CONFIDENTIAL (FR)

CURRENT ECONOMIC COMMENT BY DISTRICT

Prepared for the
Federal Open Market Committee
by the Staff

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SUMMARY*

Business conditions showed signs of improvement in most parts of the country, according to this month's Redbook reports. The rise in unemployment appeared to have slowed, but joblessness was not expected to decline soon. Retail sales revived noticeably in most districts, led by seasonal merchandise and some consumer durables. Retailers generally appeared to have achieved comfortable inventory positions. Manufacturing activity continued to be weak, but there were scattered signs of improvement. The inventory situation improved for producers, but stocks were still above desired levels. Automobile sales and residential construction remained sluggish. Financial institutions continued to gain funds, and loan demand remained almost uniformly weak. Agricultural conditions were generally good across the nation.

New hirings and worker recalls were cited as evidence of labor market strength. However, new layoffs and labor force increases were expected to keep unemployment rates high. Workers were being recalled by several industries in the St. Louis and Atlanta districts, and Richmond reported a significant increase in manufacturing employment and hours worked. Despite the high level of construction unemployment in Chicago--about 30 percent--building trade unions won wage increases of 5 to 8 percent; in Dallas, increases of 10 to 11 percent were won.

Most districts reported a marked improvement in recent retail sales, and retailers apparently felt they had largely re-established sound inventory positions. A revival in consumer confidence, warmer

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*Prepared by the Federal Reserve Bank of Minneapolis.

weather, vigorous sales promotions, and price cutting were all cited as important stimulants. Almost none of the retail sales gain was attributed to the tax rebates. Warmer weather was credited with improving soft goods sales in Chicago, Boston, and Philadelphia. Large appliances and furniture sold well in New York, Chicago, and San Francisco. Automobile sales remained sluggish across the country, except in the Atlanta region, where truck sales were particularly strong.

District reports on manufacturing activity were mixed. St. Louis, Dallas, and Atlanta, for example, reported some improvement in the sales of textiles and apparel. A Philadelphia survey indicated that new orders were up for the first time since last September, and Richmond reported a firming up in manufacturing shipments and new orders. In the Cleveland district, the decline in manufacturing activity decelerated in May. Respondents to a Minneapolis survey, however, revised their 1975 sales expectations downward.

Most durable goods sales were adversely affected by cutbacks in capital spending. Capital goods producers in the Chicago area reported cancellations and rescheduling of orders, while a few encouraging signs in the capital spending sector were noted by Cleveland. Boston, Chicago, Cleveland, and Dallas commented that sales of oil field equipment were down because recent tax increases had dampened oil companies' enthusiasm for drilling.

Most respondents said manufacturers had made progress in cutting inventories, but stocks in many cases still exceeded desired levels. The Philadelphia and Richmond surveys, for example, found an improved inventory situation, but further liquidation was expected.

Recent gains in residential construction activity in most districts were modest at best. For instance, new housing starts were up slightly in Philadelphia, and new home sales improved somewhat in Chicago. But the stock of unsold houses remained large in the Atlanta district. Residential construction was also slow around St. Louis, although commercial construction was proceeding more rapidly.

New York attributed lagging construction activity to current economic uncertainties and to continuing high construction costs. Dallas and St. Louis said that mortgage lenders had been reluctant to lower rates, thereby inhibiting a turnabout in residential construction.

Savings inflows at S&Ls continued to be strong, and time and savings deposits were generally up at commercial banks. However, lending policies remained cautious. Overall loan demand at both banks and S&Ls was still sluggish; in the Richmond district, for instance, commercial and industrial loan volume fell steadily in May. Consumer loan demand also remained weak, in large part because of lagging auto sales.

Spring planting proceeded rapidly in the nation's corn belt in May. Kansas City expressed concern that a bumper winter wheat harvest might depress farm prices and incomes. Crop conditions were good except in the Deep South where cotton planting was far behind normal and in the areas of the West where cool weather had retarded growth.

FIRST DISTRICT--BOSTON

While noting that the situation is "not good, but no worse," the New England directors are expressing more optimism this month. None is anticipating a strong growth of activity until 1976, however. Some are prepared to revise their former forecasts for 1975 to anticipate a slow recovery. For March, the regional unemployment rate was 11.4 percent; Massachusetts records unemployment at 12.2 percent for that month, while Connecticut and Rhode Island register 9.6 percent and 16.3 percent, respectively.

Retailing has improved in the last three weeks. Signs are turning for hard goods, but soft goods have performed particularly well. One director states that last year his sales were up 14 percent and that this year has improved still another 17 percent. He credits good weather, but feels there must be more to the story. He has not seen any direct evidence of rebate checks. In recent weeks, customers have seemed more relaxed and cheerful. Although he is cautiously optimistic and mentions that retailers in general are more hopeful than a month ago, he has resisted corporate pressure to increase his plan for buying; and he claims that manufacturers are "nowhere near out of the woods" regarding their inventory problems.

A director reports that carbon black sales in the United States are improving. Having seen a very sharp increase in tire shipments (50 percent above production) for April, he is hopeful that a trend is emerging. Silica pigment sales have continued recent gradual improvement as well; due to the broad market of this product, this also is a hopeful sign.

Sales of oil field equipment have shown marked weaknesses recently. A director reports that Senate Bill 692 has had a "devastating," chilling effect on the oil drilling market. Tubular steel is now in plentiful supply, a significant reversal of condition. Super alloy metals sales are strengthening for jet engines but weakening for the chemical processing industry.

A director states that some electric utilities in the region are showing renewed interest in expansion plans and long-range planning. It is expected that the rate of increase in project costs will continue to decline. Furthermore, an electricity capacity shortage seems imminent for the 1980s.

Directors report that bank loan portfolios have been expanding more slowly than desired in both consumer and business categories. Promotions continue for consumer loans, and business loans without long-term commitments are sought. It is expected that loan rates may ease slightly for the summer, then rise in the fall, reaching levels modestly higher than those prevailing now by year-end.

Professors Otto Eckstein, Robert Solow, and Paul Samuelson were available for comment. All see hopeful signs and the opportunity to cultivate a recovery. However, each is concerned that a sufficiently cautious monetary policy can seriously fetter growth prospects.

