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# CURRENT ECONOMIC COMMENT BY DISTRICT

Prepared for the
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by the Staff

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SUMMARY*

Most District reports indicate the recovery continues to rest largely on the strength of consumer spending. In contrast, Boston notes waning in retail sales since late March. Numerous reports suggest that inventory liquidation in trade, steel, and certain types of capital goods has run its course, although businessmen are cautious about building stocks. Capital goods continues to be a source of uncertainty, although scattered signs of improvement are noted. Several reports suggest broad based recovery in capital spending will not occur until later in 1976 or early 1977. Demand for single-family housing is strong throughout the country while multifamily and nonresidential construction is generally weak. Crop plantings are described as ahead of schedule in key agriculture regions of the country, but wheat and fruit crops may fall short of last year's harvest because of adverse weather. Business loan demand remains sluggish throughout the country, while consumer installment loans and mortgage loans are strong.

The recent surge in consumer spending is broadly based. Auto sales and "big-ticket" items are reported to be selling well and exceeding expectations, according to nearly all District reports. New York describes the consumer as being less price conscious. Atlanta reports tourism is "booming" on the east coast of Florida and advance bookings for central Florida are heavy. Several Districts commented that retailers are bullish with respect to prospects through 1976.

Tight control seems to keynote comments concerning retail and manufacturing inventories. Higher consumer spending has yet to be translated into higher

*Prepared by the Federal Reserve Bank of Cleveland.

inventories. Retailers are apparently cautious with respect to building stocks and they are more likely to err on the low side, although a large department store chain will apparently boost its inventory. Low inventories for controls, motors, and timber have strengthened orders for those products, while tire production has been boosted because of an anticipated work stoppage in the rubber industry as well as low stocks relative to sales. Manufacturers' stocks are still excessive, according to the Richmond survey, but the latest survey conducted by Philadelphia indicates that about one-half of the respondents plan to build their inventories over the next 6 months. Chicago notes beginnings of inventory buildup of purchased materials and components, while New York expects cautious rebuilding of inventories that will accelerate with recovery in capital goods.

Manufacturing activity continues to strengthen, despite the lack of thrust from capital goods. Forecasts of steel output for 1976 are being adjusted upward as a result of completion of inventory liquidation and better than expected auto, truck and appliance production, according to Chicago and Cleveland. Atlanta reports allocation of certain types of steel in the third quarter is likely. Considerable uncertainty and caution mark comments with respect to capital goods. New York and Boston see little evidence of recovery while Chicago, Cleveland and Richmond see some pickup in orders for nonelectrical equipment and machinery. Cleveland reports machine tool orders continue to rise gradually, while higher than expected orders for printing equipment, bearings, and certain types of construction machinery have led to upward revision in forecasts for those industries. A broad pickup in capital goods is not expected until late 1976 or early 1977, according to Chicago and San Francisco.

Construction continues to be marked by strong demand for single-family housing. Multifamily housing and nonresidential construction remain weak throughout much of the country. Demand for new single-family housing appears strongest in the Southwest, the Midwest, and Southeast. In other areas, however, the market appears strongest for existing houses, and only limited or moderate recovery in new housing is reported. Multifamily construction remains depressed, although scattered positive signs are appearing in some areas. There is very little evidence of a pickup in industrial construction, and St. Louis reports only scattered increases in activity in nonresidential construction.

Reports from agricultural areas suggest conditions are favorable despite drought and an early freeze that could affect crop output. St. Louis, Minneapolis and Richmond report spring planting is ahead of normal in several areas. St. Louis describes prospects for the winter wheat crop as "excellent." although Kansas City expects output this year will be off by about 20 percent from last year. Expected increases in spring wheat production coupled with a large carryover of stocks from the last crop year are expected to offset some of the decline. Kansas City expects that expansion of red meat supplies during the second half of 1976 will constrain livestock prices, despite recent strengthening. Pork and beef output is expected to be about 2 to 3 percent above 1975 levels.

Weak business loan demand is continuing throughout the country, but consumer and mortgage loans have been strengthening in several Districts. Philadelphia reports that some banks are more aggressively encouraging customers to use existing lines of credit, while some larger banks in the St. Louis District are offering loans at below the prime rate to larger business customers. Bankers in Philadelphia do not expect loan volume to increase until the third or fourth quarter. Sluggish loan demand is associated with ample corporate liquidity and rate spreads between the prime rate and commercial paper, according to San Francisco, St. Louis and Kansas City.

FIRST DISTRICT - BOSTON

The directors of the First District are unsettled by recent developments. The strong performance of retail sales has waned in the past few weeks, while new orders placed with capital goods manufacturers have remained weak. Consequently, the business outlook has lost some of the post-Christmas glow. Overall, the recent data present a mixed picture, but the directors emphasize that their attitude is still positive on the whole--their forecasts, however, are scaled back to less optimistic levels.

Retail sales have been disappointing since the latter part of March. In Connecticut, trade volume has not held up as well as businessmen had hoped. For that State, retailers report "poor" to "fair" consumer response. In Massachusetts, a similar softness is evident as well. A director, whose retail business has remained relatively strong, commented that he is concerned about inventories, even though he believes that the opportunities for growth are good. He reported that his buyers' order placements are higher than they should be, especially in view of continued favorable vendor performance. According to his analysis, manufacturers are still attempting to recoup 1973 sales levels and attain high levels of capacity utilization.

Manufacturing output has begun to fall in several areas of New England. Responding mainly to weaknesses in the new orders for capital goods, layoffs have increased and average weekly hours have fallen in Connecticut. The durable goods industries, especially machine tools, have yet to participate in the recovery. Most firms which are maintaining levels of production are completing backlogged orders essentially.

Mortgage business is beginning to recover, but other categories of loan demand generally remain stagnant. Bankers report that the mortgage activity is heaviest for higher priced existing units. The mortgage interest rate may fall another 1/4 point, but lenders expect no dramatic price cutting on this front.

Variable rate mortgages are being tested in a variety of areas, and, for the most part, they are written at interest rates 50 basis points below similar conventionals. Similar to California contracts, they guarantee the initial rate for 1 year and subsequently rates may change by 25 basis points every 6 months.

