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CURRENT ECONOMIC CONDITIONS BY DISTRICT

Prepared for the
Federal Open Market Committee
by the Staff

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SUMMARY*

The picture that emerges from virtually all of this month's District reports is one of a resumption of a vigorous upswing in the economy following its pause late last year. Strong retail sales, including autos and other durable goods as well as nondurables, are reported by most Districts. Business inventories with a few exceptions are now in line with sales, and some restocking is getting under way, notably at the retail level, but also, if to a modest extent, at the manufacturing level. The residential construction outlook continues to brighten in several areas, although commercial and industrial construction generally remain sluggish. Against this background, the employment picture has been improving. Business attitudes towards capital expenditures, however, continue cautious. The outlook for the 1976 crop year is mixed. The demand for bank credit generally remains flat.

Virtually all Districts report further advances in the pace of consumer spending, with retail sales variously characterized as healthy, brisk, and stronger than expected. This trend, moreover, is generally expected to continue over the coming months, with a good Easter season in the offing and, as reported by one Bank (Philadelphia), with expectations that fall will be better than spring. Particularly encouraging were reports by most Banks that the improvement has been shared by both soft and hard goods. Across the board increases, broad-based strength, and dramatic improvement in major household appliance sales are mentioned in several reports (including Cleveland, Chicago, Richmond, and St. Louis).

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*Prepared by the Federal Reserve Bank of New York.

Strength in auto sales is mentioned in about half of the reports, and most reports touching on car sales take note of the recent shift in demand from smaller to larger models. An auto industry economist in the Cleveland District has raised his estimate of 1976 sales of new domestic cars to 8.5 million units.

The strength in retail sales has improved the inventory picture at both the retail and the manufacturing level. Retail inventories are generally found in good shape and at or below desired levels, and a number of Banks report moderate efforts by retailers to rebuild depleted stocks (Philadelphia, Richmond, Atlanta, Chicago, and St. Louis). Cleveland, however, reports that retailers are not expected to build inventories until late this year. At the manufacturing level, Philadelphia reports that inventory liquidation has given way to a modest accumulation, while Dallas reports a rebuilding of chemical inventories by users, and a build-up of finished goods by producers. A strengthening in the demand for steel, aluminum, lumber products, and similar basic products is noted by some Banks (Cleveland, San Francisco, and St. Louis).

The gradual improvement in residential construction that had already begun to emerge in some areas continued in evidence over the past month, with a number of Banks reporting increased building activity (including Atlanta, St. Louis, and San Francisco). The improvement, however, as yet remains largely concentrated in single-family building (although Atlanta also reports an improved outlook for apartment building). Industrial and commercial construction have yet to show convincing signs of a revival.

The picture in the capital goods industry has brightened somewhat over the period but in general business outlays for plant and equipment continue to lag the recovery. Among others, Cleveland notes that while there has been some pick-up in orders of equipment from depressed 1975 levels, respondents in that District do not expect a sharp recovery until 1977; manufacturers in the Richmond District view plant capacity as still excessive; and Chicago reports the outlook for capital goods to be mixed.

The increased tempo of business activity finds its counterpart in a generally improved employment picture, with increased hirings and/or declining unemployment mentioned by a number of Banks (including Philadelphia, Richmond, St. Louis, and Chicago). More restrained reports, however, emanate from Boston and New York.

Reports from agricultural Districts regarding the outlook for 1976 crops are mixed. Kansas City and Dallas note substantial drought and wind damage to the winter wheat crop, but the former indicates that timely precipitation could improve production prospects considerably. Minneapolis reports that most of the District's agriculture has not been affected by drought, and prospects for a good winter wheat crop in the St. Louis District are reported excellent.

Most Banks report the demand for commercial bank loans in general continues flat, in part reflecting the higher level of corporate liquidity. Respondents in a number of Districts, however, note scattered evidence of some strengthening in loan demand (including Richmond, St. Louis, amd Kansas City), and some mention expectations of a pick-up as the year progresses. Deposit inflows at thrift institutions generally remain good, and some increase in mortgage loan demand is noted.

FIRST DISTRICT--BOSTON

According to directors of the First District, the business situation in New England shows no significant change from last month. Retail sales have remained strong, and the outlook for retailing is very encouraging. On the other hand, capital goods industries and construction have yet to experience a convincing recovery. Bankers report that loan demand is weak, and, that they have discounted the possibility of a marked increase in lending activity this spring. The directors note that financial markets have become extremely sensitive to the tone of monetary policy.

New England machine tool firms are beginning to lay off personnel. Order backlogs had been sufficient to maintain production schedules until recently. It had been hoped that new orders of smaller tools would have improved by now, since they tend to lead investment recoveries. However, orders have been disappointing and show no signs of improvement, so that lower production schedules are warranted. The new orders for bearings, construction equipment, and super-alloy metals also continued weak.

The directors speculate that capital spending will continue cautiously, reasoning that businessmen are still concerned with strengthening balance sheets, especially since the outlook is so unsettled. Our economic crises are so far from being solved and the future tone of credit markets is so uncertain that firms are less willing to lever current capital needs, much less those needs projected for coming years.

Construction activity is also weak. There is little interest in nonresidential construction, since existing structures exceed present requirements. Similarly, before condominium and apartment construction may revive, the existing stock must be sold at reasonable prices. Single-family-home sales have recovered modestly, but the large stock of homes to be sold plus soft prices inhibit building activity at this time. Directors note that the price of new housing has outstripped family incomes.

Mortgage interest rates have fallen sharply in some areas of New England, while remaining fairly steady in others. One director reports that some Connecticut thrift institutions in their areas have been expanding by attracting checking and NOW accounts, and the full cost of these liabilities is only now becoming evident to the thrift institutions.

Bankers continue to report that loan demand is weak and that some modest competition for customers by out-of-state banks is evident. However, there are no substantial discounts on the effective cost of funds to borrowers. One director comments that small bankers in New England are caught between holding companies and thrift institutions. Larger business customers need the services that larger banking organization offer, while thrift institutions offer consumers better savings rates. This director looks favorably on an equalization of savings-yield ceilings, and he forecasts a proliferation of multibank holding companies.

Professors Eckstein, Houthakker, and Tobin were available for comment this month. Eckstein noted that the economic expansion is rolling along the forecasted track and that there is no need to revise upward the 6 percent real growth figure. On the basis of recent wholesale price and productivity data, Houthakker has revised his price projections upward to 5 to 5 1/2 percent during 1976. He pointed out that declines in the unemployment rate are partly the other side of the coin of weak increases in productivity which, in turn, reflect weak output gains and put upward pressure on prices.

