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CURRENT ECONOMIC COMMENT BY DISTRICT

Prepared for the
Federal Open Market Committee
by the Staff

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Summary*

Weather dominated the news in most Districts' reports. Cold weather drained natural gas supplies and resulted in widespread layoffs in some Districts, especially Atlanta, Philadelphia, Cleveland, Chicago, and New York and extensive crop damage in Florida. Nevertheless, the overall opinion seems to be that the economy shows signs of strengthening and losses in output and employment will be made up later in the year. Retail sales were particularly strong in several areas not affected by the weather, such as San Francisco and Boston, and also held up in Chicago and St. Louis despite severe weather. Housing activity shows signs of accelerating. Prices for manufactured goods are likely to be under upward pressures because of the high cost of alternate fuels and alternate transportation, and prices for fruits and vegetables are also expected to accelerate. Savings flows remain generally strong and rates paid on deposits are easing in some Districts.

Natural gas and fuel shortages apparently have their greatest effects on output and employment in Atlanta, Philadelphia, Cleveland, Chicago, and New York. An estimated 250,000 to 335,000 layoffs have resulted from fuel shortages in the Atlanta District. Approximately 175,000 workers were laid off in the Philadelphia District as a result of curtailments of natural gas and weather-related problems. Cleveland estimates that about 110,000 manufacturing workers were laid off as of early February, principally in steel, automotive, glass, and metal fabricating plants. Chicago notes that the most serious impact has been on steel plants in Indiana, where over 40,000 workers

*Prepared by the Federal Reserve Bank of Cleveland.

were laid off early in February. Automotive assembly plants in Michigan had layoffs because of parts shortages. Chicago and Cleveland said that many manufacturers have switched to alternate fuels, but deliveries have been slowed by frozen waterways and lack of carriers. As these deliveries have improved, many laid off workers have been recalled. New York also notes cutbacks in output and employment, especially in Buffalo and Rochester.

Slight to moderate effects of fuel shortages were noted in Richmond and St. Louis, but other Districts, including Boston, Minneapolis, and Dallas, were relatively unaffected either because alternate fuel supplies have been available or weather conditions have not been abnormal.

Despite widespread effects of fuel shortages and abnormal conditions, the tone of District reports still seems to indicate that losses in output and employment will eventually be recovered and economic activity will continue to strengthen. New York remarks that "business economists viewed the decline in production and employment as a temporary disruption," and Cleveland points out economists who met at that Bank on February 3 expect the expansion to continue through 1977 despite constraints on fuel supplies. The latest surveys by the Philadelphia and Richmond Banks indicate that respondents expect continued improvement in economic activity at least through the first half of 1977.

Consumer spending has been notably strong in some Districts, but fell sharply in some others especially in the last few weeks of the cold weather period. Boston, Chicago, St. Louis, and San Francisco note that retail sales in the last 2 months were strong; but New York and Philadelphia comment that sales in the last 2 weeks of January and early February fell sharply, apparently in response to severe weather. Retailers, although optimistic, are concerned over effects of high fuel bills on discretionary spending.

Construction activity, especially housing, appears to show signs of accelerating. Substantial strength in housing starts is noted in Dallas and San Francisco. Forecasts of housing starts in the Chicago District have been increased because of the large volume of funds available from savings and loan associations and life insurance companies. Dallas remarks that one homebuilder plans to boost starts by a fourth this year in Dallas, Ft. Worth, and Houston. Starts in several areas of the San Francisco District have increased 30 to 50 percent from last year. Both Dallas and Atlanta report mobile home sales have strengthened. Similarly, signs of revival in multi-family construction are noted in the southwest and west coast areas. Shortages of building materials, including lumber, brick, cement, plastic pipe, wallboard, and insulation, may develop this year according to Chicago and Dallas.

Adverse weather conditions in Atlanta, Minneapolis, and San Francisco have caused extensive damage to crops and concern over future prospects for agriculture in those Districts. Florida's fruit, sugar cane, and vegetable crops, except celery and lettuce, have been severely damaged by freezing weather. Citrus fruit losses are estimated between 25 and 35 percent of the unharvested crop. Last year's drought and lack of moisture caused considerable concern to farmers and bankers in the Minneapolis District. Low farm commodities prices and low production in drought-striken areas are cutting farm spending. The need for refinancing appears to have increased, but bankers are concerned about the ability of farmers to continue payments even on existing loans. Lack of rainfall in the west is curtailing hydro-electric power output. According to San Francisco, the Bonneville Power Administration has stopped the flow of interruptable power to aluminum and chemical plants in the northwest and plans for allocating water to farm and residential areas are underway in most States. Agriculture prices will apparently be under upward price pressures because of adverse weather conditions. Sharp increases in prices for agricultural commodities this year are expected by San Francisco, and Atlanta points out that vegetable, citrus crops, and livestock prices are likely to increase as a result of a severe freeze in Florida. However, ample supplies of red meat and pork should hold down increases in overall food prices, at least for the first half of 1977 according to Kansas City. Large beef supplies in the first half are likely to be followed by smaller supplies and higher prices in the second half of 1977. Upward price pressures on industrial commodities are likely to intensify because of higher costs of alternate fuel oil and higher costs of alternate modes of transportation.

Business loan demand remains generally sluggish in Districts that commented. However, a considerable pickup in credit demand from oil distributors to finance inventories is noted in Philadelphia, and Kansas City notes strong loan demand by coal mining and oil drilling firms. Easing in rates paid on time and savings deposits and on saving certificates has occured in Dallas and St. Louis; but some thrift institutions in Cleveland, which only last month reduced rates on passbook savings accounts and on certificates, raised rates because of loss of deposits.

FIRST DISTRICT - BOSTON

The New England economy has been relatively unaffected by the cold weather thus far. Production at the region's factories has been almost completely unaffected and retailers report strong sales increases. New England relies much more on oil than natural gas and no important fuel shortages are anticipated.

There have been no significant interruptions in New England's production because of fuel shortages although the General Motors assembly plant in Framingham closed for two days because of an inability to get parts coming by rail through snow-bound Buffalo. A survey of regional manufacturers indicates that most have sufficient inventories to allow them to continue production for some time even if transportation into the region is held up. A great deal of industrial freight comes into New England through Buffalo and continued problems there could have important secondary effects. New England manufacturers generally are not worried about fuel supplies and local utilities report they expect no significant problems. One local electric utility is exporting substantial power to the Mid-Atlantic region and could produce even more except transmission lines could not handle the additional power.