Professor Eckstein has been fairly happy with the recent performance of the economy. He sees clear evidence of a recovery emerging. However, the high level of mortgage rates are disturbing in his view. Although the corporate market seems to be able to handle existing credit conditions as well as can be expected, "the mortgage market needs a nudge." A principal issue to Eckstein is the path of the federal funds rate. He feels "that it would be a massive error of policy to let the funds rate rise above 6 percent at any time in 1975." Until the economy is in substantially better shape, there should be no rise in this target. This may be consistent with temporary money growth of 8 percent, but it is in line with economic needs.

Professor Solow is troubled by the prospects of recovery. Unless money growth is 8 percent or more, the economy will grow slowly and the recovery will be unbalanced as capital spending and housing fail to participate. "Monetary policy must pull its weight. There are no signs of the first year exceeding speed limits; 6-6.5 percent is not extraordinary growth in recovery, and this has been an extraordinarily deep recession." There is a continuing worry attached to the tax cut carrying its weight beyond the second quarter; a simple one-shot boost for consumption is "all the more reason why there is no harm in encouraging, supporting, and preserving capital spending."

Professor Samuelson believes that May or April will be labeled the turning point. He also notes that, in view of historical experience and the depth of the recession, a 7 percent rate of recovery is the "minimum desirable social goal." He observes that forecasters who envision reasonably vigorous recoveries have assumed rates of money expansion of at least 8 percent. He feels that a premature monetary restriction in 1958 retarded the economy, and he is apprehensive that the experience could be repeated: "a similar philosophy this time would be a sorry matter."

SECOND DISTRICT--NEW YORK

The overall picture that emerges from the views expressed by Second District directors and other business leaders who were contacted recently is one of a further moderation in the rate of the economic decline, if not of an actual turnaround. Retail sales rose strongly in May, further progress has been made toward reducing inventories, and district crop prospects look good. The auto and construction industries continue to display weakness, however, and the demand for bank credit remains soft.

The retail sales picture brightened considerably over the past month. According to a survey by a local newspaper, sales at major New York City department stores, which had been running below last year's levels during the first four months of this year, were nearly 4 percent higher this May than in May 1974, while retail sales for the entire metropolitan area were 5.4 percent higher than a year ago. According to an official of a trade association, New York City area merchants have become markedly more optimistic. On the basis of his contacts with local retail firms, he reported that, while the May increase was in good part accounted for by increased apparel sales, sales of major appliances and furniture had also increased. He felt that the improved retail sales atmosphere was due largely to a strengthening in consumer confidence, with the tax rebates playing only a minor part. The president of a nationwide department store chain felt that consumer purchases of durable goods would likely increase as economic recovery takes hold, a sentiment shared by other respondents. The Buffalo Branch directors reported strong retail sales in western New York in May, in some areas as high as 15 percent above a year ago, and expressed optimism that consumer spending would remain strong at least through early summer. The respondents, however, were generally cautious regarding the near-term outlook for automobile sales. Several businessmen expressed the view that auto sales might not improve significantly until the introduction of the 1976 models. The president of a large steel firm stated that he was cautious regarding auto sales, but he noted that millions of autos continue to be scrapped yearly and that a "hidden" demand must be building up.

Regarding inventories, the retailers reported a substantial decline from high levels at the turn of the year, although the president of the department store chain mentioned above felt that durable goods inventories remained high. The president of a steel corporation reported that his firm was reducing its stocks on hand and that the firm's customers have rapidly reduced their inventories, which should be at "normal" levels by the beginning of July. The president of a nonferrous metals producer, on the other hand, observed that, despite inventory liquidation, stocks of metals other than steel remain at high levels. Among senior officials in the chemicals industry, several reported inventories under control, although one felt that his firm's stocks were still too high.

Turning to agriculture, a Buffalo Branch director with farming interests reported that spring weather conditions have been ideal for crop planting. If the favorable weather conditions continue through harvest time, the prospects are for very high yields in most crops.

The high yields are expected to result in lower prices in general, except for certain vegetable crops where the carry-over from last year was particularly low. Beef prices are expected to remain strong, but lower prices are anticipated for eggs and poultry products.

On the darker side, none of the respondents expressing views on the subject were optimistic over the near-term outlook for the construction industry. Among others, a senior official of a large New York City area savings bank reported that, as a result of a large inflow of deposits in recent months, his bank had much more funds available for mortgages than there was demand for such funds, and he did not expect a turnaround in construction activity for at least four to five months. Some observers noted the recent tendency of depositors to shun higher-yielding certificates of deposit in favor of regular savings accounts, suggesting that they may be building up liquidity for withdrawal in the near term. The Buffalo Branch directors generally felt that the 5 percent tax credit and the large inflow of savings deposits had not provided a stimulus to residential construction sufficient to overcome the depressing effects of the uncertainties arising from current economic conditions and high construction costs. They expected a gradual recovery in the housing sector but felt a quick return to the high levels of 1972 and 1973 does not seem likely.

THIRD DISTRICT--PHILADELPHIA

Overall business conditions in the Third District are much the same in June as they were in May. Manufacturers report increases in their new orders and reductions in their inventories; but employment is off marginally, and price movements are squeezing profits. At the same time, projections for the longer-term are more optimistic. In the second half of the year, these businessmen expect new orders to be up, inventories to be lower, and work forces to grow. Capital spending plans remain cautious, however, and higher prices are anticipated. Housing is beginning to show signs of slight improvement, and retailers report somewhat higher sales volumes. Area banks report that savings deposits are growing, while demand deposits are flat at best. In addition, loan demand continues to be weak.

Manufacturers in the Third District, responding to this month's Business Outlook Survey, report that business activity in the region has changed little from last month. Responses to the questionnaire indicate that 70 percent of these businessmen had experienced no change in the overall level of business activity--about the same as in May. New orders are up this month for the first time since September 1974, and there is some indication that the decline in inventories is slowing. A little over one-third of the district's manufacturing executives report lower inventories this month, compared with almost two-thirds in March. While most respondents report no change in their work forces or average workweeks, those that are cutting back still slightly outnumber those adding employees.