Professors Eckstein, Houthakker, and Samuelson were available for comment this month. Houthakker found the pickup in $M_1$ growth "somewhat reassuring" in that it increased the probability of a sustained recovery. He was not alarmed by the reported size of the Teamster settlement but was concerned about the increases in the weekly commodity spot prices. If loan demand strengthens, a small rise in short-term rates would be in order. Eckstein said the economy is recovering somewhat faster than had been expected, mainly because of better progress in curbing inflation. While he agreed with the Chairman's view that the progress in prices may be a brief respite, the recent favorable experience still constitutes a part of the total record. Because money aggregates "have ceased to give guidance," according to Eckstein, "there is no choice but to look at interest rates." It would be a "grave error to keep interest rates low for most of 1976 and to raise them dramatically in 1977." Instead, the Federal Funds rate should begin a gradual ascent of about 25 basis points each quarter. Samuelson also urged "thinking hard" about the current level of interest rates. The Fed should be prepared for the possibility that the economy will be stronger than had been forecasted. In that event, it might be wiser to permit short-term rates to begin to ease upward even though this would be likely to terminate the downward drift in long-term rates.

SECOND DISTRICT - NEW YORK

A steady recovery continues to characterize the business outlook, according to the views expressed by Second District directors and other business leaders who were contacted recently. Consumer spending remains strong; business inventories are down to levels where some rebuilding may be required to keep in line with sales; capital outlays are still sluggish but are generally expected to pick up; and residential construction appears to be strengthening. On the darker side, the District unemployment picture remains bleak.

All indications point to continued strength in consumer spending. The president of a nationwide chain of department stores reported that retailers were generally optimistic, 1976 is expected to be a good year and there is nothing on the horizon "that might hurt business this year." He felt that consumers were being less price conscious, and reported that higher price items were selling well. The vice-chairman of a multinational electrical products firm noted strength in the sale of consumer durables, and expected such sales to remain strong throughout 1976. An economist for a multinational nonferrous metal producer noted that despite the stepped up consumer buying, such outlays have not kept up with the rise in consumers' real income, opening prospects for further growth in the pace of consumer spending. Similar sentiments were expressed by several bank economists. Regarding the District retail sales picture, the president of the nationwide chain mentioned above stated that his firm's New York City area stores have been doing well, "as well as anywhere else." While sales at large New York City department stores during March were only about 5 percent above March 1975, in part reflecting the later Easter date this year, area merchants expected sales during the March-April period to substantially exceed those of last year. An upstate banker reported that sales in his area continued strong, while the Buffalo branch directors reported that, after a sluggish start, spring consumer buying in Western New York had "come on strong," especially during the last days of March and early April. Larger retail stores were reported to be doing particularly well.

As in recent months, respondents felt that the continued strength in retail sales had found its counterpart in the termination of downward adjustments in business inventories, and in emerging evidence that the rebuilding process was getting underway. Among others, a business economist stated that "retail stocks are obviously too low" as a result of a greater than expected volume of sales, and that manufacturers and wholesalers will also have to be adding to inventories to keep up with sales growth. Another observer, a financial economist, felt that with consumer spending running ahead of expectations, some businessmen found it difficult to avoid a drop below desired levels in their stocks of certain products in strong demand. The consensus, however, was best summed up by the Buffalo branch directors who felt that businessmen have learned to live with lower inventory-to-sales ratios through improved inventory management techniques but that, with mounting confidence in the economic outlook, these businessmen were cautiously rebuilding inventories. These directors expected such rebuilding to accelerate as spending for capital goods increased.

Regarding business capital outlays, several bank economists and other respondents reiterated the view expressed in recent months that these outlays could be expected to pick up as business activity continued to expand. However, as yet, there is no concrete evidence that a significant pickup has gotten underway in this sector. Senior officials of two nationwide retail firms reported that their firms maintained a cautious and "selective" attitude towards the opening of new outlets. The president of a machine-tools producer reported a substantial rise in inquiries by businessmen, but little increase in actual orders. Similarly, the official of the electrical product firm reported heightened interest in bidding, but that this interest has not been translated into "action," and indeed that his firm's backlog of orders for industrial equipment actually was off.

Reports were mixed regarding the current construction picture, but on balance suggested some improvement. Unrented office space in New York City was reported to have declined about 8 percent over the past year. A business economist stated that the current moderate recovery in the housing industry should continue through this year and next, with mortgage money readily available and with demographic pressures and the pent-up-demand for housing built up during the 2 years of recession providing momentum for steady gains in housing starts. Similarly, a financial economist pointed to the strong jump in residential contract awards in February as auguring strength in the construction not only of single family homes, but of apartments as well. The Buffalo directors reported that major builders of luxury class homes in Western New York were doing a "brisk business." One director pointed to the increasing demand for building lots as indicating a probable future strengthening of construction and the directors in general felt that the availability of mortgage money in their area was sufficiently adequate to promote substantial further improvement in home building. On the more restrained side, the chairman of a large New York City bank reported that construction of commercial structures and of condominiums continued sluggish and could be expected to remain so over the near term. On the basis of his firm's weak sales of plumbing material, the official of the nonferrous metal firm felt the demand for new homes remained lackluster, while several upstate directors reported continued weakness in the building of low to moderate priced homes.

The District unemployment picture generally remained bleak but there were indications of a slight improvement. The unemployment rate (not seasonally adjusted) for New York City edged down to 12 percent in February from 12.2 percent in January, and for New York State to 10.9 percent from 11.1 percent. These rates had continued to increase in January. A director associated with an automotive product firm reported that his firm's output and employment were well ahead of pre-recession levels, reflecting the improved demand for automobiles. The local labor market, however, continues very slack; for example, a major Buffalo area food processor who announced openings for 200 workers received 3,000 job applications on the first day.

THIRD DISTRICT - PHILADELPHIA

Business conditions in the Third District have improved for the second month in a row. Retailers continue to experience strong sales, manufacturers report higher levels of new orders and shipments, and the factory workweek has lengthened. However, job gains in manufacturing have been slight and inventories are unchanged from last month. The outlook for the longer term in manufacturing is for additional expansion and more robust hiring. The market for existing housing is reported to be very active, although only limited recovery is taking place in new construction. Bankers report that loan demand is still weak. On the price front, reports of higher costs are more widespread than last month.