The Chief Executive Office of a very large and diversified manufacturing conglomerate reports that sales of consumer durables are very strong but that capital goods sales have been disappointing. However, one division which produces machine tools for the automotive market reports strong sales as a result of retooling. There has also been an increase in interest in long lead time capital goods although orders have not picked up yet. A supplier of alloys used in chemical processing equipment reported a significant increase in orders.

A large tire manufacturer expects a very good sales year and indicates that the cold weather has not had a significant impact on their sales yet. If auto producers are forced to continue curtailing operations this manufacturer believes it could effect their sales although they expect most of the decline would be made up later. A manufacturer of a chemical filler used in tires and many other products indicated that sales to Mid-West companies are beginning to slacken as a result of the weather. However, this producer has not cut back on output but is building inventories instead. Overall they expect a good year.

Although sales did slow down during January's snowstorms, regional retailers report they have picked up very strongly and are expected to remain high. However a major department store chain indicated they are watching inventories especially carefully in case continued cold weather and high fuel bills reduce consumers' discretionary income.

A large commercial bank president indicates that commercial loan demand is still weak and has been off in January reflecting seasonal patterns. Increase in consumer loan demand has resulted in large part from pickups in automobile paper. Deposit inflows for this Connecticut commercial bank continue to be hurt by NOW account competition. The bank expects a general increase in interest rates and is planning for a 100 basis point rise in their prime rate by the end of the year.

Except for parts shortages induced by transportation problems caused by the weather, manufacturers contacted in the region report no anticipated bottlenecks. Most are operating below desired capacity and do not anticipate the need for plant expansion. Price developments have been relatively modest and several companies noted that the expected increase in steel prices was not able to stick. One economic consulting firm expressed concern about international commodities, particularly chromium from Rhodesia.

Professors Eckstein, Houthakker, Samuelson, and Solow were available for comment this month. Except for Houthakker, who opposes the rebate and manpower portions of the Administration's fiscal package, our academic correspondents "disagree with the Central Bank's view of fiscal policy." Solow insists there is an important distinction between the direction the economy would go without stimulus and whether that outcome is a healthy one. While the pattern of real final demand suggests there would be no recession, its very moderate rate of growth, well below the stated policy goals, is insufficient. Samuelson notes that a temporary, not a permanent, step-up in spending would be the expected response to a one-shot tax rebate. He argues this is the intended, desired response from the rebates. Eckstein agrees with the size of the Carter program and insists, if there are any doubts, they are whether the package is too small.

Eckstein, Samuelson, and Solow all warned that the cold weather disruption cannot be viewed solely as a short-term supply disruption. Although most of the hours worked will be made up later, part of the effects can be viewed as the functional equivalent of an energy price increase. Real incomes will be lower and will not be recovered.

Houthakker continues to recommend money growth of 5 to 5 1/2 percent. Solow and Eckstein want no increase in the Federal funds rate. Solow argues that with all the uncertainty and changes in fiscal policy, it would be a mistake to base policy solely on money growth. Eckstein warns against tightening policy when the inevitable bulge in money balances occurs, as tax rebates are held initially in consumer balances. During those weeks, all technical doubts should be resolved on the side of ease. Samuelson fears that anything more than a modest increase in short-term rates may be strongly reinforced by the market.

SECOND DISTRICT--NEW YORK

Fierce winter weather and a natural gas shortage have materially affected economic activity in the Second District, according to businessmen, utility executives, and directors of the Buffalo Branch who were contacted recently. The dislocations varied greatly across the District--ranging from a virtual halt of business activity in western New York State to scattered commercial and industrial closings in metropolitan New York City. Most of these firms expected to reopen within the current week because of an easing in the shortage of natural gas. Notwithstanding the return to production, businessmen remain concerned over the prospects of future shutdowns should frigid temperatures reemerge. On the general outlook for the national economy, business economists viewed the decline in production and employment as a temporary disruption that would be largely made up in coming months. On the other hand, these economists were less optimistic on the outlook for prices, projecting a reacceleration in the rate of inflation.

Cutbacks in production and employment varied substantially across the District. The most severe and widespread closedowns were in the Buffalo area which was struck by a devastating winter storm in late January. As a result of the adverse weather conditions and storm aftermath, employees were unable to travel to work and tens of thousands were idled. Outside of the Buffalo area, work stoppages appeared to be largely the result of cutbacks in natural gas supplies. Late in January, natural gas suppliers experienced a drastic diminution of stocks due to increased consumption and pipeline curtailments. Faced with the prospect of cutting back service to residential customers, many upstate New York and northern New Jersey utilities reduced commercial and industrial service to levels that would only protect plant and equipment from freezing. While many firms continued production by switching to alternative fuels, numerous closings were reported. The Buffalo directors estimated that approximately 6,000 Rochester area workers were laid off due to a shortage of natural gas. Closer to New York City, layoffs and production losses appear to have been relatively much more limited with fewer natural gas curtailments of customers without alternative fuel sources.

Conservation measures, some moderation of temperatures, and purchases of natural gas by utilities produced at least a temporary easing in the natural gas shortages early in February. Natural gas service was expected to be restored to most business customers within the current week. Despite this encouraging development, firms remained concerned that further service disruptions might occur if adverse weather conditions reappear. A director of a major upstate utility emphasized that prolonged cold could result in a major natural gas crisis. Overall, respondents felt that energy shortages were largely limited to natural gas. Despite this general consensus, however, several respondents complained of an inability to receive propane shipments due to weather-related transportation problems. A few businessmen, who were able to obtain propane, complained of its sharply higher price.

With the restoration of natural gas service, most firms felt they would be able to make up for the lost production. Exceptions were two glassmakers who felt there was little room to make up for lost production since they had already been operating their plants 24 hours a day. Another exception was in the auto industry where two plants were expected to remain closed an additional week due to shortages of parts and supplies that had been created by plant closings in Buffalo.

The disruptive effects of the extraordinarily severe weather conditions were also reflected in retail activity in the District. Through the first weeks of January merchants reported that sales were generally good. However, in the wake of the brutal climatic conditions sales plummeted over the remainder of the month. Particularly hard hit were stores in the Buffalo area which were forced to close for several days. In addition, many stores in upstate New York, in an effort to conserve fuel, reduced their hours by 20 to 30 percent. Even in New York City, which was relatively less affected by the adverse weather, customer traffic fell below normal as the temperature fell. In New Jersey, stores drastically lowered thermostats or cut hours to meet the Governor's strict conservation regulations. As a result of these various measures, combined with the bad weather, sales toward the close of January and in early February fell below year-earlier levels. Despite the overall slowdown in sales, inventories were generally described as in good shape. Merchants did not appear overly concerned by the sluggishness in retail activity which they appeared to regard as temporary and expect to be made up in coming months as the weather returns to normal.