Area manufacturers report that the prices they pay are up slightly in June, while the prices they charge are down to some extent. Over the next quarters, however, these executives expect to be paying and charging higher prices. In fact, none of the respondents foresee paying lower prices by year-end.

The outlook for the next two quarters has become increasingly optimistic in recent months. More than 90 percent of the respondents now foresee a higher level of business activity by December, while only 45 percent of those surveyed in January were expecting an upturn within a half year. Almost 80 percent of the region's manufacturers expect new orders to increase by winter. Last January only half anticipated a pickup within the next six months. In addition, some further pruning of inventories is expected, and by December about half of the manufacturers surveyed plan to add employees. But despite the growing optimism, spending plans for new plant and equipment remain conservative. Close to two-thirds plan no change in their capital expenditures in the next two quarters.

Retailers in the area indicate that their sales volumes are up from a year ago and are somewhat better than last month. They note that this slight upturn in sales coincides with a warmer and dryer weather pattern; but they have no idea what impact, if any, the federal tax rebates have had on their sales. None of the merchants contacted feel that he is "under-inventoried." In general, their outlook is for the economy to pick up in the second half of the year, but no big boost is expected until year-end. As one retailer put it, "demand can stay pent up only so long, and when people are more convinced that an upturn is under way, we'll see the release of this pent-up demand."

Little change in retail prices is reported, but one merchant discloses paying more for some big-ticket items. Television prices are up 5 to 6 percent this month, and increases are also anticipated on other major appliances. If oil prices are hiked further, it is expected that the price of plastics will follow closely. These executives expect upward pressure on prices to emerge during recovery but don't look for it to be excessive.

Residential housing activity in the district is beginning to show signs of a gradual pickup. Sales and new starts are improving slightly, and one mutual savings bank official reports mortgage applications and commitments running much heavier than a few months ago. He notes, however, that there's still great reluctance on the part of big builders to undertake any large project. In addition, he feels that "the picture won't brighten much further until builders see some clear signals that buyer reluctance is down and incomes are up." This official looks for a revival in builders' plans by fall.

Bankers in the region report growth in their savings deposits, but demand deposits are falling. One banker notes increasing confidence that the economic slide is over, but all report continued absence of strong loan demand. One bank has experienced a drop of $40 million in commercial loans outstanding in the last two weeks. There's a general feeling that the downward pressure on interest rates will continue but that rates will bottom out before Christmas. None of the bankers contacted view the recent drop in the discount rate as having much significance. Most agree with one banker who says that, in terms of its relation to other interest rates, this decline in the discount rate has been the "least important ever." The consensus outlook among bankers is for the economy to recover gradually in the third and fourth quarters, with upward pressure on prices as the recovery unfolds, but it is not for strong inflationary forces until the upturn is substantially under way. The heavy Treasury borrowing scheduled for the latter part of the summer is not expected to pose any problems for the credit markets until at least 1976.

FOURTH DISTRICT--CLEVELAND

The decline in district economic activity has been slowing, but signs of recovery in overall economic activity have not yet been pronounced. Inventory liquidation at the manufacturing level accelerated. Nonautomotive retail sales improved. Inflationary pressures continued to abate. Output and employment have been recovering in some industries such as autos, tires, and chemicals. Other industries, notably steel, have still been reducing operations. Residential construction edged up. Some major banks were reported to have been following conservative loan policies.

In the retail sector, the treasurer of a large discount store chain said sales have improved in recent weeks and inventories have been brought under better control. He noted that price markdowns, which have been used to entice consumers, will not be as extensive in the months ahead because profits have been squeezed and inventories reduced. The treasurer of a major Cleveland department store also reported that sales picked up in May and early June, although big-ticket items still have not begun to move. Its inventories also have been whittled down.

Latest reports from Cleveland purchasing agents and early returns from our survey of district manufacturers indicated further slowing in the decline of new orders, production, and employment during May. Most companies said they are letting attrition reduce their work forces. Inventory liquidation of raw materials, supplies, and finished goods was greater than for any other month this year. Inflationary pressures continued to ease as purchasing agents reported that they have been negotiating lower prices, higher discounts, and improved terms.

For the third consecutive month, twice as many purchasing agents have been paying lower prices as higher prices.

Among favorable industrial developments, auto companies continued to recall some laid off workers. An economist with a major tire firm said the tire industry, on balance, has started to recall workers. Sales and production have been recovering. The economist estimates that during the next four or five months the industry will reduce inventories further by allowing tire sales to increase at a faster rate than production. A chemical industry spokesman said chemical products that were depressed in the earliest part of the recession have rebounded, with output now up to 70 percent of capacity, compared with 50 percent in December-January.

In the steel industry, many large and small firms throughout the district recently announced temporary or indefinite employment cutbacks; thousands of workers are being affected. One large firm has decided against reopening its idled Ohio facilities, and 1,250 jobs are being eliminated. An economist with a major steel company said new orders declined somewhat more than expected but have been showing signs of levelling off. Some customers that had not ordered for months (for example, appliances) have begun to come back. Several steel firms reported uncertainties developing among oil country producers because of new depletion allowance rules. In particular, independent drillers have no longer been so bullish. Energy-related industries, which had been strong steel buyers throughout the recession, have now been reducing orders and cutting inventories. Steel sources say customer inventory liquidation has not yet run its course. Steel sheet has been the largest part of the excessive inventories, especially at the steel service centers.

According to the chief executive officer of a major utility in northeastern Ohio, business from industrial accounts, especially steel, machine tools, and other machinery goods, has been pointing down. He also indicated that they have been experiencing some collection problems in higher income neighborhoods.

There have been scattered signs of improvement in the capital spending sector, amidst still basically weak market conditions. Dollar awards for nonresidential building edged up slightly but have remained well below last autumn's level. Printing press orders have improved, following softness for several months. A major machine tool firm reported a significant rebound in new orders booked during May, following a wave of cancellations in April. On the less encouraging side, an Ohio office equipment producer announced it will lay off 700 employees during the remainder of the year. A major supplier to the heavy duty truck market has scheduled an extended shutdown this summer because of poor business. Weak auto sales have caused a large steel firm in Ohio to postpone indefinitely its plans to expand plant capacity for producing steel sheets used by the auto industry.