Houthakker does not feel there is yet sufficient evidence of a shift in money demand. He notes that this relationship is only moderately stable, particularly in the short run. He worries that the historical relationships still hold, so that the recent rate of money growth will not support anything like a 6 percent rate of real growth. According to Eckstein, DRI studies indicate that portfolio experience and the mix of the economic advance are statistically significant arguments in the money demand function. With these variables included, recent errors have been small. This new formulation does imply that the Federal Reserve System must either redo its money target exercise or disengage from the aggregates and look at a broader picture of financial variables. Updating the Goldfeld money demand equations, Tobin found large errors recently both in M1 and in time deposits. Tobin's explanation of these large errors centers on the substantial decline in commercial and industrial loans, which before last year had exhibited a strong upward trend. Reduced borrowing implies lower deposits through a compensating balance mechanism. The decline is also due to caution on the part of the banking system. Borrowing has been discouraged by a prime rate which is high relative to open market rates, such as the commercial paper rate.

Tobin feels that the rise in the Federal funds rate was unneeded. It is inappropriate for stimulating advances in housing, business fixed investment, and state and local government capital spending which must take over when consumer spending and inventory accumulation give out. Houthakker also favors a significant reduction in the Federal funds rate. Eckstein believes that short-term rates should not rise significantly right away. Specifically, the Federal funds rate should average about 5.3 percent in the second quarter.

SECOND DISTRICT--NEW YORK

The pace of the nationwide economic recovery remains strong, indeed may be gathering momentum, according to Second District directors and other business leaders who were contacted recently. The improvement in consumer confidence that emerged toward the year-end continued unabated during the past month; business inventories by and large are in line with sales and in some instances on the low side; while the outlook for business capital spending has begun to brighten. The economic upswing in this District, however, has lagged behind that in the nation generally, as reflected in the relatively high level of unemployment.

Regarding consumer spending, the president of a large nationwide chain of department stores reported that his firm's general merchandise sales were quite strong in February and were substantially above last year's depressed levels. He said he was "encouraged" by the continued strength in consumer spending thus far this year, coming as it did on the heels of a very good Christmas season. A senior official of a large consumer goods-oriented conglomerate expected further improvements in the demand for certain lines of home furnishings and for color T.V. sets, and reported a strengthening in the firm's car rental business. A financial economist felt that a strong improvement in consumer confidence was underway, citing as evidence the recent shift in the demand for cars from small to larger vehicles. Comments regarding retail sales developments in the Second District, however, were somewhat more restrained. A senior official of a large Buffalo department store reported that retail sales in that city had been somewhat sluggish during the past month, in large part because of bad weather. He felt reasonably optimistic, however, that sales during the spring season would "rebound sharply" from the depressed levels of a year ago. Similarly, a banker noted that while auto sales in the Buffalo metropolitan area were still lagging, stronger sales were being enjoyed by dealers in other areas of the country. This observer saw developing evidence of a shift in consumer attitudes from caution to optimism. The president of an upstate bank reported good retail sales in his area over the presidential holidays, while the president of a Buffalo suburban bank indicated that sales in the Buffalo suburbs were stronger than in the city, with local merchants expecting further improvements. In New York City, February retail sales by large department stores, paced by sales of apparel, topped year-ago levels by 4.5 percent, as against 3.5 percent in January and a decline of 4.2 percent in February 1975. Suburban stores also put in a stronger performance than City stores, with retail sales for the entire metropolitan area rising by 7 percent.

There were further reports that business inventories in general have now been brought down to--and in some instances below--desired levels. Among others, the senior official of the conglomerate mentioned above noted that following a big adjustment of inventories in 1975, his firm's stocks were now generally well aligned with sales. The president of a New York City area bank felt business inventories were "low", while the chain store executive indicated that retail inventories were fully under control. Another observer stated that on balance business inventories had been reduced to the point where businessmen's attempts to restock could be expected.

Turning to the outlook for business plant and investment outlays, the Buffalo Branch directors agreed that while, at this juncture, businessmen continue to make capital outlay decisions cautiously, evidence of a more optimistic approach was emerging. Senior officials of several nonfinancial concerns stated that while their firms currently were planning little change in the level of their capital outlays for 1976 as compared to 1975, no further decline was contemplated for this year. The president of the retail chain felt that new store expansion will continue in the retail sales industry, although the major emphasis will remain focused on increasing the productivity of existing facilities. The president of multinational oil corporation observed that while, as yet, he saw no change in business attitudes toward investments in plant and equipment, he expected the tempo of capital outlays to quicken hand in hand with a continued improvement in business conditions. A financial economist opined that, against the background of the strong state of consumer spending, the outlook for business outlays for plant and equipment had brightened substantially in recent weeks. He reported revising upward his earlier projections of no real growth in capital spending for 1976, and now expected such spending to gather momentum in the third quarter and, especially, in the fourth quarter.

The comparatively lagging state of the District economy was most clearly evidenced by the generally poor employment picture. In New York City, the unemployment rate (not seasonally adjusted) rose from 11.5 percent in December to 12.2 percent in January, the highest level since World War II. The rise for New York State was slightly greater, from 10.3 percent to 11.1 percent, the highest level since the Depression. Against this background, concern was expressed that the state economy would slip further behind the national economy unless more favorable tax, environmental, and regulatory policies were pursued by the State. Several respondents in the Buffalo area, where that city's unemployment rate is the highest in the State, also cited obsolete plants and equipment, heavy tax burdens, high labor costs, and shifting markets as contributing to the continued closing or relocation from the Buffalo area of plants and outlets. Conditions remain even more depressed in Puerto Rico, where the unemployment rate is reported to have risen from 19.9 percent in December to 21.9 percent in January.

The demand for business loans remains sluggish according to most respondents expressing a view on the subject, primarily because of the currently high levels of corporate liquidity. Several respondents, however, expected such demand to rise in coming months as the economic upswing gathers momentum. Moreover, several upstate bankers reported that while business loan demand remained flat in their area, the demand for mortgage and consumer loans had intensified.

THIRD DISTRICT--PHILADELPHIA

After a three-month lull, Third District economic activity is again picking up. The sluggishness in manufacturing which began in December has given way to noticeable expansion, and the retail sector continues its strong performance this month. In manufacturing, new orders are up substantially from last month and there is a modest net accumulation of inventories. At the same time, employment is higher and the average workweek is longer. Prices in this sector are up, but the price pressures are about the same as in February. The outlook in manufacturing for the next six months is for additional growth. Area retailers report healthy sales and look for further gains through the fall. Bankers in the region indicate that loan volume is still soft.