On the implications of the severe winter for the general economy, most business economists felt that it was premature to substantially alter their projections of production for the year. An exception to this view was the senior economist of a major appliance manufacturer who was uneasy about describing the effect as similar to a strike. He was concerned about the on-going production constraint posed by natural gas shortages. In addition, he also felt that due to the heightened sensitivity of consumers and the financial markets to price changes, a reacceleration in inflation could have substantial ramifications. All of the respondents expected at least a short-run acceleration in the rate of inflation due to increased fuel and food costs.

THIRD DISTRICT - PHILADELPHIA

The Third District economy is feeling the effects of weather-related problems. Retailers report that sales have been adversely affected, and industrial production and employment are being curtailed. The Third District's survey of manufacturers was starting to point to an improvement in business conditions in that sector along with unchanged levels of employment. However, the survey was conducted prior to the gas shortage, and more recent checks with officials in each of the District's states indicate that layoffs are occurring. Bankers in the region say that current disruptions in economic activity could affect business loan demand to some degree, as well as repayment of loans by small and medium-sized firms. All agree, however, that there is little evidence of this yet.

Absent the gas shortage, manufacturing executives responding to the latest Buiness Outlook Survey say that business is better than in the previous month. Close to 30 percent of the respondents report improvement while 6 percent indicate a worsening in business conditions. New orders and shipments are higher, and, to some degree, shipments are being made out of inventories. Stock levels are down at more than one-third of the firms sampled. At the same time, employment and the average workweek are unchanged for the second month in a row. In general, this picture holds for both durables and nondurables.

For the longer term, manufacturers look for additional improvement. Almost 9 out of 10 executives surveyed expect a pickup in economic activity over the next two quarters. New orders, shipments, and inventories are projected to increase over the period, and employment prospects are favorable as well. One-half of the respondents plan to hire additional employees and one-third plan to lengthen the average workweek. At the same time, capital expenditures are expected to climb at 50 percent of the firms sampled--up about 10 percentage points from the previous survey.

Price pressures in manufacturing are about the same as last month. Forty percent of the respondents report paying more for their supplies and 14 percent are receiving more for their finished products. Both of these proportions show little change from last month. By August, 9 out of 10 expect to be paying more for their inputs and 8 out of 10 anticipate higher prices for the products they sell.

Employment in the District is suffering from shortages of natural gas and other cold-weather problems. State officials in New Jersey estimate that as of February 4th, 32,000 workers had been laid off statewide as a direct result of shortages of natural gas, including 8,000 in the Third District portion of the state. An additional 6,300 have lost their jobs because of icy conditions, mostly in the fishing industry. Roughly one-half of these layoffs occurred in the Third District. In Pennsylvania, a survey by the state found that as of February 4th, about 160,000 workers statewide had lost their jobs as a direct result of the natural gas shortage. A state official in Delaware reports that an auto assembly plant with 1,700 employees will be closed temporarily because it cannot get parts from another company plant in the Midwest. Natural gas has been curtailed to industrial users in Delaware, and consequent layoffs of roughly 2,000 are scattered among 9 firms. It's reported that many companies in the Third District are trying to alter production processes and shorten the workweek in order to keep their workers employed.

Retailers in the area say that sales have been affected by the severe winter weather, but not in monumental proportions. One merchant, who was looking for January sales to meet or slightly exceed year-ago levels, reports that the last two weeks in the month were "terrible" and indicates that sales were down about 7 percent in real terms. He guesses that part of this was due to limited store hours near the end of the month. Another retailer puts January's loss in real terms at 4 percent. One of the merchants contacted reports that his stores registered mild gains over last January, and notes that he is struggling to keep many items in stock. Other retailers say they are virtually cleaned out of cold-weather merchandise. For the most part, there are no problems in receiving supplies reported. For the immediate future, one merchant expects sales in February to "come on like gangbusters," but the majority of retailers contacted are scaling down their sales forecasts as a result of cold weather, layoffs, and higher home heating bills.

Area bankers report that business loan demand remains essentially flat. One notes that loans to regional customers have been moving up slightly, but is not ready yet to call it a definite trend. A banker in New Jersey notes some heavy borrowing from mortgage loan brokers, but other purely local demand is weak. In general, bankers look for a gradual upturn in business loan demand this year. Only a mild pickup is anticipated through the first half, with more acceleration in the third and fourth quarters.

This outlook could be affected, however, by the current disruptions in economic activity. At one New Jersey bank, credit demand from fuel oil distributors to finance inventory has picked up considerably. Overall, however, bankers feel that the gas shortage could delay the expected upturn in business borrowing. Some indicate that, if the cold weather continues, their small and medium-size customers may have trouble cleaning up their loan payments as fast as planned. However, there is no substantial evidence of any of these potential effects at this time.

FOURTH DISTRICT -- CLEVELAND

Energy shortages, aggravated by the coldest winter in the past 100 years, have hampered production, employment, income and sales in the Fourth District. Our latest monthly survey shows that more manufacturers expect curtailment in output in February than last month. Lost output of automobiles, glass and appliances caused by natural gas shortages are expected to be made up in the second and third quarters, although some steel producers express uncertainty that the steel market will revive as much as was expected just a month ago. Economists who attended this Bank's meeting on the economic outlook on February 3 still expect the expansion to continue through 1977, despite constraints on fuel supplies. Interest rates on passbook savings, which were lowered in several major metropolitan areas of the District last month, were raised by several thrift institutions in the Cleveland area.

The worst winter since the 1870's has caused scattered shutdowns especially in steel, automotive, glass and fabricating metal industries, widespread school closings during January and early February, and reduced retail shopping hours. Temperatures in northern Ohio, for example, have been 33 percent below normal so far this winter. Demand for energy, especially natural gas, has been well above supply. Bottlenecks in transportation have aggravated the shortages. Natural gas has been in short supply, and supplies of alternate fuels have been available but tight. According to an official with a major utility in Ohio, daily flows of natural gas into Ohio equal only 81 percent of the State's requirements. Prospects for the longer term should improve. With higher prices for natural gas, demand and supply would likely be in balance by 1982, and prices would decline after the mid-1980's because of excess supplies.

Because supplies of natural gas into Ohio have been curtailed each year since 1972, some manufacturers have switched to alternate fuels, including coal, oil and propane. These fuels are currently available, but bottlenecks in transportation have hampered deliveries. Despite the higher mix of heating fuel to gasoline, shortages of gasoline this summer are not likely, according to one source. Refinery capacity has been increased 18 percent since 1973 and larger supplies of imports are available now than during the gasoline shortage in 1973.