Residential construction contracts have improved moderately during the past few months. An economist with a Federal Home Loan Bank in the district said that net deposit inflows at S&Ls were very strong again in May and that the supply of funds available for mortgages far exceeds demand.

Economists from three major Cleveland banks said their banks have been following conservative loan policies in order to build liquidity and capital. They also expressed the view that conservative loan policies could inhibit a sharp recovery in economic activity. One stated that his bank has been accepting as little credit or interest risk as possible. Another mentioned that the president of his bank instructed loan contact officers not to be aggressive in seeking loans. All three banks have been making term loans based on a floating rate or a periodic reappraisal that allows for rate adjustments.

FIFTH DISTRICT--RICHMOND

The May survey of Fifth District businesses supports the view that business conditions are beginning to improve. It is not yet apparent that a strong recovery has taken hold, but survey responses and other reports from around the district are more encouraging than at any time in recent months. Among the most encouraging signs at the present time are reports of notable improvements in labor markets. Several states have begun to report declines in unemployment rates and increases in employment. Of the manufacturing firms responding to our survey, more report an increase in the number of employees than report a decrease for the first time since August 1974. Shipments and new orders show little further improvement, after significant improvement in the previous month. Optimism continues to spread in the manufacturing sector. Recent contacts with Fifth District banks indicate that loan demand in virtually all lending areas continues weak and that this weakness is expected to continue for at least the next three months.

The latest district survey indicates improvement in a broad range of activities and a continued swing toward brighter expectations. In the manufacturing sector, shipments and new orders have held firm, showing perhaps a slight gain, after a relatively strong showing in May. In particular, the latest reports on new orders represent a substantial change from the widespread declines which occurred from September 1974 through March 1975. Backlogs of orders showed some further declines in May, but the relatively weak declines of April and May indicate a distinct slowing of the slide that began over a year ago. The inventory picture appears to be improving, but the current adjustment process still has a way to go. One-third of the survey respondents report declines of both materials and finished goods inventories, while only one-fifth indicate increases. This result may be significant with regard to finished goods inventories, which apparently were still growing through March of this year. Despite the latest improvement, however, 50 percent of the respondents still feel current inventories are excessive.

The employment situation also showed signs of improvement during May. For the first time since August 1974, the diffusion of survey responses suggests an increase in the number of employees in manufacturing firms. Even more significant results are those concerning the hours worked per week, as over one-third of the respondents indicate increases in this area. There remains a general feeling that current plant and equipment capacity is excessive, but there is little indication of any desire to alter current expansion plans.

The survey of retailers also suggests some general improvement in overall conditions. Over 70 percent of the retailers surveyed indicate an increase in sales during May, although most report that sales of big-ticket items relative to total sales remain weak. Inventories showed no change from the previous month, but most respondents view current levels as about right.

In the area of prices, the period of weakness indicated in recent months seems to have ended, or at least to have been interrupted. Manufacturers and retailers report paying higher prices, and only the retailers report little or no change in prices received. There is now general agreement as to expectations for the next six months. A majority of manufacturers and retailers foresee business conditions, locally and nationally, improving over that time period.

In the banking sector, commercial and industrial loan volume at large district banks declined steadily during May, with cyclical forces overcoming the strong positive seasonal movements normally expected at this time of year. Weak demand has led to especially low loan volume in the textile industry as manufacturers continue to reduce their inventories. One bank indicates that demand for business loans is particularly weak at its city offices. Consumer loan volume continues its steady decline also. Notwithstanding the weak demand situation, loan refusals are high in both business and consumer lending areas as portfolio quality remains a chief concern. Liquidity is steadily improving as funds from strong time deposit flows displace purchased money and as investments are substituted for loans. Based on their recent experiences, district banks generally feel that the recovery in prospect for the remainder of the year is not likely to be vigorous.

Time deposit inflows are strong at both banks and S&Ls, even though some institutions are doing little to encourage the longer maturity deposits. Net federal funds purchases in the Fifth District, although high by historical standards, are considerably below last year's levels. CD solicitations are being concentrated in local market areas due, at least partly, to the fact that large district banks still must pay a small premium for funds in the national market. It has been noted that short-term CD funds are plentiful but that longer-term deposits (maturities greater than 120 days) are difficult to attract.

District cash receipts from farm marketing during the first quarter were 12 percent below a year ago, but the decline was considerably less than that for the nation. Farmers generally have made good progress in their field work in recent weeks. Planting of most field crops in the southern portions of the district is in the windup stage, with earlier plantings reportedly in fair to good condition.

SIXTH DISTRICT--ATLANTA

The economic news is spotty this month. Unemployment seems to have stabilized, and a number of district industries appear to be growing increasingly optimistic. Car sales have improved slightly, and new truck sales are reported as strong. One Atlanta bank indicates that credit card losses are running four to five times above normal levels. Crop plantings in the district have progressed rapidly during recent favorable weather conditions. While residential construction continues at low levels, announcements of commercial and industrial projects remain brisk.

Reports from Louisiana and Florida suggest the rise in unemployment has halted. In Florida, the northern part of the state around Jacksonville and the Panhandle apparently is already improving, and central Florida is starting to show a pickup; but south Florida around the Miami area remains depressed. Public works jobs along with high levels of car imports at the Jacksonville port seem to be adding strength to Jacksonville's economy. Activity at the port in Mobile, Alabama, also is at a high level. A central Florida director indicates that several local businesses are now placing orders to build up inventories. Directors in southern Alabama and Mississippi report an improving job outlook, with new hiring expected in the shipbuilding, pulp and paper, furniture, and chemical industries. They report that skilled job positions are still going unfilled in many job categories. Several businessmen in Georgia's textile and carpet industries report business improving and some rehiring. A Georgia apparel manufacturer notes a sudden increase in new orders, indicating an improvement in business conditions.

