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CURRENT ECONOMIC COMMENT BY DISTRICT

Prepared for the
Federal Open Market Committee
by the Staff

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SUMMARY*

The decline in economic activity is over, but recovery will likely be protracted, according to this month's Redbook reports. Consumer spending continues to firm in most districts, on the strength of sales of nondurable goods. While retailers have managed to work off inventories to comfortable levels, some inventory liquidation continues in the manufacturing sector--particularly for producers' equipment. Labor markets have stabilized, and some workers that were laid off earlier in the year are expected to be recalled by the end of summer. Residential construction faces a long recovery even though mortgage lending is up in a few areas. Deposit flows continue strong at commercial banks, but loan demand remains weak. Bumper crops are expected in most areas of the nation, and farmers face a decline in grain and soybean prices this fall.

Most districts indicate that consumer spending continues to improve, primarily on the strength of nondurable goods sales. Although somewhat stronger, purchases of durable goods remain generally weak. San Francisco states consumers are still cautious and are unwilling to assume debt for big-ticket items. New car sales are up modestly but remain well below the year-earlier level. Foreign cars, on the other hand, are selling briskly, according to Atlanta. Spending for tourism and recreation is up substantially across the country.

Retailers have managed to pare inventories to low levels and appear reluctant to rebuild stocks. In fact, New York and Dallas

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*Prepared by the Federal Reserve Bank of Dallas report some retailers may now be understocked, and Chicago reports increased sales would require retailers to restock. Manufacturers' inventories of consumer goods have for the most part been worked down to acceptable levels. But other manufacturers are continuing to run off stocks. Metals inventories remain excessive in New York and Atlanta, and manufacturers of producers' equipment are still liquidating inventories in Cleveland and Chicago.

Prospects for industrial output are mixed. Capital goods production continues to fall with no near-term recovery in sight. The outlook for production on consumer goods, on the other hand, is more favorable. Because inventories are generally low at both retail and manufacturing levels, increased consumer spending should quickly result in stepped-up production.

Although unemployment remains high, job markets appear more stable than in recent months. Kansas City's survey of purchasing agents, for example, reveals little change in manufacturing employment recently. Several districts report demand in some job categories appears to be firming. In Boston, companies are showing renewed interest in hiring personnel with business and technical skills. And Richmond reports over a third of the manufacturers surveyed have recently begun to rehire. In addition, the start up of production lines this summer will require worker recalls in both Chicago and Kansas City.

While there are scattered reports of increased construction activity, home building remains weak throughout the country and will be slow to recover. High costs are the major deterrant to home buyers, according to Boston, New York, Chicago, and San Francisco. Chicago and Dallas mention residential construction is being constrained in some cities by a lack of building sites, as land developers have been unable to obtain financing for these ventures. But New York and Atlanta report improved sales of new homes. In the Southeast, residential construction is on the upswing, largely because of government funding of military housing. And St. Louis and Minneapolis mortgage loan demand has turned up sharply.

Deposit flows continue strong at commercial banks, but demand remains weak in most loan categories. According to Dallas and Philadelphia, loan demand is expected to remain sluggish throughout the summer. However, there are scattered reports that bank lending may be picking up. For example, St. Louis notes a rise in loan demand, and Kansas City states that lending for inventory accumulation has risen. San Francisco reports a growing demand for loans by utilities, transportation and energy companies, and the food industry.

Bumper crops are expected in most areas of the country, although adverse weather has affected production in some states in the Richmond, Atlanta, St. Louis, and Minneapolis Districts. According to Dallas, farmers fear increased production will lead to lower prices this fall. In the Kansas City District, farmers seem to be holding their wheat in anticipation of higher prices but will have to sell part of the crop before year-end to pay production expenses. A recovery in livestock prices has led to an increase in the number of cattle placed on feed.

FIRST DISTRICT--BOSTON

The directors remain optimistic inasmuch as they sense a firm halt to the economic slide coupled with the emergence of a modest recovery. Their attitude has shifted from a defensive posture to a guardedly aggressive outlook. Before, they talked of salvaging the situation; now they discuss strategies for business advancement. However, with an eye to recent experience, they are proceeding conservatively; and, although they are hopeful about the future, they stress that the recession has eroded conditions in New England substantially. The May rate of unemployment in New England was 11.6 percent, an increase of .2 percentage points from April. Connecticut, Massachusetts, and Rhode Island report unemployment rates of 9.8, 12.6, and 16.2 percent, respectively.

In various areas of the region, construction contractors have found jobs; however, they remain concerned since they are committed for less than one year typically. In residential construction, the outlook remains bleak. Interest rates, attitudes, and incomes are sufficiently depressing to forestall activity at this time. Banking directors, in an attempt to remain flexible, would warmly entertain short-term construction lending, but the directors are finding the opportunities to be sparse.

A director close to the Boston job market reports that firms are showing renewed interest in hiring personnel. However, only individuals with business or technical skills are required. While selected professionals face improved employment conditions, the rank and file suffer an extremely soft job market showing no signs of improvement presently.

Matching the employment situation, high-priced real estate is showing renewed life while inventories of medium-to-low-priced housing remain substantial.

Retailing in Boston continues well. One director who had planned June to be 5 percent over last year achieved sales increases of 10 percent. May and June have been two good months for soft goods; and, although weather is given a good deal of credit, "the presence of more money in the pocket is evident." The retailer notes that hard goods lines remain weak but improving. He partially attributes the success of soft goods to a reduced consumption of durables. The director is not increasing fall buying or reviewing his plan of 5 percent. He is not betting on a rapid recovery.

This director also reports that manufacturers' inventories are very low in his lines. However, the manufacturers are content to remain leaner and tighter, for they too are cautious. Prices are firm; no boom is encouraging markups, and rashes of panic sales have waned. A surge in retail sales would elicit a direct response in production activity.

Carbon black sales have changed little recently. As a result of sluggish conditions, a price war has broken out. Owing to high capital costs, some suppliers are attempting to improve market share enough to increase capacity utilization and profits. Sales of silicon pigments, used widely in the economy, are beginning to close upon records set in 1974. Super alloy metal sales, on the other hand, are continuing to weaken to the concern of our reporting director.