Manufacturers responding to this month's business outlook survey report that business conditions are substantially better than last month. This represents a return to expansion after a three-month period of sluggishness. In the current survey, 53 percent of the respondents report a higher level of business activity while the proportion indicating improvement in the December- through -February period averaged less than half of this. New orders are significantly higher, with almost half of those polled reporting increases. Employment and the average workweek are moderately higher as well. At the same time, inventory liquidation has given way to net accumulation this month, with a third of those surveyed reporting increases as compared with one fourth indicating declines. This is the first report of overall inventory accumulation in a year and a half.

The outlook in manufacturing for the next two quarters is for additional gains. Nine out of ten businessmen surveyed anticipate expansion. New orders are expected to be higher by Labor Day, and a slight net accumulation of inventories is projected. At the same time, close to 60 percent of the manufacturers polled plan to hire additional employees and 24 percent anticipate lengthening the workweek. In addition, four out of ten respondents plan to hike their spending for plant and equipment over the period.

Retailers in the area report good sales performance. Sales were expected to be about 10 percent above year-ago levels, and retailers indicate that current volumes are above that. Moreover, the growth is reported to be broad based with no appreciable difference between hard goods and soft goods. The outlook for spring and fall is for continued strength. One merchant expects fall to be better than spring, and another looks for fall sales forecasts at his store to be revised upward by Easter. All of the merchants contacted indicate that inventories are in good shape and commitments are lengthening. One executive notes that inventory commitments were running about five weeks ahead at this time last year while currently they are out around eight weeks.

On the inflation front, manufacturers report paying and charging higher prices this month, but there is no significant change in the distribution of responses from last month. Forty percent of the respondents report paying more for their supplies currently, and 20 percent indicate charging more for their finished products. The outlook is for additional price increases in the six months ahead. Four fifths of those surveyed expect to be paying more for their inputs over the period, and three fourths anticipate higher price tags for the products they sell. In the retail sector, price increases are generally reported to be "modest". One merchant notes that he is no longer seeing price cuts in electronics, while another indicates a gradual pickup in fiber prices, especially cotton. He adds that, with heavy demand, there is no particular problem in passing on these higher costs.

Area bankers generally report that loan volume is flat. Loan demand is expected to pick up, but there is a lot of uncertainty as to when this will occur. One banker expects loans to increase sometime in the second half of the year, "but we keep pushing the timing of the expansion farther into the future". Another notes that two views at his bank are for an increase by either midyear or "well into the last quarter of 1976". This banker adds that the market is very competitive with a lot of rate cutting, and he takes this as a sign of no expected pickup in loan demand very soon. "The kind of rate cutting we're seeing now is not the kind you'd see if people expected loan demand to move upward quickly."

The bankers contacted were unanimous in their views that short-term interest rates will move upward from this point, but there is uncertainty as to when the climb will begin. In any case, there is no expectation of any significant jump in short-term rates. The consensus is for a prime of 7.5 percent six months from now and 8.5 percent by the year-end. All of the bankers contacted feel that recent "problem list" disclosures have resulted in a more conservative attitude in granting loans. Nevertheless, city bankers feel that this effect is probably not significant. On the other hand, one country banker notes that, as a result of the disclosures, his bank's board of directors is much harsher on customers when scrutinizing loan requests. He adds:"There are a few delinquent loans that are being put into liquidation. I doubt that this would be happening if it weren't for those disclosures."

FOURTH DISTRICT--CLEVELAND

Businessmen and economists in the Fourth District are growing more confident that the recovery now under way will be sustained through 1976 and continue into 1977. Retailers have been buoyed by recent strengthening in household durable goods sales. Auto producers expect substantially improved sales, and steel producers report demand is recovering now that liquidation of steel stocks is virtually completed. Economists who met at the Bank early in March raised their forecasts of real gross national product (GNP), industrial production, and business fixed investment from estimates made last fall.

Recent strengthening in sales of appliances and other household goods has led both retailers and producers of these goods to raise their estimates of sales and output. An official with a national chain of department stores headquartered in the District expects an increase in real dollars of 9 percent in soft goods sales and 10 percent in hard goods sales this year, compared with a 4 percent gain and a 4 percent decline, respectively, in 1975. A rise in employment, expansion in the workweek, reduction in the savings rate, an increase in the use of instalment credit, and small increases in consumer prices are among factors retailers see boosting consumer confidence and supporting steady strengthening in consumer spending. He pointed out that real retail sales of soft goods have been rising since early 1975, but hard good sales turned up only recently. Retailers are not expected to build their inventories until late this year. A $400 million discount department store chain that was close to bankruptcy early last year reported a sharp turnaround in earnings that improved its liquidity and its relationships with creditors.

An economist for a major auto producer now estimates domestic new car sales for 1976 at 8 1/2 million units, considerably above his estimate late last fall. Consumer tendency to upgrade during an economic recovery, disillusionment with small cars, and lower gas prices are among factors cited for the recent shift from samll to large cars. He expects imported cars to account for no more than 14 percen t of the new car market again this year because of the price advantage and improved fuel economy of domestic cars. He expects a banner auto year of $11 million in sales in 1977 but is very uncertain over prospects for 1978 and beyond because of legislation affecting emissions and fuel economy. Economists associated with steel and rubber industries expect that sales of domestic new cars will range from 8.3 million to 8.5 million units this year.

Steel-industry economists expect orders to improve 10 to 15 percent this quarter because of rising steel consumption and an end to the year-long liquidation of inventories. Two economists expect output to rise 35 percent this year over last year's depressed volume, and one expects that operations in the fourth quarter of 1976 may be close to capacity depending upon the extent of recovery in capital goods and the extent to which steel consumers rebuild inventories.

The capital goods sector continues to lag the recovery. Several producers report some pickup in orders from depressed levels in 1975, but none expect a sharp recovery until 1977. An economist with a major machine-tool builder reports orders in recent months were 50 percent greater than in the first quarter of 1975 but were still 60 percent below the peak in the second quarter of 1974. He noted that evironmental and conservation regulations are holding down orders from the automotive industry. Another economist expects only a 5 to 6 percent increase in capital spending for 1976 because of a lack of orders from the transportation and utilities industries.