District manufacturers, responding to the latest business outlook survey, report that the level of economic activity is substantially higher this month. Almost 60 percent of the businessmen surveyed report an improvement in general business conditions. This is the second month in a row that one-half or more of the respondents have indicated gains. Half the manufacturers also report specific gains for new orders and shipments. At the same time, inventories, which increased in March, show little change from last month's levels. Stocks are up in the fabricated metals industry but down in chemicals. Despite expanded output in manufacturing (which holds equally for durables and nondurables), job gains have been small during the past month. The average workweek, however, has lengthened somewhat.

The outlook in manufacturing for the next 6 months is for additional expansion. Of the executives polled, 8 out of 10 expect a higher level of economic activity by October. Almost three-fourths anticipate an increase in either new orders or shipments. At the same time, close to half the respondents plan to add to their inventories over the period. Job openings are expected to pick up: half the respondents plan to hire additional employees, and 3 out of 10 anticipate a longer average workweek. An increase in spending for plant and equipment is projected by 40 percent of those polled, about unchanged from last month.

On the price front, 46 percent of the manufacturers polled indicate they are paying higher prices for their supplies. This is up from last month, when 35 percent were reporting increases. At the same time, 20 percent report higher prices for their finished products--about the same as in March. Higher prices are expected to accompany the expansion over the next two quarters. Four-fifths of the respondents expect to be paying more for their supplies, and three-fifths anticipate charging more for their finished products.

Retail executives paint a bright sales picture, with current volume above their expectations. One merchant, who was looking for sales to be about 10 percent above year-ago levels, notes that the gain is closer to 14 percent. All of the executives contacted report that most lines of merchandise are selling well. Men's fashions are singled out as exceptionally strong, and one retailer notes a resurgence in big-ticket items such as refrigerators and other appliances for the home. The outlook for the next few months is "very bullish," but there is general agreement that the major sales momentum for 1976 will occur in the first half of the year. Calendar factors and an expected pickup in inflation later in the year are cited as the reasons for this assessment. No significant movement in prices is reported, and one retailer notes that his prices "are not much higher than a year ago due to a conscious effort to be competitive." He adds that, by the end of 1976, prices charged in his stores will be about 5 percent above year-end 1975. Inventories are said to be in "fine shape," and no problems with deliveries are reported. Retailers note that they are receiving 90-95 percent of their deliveries on time. Area merchants indicate that they encountered no problems as a result of the recent

Teamster's strike.

The residential housing market in the area is reported to be brisk for existing housing, but only limited recovery is taking place in new construction. Work reportedly is beginning again on unfinished multifamily housing in the region, but little new construction is anticipated in the near future. One MSB official notes that savings inflows have been very strong and that mortgage rates have declined. He quotes the best rate at his institution currently as 8 3/4 percent, with the top of the range at 9 1/4 percent. This executive sees the possibility of further declines in rates before they begin moving up gradually around midyear. He adds, however, that the rise in rates through the end of 1976 will have little dampening effect on the housing market.

Area bankers report that loan volume remains flat. All of the executives contacted indicate that consumer loans are inching up, but they don't consider this movement significant. It's agreed that business loans are weak, and more frequent contacts with customers to try to generate more use of existing lines of credit are reported. Bankers are mixed in their forecasts of a pickup in loan demand. One contact notes that, with inventory accumulation taking place, loan volume should begin to move up by midyear. Another projects an expansion in loans by the fourth quarter. This official feels that, if businesses want to share in the recovery, they can't continue to reduce receivables and inventories much longer. All of the bankers contacted feel that short-term interest rates are at their floor; but there's uncertainty as to when rates will begin to move up, since earlier expectations were for rates to be increasing by this time.

FOURTH DISTRICT - CLEVELAND

Directors, businessmen and economists in the Fourth District are increasingly optimistic about the recovery and have been raising their estimates of output and sales for 1976. Retailers and producers of durable goods are encouraged by a surge in sales and profits in their industries. Capital goods and steel, among the lagging sectors in the District, show signs of reviving, and contacts in those industries report orders and shipments have strengthened in recent weeks. Liquidity of several retailers, manufacturers and thrift institutions has improved sharply in recent quarters.

Retailers and producers of consumer goods are especially encouraged by the sustained rise in consumer spending for automobiles and household goods as well as soft goods. A director with a consumer household products firm reported that sales have been rising faster than expected, and another director indicated that strong demand for materials for home improvement and repairs boosted earnings to their highest level since 1954. Several banker-directors reported installment loan demand is strong, especially for the purchase of large cars. A financial officer for a major discount store chain reported sales and profits for each month this year were well above levels a year earlier. An economist with a soaps and detergents firm noted a recent pickup in several consumer products that had been lagging the recovery in consumer spending. Reports from auto dealers in the Youngstown area, which has one of the highest employment rates in the District, indicate March sales of new cars rose faster there than in the nation, in contrast to a year-over-year decline in both January and February.

Despite widespread strength in consumer goods sales, inventories apparently will be kept under tight control. A retailer noted their inventories are adequate but not much higher than late last year. One producer, while reporting inventories of some product lines are probably lean, is apparently willing to err on the conservative side. In contrast, inventory demand for automotive tires has ballooned, partly because stocks are considered too low relative to sales and partly as a hedge against a strike in the rubber industry.

Capital goods producers are also more encouraged over prospects for recovery in their industry because of better than expected incoming orders. A director, with an electric typewriter firm, reported that orders increased more than expected last month and that their new copiers introduced recently have been well received by the trade. An electronics equipment and printing press producer reported that incoming orders during the first quarter of 1976 were the highest on record and that orders for all types of printing equipment are now recovering. Orders last quarter were 50 percent ahead of shipments, and will require a boost in output as well as employment in the months ahead. Orders for bearings turned up from a broad range of customers. An economist, usually one of the most bearish in capital goods, recently scaled upward his estimates of real capital spending from a decline to virtually no change from last year. Upward revision of estimates for shipments of excavating machinery and cranes, from an expected 15 percent pickup last fall to the latest 20-25 percent, was reported by another capital goods producer in the District. This expected improvement reflects more rapid completion of liquidation of excavators at the distributor level as well as higher spending for construction by some State and local governments. Machine tool orders continue to climb, although the year-old rebound has recovered only about half of the drop in orders that occurred during 1975.