Banking directors report healthy deposit performance. Both demand and time deposits are increasing sufficiently fast to warrant a reduced reliance on borrowed funds and large certificates of deposit.

Business loan portfolios remain weak, and consumer credit shows little life as well. Interest rates are moving according to expectations. Short-term rates are expected to change little from current levels over the summer, but in the fall they are budgeted to rise. The prime rate may break 8 percent by December.

Of our academic correspondents, only Professor Samuelson was available for comment this month. He continues to believe that that economy has probably begun a recovery, but he stresses that there is "not a momentous V bottom" in his outlook. Small increases in short-term interest rates are appropriate as the economy regains its course. In his assessment, recovery will not be aborted if we allow interest rates to develop their own momentum to a degree; however, should they reach 10 percent, we may want to be more expansionary. Samuelson has noted that most models now tell us that the path of prices is largely independent of real growth. He feels that there is a "germ of truth" to this, and accordingly he would like to see money growth of 7.5 percent if we must observe the 5-7.5 percent target. Since the target covers a 12-month horizon, he sees no reason to engage quick corrections for the recent overshoot. The recovery requires attention if we are to avoid disappointment.

SECOND DISTRICT--NEW YORK

Second District retail sales developments have turned mixed since the vast improvement witnessed in May. While some retailers report continued strong sales, a number of them have apparently experienced some slippage in sales. For the most part, District retailers are comfortable with the current level of their inventories. Excessive stocks persist in a number of lines at the manufacturing level, however. Most industry observers remain gloomy about the outlook for residential construction, in spite of the pickup in sales of new homes. Regarding the price outlook, a number of respondents were fairly optimistic that price increases will be restrained in the near term, but many expressed fears of a resurgence of inflationary pressures over the longer run.

Recently we asked our directors and a number of other business leaders about their opinions on the danger of a near-term resurgence of inflation in view of the apparent bottoming-out of the recession. Most respondents felt that, for the near term, high levels of unused human and capital resources will help to restrain price increases. There was a strong undercurrent of apprehension about the longer run price outlook, however, with particular concern voiced over excessively stimulative fiscal policies. For example, the president of a large chemical firm felt that, while a near-term resurgence of inflation was a possibility, his real concern was over the longer term. Similar sentiments were expressed by the Buffalo branch directors. Among other respondents, the president of a large department store chain stated he expected some firming of prices by year-end, while another observer felt that wholesale prices for many industrial goods were bound to rise in order to cover rising costs. The chairman of a multi-national oil company expressed the fear that excessively expansionary fiscal measures to stimulate the economy might reignite inflationary pressures. Similarly, a senior official of a large New York City securities firm stated that his greatest concern was fear of renewed inflationary pressures under the impact of massive budget deficits and union demands for large wage increases.

The District retail sales picture has turned mixed in the wake of the almost uniformly buoyant sales in May. Most of the respondents commenting on developments in the upstate New York region reported that retail sales in June had run 3 to 7 percent below sales in the comparable period a year ago, although some reported sales continuing above year-earlier levels. Similarly, sales at most New York City department stores, after improving strongly in May, apparently fell back in June, in some cases to levels below those of 1974. On the other hand, the chairman of the New York outlet of a nationwide department store chain characterized the sales picture as very good, not only at the New York store but nationally. The president of another large department store chain observed a continuation of the improved sales at his firm that had begun in May. He expressed the view that this continued improvement heralded the long-awaited upturn in consumer spending.

Regarding inventories, a number of respondents felt that the liquidation of stocks at the retail level had about run its course. Indeed, one retailer expressed the belief that most retailers had been understocked since February. There were, however, reports of continued inventory excesses at the manufacturing level. For example, one director noted that steel inventories still remained at a high level, as well as those of textile fibers. The president of a nonferrous metal firm reported that there were still significant inventories of metals and metal products. The Buffalo branch directors felt that while inventories in general have been reduced to acceptable levels, spotty excesses still prevailed in some lines, including certain agricultural products, furniture, and new automobiles.

The respondents in general were less than sanguine regarding the residential construction picture. Several noted the recent improvement in sales of newly built homes but qualified their remarks by pointing out that such sales were still below those of the comparable period last year. A director felt that a gradual improvement in housing demand would continue but that it would take a long time before housing starts reach two million units annually again. An Upstate banker expressed the belief that the residential construction industry was still a long way from being in good health. And a senior official of a large thrift institution felt that an upturn in housing was not yet in sight because of the high cost of construction.

THIRD DISTRICT--PHILADELPHIA

Business conditions in the Third District showed little change, on average, during the past month. Area manufacturers report that their new orders held steady and inventories were reduced further, but employment was off slightly and price movements could be squeezing profits. These businessmen continue to be optimistic, however, about business conditions over the next two quarters. They expect new orders to be up, inventories to be trimmed still more, and workforces to be expanded. Nevertheless, capital spending plans remain conservative, and higher prices are anticipated. Area retailers report higher sales volumes but see no well-defined trends yet. Bankers in the region are experiencing steady inflows of savings deposits but still face flat loan demand.

Third District manufacturers, responding to this month's business outlook survey, report steady overall business conditions, with 80 percent of those surveyed indicating no change in general business activity over last month. Furthermore, there is some indication that the economic slide has been arrested. During June, only 10 percent of the respondents experienced declining business activity compared to almost 60 percent last January. While new orders were significantly higher in May, two-thirds of the executives surveyed report no change during June. Moreover, inventory liquidation is continuing with half of the manufacturers reporting lower stocks of goods on hand. Respondents listing cutbacks in their workforces still outnumber those reporting increases, but the length of the work-week is holding steady, with almost 90 percent indicating no change in the last month.

The economic outlook through the end of the year remains optimistic, with more than 80 percent of those polled expecting an improvement in business activity. Over two-thirds of these executives anticipate an increase in new orders, and a bit more pruning of inventories is expected. In addition, nearly half of these manufacturers expect to add employees, and some lengthening in the average workweek is foreseen. Despite the optimistic outlook, however, spending plans for plant and equipment are still guarded. Almost two-thirds of the manufacturers polled plan no change in capital expenditures by the beginning of the Bicentennial year.