Orders for industrial materials began to strengthen in recent months, but demand for motors and generators is still weak. A producer of frames for heavy-duty trucks expects a pickup in orders for the second quarter of 1976 in line with a rising trend in industrial production, reduced inventories of these trucks, and growing confidence on the part of truck producers. A director reports their capital spending plans for 1976 will remain unchanged from 1975 and about 15 percent below the recent high in 1974. A mining-machinery producer also expects that their capital expenditures this year will be about the same as in 1975, although sharply above the 1974 level.

Twenty-six economists representing major and industrial corporations in the Fourth District met at this Bank on March 5. They raised forecasts of real growth in economic activity during 1976 from levels that they had estimated at a similar meeting late last fall. The median forecast of the group shows real GNP increasing 6.2 percent and industrial production rising 9.3 percent from 1975. Only seven participants expected stronger real growth in the first half than in the second half of 1976. Inflation, measured by the GNP price deflator, is expected to average 6 percent and unemployment, 7.6 percent. Both estimates are virtually unchanged from estimates last fall. Several of the participants expressed the view that inflation will moderate more than indicated in the median forecast. A bank economist expects the deflator to rise at a 4 percent later this year, an economist with a major consumer goods producer expects a range of 4 to 5 percent, and an economist with another industrial firm expects a range of 5 to 6 percent. Two economists, who represent capital-equipment-producing firms, expect the prices for capital equipment will rise about 5 to 6 percent instead of the 9 percent predicted by the United States Department of Commerce. Retail price increases for GAF merchandise are expected to average about 4.4 percent at the end of 1976, compared with 4 percent in the fourth quarter of 1975 and 11 percent for the fourth quarter of 1974.

Preliminary results of our monthly survey of manufacturers for February show improvement in labor utilization for the first time since last fall. Also, more firms reported higher prices than in recent months. Improvement in labor market conditions is expected to be sustained this month, and some relaxation in price increases is expected.

FIFTH DISTRICT--RICHMOND

After a two-month pause, the business recovery in the Fifth District seems to have resumed in February. Our latest survey of District business conditions suggests a moderate but decided upturn in the level of business activity over the past month. Manufacturing respondents report increased inventories, shipments, and new orders, with order backlogs rising for the first time since fall. Slight declines in employment were reported, however, by both manufacturers and retailers, and both groups also indicated continuing upward pressures in prices. Despite the apparent improvement in business activity, many manufacturers continue to view both inventories and plant capacity as excessive. A majority of our respondents, manufacturing and retail, remain essentially optimistic, expecting improvements in business nationally, locally, and within their own firms over the next six months. The comments of our directors tend to support the generally optimistic tone of the survey responses.

Just under a third of manufacturers in the latest survey reported increases in shipments, about twice as many as reported declines. Reports on new orders split in much the same proportion. The latest improvements were spread over most of the District's principal industries. Order backlogs registered a small gain, after declining in each of the last monthly surveys. Manufacturing inventories of both materials and finished goods also increased very slightly in February, the first hint of an increase in materials inventories in over a year. Nearly one third of the manufacturers surveyed still view current inventory levels as excessive. While the proportion of respondents holding this view declined from a month earlier, it has not yet reached the low levels of last fall. In addition, one manufacturer in three still views current plant and equipment capacity as excessive.

Survey responses suggest a decline in manufacturing employment, making February the third consecutive month without an increase. The diffusion of responses suggests a slight increase in manufacturing hours worked per week, but apparently not sufficient to offset the decline in employment. Of the manufacturing respondents, 40 percent reported paying-- and nearly 30 percent report receiving -- higher prices in February than in the month earlier. Increases in employee compensation, however, were less widespread than in most recent months.

For the third consecutive month, retailers were unanimous in reporting increased sales. Sales of big-ticket items relative to total sales also increased. There was some inventory accumulation on the part of retail respondents, who are apparently trying to bring inventories back from what was considered inadequate levels only a month ago. Employment declined at District retailers, but probably not by more than the normal seasonal change. Price increases, including employee compensation, were widespread among retailers.

Increased business activity has still not had a significant impact on bank balance sheets in the Fifth District. With isolated exceptions, the demand for bank credit continues weak. Loans and investments continue to decline. The strong upward trend in consumer time and savings deposits, however, continues unabated. Business lending may have just offset the seasonal trough in commercial and industrial loans that occurs in February. One large Virginia bank reports that its commercial loans have delined by 12 percent in the past three months. A Branch director, however, notes that in his area total loans and commercial loans have improved recently and that there is a slight upward trend in the demand for credit. The portfolio corrections made over the past months have apparently made a number of banks eager lenders, but the credit review process remains very strict. Results of the February survey of changes in bank lending practices indicate that District bankers are generally pessimistic about the prospects for business loan demand in the months ahead. The survey also shows a substantial increase in willingness to make consumer and single-family mortgage loans.

District farmers total cash receipts from farm marketing in 1975 showed a 2 percent gain over 1974. Higher prices for livestock and livestock products resulted in a 7 percent increase in livestock receipts, while lower average crop prices and smaller marketings of some crops combined to reduce crop.

SIXTH DISTRICT--ATLANTA

Economic expansion continues to accelerate in the Southeast, despite some lingering soft spots. Auto sales, department store sales, and tourist spending are strong. Construction activity is reviving in some areas of the Southeast but remains feeble in much of Florida. Manufacturing activity is still mixed. Purchasing agents report only a slight tendency to rebuild inventories. The persistent rise in mortgage delinquencies may have stabilized. In agriculture, soybean and rice growers face unencouraging prospects, while the outlook for cotton growers and livestock producers has improved.

Consumption spending remains strong. Reports of motor vehicle sales indicate continuing strong gains from last year, concentrated to a high degree in the larger, fully equipped models. Small car sales, including most imported models, remain weak and inventories are top heavy. Dealers report improved profits. The uniformity of these reports is impressive.

Most general merchandise retailers report continuing strength in their sales. Some report that they are rebuilding inventories. Despite limited indications of softness in February, vigorous sales are expected during and after Easter. Housewares manufacturers indicate strong sales of nondurable items during January and low retail inventories; in addition, manufacturers' inventories are depleted and many items are back ordered.

A strong tourist season is in progress, according to directors' reports from Mississippi, Louisiana, and Florida. Hotel and motel occupancy has increased, fully occupied hotels in some areas have been providing accommodations in conference rooms, and rental cars are scarce.