All the news isn't good, however. U.S. Steel shut down its Ensley mill near Birmingham, Alabama, to meet the May 31 air pollution abatement deadline; the closing will cost 2,000 jobs and result in a $60 million annual loss to the area's economy. Honeywell Aerospace, in St. Petersburg, Florida, will lay off over 100 workers after failing to win a government contract. Several Georgia paper manufacturers have recently scaled back their labor forces because of a drop in demand for paper products.

Automobile manufacturers' representatives in various areas report that dealers have benefited greatly from reduced borrowing costs and from the sales increases of the past few months. However, there has as yet been no noticeable impact on car sales from the tax rebates. Also, no noticeable shift in car size preference has taken place. Representatives indicate that orders from dealers are strong and that dealers are now much more optimistic. Truck sales are reported as very strong now, possibly because of the investment tax credit. One Florida director notes that auto dealers are now looking for new salesmen. Used car sales are reported as exceptionally strong in his area.

An Atlanta bank reports that its bank credit card losses are running about five times above normal. It is also getting hit very hard this year with defaults on small consumer loans. As a result, it is reevaluating its consumer lending practices. However, even with more rigid lending practices, it estimates that 40 percent of the defaulted loans would still have been made. A mid-Louisiana director indicates that bank loan demand remains down and that little effort is being made to compete for certificates of deposit. The S&Ls in this area have dropped mortgage rates below 9 percent and reduced in half the points charged to close loans; but mortgage lending has not responded.

While crop plantings have benefited from a period of good weather, over 50 percent of Louisiana's and 20 percent of Mississippi's cotton acreage remained unplanted at the end of May; this is an unusually late date for planting cotton. Soybean planting also trails normal progress in these two states. District farmers seem concerned over the threat of further fuel price increases. Wind damage to Louisiana's state and national forest lands is estimated at more than 20,000 acres. The forestry services are making plans to attempt to salvage as much as 40 million board feet of prime timber felled by storms. Florida's tomato crop was excellent. Citrus prices are reported as poor except for grapefruit, where Japanese buying held up prices.

Residential construction has not as yet developed a noticeable recovery, despite large inflows at S&Ls. As reported last month, the housing tax credit is apparently having only a slight impact on reducing the stock of unsold houses. A large Florida housing builder reports a large inflow of new orders recently. Residential construction in the St. Petersburg area has improved slightly; but in the Miami area, the housing situation is still bleak, and many construction workers have moved out of the area.

Commercial and industrial construction projects continue to be announced. IBM has announced plans to build an 11-story office building in the Atlanta area. The Coca-Cola Company has announced plans for a $50 million expansion project that will include a 20- to 30-story office building. Republic Steel Corporation has recently announced plans to spend \$350 million at its Gadsden, Alabama, plant; the project will increase the plant's raw material output by more than 1 million tons annually. Dow Chemical will build two new petrochemical plants in Louisiana at a cost of \$25 million. The German chemical firm, Degussa, announced another \$10 million plant in their Mobile, Alabama, complex. This brings the grand total of their investment to over \$100 million thus far.

SEVENTH DISTRICT--CHICAGO

Economic conditions in the Seventh District are still deteriorating, and prospects appear less favorable, overall, than for the nation for the remainder of the year. This region's important capital goods industries report sharply reduced orders, while demand for consumer durables, also important here, has not recovered significantly. Most manufacturers are cutting inventories, and markets for most materials, components, and finished goods are highly competitive. Transportation volume remains very depressed. No significant pickup is discernible in residential construction activity, but sales of existing units have improved in recent weeks. Employment is probably still declining in the district, with layoffs continuing to be heavy while new hiring remains at a low level. Retailers appear pleased with a modest pickup in sales of seasonal merchandise in recent weeks. Prospects appear excellent for agricultural crops, with plantings completed in ample time.

Many firms have deferred or stretched out capital expenditure programs because of idle capacity, reduced profits, and reduced estimates of future growth. Most producers of capital goods continue to report cancellations and rescheduling of orders. Cancellations would be greater for some items, for example, railroad equipment, if such steps were not too costly. The market for trucks, trailers, and small construction equipment is very depressed, and demand for farm equipment has weakened. Some oil exploration projects have been curtailed, with the new tax law cited as the reason. Demand remains very strong for capital goods for water control and sewerage facilities, as well as for mining and ore processing (including coal, iron, and copper).

Generalized inventory cutting since late last year has created some gaps, with shortages of particular products necessitating increased orders and production. This has occurred in autos, appliances, and recreational equipment. Inventories, generally, are still considered excessive, however. Freight transportation by rail, truck, air, and water has been running 15 to 20 percent below last year, the largest decline since World War II. Much equipment is idle and not wearing out, thereby reducing demand for both new equipment and replacement parts.

Residential construction is not leading the district out of the recession, as in the past, and time is running out for this year. Housing permits in the Chicago area for four months were down 27 percent from last year and down more than 60 percent from 1973. The mortgage on a new 43-story office building on La Salle Street has been foreclosed. Many other commercial and residential projects are in trouble but are not being foreclosed because lenders see no advantage in such a course. Condominiums have been especially hard hit. On the favorable side, sales of houses have picked up in recent weeks, and an act to extend the 9.5 percent usury ceiling in Illinois has been passed by the legislature.

Some manufacturers have recalled workers, but total layoffs continue at a high level. Voluntary separations are sharply reduced, and demand for additional workers, including trainees, is very low. New claims for unemployment compensation in May were more than double last year in the district, except for Michigan, where claims were very high last year. Unemployment in the building trades is said to be 30 percent or more in the Chicago area, but unions have obtained increases of 5 to 8 percent after strikes or threats of strikes. (Total compensation of bricklayers is now $11.63 per hour.) The city of Detroit has laid off workers, including police, and Milwaukee may be forced to follow suit. Many college and high school graduates have been unable to find jobs, and temporary summer jobs are hard to find.

The largest producer of color TV sets and a major producer of furniture report that consumer demand has picked up in recent weeks, but they imply that they are outpacing their competitors. Sales of boats, recreational vehicles, and appliances (except for chest freezers) remain very poor. Major retailers of general merchandise saw some improvement in sales of apparel and other seasonal merchandise in recent weeks, with a boost from favorable weather. Their inventories are said to be in good shape. Competition has forced a 35-store Chicago area food store chain into bankruptcy, and a national food store chain has been closing a majority of its stores in the Chicago area.