Area manufacturers report that they are currently paying higher prices for their supplies but, on average, receiving lower prices for their finished products. However, the bulk of these executives expect the next six months to bring higher prices for both their supplies and their finished products. In fact, none of the manufacturers surveyed reported paying lower prices this month, and none expect to be paying lower ones by next January.

Merchants in the area report that retail sales are running slightly ahead of their projections. While none of the retailers contacted would ascribe very much of this to Federal tax rebates, one felt that most of the improvement stemmed from some amelioration in consumer attitudes toward spending. One retailer noted that his store's sales forecasts were being revised in a somewhat more optimistic vein through September, but another felt that no definite trends were evident yet and that sales could go either way. All of the merchants contacted report better delivery times for hard goods, especially furniture. It is felt that backlogs have been worked down, and with shorter delivery times, retailers expect to continue their current conservative posture on inventories.

Retail executives report significant moderation in the prices they pay and a stabilizing trend in the prices they charge. One expects to be paying substantially higher prices for man-made fibers but does not see this hitting the consumer at the retail level for another 6-8 months. These merchants look for prices to be climbing at a 4-6 percent clip by year-end and do not expect the rate to exceed 6 percent in 1976. They look for the economy to recover gradually and the unemployment rate to come down only slowly.

Bankers in the District report steady inflows of savings but are mixed in their experiences with demand deposits. The reports range from "a good influx" to "somewhat disappointing." There is general agreement that loan demand is still flat, and area bankers expect level or slightly lower loan demand for the balance of the summer. Most report that they are seeking short-term arrangements with new customers and they are generally trying to shorten maturities in their asset structure. One banker indicated relaxed constraints on availability of funds at his bank but no easing in the price or quality constraints for loans. There is little expectation that the prime rate will go any lower, and all of the bankers contacted felt that interest rates were near bottom. The rise in short-term rates in late June received mixed interpretations. While some bankers saw it as a definite tightening move by the Fed, others did not know what to make of it.

Area bankers expect the economy to recover gradually with interest rates moving upward at a modest pace. In addition, there is little anticipation of strong inflationary pressures during recovery. The financial executives contacted expect inflation to stay in the 5-6 percent range through most of 1976. But there was some concern that the Fed would be under political pressure next year to try to bring down the unemployment rate more rapidly with the result that inflation might be rekindled further down the road.

FOURTH DISTRICT--CLEVELAND

The pace of economic activity in some sectors of the District is continuing to improve, particularly retail sales of nondurable goods, housing, and several manufacturing industries. Employment and production are still sluggish in a number of areas of the industrial sector, however. Some manufacturing firms have been liquidating inventories at a rapid pace and plan to continue their inventory reduction programs in the near future. Capital spending, in real terms, is not expected to recover until next year.

A major retail chain in the District reported unit sales of nondurable goods picked up strongly during the past two months. Strengthening of hard goods sales is expected later in the year. The firm's buyers note prices for fall and winter merchandise have declined. Price markdowns on apparel and whitegoods will be less extensive than in recent months because inventories have been cut to desired levels.

The latest report of Cleveland purchasing agents suggests that production and new orders continued to decline in June at about the same pace as in May. Inventory liquidation accelerated last month, and employment and prices continued to decline. Those developments are consistent with early returns from our June survey of District manufacturers, except that our survey shows an increase in new orders last month, the first gain since last August.

A large producer of consumer packaging materials said orders have improved in recent months. The firm's inventories rose through April, and it plans to liquidate excess stocks until year-end. An appliance industry supplier views its inventories of finished and semi-finished goods as slightly above desired levels. A major chemical firm reports its stocks of chemical products in balance with sales, but plastics inventories are still high.

A tire industry source said tire shipments to wholesalers and retailers have recovered strongly. No further inventory liquidation or price-cutting at the retail level is expected because dealer inventories are low. (Shortly after reporting this item to us, the tire firm announced a price increase averaging 5 percent on its tires and tire products.) Tire producers plan to reduce inventories for the remainder of the year by allowing tire production to increase at a slower rate than sales.

In the capital goods sector, economists from several machinery companies said they do not foresee a recovery in real capital spending until early 1976. One economist said cancellations of machine tool orders appear to have run their course. New orders received by his firm were level in June, following some improvement in May. Another large machinery company has laid off workers at three plastics machinery plants in Ohio. New orders for certain types of gears have softened recently, according to a director in the capital goods business. On the positive side, a major steel firm reported it will spend $20 million for new plant and equipment in one of the District's most obsolete steel producing areas. A director in the office equipment business said sales turned up sharply last month.

A supplier to the truck industry said he foresaw no prospect for recovery this year in the depressed market for heavy-duty trucks. Inventories are very high. Sales of off-road heavy trucks used in oil-drilling areas have picked up slightly, and the firm expects more sales if oil prices are deregulated. The medium-sized truck market is improving; light trucks are recovering significantly, partly reflecting strength in demand for vehicles used on the farm and for recreation.

Steel industry sources said the decline in new orders has leveled off during the past few months. However, recovery in steel output is not expected until the fourth quarter. An economist with a major steel company commented on the nationwide increase in May's new orders for durable goods, which is largely attributable to a rise in steel orders. Steel orders received in May, seasonally adjusted, may be overstated because delivery is usually during the low shipping month of July. Thus, May's increase in durable goods orders may be more a reflection of inadequacies in the seasonal adjustment process than changes in underlying market condition. Steel producers have been offering price concessions to stimulate demand. Steel service centers, which have far more inventory than needed to handle current orders have also cut some prices. Inventories at steel mills are near desired levels, but warehouses and steel users are expected to continue cutting inventories into the fourth quarter.