Revival in the construction industry appears to be beginning. The market for construction equipment in Alabama has been strong in recent weeks, because contractors and builders expect a strong housing market in the coming year. Residential construction gains in Alabama are expected to continue. In commercial construction, bids are being solicited for an increased number of contracts. In some areas, new residential developments are under way. In Louisiana, increased mortgage lending is reported. Home construction has increased, and better quality apartment units are completely occupied. Construction of previously dormant projects is resuming in several areas, and existing apartments are being renovated. A major Atlanta real estate firm expects to begin new condominium construction this fall, but construction activity in south Florida remains very weak.

Conditions in manufacturing are varied. The mobile-home industry has felt an increase in sales, production, and employment during the past two months after reductions spanning two years. In Georgia, production declined from 76,000 units in 1973 to 13,000 units in 1975. A large number of mobile-home plants are reportedly for sale and others are in limbo. Production at a major tire company plant has shifted from a five- to a six-day week; however, this increase has been caused by strike hedging. Continued demand increases are reported throughout the paper industry, accompanied by price increases and expansions of facilities. Lumber demand continues to improve in the Southeast, with the exceptions of south Florida and Atlanta; prices continue to rise. Orders are increasing for lumber used for veneers and furniture manufacturing.

Steel production is down, reflecting a dearth of orders. Metal fabricators likewise report reduced sales volume; some also indicate excessive inventories. A manufacturer of railroad rolling stock has reduced its labor force from 3,200 to 1,500 as a result of sharply reduced demand for coal cars. Employment is expected to decline further, as present contracts are completed.

Part of the reduction in demand reflects improved management of rolling stock using computer-based methods.

A survey of Georgia purchasing agents conducted in late January and early February indicates little tendency to restock. The same level of raw material inventories was reported by 90 percent, while the remainder reported larger inventories. Finished goods inventories were stable for a large majority, while some noted growth in stocks. There is little evidence of capacity tightness, as order backlogs are reported constant or shrinking by all but 8 percent. However, lead times allowed on purchases have lengthened slightly for the second consecutive month, while some agents report slower deliveries of goods purchased.

An insurance company reports that delinquencies on its mortgage portfolio continue to run at record levels. However, an essentially stable rate during the past three months brought the rate in January down from the peak level of January 1975. This is only the second decline on a year-to-year basis in the past seventeen months; most months during this period have produced substantial increases.

In the agricultural sector, developments are mixed. Prospects for soybean producers are dimmed by steady price declines, growing imports of vegetable oil, and the likelihood of increasing soybean acreage in Brazil. A substantial shift of acreage to cotton production is expected to result. Rice farmers presently face reduced prices and excessive supplies as a result of less restrictive Government-support programs and reduced distribution of supplies under aid programs. The juice yield of Florida's orange crop has been cut somewhat by adverse weather conditions. Despite these less favorable aspects, cattle producers are looking forward to firming prices and better financial returns, although recent increases in the number of cattle moving to market have lowered prices. This development probably reflects changes in cattle-grading procedures. Federal Land Bank personnel in Georgia report brisk loan demand and steady or increasing agricultural land prices.

SEVENTH DISTRICT--CHICAGO

The significantly improved tone in business and finance in the Seventh District noted a month ago has generally been confirmed by more recent developments. Various forecasts of increases in activity have been raised, are presented more confidently, and are more frequently extended into 1977. Retailers are pleased with recent increases in demand--"across the board". Some new layoffs have been announced, but total employment appears to be rising. With notable exceptions, price inflation seems to be gathering momentum mainly because of increased worker compensation. Mortgage funds are more available, especially for single-family homes. Near-term prospects for a significant rise in total capital spending remain poor.

The business expansion is based on the greater willingness of consumers to spend confidently (and to use credit) to purchase products in virtually all categories. One large general merchandiser, who had been very skeptical of reports of improvements several months ago, now says that customers are buying more freely, especially the "middle and top" lines. Inventories are moderate, and profits have improved significantly. Perhaps the most dramatic improvement in this quarter has been in major household appliances. Except for freezers, which were booming early last year, sales of appliances have strengthened and inventories are uncomfortably low at the factory and distributor levels. Recreational vehicles also are doing much better.

Demand for workers has improved overall, and unemployment claims are down sharply. A producer of diesel engines says that all laid-off workers have been recalled. Similar reports came from a steel company and an appliance firm. On the other hand, a disquieting number of reports tell of layoffs in the near future. A large airline is cutting its headquarters staff by 10 percent to help restore profitability, several manufacturers have announced plans to shut plants in Chicago permanently, new layoffs will occur at a Kenosha auto plant that produces small cars and a Rockford plant that produces large cars, and the city of Detroit has scheduled reductions in staff of 4,000 workers, or 20 percent, by July 1 to reduce the prospective deficit.

Chicago area teamsters are demanding a 35 percent increase in compensation over three years and an unlimited cost of living adjustment. These demands may be scaled down but not much, judging by negotiations already determined elsewhere. Nonunion truckers are said to be gaining business.

Employers in Michigan and Illinois are concerned about a workmen's compensation "crisis". Liberalized laws and new rulings have greatly expanded actual and potential payouts. Insurance costs have increased 50 percent in recent renewals, and costs are expected to go much higher. Some employers are finding that such coverage is difficult to obtain at any price.

The outlook for capital goods is mixed, with some firms still operating at capacity and others working off backlogs rapidly. Large mining equipment is still backloged, but demand for smaller types has weakened. Output of railroad equipment is declining, with no reversal in sight. Producers of trucks have raised output schedules but from very low levels. Farm machinery sales are expected to be excellent this year. A diversified producer of capital goods is "much encouraged" by a pronounced improvement in orders for February, especially for materials-handling equipment. Orders for structural steel and plate used mainly in equipment and heavy construction remain weak, in contrast to substantial strength in light products used in autos and appliances. Demand for heavy castings and forgings also remains depressed. Major architectural firms are reducing staff because of the small volume of proposed new work in the United States.

Mortgage funds are increasingly available from savings and loan associations and other lenders at gradually lower rates. New home mortgages are down to 8 1/2 percent in a number of areas. Mortgage rates on apartments and well-placed commercial properties have dropped under 10 percent. Nevertheless, any improvement in new construction this year is likely to be concentrated in single-family homes. A construction cost index for the Chicago area rose only 5 percent in the past year, half as much as in earlier years. More important, bids on new construction projects are down significantly in many cases for the first time in many years, especially for structural steel work, as "hungry" contractors compete for business.