Crop plantings proceeded very rapidly in recent weeks. By June 2, virtually all of the corn and 85 percent of the soybeans in the district had been planted. In Iowa, where rains had delayed operations, farmers were able to plant half of the state's corn in one week--many of them using larger and faster equipment than in the past. Farmers' purchases of fertilizer and equipment have been below expectations this year, reflecting cautious attitudes. Dealers are said to be pushing equipment sales with discounts and more liberal credit terms.

EIGHTH DISTRICT--ST. LOUIS

District businessmen continue to express optimism about the prospects for an economic recovery in the second half of this year. Several industries already report some turnaround in orders. So far, however, no great surge in consumer demand is being reported. The two big problem areas throughout this recession, automobiles and housing, continue to be sluggish. Savings funds continue to flow rapidly into thrift institutions, although mortgage demand remains weak. Farming operations are proceeding at a rapid pace, and with better than average crop prospects, increases in livestock feeding are likely later this year.

Department store sales have apparently remained unchanged in real terms in recent weeks. One large St. Louis retailer reported fairly strong sales aided by considerable advertising and price cutting. Others, however, reported no sales gains. An aggressively managed appliance dealership reported that sales had held up fairly well in recent months, despite the generally low sales volume for the industry. This firm also noted a fairly large increase in sales in the past couple of weeks. Sales of some consumer durables, such as automobiles, continue sluggish, while sales of home entertainment equipment, such as television and hi-fi equipment, are reported to have picked up recently. Lawn and garden equipment sales are also reported to be above year-ago levels.

Several signs continue positive in the manufacturing sector of the district economy. Those industries reporting some recent pickup in orders include chemicals, paints and coatings, food service equipment, and clothing. Inventories have been reduced substantially in a number of industries, and the current increases in factory orders are believed to represent anticipated increases in final demand in the second half of this year. Reports from capital goods firms are mixed. A manufacturer of pumps and lubrication equipment reported strong sales and continued unfilled orders, while a manufacturer of welding and cutting equipment reported a sharp drop in sales.

Other areas of activity, such as mining and roadbuilding, are reported to be doing fairly well. Commercial construction is currently fairly strong in the St. Louis area, although this is not representative of the entire district. Residential housing has shown only slight improvement in recent weeks.

Unemployment has increased in the district much like in the United States as a whole. Representatives of several industries report having recalled workers in the past several weeks, but layoffs in other industries plus normal increases in the labor force have led to a further increase in unemployment on a seasonally adjusted basis.

Mortgage funds are currently available at lower rates than earlier in the year. Rates have held steady in the past couple of months, although S&Ls report continuing downward pressure on rates. This pressure has been resisted due to the anticipation of a turnaround in rates later in the year. S&Ls also report a marked change in the composition of their savings inflows from CDs to passbook savings. One S&L representative believes that this reflects the desire of savers to be in a liquid position so they could take advantage of higher rates in the future. Mortgage demand is still reported to be weak, although some slight improvement was noted. Demand for business and consumer loans is also sluggish. Total loans outstanding at large commercial banks in the district, including both business and consumer loans, have continued to drift downward in recent weeks.

The pace of plantings of this year's crops has been somewhat above average for recent years over most of the district. Given normal weather, large crops and probably somewhat lower food and feed grain prices are in prospect for later in the year. With recent increases in livestock prices, the stage is being set for a pickup in livestock feeding this fall and winter. Pork supplies may become tight later in the summer, however, as hog producers, responding to the more favorable feedings ratios, will tend to hold back gilts for breeding purposes.

NINTH DISTRICT--MINNEAPOLIS

District business activity has improved in recent weeks, and Bank directors were able to cite evidence that the recession appears to be bottoming out in their regions. The decline in district labor demand appears to be leveling off, and in some areas job openings have increased. Several directors reported a recent improvement in consumer loan demand, and district business loan demand has been stronger than nationally. Nevertheless, manufacturing sales were expected to remain weak through the end of 1975.

In commenting on current business activity, directors cited various reasons why they felt that the recession seems to be bottoming out in their areas or industries. A Twin Cities area banker stated that his bank's corporate customers reported that business activity has picked up in recent weeks. In the Minneapolis-St. Paul area, substantial progress has been made in correcting inventories, and many companies have achieved lower than desired inventory levels. A director whose firm produces consumer food products indicated that his industry's sales prospects have improved in recent weeks. Business in one director's community took a definite turn for the better in May, and a major building products manufacturer in the area has started to recall workers. An Upper Peninsula director reported that a major paper manufacturer recently experienced an increase in orders, but business continues off for the copper industry. Tax rebates have stimulated consumer spending in another director's area, but manufacturing has continued weak. In western South Dakota, preliminary evidence points toward a good tourist season. In the agricultural sector, spring planting has nearly been completed, and moisture conditions are generally satisfactory; if conditions continue to be favorable, large crops are probable this fall.

Despite these favorable comments, the results of our latest Industrial Expectations Survey, taken in early May, indicated that manufacturers were feeling the impact of the recession and were not optimistic about their future sales prospects. District manufacturing sales were up 4.5 percent from a year earlier in the first quarter, and they are expected to increase only 1.1 percent in the current quarter. In February, respondents had anticipated a much larger sales advance of about 9 percent in both the first and second quarters. District manufacturers do not foresee any substantial recovery during the last half of this year, as no sales growth is expected in the third quarter and as only a 4.0 percent sales advance is anticipated in the fourth quarter.

District labor market conditions have improved, and several directors indicated that the demand for labor has recently increased in their areas. In the Minneapolis-St. Paul metropolitan area, there have been few, if any, recent layoffs of workers. Another Twin Cities director felt that firms would have to start rebuilding inventories and step up production, which, in his opinion, would cut the layoff rate and spur the rehiring of workers. Several directors reported that job openings had increased in areas outside of the Twin Cities metropolitan area and that some firms were recalling workers. However, no directors foresaw any significant decline in their area's unemployment. Recent initial claims data indicated that district joblessness will continue high.