Executives from several oil companies based in the District reported the nation's gasoline inventories are tight. They commented that spot shortages could develop in the months ahead, particularly on the East coast. Right now, oil refineries are maximizing gasoline production and are raising prices to recover some past cost increases. The major conern about the availability of petroleum products is during the fall and winter. If the expected shortages of natural gas occur, cutbacks of natural gas to industrial users will force some companies to convert to fuel oil. This could cause serious disruptions of petroleum product supplies. (As an indication of impending natural gas shortages, a gas company recently announced that it will cut off all natural gas to industries in Central Kentucky effective November 1.)

In the housing market, residential construction contracts continued to recover in May. The economist at the Federal Home Loan Bank of Cincinnati said preliminary data from their sample of savings and loans indicate near-record deposit inflows during June. Loan commitments have been rising, but a few savings and loans are still cautious in their lending policies because of low liquidity and the possibility of savings outflows later this year.

Several banks in the Fourth District have reported weak growth of total demand deposits, which is a normal seasonal development in this District. Rapid increases in individual demand deposits have been offset by declines in public deposits.

FIFTH DISTRICT--RICHMOND

Judging from our June survey of District business conditions and from other available information, there appears little doubt that recovery is getting under way in the Fifth District. Survey responses of manufacturers indicate increases in shipments, new orders, employment, and hours worked per week, with backlogs of orders unchanged and inventories continuing to decline. Both manufacturers and retailers continue to express cautious optimism about the outlook for the remainder of the year although responses suggest lingering doubt about the vigor of the recovery. Overly conservative inventory policies and the high cost of financing are seen as possible impediments to a full recovery any time soon. The Fifth District banking situation continues to reflect a relatively low level of real economic activity and a cautious posture on the part of business borrowers as well as banks. Loans outstanding in most categories at weekly reporting banks declined in June, while investments increased and the liability mix moved in favor of time deposits.

The June survey of Fifth District business conditions indicates continued improvement in most areas of business activity. More than 40 percent of the manufacturing respondents reported increases in shipments and in the volume of new orders. Backlogs of orders were essentially unchanged after declining for over a year. Almost 43 percent of the manufacturing respondents feel current inventory levels remain excessive, although their responses suggest a further substantial decline in stocks of both materials and finished goods in June. On the employment front, 38 percent of the respondents report an increase in the number of employees while only 12 percent report a decrease. This tends to bear out an increasing number of informal reports of rising employment and declining unemployment across the District and represents a significant change from recent months. Hours worked per week also increased in June according to our survey, but some industries are still on short time.

Responses of manufacturers also suggest continuing upward pressures on prices. Twenty-eight percent of the respondents reported paying and receiving higher prices, with the same percentage indicating increases in average hourly compensation of employees. Current plant and equipment capacity remains above desired levels, but there is no indication of any desire to alter current expansion plans. Over half the manufacturers surveyed now expect production in their own firms to improve over the next six months. A majority also foresee improvement in business conditions locally and nationally over that time period.

Reports from the textile industry indicate that business is beginning to pick up as retailers have achieved manageable inventory levels and are resuming purchasing activity. Some textile manufacturers are becoming more aggressive in the production and marketing of new lines of merchandise. Others, however, express some concern over the reluctance of retailers to commit themselves to larger inventory positions. They believe that a continuation of policies for maintaining lean retail inventories may lead to some loss of sales at the retail level and retard recovery in the manufacturing sector. In any case, it seems likely that some hesitate to make the first move in stepping up production without a commitment by retailers.

Meanwhile, our survey of District retailers shows sales strengthening in June for the second consecutive month, although the sale of big-ticket items relative to total sales remains weak. Inventories at the retail level declined somewhat, and those retailers surveyed feel current inventory levels are about right. Prices, for the most part, were unchanged during June, and increases in employee compensation were less widespread than in recent months. Respondents to the retail survey were unanimous in expecting conditions to improve over the next six months.

The consensus among District bankers is that the economy has bottomed out but that recovery will take place only very slowly. Commercial and industrial loans at weekly reporting banks in June were nearly 6 percent below last year's level; but lending officers believe that the decline has about ended, and some expect improvement in the months ahead. One bank specified textile industry term loan demand as an area of improvement. Several banks report that utilization rates on loan commitments are at the lowest levels of the last several years but that requests for new and increased lines of credit are fairly strong. Some problem construction loans still exist and are being worked out. Bankers express a hope that increased recreational activity will facilitate residential sales at projects that have suffered in resort areas.

Total demand deposits at weekly reporting banks were 1.8 percent higher than a year earlier, while savings deposits were 15.5 percent higher with strong inflows continuing. CD's outstanding declined 2.3 percent from May, and net Federal funds purchases of

District member banks during the first three weeks of June reached their lowest level since April 1973. Borrowings at the discount window increased somewhat in June, especially at month's end, but are still at an extremely low level by historical standards.

Farmland values rose at a significantly slower pace during the year ended March 1, 1975, than in other recent years. Districtwide, average farm real estate values per acre advance 11 percent, but the increase compared with gains of 26 percent in 1974 and 16 percent in 1973.

Farmers' cash income from farm marketings continues to run well below a year ago, although the 11-percent District decline from the January-April period is much smaller than that nationally. But this situation may well change. Eastern North Carolina's tobacco, corn, and soybean crops have been hard hit by drought conditions.

SIXTH DISTRICT--ATLANTA

"Improving" seems to be the key word in most sectors of the Sixth District economy. The agricultural outlook is bright with bumper crops expected. Car sales are showing some moderate strength in parts of the District. Inventories now seem to be at desired levels for most businesses, except primary metals manufacturing. Construction of single-family homes is improving; new defense contracts will also aid construction activity. Several District businesses are negotiating sizable contracts with Middle East oil companies. Tourist activity throughout the region continues to be strong.

Bumper crops are expected in many parts of the District. In Alabama, farmers are making good progress in planting and cultivating. Most crops, especially tomatoes, are very good. Florida's tomato crop is also very good this year, and prices are at high levels. However, in Louisiana, heavy rains and backwater flooding this spring have caused considerable damage to timber and pasturelands. Loss estimates run as high as $50 million. Tennessee crops are generally excellent, but there is concern over the current lack of moisture in this area. The high level of production costs continues to affect District farming. One report from an eastern Tennessee county indicates that the number of farm auctions has risen to between three and five per week.