Large crop plantings are in prospect in the District. Farm machinery sales have been unseasonally good and are expected to rise for the year. Prices of some types of fertilizer are down very sharply. Some sales of Iowa farmland at $2,000 amaze experienced observers. Such sales are still rare, but it is said that anyone who owns a section of Iowa land is, _per se_, "a millionaire". Life insurance companies are showing renewed interest in farm mortgages. The recent decline in wholesale beef prices was surprising to observers and is expected to reverse in the second quarter. Further reductions in retail beef prices are expected.

EIGHTH DISTRICT--ST. LOUIS

According to recent reports from District businessmen, economic activity continues on the uptrend. In addition, considerable optimism was expressed that this trend will continue over the year. Gains in retail sales, manufacturing orders, and residential construction activity have occured in recent weeks. Reflecting these gains, the employment picture also has improved. Overall bank loan demand remains weak, although a few reports of improvement were heard. On the other hand, loan demand at saving and loan associations continues to strengthen. Large deposit gains and recent declines in mortgage interest rates were also reported by savings and loan associations.

Consumer spending continues to strengthen. Retailers note increasing sales for big-ticket items, such as appliances, furniture, and other home furnishings. Car dealers report their sales are brisk especially for intermediate- to full-size automobiles. Easing in gasoline prices, improved gas mileage, and increased preference by many owners for larger cars are some of the reasons offered for the unexpected surge in larger car sales.

In general, manufacturing activity has continued to register gains in recent weeks. One large manufacturer of both consumer and capital goods has experienced an increasing number of orders for consumer durables, with backlogs starting to build up, while orders related to nonresidential and industrial construction are still low. In addition to appliances, sales of other housing-related products, such as paints and coating, lumber, and plywood, are increasing. Producers of these products are generally optimistic about the future outlook. In the St. Louis area, one car-assembly plant which produces the larger size cars is now on a 58-hour week. A major chemical manufacturer noted improving sales in most fiber and plastic products and agricultural chemicals, while sales of industrial chemicals have been flat recently and are expected to improve only slightly this year.

Single-family residential construction activity continues to make gains, while other types of housing construction remain at a low level. Housing permits in the St. Louis area increased in January and, according to a housing industry representative, they apparently increased again in February. Consumer optimism and attitudes toward home buying are reported to be very good, and sales so far this year have been at a brisk pace. Multifamily construction activity, on the other hand, remains weak. The profit expectations in such construction are very low, and improvement is not expected without a relative increase in rents. One housing representative noted that, assuming interest rates in the 9 percent range, a 15 percent increase in rents is necessary before substantial increase in such construction can be expected. Adjustments in rents are apparently occurring, as several reports of rent increases were received. Government programs aimed at improving multifamily unit construction are not expected to have much impact until late this year and, then, to have only a marginal overall impact.

Commercial and industrial construction remains generally depressed in the District. A construction firm representative noted a dearth of projects for the current year and does not expect any substantial improvement until at least the second half of this year. Reports indicated, however, that several economic fators are now favorable for construction, including lower interest rates, relatively attractive cost of materials, and low profit margins of contractors.

Employment conditions continue to show improvement, as several firms reported recent additions to their work force. Recent statistics show substantial increases in employment on a seasonally adjusted basis throughout the District and declines in the percentage of the labor force unemployed.

Bank loan demand remains weak, although a few reports did note some strengthening recently. Bankers are generally expecting some pickup in demand in the near future and are anticipating some increases in interest rates over the coming months. Loan demand at savings and loan associations has increased, reflecting the housing industry pickup, but such demand increases are not strong enough to absorb the large increases in savings inflows over the past several months. As a result, mortgage rates have declined in recent weeks.

Farmers are reported to be apprehensive about profit prospects for 1976. The margin for profit is reported to be low with existing price relationships. Also, uncertainty about price movements of individual crops may delay planting decisions until the last possible moment. At present, prospects are excellent for a good winter wheat crop in the District.

NINTH DISTRICT--MINNEAPOLIS

The Ninth District economy remains on a course essentially unchanged from last month: the pace of recovery is steady but unspectacular. Ninth District directors look for continued employment growth throughout 1976 but do not foresee quick reductions in the unemployment rate. Manufacturers in the District reported a better fourth quarter than anticipated and have revised 1976 sales expectations upward, but they appear satisfied with current inventory levels and current plant capacities. Though some areas in the District are experiencing a shortage of topsoil moisture, most of the District's agricultural regions have not been hurt by drought, and directors say that farmers and ranchers are optimistic about 1976. Finally, though Ninth District directors feel that economic recovery is proceeding at a satisfactory pace, many still feel that "excessive" wage demands might endanger the course of recovery later in 1976.

Unadjusted unemployment rates in the District were up in January, but the increase may have been due largely to seasonal factors such as post-Christmas layoffs in the retail trades and to seasonal lows in farm employment. Seasonally adjusted initial unemployment claims in January were the lowest since August 1974.

Employment in the District has been gradually increasing since June of last year, and most Ninth District directors expect employment growth to continue through the remainder of 1976. Nonetheless, directors do not feel that employment growth will be substantial enough to cause much reduction in unemployment rates. One director, an executive for a large manufacturing concern, says that his firm has increased employment by 6 to 7 percent since mid-1975 but is now holding employment steady; he does not expect the United States unemployment rate to fall below 7 percent in 1976.

Directors from agricultural areas continue to report that unemployment is not a major problem in their regions. A North Dakota director says that firms in his state have been having difficulty finding workers. But a Michigan director says that joblessness in his region remains high due to continuing unemployment in the copper industry. He adds, however, that anticipated advances in the demand for copper later in the year should result in recalls of currently unemployed workers.

Businessmen in the District appear to be gaining confidence in the soundness of the recovery. This Bank's quarterly survey of District manufacturers, taken in early February, indicated that businessmen have revised their 1976 sales expectations upward. Manufacturing sales through the third quarter are now expected to range 14 to 19 percent above year-earlier levels. Manufacturing sales in 1975's fourth quarter were also somewhat stronger than had been expected. The survey gave no indication, however, that manufacturers are planning sizable additions to inventories or increases in plant capacity.

The District's agricultural regions have not been much affected by drought conditions. Though moisture is short in some regions of the District, it is adequate or surplus in other regions. A Montana director says that in his state, where most of the District's winter wheat is grown, moisture conditions are good. Other directors say that recent snowfalls have helped alleviate moisture shortages in areas of Montana and South Dakota.