Directors' comments on loan demand also reflect their views about the recent improvement in business activity. Several directors characterized consumer loan demand at banks in their areas as good.

Depressed auto sales, however, have held down consumer loans in some areas. District banks have not significantly changed the terms or interest rates for consumer lending.

Business loan demand has been stronger in the district than in the nation, and directors characterized business loan demand as being either flat, firm, or good. The opinion was expressed that a turnaround in the economy will probably bring forth some increase in business credit demands during the second half of this year. Whether or not this will show up in bank loans, however, depends upon the competition from alternative credit markets. Currently, the wide spread between the prime rate and the commercial paper rate makes it attractive for borrowers to avoid banks. Some companies which had been unable to sell commercial paper during the 1974 credit crunch have now reentered the market. The Bank's directors, in general, reported little change in bank credit requirements or loan terms. One view, however, was that lending policies on business loans in the Twin Cities became more restrictive in the past three months. Also, strict constraints remain on the management of loan commitments.

TENTH DISTRICT--KANSAS CITY

Strong inflows of funds to Tenth District savings and loan institutions have continued, and mortgage lending activities have increased. Similar reports of strength in deposit inflows at commercial banks for both time and demand deposits were received in response to inquiries made of a number of Tenth District banks. Although overall loan demand continues to be sluggish, retail sales are apparently continuing the improvement which was reported in the May Redbook, and businessmen are expressing increased--if at times guarded--optimism over future economic prospects. With the stage set for a bumper wheat crop in 1975, farmers now voice concern over the depressing effect which such a crop might have on wheat prices. Despite increases in the index of prices received by farmers in both April and May, district farmers still expect a sizable decline in net farm income over that received last year.

Although a few of the S&Ls contacted reported small or moderate deposit inflows, such terms as "extremely good," "substantial," "very large," and "markedly up" were more often used by respondents to describe their deposit gains. Little enthusiasm was voiced over Treasury Secretary Simon's request to allow higher interest rates to be paid on savings bonds because of the likely competitive impact for their institutions. Apparently, tax rebate checks have not as yet been a significant element in overall deposit inflows, since most of the institutions contacted reported little evidence to the contrary. The strength in deposits has permitted S&Ls to increase their mortgage lending activities significantly, while at the same time enabling them to greatly improve their balance sheets by paying off their loans. Their liquidity positions, with few exceptions, are reported as substantially improved. Mortgage rates are generally expected to remain fairly stable over the next six months, and the attitudes of their business customers suggest that they are becoming somewhat more optimistic about future business prospects, although such optimism was not without some reservation. In part, their improved view of the future is traceable to continuing growth in retail sales in recent months.

The stage is set for a bumper wheat crop in 1975. Current estimates are that more than 1.6 billion bushels of winter wheat will be produced this year. The wheat condition is described as excellent throughout the central parts of Nebraska, Kansas, and Oklahoma following widespread rains during the past two weeks. Some hail damage occurred, but destruction was limited to isolated fields along a narrow band. Western portions of Nebraska and Kansas have recovered from a very dry winter and early spring, but the Oklahoma Panhandle remains very dry and will produce little dryland wheat this year.

Farmers are concerned about the depressing effect a large crop might have on wheat prices, since cash receipts from farm marketings have fallen sharply from year-ago levels. During the first quarter of the year, cash receipts nationally were 17 percent below the first three months of 1974. In Tenth District states, first quarter cash receipts fell 27 percent below the same period last year due to lower prices for both crops and livestock. The index of prices received by farmers increased in both April and May, but net farm income is still expected to fall about 20 percent below last year's $27.2 billion.

Bankers contacted in the Tenth District generally reported continued sluggishness in overall loan demand. Loans to farmers have displayed greater than seasonal weakness, while commercial and industrial loans still remain soft. Some of the bankers contacted, however, anticipated an improvement in the demand for loans in the near future. They noted that their customers were optimistic and that preliminary reports indicated retail sales volume in their local areas has risen in the last 30 days. Some bankers also reported that consumer loans for automobiles were up slightly and that recreation and tourist-related business in the western part of the Tenth District was experiencing strong demand.

Deposit inflows at surveyed banks were reported to be quite strong recently. Both demand and time deposits have showed greater than seasonal strength during the month of May. Most bankers contacted indicated they thought that the tax rebates had no significant effect on their demand or time deposit inflows. In view of the current strength in deposits and the lack of a vigorous upturn in loan demand, virtually all bankers contacted said their prime rates would probably drop slightly over the next few months.

ELEVENTH DISTRICT--DALLAS

The decline in industrial output in the district appears to have bottomed out. The Texas Industrial Production Index, after falling throughout the first quarter, has turned up. The primary reason for the upturn is that many firms had liquidated their inventories to such low levels that increased production was needed to maintain minimal levels of stocks. Petroleum refiners, for example, allowed stocks of gasoline and heating oil to run off in the first quarter of the year before increasing operations. Garment makers have stepped up production in response to a recent influx of orders from large chains and department stores that placed virtually no bookings in the first quarter.

Textile producers also report increased orders but mention that the industry's profit margins are being squeezed. Escalating electricity rates are boosting production costs, and manufacturers consider the market for their goods still too weak to pass on the bulk of the higher energy charges to customers.

Output of construction materials has leveled off after 12 months of decline. Shipments by the district's largest manufacturer of reinforcing steel bars, for example, have stabilized at roughly half the year-earlier level, but a company official maintains the firm is facing a severe cost squeeze. A buildup of inventories in the second half of 1974 forced prices of finished goods down a third from peak levels late last year. Meanwhile, production costs have continued to climb and are the highest in the company's history.

Producers of oil field equipment report plants are still operating at full capacity. However, future production appears to be threatened. Bookings have fallen sharply in the past two months, and many orders have been canceled. Producers trace the softening in demand to the suspension of the oil depletion allowance and to the government's delay in drawing up a definitive energy policy. A manufacturer of offshore drilling rigs reports recent cancellations will probably force layoffs at a plant in east Texas. Producers of oil field pipe have experienced a reduction in new orders as major oil companies are building inventories cautiously, in contrast to last year when they frantically stockpiled pipe.