An estimated 15 million tons of a projected 55 million tons of coal production was lost in January as a result of heavy snows, cold, and absenteeism, according to an economist with a major coal producer. Frozen coal piles held by utilities and barges of coal that could not move on the Ohio River worsened the situation. Utilities had an estimated 65- to 70-day supply of coal at the end of January. Major coal producers apparently do not expect a coal shortage this year even though they expect the mineworkers union to reopen its contract later this year. The industry's capacity to produce is estimated at 100 million tons above the recent 675 million ton annual rate of output.

Estimates from a variety of reliable sources suggest that as of early February, about 110,000 manufacturing workers were laid off, or about 2 percent of total employment in the District. Many of those workers have since been recalled. Primary metals, automotive, glass and pottery, and fabricating industries appear to be hardest hit by the natural gas curtailment, although a variety of smaller industries ranging from greenhouses to forging producers, is also affected. At least 500,000 tons of steel ingot production was lost in January because of energy problems, according to one estimate. One steel producer laid-off 1,000 workers, or 14 percent of its workforce, for several days because its barges of fuel oil were frozen on the Ohio River, and coke oven gas supplies were cut because of frozen pipes. Another large steel producer experienced only minimal losses because of extensive oil storage capacity which was built in recent years. Although steel economists expect steel shipments and production this quarter will increase about 5 percent from last quarter, they are now apprehensive that a recovery will not begin this quarter.

A major producer of flat glass indicated its firm laid off 2,600 of its 5,000 employees for a few days in mid-January, but all have since been recalled. The firm switched to oil and propane but still requires natural gas for some types of fabrication.

Developments in the automotive industry are mixed. Two major auto parts suppliers report energy shortages have had only minimal effects on their operations, but both are concerned over slow deliveries by some of their suppliers. Ford lost about 35,000 to 40,000 autos and trucks in January because of energy shortages and slow deliveries of supplies to their assembly plants. Nearly 26,000 of 33,000 GMC workers in the Dayton area were laid off January 16-18, and 20,000 were recalled January 19. Another 4,200 workers were laid off at a GMC assembly plant near Cincinnati, but since then, all GMC employees in Ohio except 280 were recalled.

Despite fuel problems, overall economic expansion is still expected to be sustained through 1977, according to the 29 economists who attended a recent meeting held at this Bank. The median forecast of the group expects real GNP to increase about 5.7 percent from the fourth quarter of 1976 to the fourth quarter of 1977. They expect the rate of inflation to average 5.4 percent in 1977, and the rate of unemployment to show only gradual improvement from 7.9 percent in the first quarter to 7.2 percent in the fourth quarter of 1977. The group reduced its forecast of fixed investment to a 13.9 percent gain from last year, compared with a 15.0 percent gain they expected at the October 1976 meeting. On the other hand, they were slightly more optimistic with respect to residential construction than they were last fall. At a capital goods seminar in Cleveland sponsored by the local chapter of the NABE, a Townsend-Greenspan official forecast a 13 percent increase in fixed investment (7 percent to 8 percent in real terms) from 1976.

Some savings and loan associations, which only last month lowered rates paid on passbook savings accounts and on savings certificates, reverted to the 5 1/4 percent rate of passbook accounts. A few associations also raised rates to maximum ceilings on shorter maturing certificates, but kept the 7 percent rate on 6-year certificates. A $400 million deposit association apparently lost $2 million in deposits during January to competitors who did not reduce passbook rates. The prime rate for mortgage loans is expected to remain at about 8 1/4 percent for a 70 percent loan.

FIFTH DISTRICT - RICHMOND

The unusual weather conditions prevailing over the last several weeks make it difficult to interpret the results of our latest survey of Fifth District businessmen. About half the manufacturers in our panel of respondents report that the severe winter weather and fuel problems have had an adverse effect on production and employment although these effects are reported for the most part to have been slight to moderate. The diffusion of manufacturers' responses indicates some reduction from a month earlier in shipments and order backlogs but an increase in new orders. While total employment in manufacturing is reported to have changed little, reductions in weekly hours worked were indicated by nearly one-third of our respondents. Reports from retailers suggest some further improvements in retail sales during the survey period. Both retailers and manufacturers continue to express optimism concerning the outlook for the next six months, although some retailers are fearful that rising home heating costs may have adverse short-run effects on consumer outlays.

There is little doubt that recent weather and fuel supply conditions have affected business operations across the Fifth District and these effects are reflected to some extent in the responses to our survey. Numerous instances of employees being kept away from work by weather conditions have been reported as have plant closings due to the cold. The energy situation is also having an effect on production, curtailing operations directly or affecting supplies or orders, of several of our survey respondents. In the agricultural sector, an abnormally harsh winter continues to damage small grains and pastures and limit fieldwork. Hay and roughage supplies continue to be depleted and are short in some areas. Feed grain supplies are somewhat more plentiful, but they, too, are well below normal.

Of manufacturers responding to our latest survey, more than one-third report a reduced volume of shipments in January and nearly as many indicate a decline in backlogs of orders. Nearly 36 percent of these respondents, however, indicate an increase in the volume of new orders since the last survey period. On balance, inventories of both materials and finished goods were somewhat higher than a month ago, with increases in finished goods being more widespread. Manufacturing employment apparently showed little change during January although hours worked per week declined at nearly one-third of manufacturing firms represented in our survey. This decline in hours is, at least partially, due to weather and fuel supply conditions prevailing over the past two weeks. More than one-third of the manufacturers surveyed now view both current inventory levels and current plant and equipment capacity as excessive. In some cases, however, the excess capacity is a result of operating at less than capacity due to the unavailability or short supplies of fuel.

Survey responses of retailers vary considerably, but on balance suggest a moderate increase in sales with no relative change in sales of big ticket items. Inventories at retail showed no change and are essentially in line with desired levels. Employment among retail respondents declined somewhat as many District retailers are operating on a modified schedule due to fuel problems.

Price increases appear less widespread as fewer manufacturers report paying and receiving higher prices and fewer retailers report increases in prices received. Most retailers, on the other hand, continue to report increases in prices paid.

Concerning the outlook for the next six months, survey respondents are more optimistic than in recent months. A majority of manufacturers and retailers now expect continued improvement nationally, locally, and for their own firms over that time period. Such expectations represent a marked improvement in the outlook of retailers from even the last survey period, and a continuation of the steady improvement in the outlook of manufacturers which began several months ago.

The January 1 Prospective Plantings report indicated that District farmers planned to increase 1977 cotton acreage 8 percent--up somewhat more than is planned nationally. But prospective feed grain plantings show little change from last year, with acreage down slightly in the District and up by a small percentage in the U. S.