New car sales, while improving, fail to show any substantial rebound. Reports from Alabama, Florida, and Louisiana, however, indicate that used cars are selling very well. Foreign car sales are also brisk. The Jacksonville Port Authority reports foreign car imports continuing at a rapid rate. New car sales are reported as spotty in Tennessee. However, in Nashville, a Cadillac dealer sold 25 cars in 7 days; he reports that May was his third best month since he has been in business. Used cars are reportedly selling at a fantastic rate in the Nashville, Tennessee, area.

Tennessee informants report that retail sales of both high-priced and low-priced items are doing well. The slack seems to be in the middle-priced items. Several Tennessee manufacturers report orders up and are now rehiring. However, farm machinery, glass, and industrial lighting manufacturers continue to cut back their work forces because orders remain at low levels and inventories are still excessive. Most retail stores appear to have inventories back to normal levels but remain conservative in restocking because of uncertainties over the strength in retail sales. One director voiced apprehension over the impact on retail sales of the expiration of unemployment compensation benefits later this fall.

Directors were asked to make a special survey of inventory conditions of local businesses. For the most part, businesses now say that inventories are at desired levels and no further reductions are anticipated. Some believe that inventories are too low. However, steel manufacturers' inventories are cited as being too high. No expectations of renewed materials shortages in the near future were voiced by the directors.

Deposit inflows at savings and loan institutions continue to accelerate in most parts of the District. More importantly, mortgage commitments are now on the rise. Most parts of Alabama report substantial gains in building permits, and real estate dealers report continued increases in sales of current housing inventories. For the first time in over a year, there appears to be a definite upturn in single-family housing activity on the lower western coast of Florida. Several Government defense contracts will also give a boost to construction activity. Government funds of over $66 million are expected to be approved for housing construction projects at Georgia's Fort Stewart complex. Louisiana's Fort Polk is to receive over $100 million for permanent housing; the funds have already been approved by the U.S. Armed Services Committee. As strange as it seems, Florida's housing industry may receive a boost from Middle East oil countries. Deltona's "component homes" plant in South Florida is now closed down, and this has added to the region's unemployment. This company is now working on a new home line for overseas shipment to the Middle East. If the project materializes, the plant will soon reopen. An Alabama company has also recently completed a $42 million contract with Saudi Arabia to build 1,000 modern prefabricated townhouses.

Foreign oil money will also give a boost to the economies of Birmingham and Mobile, Alabama. A Birmingham-based firm is in final contract stages with the Arabian Sheikdom of Abu Dhabi for a $52 million water pipeline project. The 33,000-ton pipe order will be shipped through the Mobile, Alabama, port. Martin-Marietta Corporation of Orlando, Florida, has received a $30 million Air Force contract. Three Alabama Army bases are to receive nearly $60 million in Government funds in fiscal 1976. Several construction projects at medical complexes in New Orleans and Atlanta should give a boost to these cities' economies. However, in Atlanta, construction laborers went on strike July 1, stopping construction on $150 million worth of downtown hotel projects.

Tourist trade remains very strong in Florida, Georgia, Louisiana, and Tennessee. Reports from Tennessee indicate a record year for tourism. Tourist traffic is particularly strong in Nashville. The new Nashville Hyatt Regency is already booking conventions through 1981. Tourist traffic in Georgia, according to travel statistics, is up nearly 20 percent from a year ago; and, as mentioned in earlier reports, tourist activity on the western coast and central parts of Florida remains up 50 to 80 percent from last year.

SEVENTH DISTRICT--CHICAGO

A widespread consensus in the Seventh District accepts the view that the bottom of the general recession has been passed but that full recovery will not be achieved for a long time--perhaps not until 1977. Business conditions in the District appear less favorable than in the nation. Some capital goods producers are beginning only now to reduce output, and no near-term revival is in sight. Demand for consumer durables and building materials remains depressed, although there are scattered signs of improvement. Inventory reductions are still under way in most manufacturing firms. Virtually all materials and parts are readily available. Many producers of equipment for consumers and business, nevertheless, will attempt to raise prices substantially as soon as market conditions and public policies permit. Job markets remain very weak. Construction activity, in total, is unlikely to strengthen this year. Crop prospects are excellent, with a record corn harvest and, at least, a near record soybean crop expected.

Demand for such items as draglines, huge electric mining shovels, overhead cranes, steel mill equipment, chemical processing equipment, and pollution control facilities remains excellent. Some producers of this equipment are pushing their own expansion programs, with one maker of heavy mining equipment planning to double capacity in the next three years. However, most other capital goods producers, who account for a much larger volume of activity, are cutting output. Demand for heavy trucks is almost nonexistent, despite rebates and attractive new features. Sales of most types of equipment for agriculture, construction, metalworking, and materials handling are down very sharply.

A revival in most types of capital spending is expected to lag the general economy by two, three, four, or more quarters. Many users of equipment had been buying in excess of current needs during the boom, and the recession resulted in rapid melting of backlogs and heavy inventories of finished goods at the factory, distributor, and user levels. In addition, the rapid change in psychology from excessive exuberance to pessimism will have lingering effects. Finally, there is concern that rising interest rates will deter some sales. Equipment producers have reduced hours, pushed early vacations, shifted workers among divisions, and have allowed attrition to reduce payrolls. Substantial layoffs may prove necessary, however.

Inventories of most consumer goods, both hard and soft, are said to be moderate at the retail level, while manufacturers' inventories of materials and components to produce consumer goods are described as "low." A significant rise in consumer purchases, therefore, would require restocking. Producer equipment manufacturers, however, are still liquidating inventories of purchased supplies and materials, and they would like to reduce finished goods on hand. Virtually all items are available on very short notice, often with price concessions. Because of reduced profits caused by lower volume and rising costs, overall, many manufacturers are waiting for an opportune time to raise prices of finished goods substantially.