Steel inventory liquidation has been virtually completed, and little if any change is expected this quarter. Inventories of flat rolled products are likely to be built and offset some further liquidation of steel held by firms in capital goods industries. An economist with a major steel company revised upward his 1976 forecast for steel shipments and production because auto and truck production is running stronger than their earlier expectations. Another firm reported that delivery schedules for some of its lines are lengthening from 2 weeks to as much as 2 months.

Improved liquidity and debt structure for a variety of financial and nonfinancial firms is increasingly mentioned by directors and other respondents in support of a more optimistic view of economic activity. A banker-director termed as "very liquid" an office equipment firm that had been considered financially weak in recent years. His corporate customers are borrowing in long-term markets. Another banker-director reported banks and thrift institutions in his area are highly liquid. S&L's in the District generally report continued strong growth in deposits, and several are eager to cut rates paid on passbook deposits in view of high liquidity. A major discount store chain in the District that was near bankruptcy in 1975 has boosted its current ratio from 1.7 to 2.1 in recent quarters, and cut back its long-term debt by at least 10 percent. A large producer of consumer products, whose usually large excess working capital was run down in 1974-1975, has again sharply boosted its liquid asset position to a point where it can finance all of its capital spending plans for 1976. An official with a major machinery firm reports a dramatic shift in its financial situation from a net borrowed position to a surplus over the past 12 to 15 months, partly because of record cash flow last quarter. For some other firms, concerns seem to have shifted from working capital shortages and financing problems to building inventories and increasing production schedules.

The rising optimism that seems to permeate the attitude of businessmen in the District is tempered somewhat by inflationary wage settlements. One source indicated that the total increase in compensation in the first year of the Teamsters contract amounted to 15 to 20 percent. A director viewed as "not too explosive" his firm's recent labor settlement for a 9 percent increase in compensation. Rubber works are expected to settle for less than the Teamsters, although a cost of living catch-up is expected to be a result of a settlement, with a short strike likely to affect at least one of the major tire producers.

Recovery in employment in the District remains sluggish and continues to lag the nation. The small improvement that has occurred has been mainly in rubber and plastics, trade, and fabricated metals. Employment in steel, machinery and construction industries has tended to stabilize in recent months, while earlier gains in automotive industry have been held down by recent layoffs at the GMC Lordstown plant, where compact cars are assembled. Since late March, over 2,000 workers were placed on indefinite layoff.

FIFTH DISTRICT - RICHMOND

Responses to our April survey of Fifth District business conditions indicate a more general improvement in the level of activity than at any time in the past year. A majority of manufacturing respondents report gains in shipments, new orders, and backlogs of orders in March, with increases in employment and in hours worked as well. Finished goods stocks apparently declined further while stocks of materials are reported to have stabilized or increased slightly. Responses suggest, however, that some further reductions in inventories may be necessary to bring them to desired levels. Reports of excessive plant and equipment capacity are less common than in recent months, but on balance current capacity remains in excess. Retailers report increased sales, with 80 percent of respondents indicating gains in sales of big ticket items relative to total sales. Retail inventories are now apparently in line with desired levels despite little change in March. Both manufacturing and retail respondents remain optimistic, expecting further improvement in the level of business activity over the next six months. Fifth District banks continue to experience unusually slack business loan demand, but increased loan demand from consumers has resulted in a modest expansion in bank loans in recent weeks.

Among manufacturers responding to our survey this month, nearly 55 percent report increases in shipments and new orders in March. Backlogs also were up at a majority of manufacturers. Inventories of finished goods continued to decline in March, but there was apparently some buildup of materials stocks. In any event, manufacturing respondents viewing current inventory levels as excessive outnumber those viewing them as inadequate by more than two to one. One textile manufacturer reported being in the process of reducing inventories to an all time low.

Among individual industries, survey responses suggest textile and apparel manufacturers continuing to outperform most others, although improvements were much more widespread this month than last. Non-electrical equipment and machinery manufacturers reported improvements in business as did manufacturers of furniture and fixtures. Survey responses suggest that demand continues to lag in the chemicals industry.

Nearly one-third of the manufacturing respondents reported increased employment in March, and over one-third reported working an increased number of hours per week. Prices, including employee compensation, continue to rise, but there is no apparent change in the trend of recent months. Almost three-fourths of the manufacturing respondents expect the level of business activity nationally and in their individual market areas to improve over the next six months, while two-thirds expect increased production within their own firms.

Retailers reported a larger volume of sales and a higher proportion of sales of big ticket items than in recent months. Increased demand for consumer loans and improved sales of big ticket items are consistent with reports from many parts of the Fifth District confirming a significant improvement in consumer confidence and willingness to buy. Inventories at retail were essentially unchanged in March and are apparently in line with desired levels. One-third of the retailers surveyed now view their present number and size of outlets as inadequate. Over 80 percent expect the level of business activity nationally, regionally, and in their own firms to improve further over the next six months.

Bankers in several District states have reported noticeable increases in consumer lending activity in recent weeks. Improved consumer confidence is cited as an important factor contributing to this increase. Conversely, business loan demand remains unusually depressed. While there is some evidence of lending gains with regional business customers, loans to locally important industries, for example textiles, continue to be soft. Commercial and industrial loans at Fifth District weekly reporting banks are now at their lowest level since early 1974. One weekly reporting bank expects no significant increase in its commercial lending at least until fall.

District farmers' cash receipts from farm marketings in January were 4 percent below a year earlier, with a sharp drop in crop receipts more than offsetting a significant gain in receipts from livestock and livestock products. By comparison, the nation's total cash farm receipts recorded an 8 percent gain in January. Commercial peach and apple crops in Virginia and the Carolinas sustained varying amounts of freeze damage in mid-March. Losses ranged from light to severe. Land preparation for spring planting is generally ahead of schedule; corn planting is proceeding ahead of last year's pace; tobacco transplanting is underway; and small grains are in good condition.