District cash farm income for the first 11 months of 1976 recorded a 2.5 percent gain over the same period a year ago, compared with an increase of some 5 percent nationally.

SIXTH DISTRICT - ATLANTA

The Southeast reeled from the effects of unaccustomedly severe winter weather. Frost damage to the Florida vegetable and citrus crops promises to boost food prices. Livestock prices may also be increased. Shortages of natural gas closed industries and schools and limited the operations of commercial firms in several areas. Layoffs were widespread. The mobile home industry appears to be slowly reviving.

Florida's vegetable crop was decimated by an unusually severe freeze; only winter-hardy crops such as celery and lettuce were unharmed. Replanting began immediately, so new crops can be expected within about eight weeks. Some growers have reportedly purchased tomato plants from growers in Mexico to hasten the availability of new supplies.

Citrus fruit suffered losses variously estimated to range between 25 and 35 percent of the two-thirds of the crop remaining to be harvested. Damage to grapefruit was light compared to oranges. Since only 10 to 15 percent of the orange crop is sold as fresh fruit, these supplies should be affected only slightly. Most of the remainder of the crop is used for juice concentrate; the freeze-damaged oranges can be processed for this purpose, provided daytime temperatures remain below 60 degrees. At temperatures above this level, the fruit would deteriorate rapidly. To hasten processing, weight limits have been removed for trucks hauling citrus fruit; processors are operating at rates in excess of the normal maximum capacity level. A substantial carry-over of concentrate from last year may help limit price increases. Tree damage is limited mainly to growing twigs, so crops in future years should not be seriously affected, in the absence of another severe freeze.

Other cold weather effects include freeze damage to the unharvested half of the sugar cane crop. Again, mill operators are operating at maximum capacity to salvage the remaining crop, in a race against higher temperatures. Severe losses have occurred in the foliage plant industry in Florida. Fishermen fear damage to inshore fish and marine animal populations.

Livestock supplies have also been affected. A lack of forage crops, due to adverse weather, has stimulated marketings of beef. While this trend has cushioned current price increases, it is likely to worsen shortages during the remainder of the year. Poultry producers report curtailed production, as unheated housing compounds the problem of poor weight gain with losses due to freezing of chickens, as well as to decreased fertility of eggs.

Natural gas shortages have had serious effects on industrial, educational, and commercial activities. One large gas utility reported that it began dipping into its reserves in October; the normal beginning time for usage of reserves is in December. A survey found that over three-quarters of industrial users in Georgia have made no provisions for alternate fuel supplies. Firms which were continuing to operate by using stand-by fuels reported that supplies are low, threatening increased layoffs. A key element of the shortage is a delivery problem attributable to a shortage of rail cars and trucks designed to haul liquefied petroleum gas fuels. In some states, procedures for inspection of vehicles and compliance with other legal requirements have been expedited to hasten deliveries. Emergency procedures have been instituted to prepare heated public facilities for use by families whose household fuel supplies have been exhausted.

The impact of the industrial cutbacks varies from day to day. Carpet manufacturers in North Georgia, whose production was cut sharply, have resumed operations at close to normal levels. An auto plant in Atlanta has also resumed production. However, another auto plant states that production cuts by suppliers threaten to affect output.

Fuel shortages are not limited to natural gas. Some Tennessee coal retailers are experiencing delays in deliveries, since mining operations have been curtailed by the severe weather. Deliveries by retailers have fallen behind, new orders are being rejected, and some homeowners have run short of fuel for home heating.

A variety of other businesses have felt the effects of weather conditions. Building supply and auto parts dealers report unusually slow sales. Truck transportation has been slowed. Small businesses, including cleaners, laundries, and fast-food restaurants, have been closed down by rationing of natural gas. Retailers are operating fewer hours per day.

Layoffs resulting from the natural gas shortage are estimated to have reached at least 200,000 in Alabama, Mississippi, Tennessee, and Georgia. In Florida, a large number of migratory agricultural laborers, estimated to number from 50,000 to 135,000, have been left without jobs. Employment is available in central Florida, where the intense effort to pick and process the orange crop is under way; but these jobs will not last more than a few weeks.

One of the recession's casualties, the mobile home industry, appears to be reviving slowly. In Alabama, sales and output rose in 1976; two of the thirty-five plants which closed during 1975 have been reorganized and reopened.

SEVENTH DISTRICT - CHICAGO

Apart from the impact of severe weather, the stronger tone in business activity that developed late last year in the district continued in January. Retail sales were excellent in both December and January. Inflation prospects have worsened, mainly because of weather-related developments. The capital expenditure outlook remains spotty, but some sectors report demand at high levels. Construction forecasts have been increased. Farmland prices in the district continue to rise at a rapid pace.

One major result of the winter cold will be a new impetus to price inflation. Production losses cover a wide range of goods, and uses of alternative fuels and alternative transportation will increase costs. One company has notified customers that an "emergency fuel surcharge" will be added to the price of a product. Many special deals to procure extra fuel supplies may not be fully reflected in the usual price indexes.

Natural gas curtailments have had their most serious impact in this region in Indiana where the state labor service estimates that over 40,000 were out of work late last week. Motor vehicle assemblies in Michigan have been reduced mainly because parts shipped from other states were not available. Some layoffs have occurred in Wisconsin when gas cutoffs were ordered at large firms. Many of these companies have turned to alternate fuels which also are in short supply, especially so in the case of propane.

Manufacturers have been turning away from natural gas for several years because of the high price as well as reduced availability. The severity of the fuel problem varies by company rather than by industry. For some the situation varies day by day. Some workers laid off have been returned to work. Some gas curtailments have been relaxed recently, at least for smaller customers.

The steel industry concentrated in Northern Indiana has been put on a "plant protection" basis by gas utilities, probably through February. (About 10 percent of the workforce has been laid off, but this could worsen.) This was a surprise move after a partial cutback in supplies. At one large plant there is no significant need for gas. At other plants certain processes cannot be performed without gas.

The fuel situation in this district is complicated by the fact that waterways are frozen and barges carrying oil, coal, chemicals, salt, and other products are either stopped or moving very slowly. The problem has been helped in some cases by relaxing state regulations on burning coal or oil with higher sulphur content. A large producer of appliances in the Chicago area had indicated that it would be forced to close if it were not allowed to burn a lower grade of oil.

Railroads have been moving additional freight that normally moves by barge. Also, piggyback traffic has increased. Rail movements have been hampered by derailments and other cold-related developments. Frozen coal in freight cars has prevented or slowed unloading.

Retail sales, both hard and soft goods, were strong in January, following an excellent December. Weather-related items and auto parts and supplies have been especially strong. For example, many stores have sold out electric heaters, and do not expect new shipments this season. Observers fear that big heating bills will drain consumer purchasing power.