Steel demand is equal to about two-thirds of capacity. There has been some pickup in orders for lighter steel products used in consumer goods, but demand for plates and other heavier products is down sharply. Steel mills are proceeding with deferred maintenance at a leisurely pace, in contrast to the rush atmosphere of some recent years. A District steel producer, with a strong market position, has embarked on a $1 billion program to boost capacity 25 percent. Work has been started on a huge new blast furnace approved last fall. Completion is scheduled for the fall of 1978.

Retail sales in June apparently did not continue the improvement noted in May. Sales of autos, recreational equipment, appliances, and televisions remain slow, more so in the District than in the nation. Increases in output in some of these lines reflect mainly the need to balance inventories. Also, start-up production of new model cars, television sets, and other items in the summer will require worker recalls.

Auto companies plan a $6 billion, five-year program to manufacture a "new generation" of smaller, lighter cars. Some tooling design work has been ordered. Orders for dies, molds, fixtures, machine tools, and welding and assembly machines will come later.

Residential construction activity in the District remains at a very low level, with apartments especially weak. Mortgage money is available, usually at 9 percent with 30 percent down, but many buyers are repelled by high prices and rising costs of home ownership. Lenders are worried about increased difficulties in foreclosure proceedings. Some builders in the Chicago area are eliminating extra baths, dining rooms, and other "frills," and are making garages and air conditioning optional to keep prices in the $30,000 to $35,000 range. Skeptics refer to these units as "1945," or, even as, "junk houses." Developers complain that financing is hard to get, even at

10 percent. Many builders want heavy subsidies to help sales. Despite these problems, residential building is expected to show slow improvement, but prospects for new office buildings and shopping centers are dim.

EIGHTH DISTRICT--ST. LOUIS

A modest upturn in business activity in recent weeks was reported by a number of District businessmen. Several retailers and manufacturers indicated improved sales compared with earlier in the year, although sales of most products remain considerably off from year-earlier levels. Savings deposits continue to increase rapidly at thrift institutions, and some increased loan demand was reported. Representatives of the agricultural sector reported that crops are doing well in most of the District, and higher prices for livestock are improving the profit prospects for livestock producers.

Area retailers reported that sales turned up in recent weeks although no great surge in sales has occurred. Apparently, department store sales bottomed out in May in the St. Louis area. It was observed, however, that the trough was associated with the ending of a major strike in the area. Retail inventories have generally been brought down to desired levels. Retailers continue to report sluggish sales for big-ticket items with sales gains occurring largely amoung software lines. Automobile sales, however, were higher in recent weeks than earlier in the year with sales of imported cars increasing faster than sales of domestic cars.

Manufacturing activity has improved in several industries, but it continues rather sluggish in others. Manufacturers of consumer goods, such as watches, bicycles, clothing, and appliances, reported some modest turnaround in demand from earlier in the year. A producer of metal connector plates used in construction noted an upturn in demand in the past couple of months and had returned to a two-shift workday.

A welding equipment manufacturer also noted a decided upturn in sales in the past few weeks. On the other hand, sales of residential construction items were reported to be flat with some excess in inventories yet to be worked off. A steel industry representative reported a bottoming out of steel production in recent weeks.

Sales for most manufacturing industries continue to be off substantially from year-earlier levels, but most inventories have been worked off and are now under control. Large inventories of steel held by steel consumers such as automobile and appliance companies are reportedly being reduced, but the excess will soon be worked off and steel production is expected to rise in the third quarter of this year.

Building activity has improved slightly since the first quarter of the year, but it remains generally weak.

Savings and loan associations, as well as banks, continue to report sizable gains in deposits. Large amounts of funds are being placed in passbook-type accounts. Mortgage loan demand has turned up somewhat in recent weeks, and some institutions have recently increased the rates charged on such loans. Total loans at large commercial banks in the District have turned up in all the major centers except in St. Louis. However, one of the larger St. Louis banks reported an increase in loan demand during the past two weeks.

Crop and livestock producers were reported to be faring quite well in most of the District. Large acreages of corn, soybeans, and rice were planted; and the crops are generally doing well. Cotton acreage was reduced more than planned in some parts of the District due to wet weather, but weather conditions improved sufficiently to plant soybeans on most of the acres on which cotton could not be planted.

Higher beef, hog, and poultry prices, in combination with lower feed prices, have substantially improved the profit picture for livestock producers. The relatively small marketings of cattle in recent weeks partly reflect the abundance of pasture grass which permits farmers to obtain low-cost weight gains on cattle.

NINTH DISTRICT--MINNEAPOLIS

At midyear, the economic decline in the Ninth District appears to be ending. Consumer spending has picked up recently, and tourist spending has been strong throughout the District this summer. Automobile and truck sales, on the other hand, continue below year-earlier levels. District construction activity picked up modestly in the second quarter. Despite localized damage from recent rains, early July's overall District crop conditions can be termed good to excellent. District farm income, however, could suffer if large harvests depress prices.

After a poor first quarter, District consumer spending has started to revive. Several large District retailers reported that sales began to pick up in late spring, and one large firm termed recent business as "excellent." However, others indicated that their sales had been just matching or falling below year-earlier levels. Several retailers felt that favorable weather had helped to boost their sales, and opinions were mixed concerning the tax rebates. One large firm stated that the tax rebates and earlier tax refunds combined with the favorable weather had helped sales along, but concern was expressed that these factors had merely shifted some July-August spending to the May-June period. Other firms stated that the rebates had no effect, and one retailer reported that his company's rebate check-cashing promotion was a failure. A survey by a local market research firm indicated that 63 percent of Minnesota residents either saved rebate money or used it to pay old bills. With regard to the current situation, regional retailers were satisfied with their inventories; the consensus was that business should gradually continue to strengthen during the last half of 1975.

In contrast to some pickup in general merchandise sales, District automobile and truck sales continued to be down from a year ago. However, some sentiment was expressed that business had started to improve, and regional sales offices indicated District auto inventories were in good shape.