SIXTH DISTRICT- ATLANTA

Improvement continues in the Southeast, except for some parts of the construction industry. Branch directors find the region strengthening steadily. Sales of automobiles and trucks continue to grow rapidly. Businesses serving vacationers continue to provide major boosts to the region. Changes in lumber demand and prices are occurring. Possible shortages are perceived in parts of the steel industry. Despite some improvement in condominium and mobile homes, the construction industry's condition remains mixed.

Branch directors' comments indicate steady improvement and a generally optimistic outlook; diverse indicators are cited to support this view. A Jacksonville director notes that the recession seems to be disappearing and that air cargo shipments are up. Another states that optimism remains strong and cites a 30 percent increase in advertising outlays over last year. A director from Miami finds steady, if not vigorous, improvement supported by record consumer spending; he notes a 53 percent growth in tonnage at Dade County Seaport, with increases from last year in all classes of goods. A New Orleans branch director cites increased industrial development activity in Mississippi as a sign of an improving business climate, but a second director notes a wait-and-see attitude on the part of central Louisiana businessmen concerned about the strength and duration of the upturn. Birmingham branch directors cite strengthening in textiles and apparel, increasing industrial expansion, and extremely good truck transportation business as indicators of continued improvement. As evidence of a continuing steady recovery, Nashville directors note continued gains in March retail sales in connection with new shopping centers and downtown area renovation.

Motor vehicle sales continue to grow rapidly throughout most of the Southeast. Auto sales increased sharply in February and March. Weak sales of imported models and strength in sales of full-size and luxury domestic models also persisted. Substantial gains from last year, as well as a confident view of the future, are widely reported. Truck sales have been equally vigorous. Recreational vehicle sales have increased, according to reports from Alabama and Florida.

Tourist attractions continue to lead the Southeast's recovery. Nashville's "Grand Ole Opry" is completely sold out through November. Motels on the east coast of Florida are completely full, and tourist businesses are "booming." Miami is also enjoying an exceptional season. Gains in attendance at central Florida tourist centers continue, and advance bookings are heavy. Vacationers are reportedly less budget conscious this year, and expenditures per person have risen.

Developments in industry include a leveling of demand for all kinds of lumber, reflecting the completion of inventory rebuilding by lumber yards throughout the country. Prices remain firm but are no longer increasing; they remain near the high of late 1973 and early 1974. Another report expresses concern regarding sharp price increases which are likely to result if timber harvests from national forests are curtailed as a result of environmental restrictions imposed by legislative and judicial bodies.

A firm which services offshore oil wells fears that continued production increases in autos and other steel-using industries may cause a recurrence of shortages of pipe and other tubular goods. Inventories are being increased. An executive with a major steel company expects steel products to be on allocation by the middle of the third quarter. A new steel mill nearing completion in the Jackson ville area will provide a partial offset to steel shortages. The electric furnace mill will begin production in midsummer of steel billets and by yearend expects to start manufacturing reinforcing bars. About 200,000 tons of steel products are expected to be produced annually.

Conditions in the construction industry appear to have brightened somewhat. Single-family home building and sales remain the major area of activity; with some exceptions, nonresidential construction is sluggish. Slight improvement is noted in Nashville's condominium market. In the Miami area, condominium sales have shown little change in the past 3 months, but the first sign in 3 years of reduced inventories has appeared. Apartment vacancy rates have stabilized or declined in several areas. Mobile home sales show a varied pattern. In one area of Florida, sales are still falling, while elsewhere, sales have increased. Rising sales of mobile homes in Alabama are attributed to customers' inability to afford conventional housing. Financing of mobile home sales is creating difficulties as a result of banks' unfavorable loss experience.

SEVENTH DISTRICT - CHICAGO

The business expansion in the Seventh District has broadened and gathered momentum in the past month to a greater extent than most observers had expected. Increased retail sales and reversals of inventory liquidation programs are largely responsible. Substantially higher profits of "better quality" have played a large role in improved business psychology. Consumers are influenced favorably by stronger job markets and slower price inflation. No significant shortages of materials and components are noted as yet, but lead times are lengthening moderately. A broad pickup in capital goods does not appear likely until late in the year. Transactions in existing dwellings and various other types of real estate have been "phenomenal," and some residential builders are beginning to reactivate dormant programs.

The Teamsters' negotiations apparently were settled with only minor, temporary walkouts in this District, and these were largely confined to the Detroit area. The cost of the Teamsters' 3-year package is difficult to evaluate. A Detroit union official calls the contract "the best we ever got," and says many over-the-road drivers paid by the mile could get $10,400 more per year at the end of 3 years, boosting some into the $30,000 to $35,000 range. This 40 to 50 percent boost assumes a 6 percent per year rise in the CPI under the new unlimited COLA. Without COLA increase, the 3-year contract is said to call for a 33 percent rise in costs, with large boost for pension contributions as required by the new law.

Some knowledgeable analysts in the District are very concerned about a serious rubber industry strike starting next week. For the first time, three or four of the largest producers may be struck simultaneously. The various issues, including a COLA, may not be resolved without a walkout that might last 60 days. Output of autos and trucks probably would be affected in 30 to 40 days as stocks of tires are limited. Many other essential industrial products would be cut off by a rubber strike. Unlike the Teamsters' settlement, the rubber contract eventually decided upon is likely to set a pattern.

The main issues in the UAW contracts coming up this fall are not clear, but General Motors has suggested reevaluation of the company-paid medical-dental program which now costs $150 per worker per month and is rising rapidly even without further liberalization of benefits. Chicago lithographers recently agreed to forego a scheduled wage boost in order to slow the migration of printing and graphic arts, but such reports are unusual. Chicago teachers reluctantly agreed to an 8.5 percent salary cut to be achieved by shortening the current school year.

Virtually all consumer hard goods, especially autos and most appliances, are selling well again. Sales gains at general merchandise stores for March are very impressive in view of the much later date of Easter this year. General merchandisers are pleased with the improvement in their profit margins, which reflect lower carrying costs of inventories as well as higher volume. Food retailers, however, are having a difficult time maintaining their profit margins in the face of rising costs of labor, transportation, fuel, insurance and other overhead. Increases in these expenses also plague private schools, hospitals, and other institutions.

