer employment opportunities for students at their firms as good or very good, and this was offset by two who rated summer employment opportunities as bad or very bad. The majority indicated summer employment opportunities at their firms were marginal. While the majority of business directors anticipated inventories at the end of the year would be about the same as the present level, two directors anticipated moderately higher inventories. Most of the directors felt actions of the Price Commission would have a moderate or marginal effect on slowing price increases in their industries. However, only three directors felt the Pay Board would have any effect in slowing increases in wage rates in their industries during the remainder of the year. Two-thirds of the business directors did not expect their company profits to be affected in 1972 by Phase II controls, while the other one-third expected a slight negative effect on profits.

Commercial banking directors were asked about recent loan demand at their banks and their expectations about interest rates. The majority felt the demand for business loans, consumer loans and mortgage loans was much higher at their banks in May than in the first quarter of 1972. While demand for agricultural loans was essentially unchanged, loan demand was particularly strong in the construction industries. Moreover, the overwhelming majority of bank directors stated their banks' willingness to make loans had remained essentially unchanged from the first quarter. Funds at their banks were judged to be moderately available or very available to meet loan demand at the present time. Not a single banking director expects a moderate increase in short-term rates during the next six months: half feel long-term rates will also rise moderately, but the other half feel long-term rates will remain at about present levels. The banking directors believe the prime lending rate will be between 5 1/2 and 6 percent by the end of the year, with 5 3/4 percent the most frequently mentioned rate.

The seasonally adjusted Texas industrial production index rose in April for the fourth consecutive month. In manufacturing, all industry groups reported monthly as well as year-to-year gains. Petroleum refining, a significant industry in the index, increased 14.1 percent over last April. Oil allowables in the district's four producing states were left unchanged for June. Seasonally adjusted total employment in the five southwestern states receded slightly in April, but nonfarm payroll employment remained at the March level and the unemployment rate edged downward. All industry groups showed year-to-year gains in payroll employment. Construction activity in the five southwestern states continued its fast pace. The total value of contracts awarded rose to a record level in April. Sales of department stores in the district continued to show monthly and year-to-year gains, but automobile registrations dropped significantly in April from March levels.

TWELFTH DISTRICT - SAN FRANCISCO

According to reports received from our directors, economic conditions are following the same trends established in recent months. Output and employment are rising gradually, but not at rates rapid enough to bring about any major reduction in unemployment. Business investment plans are somewhat cautious, consumer spending is steady and construction is maintaining a high level of activity, yet there are some elements of weakness. In the housing sector there is some evidence of overbuilding of apartments in southern California. Since declines in dwelling-unit authorizations have occurred in recent months, homebuilding in California may also be slowing, and consequently later this year there may be a weakening in the demand for real estate loans and declines in mortgage rates. In other states, such as Utah and Idaho, commercial and residential construction are at record levels. Overall, the construction situation appears to be satisfactory and the areas of strength more than balance the few signs of weakness.

Construction activity has stimulated demand for lumber and wood products. The resulting greater output and employment has reinforced recovery, particularly in the Pacific Northwest. Expectations in the lumber industry are that demand will remain strong for the rest of the year.

Our directors were asked to comment on current wage and price trends. The consensus is both wages and prices have been growing at slower rates since the freeze was imposed last year. The directors do not foresee any major increases in either prices or wages, although there are a few complaints some wage increases allowed in the past were too liberal. Most firms and banks expect to stay within the guidelines without great hardship. In a few industries competitive pressures would prevent price increases in any event. In general the directors prefer to keep the guidelines system for the time being.

Other comments on the guidelines pointed to both problems and advantages. A problem for some firms is caused when unionized employees gain approval for wage increases above the general guidelines allowed for other employees not represented by unions. On the other hand, several directors thought the guidelines do play a useful part in negotiations of labor contracts by restraining wage demands. Another favorable factor has been the acceptance by several large unions of rollbacks from increases obtained in their previously negotiated settlements.

Directors representing banks report some improvement in the demand for commercial loans and further increases are expected. In consequence, somewhat higher interest rates are expected. One director thought the prime rate might climb 50 to 100 basis points later in the year and short-term money rates would lead the increase. At the same time, other directors thought mortgage rates would rise somewhat less than other rates, if they rise at all.

Demand deposits continue to rise. This reflects, according to some directors, a generally liquid corporate condition and a consumer preference for holding large demand deposit balances, as well as a greater level of economic activity. Saving deposits are also somewhat higher despite the 4 percent rate on passbook accounts paid by some banks.