The tourist business was thriving throughout the District, from the Upper Peninsula of Michigan to Montana. In the Upper Peninsula, Northwestern Wisconsin, and Minnesota, reservations were up from a year ago; and resort owners were looking for a very good tourist season. In the western part of the District, visits to Mount Rushmore National Memorial in South Dakota in early June were up 27 percent from a year ago, and travel to Yellowstone National Park was greater than it was last year. No single explanation for the improvement was given, but many expressed the opinion that tourists have had more interest in seeing America this year. Reports from North Dakota and the Upper Peninsula indicated that many Canadians were expressing interest in vacationing in those areas.

Conditions have improved slightly in the District's construction industry. Although still below a year earlier, District housing unit authorizations strengthened in May and April. Also, outstanding mortgage loan commitments in May moved sharply upward in District savings and loan associations, and savings inflows to District thrift institutions had been quite strong through the first two quarters of this year. In addition, a large thrift institution in the Minneapolis-St. Paul area recently reported that loan demand for mortgages was strong. District nonresidential building had also shown some signs of improvement. However, recent District construction activity had been weaker than that of the nation.

District prospects for the small grain, corn, and soybean crops were reported to be surprisingly good, considering the late planting season and persistent June rainstorms. In most cases, the crops were somewhat behind what is considered normal, although some corn in Southeastern Minnesota was already four feet tall by the beginning of July. But the recent heavy rains have created a number of problems. Many fields were flooded and washed out in Minnesota and North Dakota. Wet weather also ruined the first cutting of alfalfa hay and hampered both the cultivation of corn and soybeans as well as the spraying of small grains. What is needed now to hasten crop development and bring out maximum yield potential is a period of dry, sunny weather.

TENTH DISTRICT--KANSAS CITY

A survey of a number of Tenth District purchasing managers indicates that while some further liquidation of purchased inventories is still under way the inventory situation has basically stabilized. Except for some modest seasonal advances in production, sales, and employment, purchasing managers report essential stability in those areas as well. However, 2,200 GM employees laid off in January will be rehired by the Kansas City assembly plant by mid-August.

Although the Tenth District wheat harvest is running somewhat behind normal, recent improvement in the weather picture has permitted the harvest pace to accelerate, with reports received on yield and quality quite favorable. With prices strengthening, the District livestock picture has brightened considerably in recent weeks. Tenth District bankers surveyed continue to report weakness in total loan demand, although some improvement was noted in business loans in recent weeks. Contraseasonal declines in both demand and time deposits were reported at many Tenth District banks in June.

Contrary to reports in the Wall Street Journal of purchasing managers relating a surge in new orders and production, a quickened pace of inventory liquidation, and encouraging employment trends, a survey of a number of Tenth District purchasing managers does not discern those developments occurring to any appreciable extent within the District. The term "stability" best describes the situation as related by the respondents to our inquiries. Although some further liquidation of purchased inventories is still under way, there were scattered reports of modest accumulation, mostly seasonal in nature.

But most purchasing managers report plans to hold inventories at present levels. Production and sales have been holding steady recently and little or no change in employment was reported, nor were any sizable increases or layoffs being contemplated for the very near term. However, General Motors has announced that 2,200 workers laid off in January will be recalled to work at their Kansas City assembly plant by mid-August.

The District's wheat harvest is running about 10 days behind normal this year due to the late development of the crop as well as poor harvest weather in some areas. However, hot and dry conditions have dominated the District's weather picture for the last several days, allowing the harvest to progress at a rapid pace. Most of the reports on yield and quality are quite favorable. In fact, the crop has been a pleasant surprise in those areas suffering wind and hail damage earlier in the year. Like last year, the farmers seem to be holding their wheat in anticipation of higher prices at a later date. However, there is a general feeling that a significant amount will be sold before the end of the year to pay production expenses.

The livestock picture has brightened considerably in recent weeks. Prices have approached, and in some cases exceeded, the highs achieved in 1973 following sharp declines in beef and pork slaughter. Although feedlot placements have recently begun to rise and will probably continue rising the rest of the year, fed-beef supplies are expected to remain relatively tight. The seasonal increase in marketing from grass later this summer will probably push prices down, but the slippage may be less than earlier anticipated due to the very sharp reduction that is in store for pork output. Based on the most recent hog report, slaughter during the second half of the year could fall 20 percent or more below the year-earlier figure. Therefore, hog prices promise to be strong for the next several months, and this will tend to buoy cattle prices throughout 1975. Reflecting these developments, the index of prices received by farmers rose 2 percent during the month ended June 15, the third consecutive monthly rise. While the future direction of this index will depend heavily on the weather, it seems clear that retail food prices will continue to increase through the summer.

Bankers surveyed in the Tenth District continue to report weakness in total loan demand. Declines are still occurring in consumer loan volume and in loans for residential and commercial construction. Agricultural loan demand also is said to be very weak, reflecting in part earlier declines in feeder cattle prices and placements at feedlots. As noted previously, however, the livestock picture has improved recently. One bright spot in the loan picture is that business loans are reported to be picking up in recent weeks. Some of these loans were said to be for purposes of inventory accumulation. Tulsa area banks also noted a large increase in loans to oil and gas drilling interests, with one respondent indicating the loans were extended to finance drilling in Alaska. The prime rate charged by all respondents was either at or above the national level.

Deposit outflows have occurred recently at many Tenth District banks. Both demand and time deposits appear to have dropped contra-seasonally during June. Many bankers reported that a sizable decline had taken place in their large CD's over the past several weeks.

However, a few respondents indicated that because of their belief that interest rates would rise they had made a recent decision to become more aggressive in the CD market and to acquire 6-month to 1-year CD's.

ELEVENTH DISTRICT--DALLAS

The volume of loans outstanding at Eleventh District banks has remained essentially unchanged in the first half of 1975. A survey of large banks reveals lending has fallen well short of projections made at the beginning of the year. And weak loan demand has led most banks to lower loan projections for the remainder of 1975. Bankers admit, however, to a significant role in holding down loan volume, primarily by being increasingly selective in granting credit. In particular, they have applied more stringent cash flow and liquidity criteria to loan applicants. Most respondents are turning down some loans they would have made a year ago--particularly term loans.