Steel companies supplying the petroleum industry also report a reduction in orders. An official at one steel mill in Houston says his company, which operated under a deluge of orders in 1974, will have filled its backlog of unfilled orders by midyear.

The boom in drilling activity in Texas that prevailed during 1974 is showing signs of easing. Drilling in the state has dipped slightly below peak levels in the first quarter but remains higher than a year earlier. Wet weather has hampered drilling operations somewhat by limiting the mobility of large equipment.

Recent legislation that increased taxes for oil companies is likely to further dampen drilling. Major companies and large independents, having lost their depletion allowance, are reexamining their exploration budgets. Some signs that the new laws are already adversely impacting on drilling have emerged. Drilling rigs, in tight supply in 1974, are more readily available. Moreover, drilling contractors report lead time for projects has been reduced. The full impact of the increase in taxes, however, will not be seen for several months. Exploratory drilling, which involves heavy financial risks, will be harder hit than development drilling, which increases the number of wells in proven oil fields. But even with the anticipated slowdown, the current backlog of commitments will keep overall drilling high in 1975.

The rate of net savings inflows at district S&Ls, which accelerated in the fourth quarter of 1974, has continued strong in 1975. The composition of these deposits differs from recent years, as a larger portion are passbook savings. The largest S&L in Houston, for example, reports passbook accounts now make up a third of its total deposits. Normally, passbook deposits account for a fifth of its savings accounts. In recent weeks, this trend has accelerated by a large influx of income tax rebate checks. However, S&L officials believe most of these savings are earmarked for summer expenditures, such as vacations. Withdrawals of passbook savings are not expected to strain the liquidity positions of the S&Ls, since the inflow of large deposits--$100,000 and over--has been great enough to offset large-scale withdrawals from the smaller accounts.

Despite having ample funds, lenders have been reluctant to lower rates on mortgage loans because the cost of funds remains high and is not expected to decline. Prevailing rates on 80 percent conventional mortgages at S&Ls in the district range from 9 to 9.5 percent. These high interest rates have contributed to continued sluggishness in loan demand, providing little incentive to homebuilders to step up construction activity. Residential building in the district is only slightly higher than the low point early this year.

First year wage increases negotiated in the construction industry this spring in district cities ranged from 6 to 13 percent. In a few cities--El Paso for one--settlements followed strikes by union locals. Wage settlements might have been higher, but the depressed level of building activity helped to hold down the increases. Settlements were larger where there were major industrial or public construction projects under way and in those areas where large national contractors were operating. In Houston, for example, contractors report that the building crafts won increases of 10 to 11 percent, only slightly less than the 12 percent won last year. Important factors in the settlement were the extraordinary amount of work under way, especially industrial projects, and the large concentration of national contractors in the city.

TWELFTH DISTRICT--SAN FRANCISCO

Caution and conservatism seem to dominate the economic scene, according to this district's directors. Extensions of consumer credit have been level for the past six months, and delinquency rates have not, for the most part, risen sharply. Requests for credit appear to be correlated closely with needs. Production levels in the metals industries continue to decline as final demand continues to be weak in the user industries, mainly automobiles and construction. In some other industries, however, such as textile, chemicals, and farm machinery, inventories are no longer being liquidated. Because of lower prices, farm incomes are expected to decline this year; but crops were late because of the cool spring weather, and some shortages accompanied by price increases might develop as the year progresses. There appears to be little alarm about the immediate economic climate but little concrete evidence as well of a resurgence of demand.

Consumers have adopted and are maintaining conservative buying habits. People are shopping more at food stores in preference to eating out. In the Los Angeles and Portland areas, directors report that big-ticket items such as refrigerators and washing machines have been selling well but only as a result of aggressive dealer activity, with discounts and rebates not uncommon. Retail inventory liquidation will probably continue for another month while wholesale inventories appear to be at satisfactory levels. Dealers' stocks of automobiles are in good relationship to sales, but final demand remains soft. In general, the tax rebate has had no noticeable effect on retail sales.

All of this district's banking directors report that the trend in consumer credit over the past six months has been "flat" or stable. Although the number of car loans is down, the average loan size has increased. The director of a large West Coast bank states that "delinquencies have continuously dropped since the beginning of the year and are currently below normal levels for this time of year." Although this experience is not general, there appears to be no alarm about current delinquency rates. One director from southern California, however, reports revolving credit accounts as troublesome. "Balances delinquent two months or more, with no payment having been made for 30 days, are up approximately 82 percent over the year-ago figure, and the number of delinquent accounts is up approximately 71 percent over this same period." But even here, the situation has improved over the past two months.

On the business scene, inventory continues to be heavy in lumber, petroleum, and metals; but liquidation appears to have ended in the textiles, chemicals, and farm machinery industries. One director reports that the decline in steel production has not yet hit bottom; another indicates that "inventories in the hands of customers using aluminum products have returned to more normal levels, and it is expected that purchases of aluminum should start to increase in September." In Utah, copper continues to be stockpiled in the face of weak final demand. In the Pacific Northwest, new orders for commercial aircraft show some softening, but military business has improved with the production go-ahead on the airborne warning and control system (AWACS). In southern California, concern was expressed about the prospects for the aerospace sector of the local economy.

Most areas report heightened demand for mortgages in the past two months, but the majority of loan requests continue to be for existing properties. A resurgence in new home activity appears to be contingent on a lowering of mortgage rates which does not seem likely, at least over the next three months. Rates are now being quoted in the 9 to 9 3/4 percent range.

Lower prices are expected to affect farm incomes adversely this year. Crops are late due to the cool spring weather. Labor and supplies, however, are now readily available, and fertilizer prices have declined between 10 and 15 percent. One director commented that the dairy business was better in April than in any other single month during the last three years.

Although none of our business directors has experienced any difficulty in obtaining credit, there is some feeling that the banks are following an overly cautious lending policy where large loans are involved. One director expressed the view that "some banks are not assuming their responsibility in making loans available in their local community....Banks are not exposing themselves to a normal loss ratio on loans--which deters growth."