Sales of cars slowed somewhat in late January, but this is expected to be temporary. Stocks of small cars are excessive and a series of cuts in production schedules have been necessary. Meanwhile, overtime has been common for plants producing the most popular standard-size and intermediate models.

Sales of heavy trucks and trailers have continued to improve and further gains are expected. Machine tool producers expect to increase shipments substantially this year, especially to the auto industry. Most industries expect to increase capital expenditures this year. The tendency has been to boost plans when adjustments are made. Orders for construction equipment continue at a low level.

Forecasts of housing starts have been increased because of the large supply of funds available in savings and loans and life insurance companies. Many expect mortgage rates to decline this year even if other rates rise. Some believe that single-family home construction will be limited by supplies of building materials such as gypsum board, insulation, and certain types of lumber. There are signs that construction of commercial and manufacturing buildings will increase also. Considerable repair and maintenance work will be required on gas and water mains and other structures injured by frost.

Farmland prices in the district increased by 6 percent in the fourth quarter, according to our survey of bankers and were 28 percent above year ago. The boom in prices started in late 1972 and has accelerated. New classes of investors in farmland are helping to boost prices.

EIGHTH DISTRICT - ST. LOUIS

The coldest winter on record has affected economic activity in the Eighth District. Although the losses in plant operation and days worked have apparently been relatively mild compared to some parts of the country, losses have occurred over a wide range of industries in the District. The underlying strength of the economy is, thus, difficult to judge in view of the abnormal weather conditions, but the generally improving conditions in recent months do not appear to have been changed. In fact, retail sales in January were surprisingly strong. Part of this spending, however, was induced by the unusually cold weather. Furthermore, some of the production losses, which resulted from weather-induced inefficiencies and gas shortages, can be made up.

Retail sales have held up well despite the severe January weather. The composition of the sales, however, was heavily influenced by weather conditions. As a result, the experience of retail outlets varied widely depending on the types of products offered for sale. Fast selling items included snow tires, batteries, auto parts, and warm clothing. Some stores reported that inventories of many of these items were virtually exhausted. Even vacation sportswear was selling fairly well as winter vacations were spurred by the weather. Automobiles were also selling at a brisk pace, possibly reflecting weather-induced problems with older cars.

Manufacturing activity has been slowed somewhat by the severe weather and related energy shortages, though the loss in production and employment has been relatively minor compared with reports from other areas of the country. Lack of fuels, particularly natural gas, has resulted in some temporary losses in production and employment in the District, though particular regions of the District have suffered more than others. Plant closings due to fuel shortages have occurred in the Memphis and Little Rock Branch zones, while activity in the St. Louis zone generally has been unhampered by gas cutoffs. Most of the plant closings were only for a few days and the plants are now back in operation.

Beside fuel shortages, manufacturing activity has been hampered by other weather-related problems. Some plants have been hampered by lack of raw materials due to transportation delays and plant closings in other areas. For example, some automobile assembly plants in the St. Louis area have been affected by a lack of parts caused by plant closings elsewhere or by lack of shipping facilities. One assembly plant in St. Louis employing several thousand workers has been closed for a week and another plant has cut back on the number of hours worked. Also, many firms have experienced high absenteeism and inefficiency in operations induced by adverse weather conditions.

Some delays and inefficiencies have also occurred in the homebuilding industry due to the weather conditions. Most construction work has been confined to interior work and relatively few new foundations have been poured. These problems, however, are not expected to alter the long-term outlook for the homebuilding industry which continues to be quite bright.

Mortgage interest rates in the St. Louis area have held steady in recent weeks at around 8-1/2 percent on an 80 percent loan. Savings inflows into thrift institutions have continued briskly in January. The larger savings and loan institutions in the St. Louis area have recently reduced their rates paid on time and savings deposits. Some of the larger institutions now are paying rates 1/2 percent below the legal maximums, while others continue to pay the legal maximums.

Agricultural production has experienced weather-related difficulties. Poultry production has been less profitable due to increased heating requirements and reduced rates of growth. Cow-calf operators have experienced higher than normal losses of cattle, and heavy feeding of scarce hay and other feeds has been necessary. This year's fruit crop is believed to have been affected by the extreme cold. The peach crop in the St. Louis area may be down sharply while the apple crop may still be reasonably good. Tobacco markets in Kentucky were reported to be operating on a reduced schedule and sales were substantially below normal. A low level of soil moisture remains a potentially severe problem in many parts of the District.

NINTH DISTRICT - MINNEAPOLIS

Weather continues to dominate district economic activity in early 1977. Cold weather has sharply reduced district fuel supplies, but the region has been spared the severe economic disruptions experienced in many Eastern states. Last year's dry weather and the prospects of continued drought are curbing farm-related economic activity. However, some improvement in district nonagricultural economic activity is indicated, and the outlook is for modest improvement.

In contrast to the eastern part of the United States, fuel shortages here have not seriously disrupted business activity. Fuel supplies in the district are at precariously low levels, and the public has been strongly urged to conserve energy. Recent conservation measures appear to have been effective, and some rebuilding of fuel stocks has occurred. Also, this region is generally better equipped to handle cold weather problems than many other parts of the country. Consequently, the Directors of this Bank believe that fuel supplies should be adequate for the remainder of this winter. Concern is expressed, though, about how the emergency legislation to allocate natural gas might affect this region.

Economic activity in the Ninth District continues to be affected by last year's drought, and concern is great regarding this year's moisture conditions. In January, 86 percent of the bankers responding to our latest Agricultural Credit Conditions Survey reported farm earnings down from a year ago. Furthermore, 78 percent of the respondents expected earnings during the next three months to be down from last year. Farm income is affected by low production in the drought-stricken areas of Minnesota and South Dakota, but the situation is not much better in the remainder of the district, with low farm commodity prices making most operations only marginally profitable at best. Besides low beef and milk prices, cattle and dairy operators in the drought areas face the additional problem of increased production costs through the necessity of buying feed and hay at this time.

In response to their lower incomes, district farmers are cutting spending to a minimum. In January, 73 percent of the bankers responding to the Agricultural Credit Conditions Survey reported farm spending at a lower level than last year, and 75 percent expected spending to be below year-earlier levels during the next three months. This Bank's Directors also report that spending in many agricultural communities has softened, and farm implement dealers, in particular, are experiencing a sharp curtailment in business.