Demand for commercial and industrial loans is particularly weak. Bankers said part of the depressed demand for these loans reflects the use of the commercial paper market by some customers. But most District firms have simply reduced their borrowing in line with depressed business conditions. Inventory loans, for example, are off, as most firms have completed trimming stocks and have not yet begun to reorder in significant volume.

Sluggish loan demand has resulted in major banks being "beseiged" with requests to participate in their loans. With their loan volume depressed, however, these banks are turning down most requests. Petroleum-related lending, on the other hand, remains strong. Producers of oil field equipment are reportedly building inventories to fill a backlog of unfilled orders and to meet heavy demand expected in the second half of the year. But several bankers have been warning these firms to begin trimming inventories in the light of indications that the boom in investment by petroleum companies may be easing.

All phases of real estate lending are lackluster. Bankers reported only a modest pick-up in interim construction loans. Even in Houston, which, until recently, seemed isolated from the nation-wide slump in building, interim construction lending has fallen sharply.

Loans made for purchases of raw land by developers continue to pose problems for real estate loan officers, and banks have grown extremely cautious in making these loans. One banker claims "the problem with these loans is illiquidity and not insolvency." A Fort Worth banker, however, reports a recent rash of foreclosures on this type of venture. Builders in Fort Worth and Houston say very little land has been developed in the past year. A severe shortage of residential lots has arisen, further dampening home building.

Consumer loans at District banks have edged downward since the first of the year. Virtually all the decline has been in installment lending, primarily automobile loans. Credit card volume, meanwhile, has generally been flat.

Seasonally adjusted department store sales in the Eleventh District have risen over 10 percent since mid-April. Purchases of durable goods have shown marked improvement, particularly such big-ticket items as furniture, appliances, and color television sets.

A survey of the largest department stores in the District reveals that inventories are very low. None of the stores contacted considered their inventories too high, but about a third of the respondents said they were understocked. Consequently, some sales were being lost. Nevertheless, retailers are determined to keep stocks low. They said that recent increases in sales do not necessarily signal an upturn in consumer spending. The gain could well be temporary, largely the result of the tax rebates. So inventory orders by retailers in the third quarter are still planned to be conservative. An El Paso retailer, for example, said most of his recent buying had been limited to "filling holes" in his inventory.

Crop and livestock conditions in District states are above average. The winter wheat harvest is progressing well and yields have been generally good. Cotton, sorghum, and rice crops are growing satisfactorily. Pastures and ranges are in good condition, with abundant grazing available.

Marked improvement in the fed cattle market has resulted in a 19-percent rise in the number of cattle placed on feed in May. But despite increased placements, the number of cattle on feed in Texas on June 1 was 42 percent less than a year earlier. Texas ranchers have sizably reduced their cattle herds, as the number of cattle and calves slaughtered in the first five months of this year was 43 percent more than in the same period in 1974, despite a 22-percent drop in fed cattle marketings.

Although growing conditions are favorable, farmers are concerned about prices for both crops and cattle this fall. Cash receipts from farm and ranch marketings in the District states in the first four months of this year had dropped 27 percent from the same period last year. The decline in sales reflected lower farm prices for both livestock and crop marketings.

TWELFTH DISTRICT--SAN FRANCISCO

All but two of our directors are of the opinion that the recession has bottomed out. The general consensus is that the recovery will be spotty. Gains in personal income and a turnaround in industrial production are expected to occur first. However, new housing construction, automobile sales, and unemployment will respond at a much slower rate. Since these are popular indicators, some directors think that their trends will have an adverse effect on consumer confidence. Concerns about future energy costs, government debt financing, and high mortgage rates add to the existing caution on the part of consumers and businesses to commit themselves to large expenditures. In spite of this, however, a halt to the general decline has been observed and new orders are beginning to involve larger quantities.

Throughout the District, consumers are continuing to behave cautiously and are not yet willing to assume debt in order to purchase big-ticket items, especially automobiles. This attitude is most prevalent in Utah. In the Pacific Northwest, business at the retail level appears more buoyant. Contact with apparel manufacturers and a large appliance distributor in that area reveals that new orders are picking up. Tourism and recreation expenditures are showing gains over last year, and soft goods sales are increasing as a result of strong promotional efforts.

Aircraft manufacturers continue to experience a softening in the rate of new orders. Our banking directors report there has been a recent strengthening in loan demand from the utility, transportation, shipping, and energy industries, but utilization of bank lines by general manufacturing, food distribution, and forest products remains soft. Within the food industry, however, both agricultural and food processing loan demand have been strong. In some areas financing requirements of auto dealers have increased as they have been forced to carry unusually large inventories due to slow sales.

A director connected with a large nonferrous metals firm reports that "order intake in our industry has improved in the past three weeks at a modest rate and we expect the order rate to continue to improve." Another director from the lumber industry reports steady sales for the past three months, at levels 15-20 percent below the fourth quarter of 1974. Orders for the recent period have been small in size and for short delivery. Although this trend is continuing, his company is now receiving inquiries for third quarter delivery or mail shipments in larger quantities. He states further that corrugated containers have maintained a slight improvement over April lows but that the lumber and plywood market which showed signs of recovery in May has slipped back to April levels in both prices and volume. His company forecasts a rather slow recovery in that field over the next 9-12 months.

The recovery in new residential construction is expected to be very slow. Over the next six months, if the unemployment rate and mortgage rates remain high, demand for new housing is expected to be moderate.

In agriculture, the farmer has been caught in a cost-price squeeze of significant proportions. Farm prices and demand are generally off. Labor, machinery, fertilizer, and feed costs are much higher than last year. There has been some firming of beef cattle prices in recent weeks, but the situation is generally one of oversupply.

A director connected with the food industry in Idaho comments, "It appears that most agricultural crops, particularly the cereal grains, shall be in a surplus situation caused by high yields and lack of export opportunities. For the first time in several years we are noticing inventory buildups in implement yards, and new tractors are readily available." In contrast, the dairy business is up, and productivity is increasing.