The increase in sales of autos and light to lower-medium weight trucks has exceeded the hopes of most industry analysts. Inventories of popular models are inadequate to meet sales potential. The increase in sales has been concentrated in the compact and intermediate-sized with the subcompacts and standards losing ground relatively. Better gas mileage on domestic models and relatively improved price relationships have helped reduce the market penetration of imports. Sales of larger trucks have remained at a very depressed level, but output is being expanded to meet an expected rise in demand coming about midyear as truck freight continues to increase.

Purchasing agents' reports for both Chicago and Milwaukee were very promising for March with significant gains in new orders, output and, most recently, employment. More firms are reporting increases in order backlogs, and many are beginning to rebuild inventories of purchased materials and components. Producers of basic materials such as steel and cement are boosting forecasts of output for the year. Steel imports are at a lower rate than most observers had expected, perhaps because foreign producers are reluctant to match U. S. prices.

Manufacturers of capital goods components report continued improvement in orders for such products as controls and motors. Partly this reflects "bare bones" inventories of distributors. Some utilities indicate they are moving ahead on deferred capital expenditure programs as financial positions have improved and certain regulatory obstacles have been resolved. Announcements of expanded capital expenditure plans in other industries are rare. Capacity is currently ample in most types of manufacturing, transportation, trade, and finance and vacancy rates in commercial buildings are high, both downtown and in the suburbs.

Despite much talk that "the average family can't afford a home any more," transactions have been at a very brisk pace both in preoccupied units and in new housing. Single-family homes are moving at prices 50 percent higher than 5 years ago in good areas. New building is beginning to revive, but mainly in single-family developments and townhouses.

EIGHTH DISTRICT - ST. LOUIS

Economic activity in the Eighth District continued to expand in recent weeks according to reports from District businessmen. Consumer spending remains a strong feature of the recovery as retailers report improved sales. Manufacturing activity, with the exception of capital goods, continues to improve, and employment has maintained its upward course since mid-1975. Construction activity is also strengthening. Reports indicate the beginning of an upturn in commercial construction in addition to further expansion in residential construction activity. Bank loan demand has increased somewhat, and mortgage loan demand has decreased significantly. In the agricultural sector, land preparation and planting are currently underway for a large acreage of crops.

Consumer spending remains strong, and retailers are generally optimistic about prospects for the rest of this year. Department store sales have registered gains in recent weeks and are well above year-ago levels. Most lines of department store goods are selling well, including big-ticket items such as appliances and furniture. One appliance dealer in St. Louis noted a definite pickup in sales in the past 60 days. Automobile dealers report brisk car and truck sales in March and a continuation of this rising rate of sales into early April.

Manufacturing activity has gathered momentum as orders and production registered increases in recent weeks. A representative of a local steel manufacturer reports an acceleration in the pace of new orders among all categories of steel products. Manufacturers of shoes, appliances, televisions, and clothing report improvement in their sales. Industries closely tied to residential housing, including a manufacturer of metal connector plates and paints and coatings, also note continued gains. A representative of the aircraft and space industry reported that although commercial demand for aircraft is sluggish, defense contract work is strong. The only negative report was from a manufacturer of boxboard which experienced a drop in demand in recent weeks, after a strong pickup in January and February. However, this drop was thought to be temporary.

Residential construction remains a leading sector in the current business recovery. Residential housing permits have increased recently in all the major District cities. The bulk of this activity has been in the construction of single-family dwellings, although some gains were noted in multi-family units. Apartment construction in some areas is still hampered by relatively high vacancy rates in existing apartments.

Other types of construction, which heretofore had been depressed, are now showing initial signs of recovery. One builder, who last month gave a very pessimistic outlook for nonresidential construction, reported a flourish of new project proposals in recent weeks. These projects included several shopping centers, hospitals, distribution facilities, and restaurants. Notably absent from these reports are industrial projects. Several industrial projects that were only partially completed at the beginning of the last recession remain unfinished. A few industrial projects, including some chemical and food processing plants, however, are reported to be underway.

Employment gains have been a strong feature in the current recovery. Higher employment levels and lower unemployment rates are reported in most areas of the District than in the previous month. In some cases, employers report difficulty in filling certain types of jobs.

Loans have improved somewhat in recent weeks. Larger banks, however, report that the prime rate as officially stated is somewhat above the actual lending rate to some customers, and above the rate on other sources of business funds such as commercial paper. These banks report that some are offering rates at below the official prime rate to larger business customers. Mortgage loan demand has continued to strengthen and thrift institutions continue to experience large increases in savings deposits.

Farming operations are reported to be ahead of normal for this time of year, reflecting better than average weather conditions. Reports indicate that farmers will plant more acres overall than last year. Considerable uncertainty exists about the amount of rice acreage to be planted in view of sharply lower rice prices. In general, farmers are expected to shift some acreage to corn and cotton and away from soybeans. Wheat crop prospects in the District remain excellent.

NINTH DISTRICT - MINNEAPOLIS

The recovery appears to be gaining momentum in the Ninth District economy, though weak spots still exist. Consumer spending is strong, unemployment is falling, manufacturing sales are improving, and residential construction activity may be on the upswing. However, manufacturing employment is up only marginally from the low of last summer, and both nonresidential construction and business loans outstanding at commercial banks are slightly below year-ago levels. In the District's agricultural areas, farming operations are ahead of normal, cattle prices are up sharply from late March, and inventory financing of grain stocks remains substantial.

Consumer spending in the District is up from last year. Data available through January puts retail sales about 15 percent above a year ago, and surveys of District retailers taken in late March indicate that the pace of sales has remained strong since January. Appliances and home furnishings are selling well. Auto dealers' sales increases have been especially large, with the bulk of the increases coming in the intermediate and luxury models.

Resort owners also say that business was good over the winter months despite less than normal snowfall; most expect a strong tourist season this coming year.

Despite sales gains, retailers continue to maintain tight control over inventories; however, suppliers have been able to meet short delivery schedules.

In the manufacturing sector, sales appear to be above a year ago in both dollar terms and in real terms. In addition, manufacturers expect larger sales gains in coming months. The average workweek in manufacturing has been increasing since late autumn; however, manufacturing employment is only slightly above the recession low of last summer. One director, whose firm is a major manufacturing concern, feels that slow employment gains are partly due to the high costs of adding new employees.