Directors agree that the District's crop farmers are sufficiently sound financially to withstand moderate losses, even if a drought should occur. A North Dakota director suggests that given current financial conditions among farmers, it would take two consecutive bad crop years to cause widespread financial problems among the District's producers.

Directors say that ranchers in the District are also optimistic about 1976. Cow-calf operators in this District have pared away excess capacity more rapidly than have producers nationwide. Accordingly, with regional supplies somewhat tighter, cow-calf operators have been receiving prices above national averages. The demand for feeder cattle appears to be improving, and one director says that some cattle are now being contracted for fall delivery at about $40 per hundredweight;the advance contracting of feeder stock had slowed in past years because of slack demand from the livestock-feeding industry.

Though Ninth District directors feel that the recovery is currently proceeding at a satisfactory pace, they remain somewhat apprehensive about the possible destabilizing effects of future wage settlements. Some directors also viewed housing and business investment spending as soft spots in the District economy. Several directors commented upon weakness in residential construction in their regions; one director said that he sees little or no improvement in the housing sector in the foreseeable future.

TENTH DISTRICT--KANSAS CITY

While drought and wind damage to the winter wheat crop has been substantial, timely precipitation could still improve production possibilities considerably. Residential construction activity, almost all in single-family units, is strong in major metropolitan areas of the Tenth District. Financing appears to be more than adequate, with inflows to thrift institutions strong and loan rates stable after a recent slight decline. Loan demand at District commercial banks has also improved recently, with most of the strength attributable to regional borrowers rather than national accounts.

Savings and loan associations in the District's larger metropolitan areas reported very strong deposit inflows in January, while associations in smaller cities generally experienced good, but not exceptional, inflows. February results were more uniformly good, though in most instances falling short of January and/or not reaching expectations. Generally speaking, relatively large inflows are expected to continue in March and April, followed by a flattening out.

Virtually all respondents report a recent pickup in mortgage demand, and in commitments and/or loans. Lending rates have declined slightly in recent months. The consensus seems to be that rates will be stable to a bit lower in the near term, but perhaps going up slightly later in the year. Customers are shopping around for the best terms, according to some respondents, with the emphasis on size of monthly payments rather than on rate alone. At least one association reported lowering returns offered to savers via raising maturities and minimum amounts on certificates.

Housing demand appears to be strong in major metropolitan areas in the Tenth District. Starts activity continues to be concentrated in single-family units, with virtually no strength reported in multifamily construction. Inventories of unsold single-family homes have apparently been reduced to nearly normal levels, with some builders expressing the desire to have a few more homes on hand. Most builders and builders' associations contacted confirmed the availability of mortgage funds and the stability of rates. Some Kansas City builders are suggesting a possible near-term increase of 10 percent in the price of new homes, primarily due to price increases for lumber, concrete, appliances, and trim items. Some construction union contracts (e.g., carpenters) in the Kansas City area have an April 1 termination date. Builders' anticipations are mixed on the possible results of negotiations, ranging from "some real wild numbers" because of a desire yo "catch up" to "no runaway" because of a realization on the part of both labor and contractors that the industry is potentially weak and large settlements "can get the public turned off pretty quickly".

Market prices for wheat during the spring and summer of 1976 will be sensitive to growing conditions in the wheat-producing areas of the United States and the world. The 1976 United States wheat production has already been adversely affected by drought conditions in the southern great plains. Industry sources are projecting production decreases of as much as 29 percent from the 791 million bushels produced by Kansas, Oklahoma, Texas, Colorado, and Nebraska in 1975. This could presage a 1976 United States winter wheat production of around 1.4 billion bushels, down from 1.65 billion bushels in 1975. Reports from western Oklahoma and Kansas indicate that, while substantial damage to the wheat crop has occurred from drought, wind, and greenbug infestation, timely precipitation over the area could still substantially improve production possibilities. However, to date, weather systems have brought only minimal precipitation to the driest parts of the Tenth District.

While January grain stocks were significantly higher than year-ago levels for corn, soybeans, and wheat, the price-drepressing impact was largely offset by higher demand projections. For corn, substantial increases in domestic feed use and in export demand appear likely to hold stocks to approximately a 674 million bushel level at the end of the 1975-76 marketing year, up from year-earlier stocks of 359 million bushels. Sharply increased domestic and export demand for soybeans is expected to hold stocks to approximately a 330 million bushel level at the end of the 1975-76 marketing year, up from year-earlier stocks of 185 million bushels. Increased export demand for wheat appears likely to hold stocks to approximately a 428 million bushel level at the end of the 1975-76 marketing year, up from year-earlier stocks of 327 million bushels.

An improvement in loan demand during February was reported by Tenth District bankers contacted in a recent survey. Many bankers indicated that regional business loans had increased, but borrowing by national accounts was unchanged. The strength in regional business loans reflected increased financing needs for manufacturers' working capital, construction activity, capital improvements, retail and auto dealer inventories, cattle purchases, and grain elevator storage. Although most banks have not yet seen any effects on their portfolios from the Midwest drought, one banker said it has caused a runoff in his holdings of cattle paper. Bankers also reported a pickup in real estate loans, particularly in the one-to four-family residential category. Consumer loans were said to be down more than seasonally, although auto loans have risen at some banks.

Demand deposit inflows were reported to be strong. Time and savings deposits continued to increase, especially in the consumer area. Two banks reported declines in time deposits due to the Treasury's recent 8 percent note offering. Some banks are running down their negotiable certificates of deposit (CDs) due to the lower cost of alternative sources of funds, while others are competing for CD funds due to increasing loan demand.

ELEVENTH DISTRICT--DALLAS

Industrial output in the Eleventh District continues to expand. Chemical production and petroleum refining, two of the largest industries in the District, continue to pace the recovery which began last spring. However, production of oil-field equipment, which has been a mainstay of the District economy, faces the prospects of falling in coming months.

Chemical manufacturers report that three major markets -- construction-related products, textiles, and automobiles -- have firmed. As a result, they are optimistic that the recovery in chemical production, initially in response to the rebuilding of inventories by users, will continue. In addition, producers are maintaining a constant inventory-sales ratio and are building inventories of finished goods with the increase in sales. The severe drought in the southwestern and midwestern states, however, has raised the threat that output by the District's agricultural chemicals manufacturers will fall. Sharply reduced spring planting intentions, particularly by dry-land farmers, are expected to result in production cutbacks in agricultural chemicals in the summer and early fall.