According to this Bank's Directors, much of the shortfall in farm-related spending in the first half of 1977 may be due to a reduction in confidence rather than in income. Though many farmers still have sizable inventories of grain which could be sold to supplement incomes in 1977, they have been reluctant to sell due to low prices and the feeling that these inventories provide some security against the continuing drought conditions. In addition, many farmers are hesitant to order even the most necessary of production inputs (such as chemicals and fertilizers) for the spring, fearing that the drought will continue.

Depressed earnings are increasing farmers' needs for refinancing. Greater-than-usual demand to refinance farm debt is observed by 69 percent of the bankers responding to the January survey (up from 47 percent in October), and 79 percent expect higher refinancing demands in the coming quarter. In addition, bankers remain somewhat pessimistic regarding the ability of farmers to continue payments on existing loans. Among those responding, 75 percent characterize the current rate of repayment as "slow," 73 percent expect an adverse change in the ability of farmers to repay debt, and 55 percent report finding a greater proportion of farmers at their debt limits than usual. Even in those areas of the district where 1976 crop production was good, refinancing is being sought by farmers who are withholding crops from the market in hopes of more favorable prices. Where farmers are at their debt limits on operating loans, many are having to refinance their farm real estate.

Employment in the district has recently increased, and prospects are for modest job growth in 1977. Most Directors of this Bank indicate that labor market conditions have been stable to modestly improved in their areas. In South Dakota, for example, a new manufacturing facility is expected to provide 600 additional jobs in the eastern part of that state. And in the Upper Peninsula of Michigan, the settlement of a labor dispute combined with improving conditions in the copper industry are expected to augment jobs in that area. Furthermore, labor market conditions have improved in the Minneapolis-St. Paul metropolitan area: in December employment was up 2.0 percent from a year and the unemployment rate had declined to 5.4 percent from 6.4 percent.

TENTH DISTRICT - Kansas City

Tenth District purchasing managers report that materials availability is good, price increases have been relatively modest recently, and inventories are generally at desired levels. Steel and polyethylene are the two areas cited as especially soft. The weather has not as yet created any serious supply problems. Although food prices may rise somewhat due to weather-damaged fruits and vegetables, ample supplies of red meat should continue to dampen the total increase in consumer food costs for at least the first half of 1977. Agricultural loan demand has been weaker than usual, but some bankers expect this to change as spring approaches. On the other hand, real estate, commercial, and industrial loans have been above their seasonal norm in some District states.

Tenth District purchasing managers indicate that conditions are little changed from those reported in December. Across a wide range of industries, materials availability is good to excellent and is expected to remain so through 1977. Prices are generally behaving as last year and inventories are being closely controlled. Weakness in both sales and prices is noted, however, by steel warehousers and fabricators. One respondent observed, "The mills are crying for business and so are we. Deals are being made daily." Price weakness is also cited in the market for polyethylene and certain chemicals. Some managers are concerned that the weather might create temporary problems with their East Coast suppliers. For example, the Ford assembly plant in Kansas City was forced to close temporarily, but widespread general problems have not yet developed. While most respondents report their inventories as "where they should be," "intentionally lean," and "in good shape," a few have increased levels above last year in anticipation of higher demand. Overall, the mood of surveyed purchasing managers appears to be one of cautious optimism.

Though prices received by farmers increased 1.5 per cent during the month ending January 15, they remain 2 per cent below year-ago levels, while the index of prices paid by farmers is 4 per cent above year-ago levels. Farmers received higher prices for vegetables, feed grains and hay, meat animals, and oil-bearing crops. However, the index of meat animal prices remains 9 per cent below year-earlier levels, despite modest improvement in the month ending January 15.

Ample supplies of red meat should continue to dampen any increases in consumer food costs that might arise from the weather-damaged fruit and vegetable crops, at least during the first half of 1977. Although numbers of cattle on feed January 1 were 3 per cent less than a year earlier, they were 24 per cent higher than 2 years ago. Feedlot placements during the fourth quarter of 1976 were up 5 per cent over a year ago and 34 per cent above 2 years ago. Distress sales of cows and calves between now and April 1, due to drought and winter feed shortages, will further add to the beef supply. However, large beef supplies during the first half of 1977 will likely be followed by shorter supplies and higher prices during the last half of the year.

Pork producers have increased their farrowing plans for December 1976-May 1977 by 5 per cent over year-ago levels. Combined with a June-November 1976 pig crop that was 18 per cent larger than a year earlier, pork is expected to remain in good supply through most of 1977. Consequently, hog prices will likely decline from present levels and remain below 1976 levels for most of the year.

Total loan demand during January at Tenth District banks was seasonally stronger than usual due to larger than normal increases in real estate, commercial, and industrial loans in Nebraska and Colorado. Respondents from the remainder of the District reported either flat or declining loan demand. In contrast to strength in these categories, agricultural loan demand was weaker than usual.

The demand for real estate loans appears to be mostly for construction on commercial property. Respondents almost uniformly indicated no residential loan demand, although one banker in New Mexico felt that this category would pick up later in the year. In the commercial and industrial category, respondents in Colorado indicated that loans were being extended to ski resorts which at this time of the year would normally be repaying prior loans. These same respondents also indicated strong loan demand by companies engaged in coal mining and oil drilling.

According to most respondents, agricultural loan demand was weaker than usual because of the effect of the adverse weather on cattle feeders. A few bankers, however, indicated there were cattle loans that soon would have to be extended. Some respondents also felt that agricultural loans would increase in the spring, especially if some replanting needs to be done this spring because of damage to the winter wheat crop.

Investments in the Tenth District have also increased substantially more than usual, with a good deal of the increase being in the 1- to 5-year maturity category. Most respondents indicated that their own banks were investing in relatively shorter term maturities because they were anticipating that interest rates would increase shortly.

ELEVENTH DISTRICT - DALLAS

Except for a few problem areas, business conditions in the Eleventh District continue to improve. The unemployment rate has declined to 6.0 percent, although total employment has also dipped slightly. Industrial output has not been seriously affected by fuel shortages or weather conditions, and the tight energy situation should spur drilling efforts. With the exception of nonresidential building, construction activity continues to strengthen. Savings and loan associations report that mortgage loan demand is expanding rapidly, and mobile home sales are on the rise.

Fuel shortages have not severely hampered business activity in the District because alternative fuel supplies have been readily available. The only weather-related work stoppages have been due to icy roads that prevented some workers on two days from getting to work in a wide area of North Central Texas and Oklahoma. Curtailments of natural gas used as a feedstock slowed production at a few chemical plants, particularly those that are supplied with interstate gas. But a bigger problem to the chemical industry is transportation bottlenecks that forced some production cutbacks. Frozen rivers halted barge shipments of such products as fertilizer and styrene, and ground transportation was unable to take up the slack.