Overall wage and salary employment in the District is now above a year ago despite lower employment in manufacturing and construction. Gains have come in the trade, services, and government sectors of the economy. Employment is up in all regions except Michigan's Upper Peninsula, where unemployment in the copper industry is still substantial. Initial claims for unemployment benefits in the District are now down to the lowest level in about a year and a half. Seasonally adjusted unemployment rates have fallen sharply since October.

Data are not yet available on first quarter residential construction, though the higher level of permits in 1975's second half provides potential for an improved level of starts. A director whose firm supplies materials to the housing industry thinks that recent construction activity has been stronger than anticipated. The value of nonresidential construction awards is still below last year, as is overall construction employment.

At savings and loan associations, both new mortgage lending and commitments outstanding are down for 1975's fourth quarter, but are substantially above a year ago. Total bank lending is increasing even though business loans are at about the same levels as last year. The rate of increase in consumer time and savings deposits at banks has fallen in recent weeks; deposits at S&L's continue to run about 15 percent above last year.

Farm work in the District is currently several days ahead of normal. Seeding of spring wheat and oats is about half completed in some areas of Minnesota, and corn planting may get under way by mid-April. Subsoil moisture is slightly below desirable levels in many areas, but the shortages are not so great as to hinder crop development.

Carryover of last year's grain by farmers is till greater than normal, and inventory financing has boosted farm lending at rural banks. Lending by

Production Credit Associations also appeared strong in the first quarter.

Cattle prices have turned up sharply in recent days after having dipped to a seasonal low in late March. Dairy prices continue to move seasonally lower, but are above last year. Hog operations appear profitable, and one director says that in his locality all livestock operations except cattle are undergoing expansion.

TENTH DISTRICT - KANSAS CITY

Buyers of materials for Tenth District manufacturers are generally optimistic about the economic outlook citing fairly stable prices, plentiful supplies, and growing demand for their finished goods. Nonresidential construction contractors, on the other hand, complain of being in a recession of their own. On the farm scene, bad weather has reduced the expected wheat yield, but farm prices have still declined because of expanding supplies of livestock. The demand for bank loans was weak in March, reflecting declines in borrowing both by businesses, national and local, and by consumers. Demand deposits continued to rise in March, but time deposits fell as banks ran off their large certificates of deposit.

Nonresidential construction business is souring, say some contractors. "Where there used to be maybe three bidders on a job, there are now sometimes 15, and they are going cheap, cheap--below our cost." Another observed, "At least the prices of our materials are stabilizing, except for plywood, which has gone up quite a bit already and will go up more soon." A third asked, "Why can't the government free up all that authorized spending and give us a break. We're in a recession."

Purchasing agents report still plentiful supplies and stable prices for most materials. Inventories are being built cautiously, if at all. Some buyers are quite concerned about the outlook for prices, while others expect relatively little change. Said one, "Things are getting a little tighter, and prices are making noises again." Among the noisemakers mentioned were polyethylene, paint pigment, certain metals, and other chemicals. "I don't expect all of the 8 percent increase in a large oil company's list for polyethylene to stick," remarked an agent. "We haven't been paying list anyway for the past few months," he said. A buyer for a farm supply business credits a warm winter and spring for a 30 percent increase in volume over last year. "The availability of fertilizer in unlimited quantities at two-thirds of last year's price has helped business too," he said.

Farm prices declined 1.5 percent for the month ended March 15, continuing a general downtrend that began last fall. Despite the sluggish behavior of farm prices over the last 6 months, due largely to expanding supplies, the average price level in March was 12 percent above a year ago. Hog and cattle prices have strengthened during the last 2 weeks and may continue to rise if supplies taper off somewhat. Still, recent reports suggest that red meat supplies--especially pork--will be expanding during the second half of 1976, which should keep a reasonably tight lid on livestock prices during that period. For the year as a whole, pork and beef output is expected to be about 2-3 percent above 1975 levels.

The District's wheat crop continues to be plagued with weather problems, although some precipitation has been received in the last month. It is expected that 1976 production levels in the District will fall considerably short of the 725 million bushels produced last year. A recent crop report on four states in the District indicated that output will be down about 20 percent from last year. However, the supply picture for the nation will be cushioned by probable increases in spring wheat production and a larger ending carryover of reserves from the 1975-1976 marketing year.

Tenth District bankers report that loan demand weakened in March. Business loans were down sharply as borrowing by both national and local customers declined. National accounts have turned to the open market for funds due to the favorable rate on commercial paper relative to the prime rate. The slowdown in local business borrowing appears to have reflected the strong internal liquidity at some local companies and their reluctance to build up inventories. One bank reported a rise in local business loan demand from gas-energy related businesses. Bankers also reported declines in consumer lending despite strong auto loan demand. Real estate and farm loans increased moderately.

Bankers reported strong demand deposit inflows. Savings deposits, especially those of individuals, continued to rise. Time deposits declined as banks continued to run off their large certificates of deposit due to slack loan demand.

ELEVENTH DISTRICT - DALLAS

With the exception of a few problem areas highlighted in this report, the economic recovery is progressing reasonably well in the Eleventh District. Evidence of the expanding economy can be seen in most labor market statistics. Total employment has increased by 100,000 workers in the five-state area in the past year, and the unemployment rate has dropped to 6.2 percent. Only in Oklahoma has the jobless rate increased, while in Arizona the rate has dropped 3.5 percentage points. In Texas, insured unemployment has declined 39 percent since last June. Moreover, initial claims for unemployment insurance are now at the lowest level since October 1974. The recovery in manufacturing in Texas is reflected by the extended workweek for production workers, which, at 41.0 hours, equals the annual averages for 1972 and 1973.

The only manufacturing industry in Texas that has not participated in the economic recovery is primary metals. Output by the industry has dropped nearly a third since September 1974, but the decline now appears to be leveling off. A survey of steel companies in the industry indicates most firms are hoping for a slow pickup in business later this year, but this outlook depends on the performance of two major markets--construction and oil field equipment. Some steel companies note the market for materials used in small residential construction projects has firmed. However, total output will not be affected substantially until nonresidential construction begins a comeback. But even stronger demand for construction materials may not help the steel industry because as much as three-fourths of the current production of some firms goes into oil field equipment manufacturing which is now beginning to soften. In addition, aluminum output continues at the low level established last summer.