Petroleum refining, part of whose output is processed by the chemical industry, is also expanding. Since last spring, capacity utilization at refineries on the Texas Gulf Coast has risen from 88 percent to 94 percent. Petroleum refineries have also stepped up operations to meet increased demand for gasoline.

Manufacturers of oil-field equipment are still operating near the peak levels of 1975, but a slowdown in worldwide drilling activity has begun to affect the demand for equipment. According to two thirds of the leading manufacturers surveyed, the backlog of unfilled orders is dwindling as the inflow of new orders has slowed, and there has been a substantial rise in order cancellations. One of the District's biggest producers of oil-field equipment said that, unless new orders pick up, they will begin laying off workers by midyear.

The outlook for industrial prices varies widely according to the industry. Prices of agricultural chemicals are expected to remain stable through 1976. Firms producing industrial chemicals, however, have recently announced price hikes for basic and intermediate products. But there is some doubts that these increases will hold. According to one insider, discounts are still commonplace. Several of the largest producers of structural steel, on the other hand, claim they will no longer sell below list prices. Aggressive price cutting last year in that industry resulted in many sales being bid below production costs. Apparel manufacturers say significant price hikes at the retail level are inevitable, since costs are climbing rapidly. And, according to one of the District's largest garment makers, there is virtually no profit margin at current price levels.

The largest department stores in the District report that sales continue at a brisk pace and the strength is broadbased. Roughly half of the merchants surveyed said inventories have now been brought in line with the increased level of sales, but others complained of shortages and slow deliveries. An El Paso merchant, for example, said that in the past six months he has received only 75 to 80 percent of the goods he had ordered. And a large chain in the southwest said that they have already been warned by the textile mills of a substantial shortage of wool goods for next fall and winter. Cash sales are still abnormally high, although credit-card purchases are beginning to rise.

New car sales in early 1976 remain strong, but the composition of sales has changed markedly. Small cars are moving very slowly, while there is a strong resurgence in sales of large models. Moreover, most big cars are sold loaded with extras. Dealers attribute the turnaround in big cars to the increased availability of gasoline and lower pump prices. The consensus of dealers contacted is that customers will continue to buy large models, nearly irrespective of price, as long as gasoline is not in short supply. The resurgence in big-car sales has left dealers with large inventories of small cars, while large models are in critically short supply.

The wheat crop in the high plains of Texas, New Mexico, and Oklahoma has been severely damaged by drought conditions. Bankers estimate that wheat production in the plains will drop at least 40 percent below the level in 1975. The three-state area accounts for a fourth of the nation's wheat crop, and most of the states production is in the high plains.

Most of the nonirrigated wheat has already been lost. Wind erosion has damaged fields, and farmers have chiseled their wheat land to try to control the damage. Bankers report many growers are planning just to control weeds and to prepare their land for next year's crop. However, some farmers will plant sorghum on acreage that was seeded to wheat, provided sufficient rainfall occurs in March and April

The irrigated wheat crop could still benefit from good rains in the next few weeks. And, for these growers, a good yield is especially critical because of the extremely high production costs entailed in this year's crop. Extensive irrigation has been required, and soaring fuel prices have substantially raised the costs of running pumps. Preplant irrigation for spring crops is also expected to be well above normal.

Because of the drought, winter grazing of wheat in the high plains is virtually nonexistent. A west Texas banker estimates that the number of cattle on wheat pasture is 80 to 90 percent below a year earlier. Most of the grazing is confined to a few irrigated fields.

TWELFTH DISTRICT--SAN FRANCISCO

In the opinion of our directors, the recovery is proceeding at a moderate pace, with demand strengthening across a broad range of economic activity. Consumers, in particular, have been responding to an eased feeling about economic prospects by stepping up purchases of both small- and large-ticket items. Except for copper, demand for minerals is increasing, and operating ratios in the forest products industry are up. New orders for commercial aircraft, however, continue to decline. Agricultural income will probably ease off from previous peak levels in 1976, but still constitute a good year. Bank loan demand continues to be very soft; industrial loans are not expected to increase much in the near future because of the high level of corporate liquidity.

Twelfth District retail sales continue to strengthen across the board. Price competition among retailers, especially at food stores, has been reflected in increased advertising expenditures; to many consumers, prices now do not seem any higher than a year ago. Consumers seem willing to buy large-ticket items but still have a psychological reluctance born of the recession, which sellers must overcome. In line with the national experience, awakened interest in larger cars has been reported, although most lines are sharing in the revival of automobile sales. High inventories of petroleum products are insuring stable to soft gasoline prices at the pump.

Demand for aluminum is reported to have increased, and steady gains are expected to bring the industry to 100 percent capacity in twelve months. Copper output is still at a very low level, but coal production is up sharply. Representatives of the lumber and wood industry generally report a "cautious upward movement in volume in most lines". Many continue to be worried, however, about the effort of environmentalist pressures on the future of the industry. Paper and pulp mills are being reactivated slowly. "The corrugated container business has been gradually slipping since January of this year, and it is not expected to pick up before the second half of 1976. Plywood business, however, is better than anticipated." New orders for commercial aircraft continue soft, and employment is declining, but revenue passenger miles flown are showing signs of recovery, which should have a favorable impact on orders in the near future.

Although new housing construction continues depressed, there has been a noticeable enlivening of building permit activity in many geographic areas of the Twelfth District. The permit activity generally recognizes that the apartments and condominium market continues in an overbuilt condition, but demand for single-family homes has turned the corner. There has also been a scattered but increasing number of inquiries at banks about industrial real estate loans "with no particular concentration on any industry".

The agricultural community anticipates a good but not spectacular income year. Investments in new machinery and farm buildings are being planned very carefully. Because of the somewhat precarious nature of export demand, it has been noticed that farmers are inclined to hold their crops back and speculate on better prices. This has often been detrimental to the farmer, and ways are being sought to develop a more consistent marketing program.

Demand for loans continues sluggish over most Twelfth District states, although preliminary inquiries are on the increase. Because of the high liquidity of major corporations, no significant upsurge in business loan demand is anticipated in the near future.

Beginning last October, a large increase in passbook and new corporate savings accounts was reported by District banks in all size categories. These inflows have tended to flatten out since mid-February. Many banks report that the new corporate savings accounts are very active, being treated almost like demand accounts, and are highly interest sensitive. Many of these accounts represent transfers from demand deposit accounts or funds provided by maturing CDs. "As money market rates on alternative financial instruments diminished, significant inflows were realized; and, alternatively, as these rates increased, the flows tended to diminish."