Domestic drilling activity has taken a turn for the worse. After reaching a 14-year high in late December, the total number of active rotary drilling rigs dropped 16 percent to a 17-month low in March. A seasonal decline in drilling is expected in the first quarter of each year; but according to some industry spokesmen, the cutback was also in response to a rollback in the average price of domestic crude oil to $7.66 a barrel--down from the January high of $8.43. Many drilling contractors expect the decline to slow and drilling to begin a seasonal upswing in the last half of the year. However, the future is clouded by proposed legislation that is unfavorable to the industry. Despite the sharp drop in rig count, more wells were completed in the first quarter of 1976 than in the comparable period last year.

Multi-family construction in the Eleventh District remains severely depressed by high interest rates and rising construction costs. As a result, a growing shortage of apartment units, already acute in some District cities, has caused some major changes in the rental market. In Houston, for example, where the occupancy rate is 95 percent, tenant resistance to fast-rising rents, discontinuance of lease contracts, and payment of their own utility bills has become virtually nonexistent.

The tight rental market is, however, boosting the demand for new single-family homes. Sales of new houses are near record levels, according to a survey of the District's largest tract builders. Demand is strongest for homes priced under $30,000, and most are being sold to apartment dwellers. In addition, new developments are mushrooming in suburbs 15 to 30 miles from the central business districts because fears of gasoline shortages and the inconvenience of commuting have been overcome.

Custom builders specializing in more expensive homes are also experiencing brisk sales. Roughly half the new homes sold in Dallas this year have been priced over $40,000. And in El Paso, demand for homes costing more than $50,000 is the strongest in several years.

None of the builders contacted considered their inventories of unsold homes excessive. In fact, a common response was that inventories were "very low." In Dallas, for example, the largest homebuilder said that there were 2,660 new homes on the market last quarter and about 1,750 were sold. He considers inventories tight if he carries less than a six-month's supply of homes. Builders also report that as a result of the short supply of homes, most recent sales have been "futures"--houses not yet completed. And they have responded to this bullish development by substantially increasing their plans for additional starts.

Farm income in the Southwest will be higher this quarter than a year ago. Prices received by Texas farmers for all agricultural products are up 17 percent, on average, from last year. With higher average cattle and calf prices, total livestock receipts will be bolstered by increased marketing of cattle from feedlots and increased numbers of grass-fed cattle and calves slaughtered. Receipts from hogs, milk, and broilers may also rise. But total crop receipts--reflecting very weak rice and soybean prices--may remain near year-earlier levels.

Prices paid by farmers for most production items have increased 8 percent in the last year. Costs of feed, fuel and motor supplies, farm machinery, building and fencing materials, and farm supplies should continue to increase moderately, while irrigation costs in areas of West Texas and Eastern New Mexico will be significantly higher. Fertilizer prices, however, are below year-earlier levels, encouraging extensive application of crop land and improved pastures where adequate moisture is available.

TWELFTH DISTRICT - SAN FRANCISCO

In the opinion of our directors, business has been expanding at a moderate pace; and although the pace has not been labeled disappointing, it appears to be taking longer than usual for the pronounced strength in consumer spending to feed back into inventory demand. At some point, the business community might be convinced that the trend in consumer spending will be sustained and a rapid inventory build-up will take place. Price trends are being watched closely. Current evidence of lowered inflationary expectations is confined to agricultural products and some specific industries like pulp and paper where demand has remained weak. Wage package demands, however, are reported to be lower than last year. Plans for new plant and equipment spending that had been shelved during the recession are being dusted off but are being inhibited by environment protection studies and anxiety over price trends. Some bankers appear concerned over the continuing low level of business loan demand.

Evidence of lower inflationary expectations was reported by several directors, although the general consensus appears to be that wage and benefit packages will be up about 10 percent this year. The directors seem loath to give a long-term interpretation to current lower food price levels and lower quotes for such items as fertilizer, corrugated cartons, burlap, brass and titanium and are cautiously awaiting price reaction to an anticipated second-half swelling of demand. Those directors connected with natural gas production seem most convinced that inflation will recur as a very serious problem. More precisely, it is anticipated that price increases will continue at a modest rate for the next 3 to 4 months, but inflationary pressures during the latter half of 1976 will increase with food, energy and wages the major areas of concern. The inflation rate for the year is expected to be in the neighborhood of 6 percent, down significantly from 1975.

For the most part, industry in the far west appears to be marking time. New orders for commercial aircraft have been quiet although steady, and the overall pulp market is still soft. Activity in timber and wood products has picked up recently as wholesalers replenish low inventories in the light of increased residential housing activity. Other industries such as chemicals, steel and pleasure boat building report steady expansion. Nonferrous mineral activity, notably aluminum, remains depressed, but the value of coal output is up about 25 percent.

Some capital formation in the form of modernized equipment is being put in place, but sights are not currently being raised. Environmental impact studies have, in some cases, slowed the rate of new construction. A further inhibition to power plant construction is the fact that rate structures which provide the basis for securing funds in the marketplace must be approved by the public service commission. Many California projects appear to be on hold awaiting the results of the June Atomic Energy initiative. Public works construction is down from a year ago. One director from a large west coast bank, however, reports that there are early signs of renewed general interest in plant and equipment spending that will become supportive of the recovery late this year and in 1977.

Cash receipts from farming in 1975 just about equaled 1974 in spite of a lower price for wheat. So far in 1976, irrigation has been sufficient to counter low rainfall, but farmers would suffer if next year's rainfall were below normal. Many items used in farming have declined drastically in price over the last year; fertilizer and insecticide prices have fallen as much as 25 to 30 percent and costs of corrugated cartons and burlap sacks have declined for the past two packing seasons. Prices of farm machinery, however, continue to escalate. The agriculture industry does not anticipate heavy spending for expansion this year.

Business borrowing at commercial banks has been lethargic as a result of abundant corporate liquidity and the prevailing cost differential between bank loans and commercial paper issues. Consumer loan and real estate demand have been very strong, bolstering the notion that the consumer is leading the way out of the recession.