Louisiana officials expressed concern about the possible impact of continuing severe weather. New Mexico has been little affected by the cold wave, but officials are concerned about their limited natural gas supplies should severe weather spill into their state. Efforts to allocate intrastate natural gas into interstate lines is expected to reduce supplies and raise prices in all District states.

Drilling activity in Texas, following the seasonal pattern, has been very strong, and the number of offshore rigs has increased in Louisiana. Industry experts expect 1977 to be a good year because the prospects of higher prices for natural gas may stimulate more exploration. The usual mid-year downturn in rig activity may not be as sharp this year as in 1976. Wildcat activity, in particular, should be strong.

Residential construction continues to strengthen and appears to be one of the most vigorous areas of business activity in Texas. Housing starts in December were at the highest level since April 1974--with the exception of the spurt that occurred last September. One Dallas homebuilder is planning to boost starts by a fourth this year in Dallas, Fort Worth, and Houston. He also indicated that the number of sold, but not yet completed, homes had soared nearly fourfold from a year ago. Prices for new single-family homes are expected to rise 6 to 8 percent this year.

Multifamily construction shows signs of slow improvement. Apartment construction in Houston continues strong, and higher occupancy rates in El Paso have led to a renewal in apartment building. A San Antonio builder reported that high occupancy rates should stimulate some apartment construction later this year.

The pace of nonresidential building remains sluggish. Demand continues weak with increased competition by builders for the declining level of business. A commercial builder in Dallas indicated that profit margins are under steady downward pressure due to ever-increasing costs. Most builders, however, expect a moderate pickup in activity this year as various planned projects get under way.

Nonbuilding construction is gaining momentum, based largely upon the expanded building programs of Texas utilities. One large electric utility is planning to spend a record $381 million this year, and other utilities are also boosting their construction budgets. Additional spending may be forthcoming from proposed Federal public works programs, according to some builders. Highway construction continues to be the weakest area of building activity. But the prospects for future highway construction in Texas will be determined by a highway funding bill that is currently under study.

Some supply shortages may develop for lumber, brick, cement, steel products, plastic pipe, and wallboard with a strong expansion in construction activity. Materials that require a large energy input into their production may be the first to be in short supply. Greater use of insulation materials may also lead to shortages of those products. Residential builders in Houston and Dallas reported that shortages of construction labor have eased slightly.

Mobile home sales have strengthened considerably during the last several months. A Dallas manufacturer reported that double-wide units are selling well and expects shipments to increase a fifth this year. Higher prices for conventional homes are expected to turn more people toward the mobile home market, but a San Antonio dealer indicated that new mobile home prices are up sharply because of expanded Government regulations. Consumer financing has eased significantly as ample supplies of funds are being made available by S&L's.

Savings inflows into Texas savings and loan associations continue to rise, but at a slightly reduced pace. However, S&L's in Houston reported that savings inflows were very heavy in January. Interest rate reductions, lengthened maturities, the elimination of certain maturities, and increased minimum deposit requirements on some CD's by various S&L's in Dallas and San Antonio have dampened the inflow of funds. The majority of respondents interviewed do not anticipate a lowering in regular passbook savings rates.

Demand for mortgage loans is expanding rapidly in some areas of Texas. Mortgage demand in Houston and El Paso has remained brisk. However, demand has also climbed sharply in Dallas and San Antonio. A Fort Worth S&L expects an increase in mortgage lending this year of 10 to 15 percent above last year. Mortgage rates on conventional loans currently vary from 8 1/2 to 9 1/4 percent. Most S&L's expect mortgage rates to ease down a bit more before edging up by year-end.

TWELFTH DISTRICT - SAN FRANCISCO

In the opinion of our Directors, the recovery has been strengthening on a broad front, but there is great concern over the economic implications of the low rainfall in the West and low temperatures in the East. In most non-agricultural areas of the District, consumer spending exceeded expectations in December and into January. The recovery in housing is proceeding at a rapid rate and early signs of a pickup in nonresidential construction have been reported. The low rainfall and snowpack in the West will curtail hydro-electric power output. The Bonneville Power Administration has already stopped the flow of interruptible power to aluminum and chemical plants in the Northwest. The forest products industry has benefitted from the extension of their logging season, but the dry weather has heightened the danger of forest fires. Plans for limiting irrigation water to agricultural areas are underway in many District states.

Most areas of the District report record December retail sales and a continuation of the trend into January. The exception is agricultural areas where lower incomes have dampened consumer spending. Along the Pacific seaboard and other areas where the housing boom has been gathering strength for a year, sales of furniture, appliances and carpeting are very strong. Current sales gains for new cars are ranging 12 to 60 percent over last year. Large cars, pick-ups and vans continue to be popular while smaller car sales lag expectations.

The construction industry is expanding at a very rapid rate. Housing starts are up 30 to 50 percent over last year in many areas. Because of the cost of land, lead time required and interest on property during the development stage, builders claim there is no low cost housing, that the cheapest house would cost $40,000 to $45,000 to produce. As a result, they believe that the stage is set for a "rather dramatic shift to multi-unit housing" that will be evident within the next 4 to 5 months.

Moreover, a turnaround is occurring in nonresidential construction. "Major plants are being planned and the plants are going to go ahead. It is a good market for building. There are no shortages and you can get quality workers." Complaints are made, however, that environmental requirements and the demands of City Councils often hold up a project for a year to eighteen months. The renewed interest in plant and equipment spending is reflected in growing backlogs at steel plants and the shift in the composition of demand to more plate and structural forms.

Many of our Directors commented on the economic effects of the current drought in the West and freezing conditions elsewhere in the country. The following areas of special concern were discussed.

Electric power

The Columbia River flow is now at 68 percent of normal and will probably fall below that. The Bonneville Power Administration has already cut off interruptible power to aluminum and chemical plants. (These plants depend about 25 percent on interruptible power.) In Oregon, the Trojan nuclear plant came on stream and in December it was operating at 95 percent of capacity and carrying 40 percent of Portland General Electric's load. The fuel cost was about one-seventh of what it would have been using oil-fired generating facilities. Pacific Gas and Electric Co. of California has a nuclear plant that is finished, but operations will be delayed another 6 to 9 months by the regulatory commission. One Director states that there is a heavy inventory of No. 5, No. 6 and No. 2 heating oils, substitutes for natural gas, but there is difficulty getting it to the needy areas. California utilities have reversed inflow on the El Paso line and are sending natural gas to Texas. Exploration for natural gas will not pick up, according to one Director, until controls on inter-state pricing are removed. Currently, the intra-state producer is getting about $1.55 per cubic foot whereas the inter-state producer is getting about $.52 per cubic foot.

Agriculture

Plans for water allocations to farm and residential areas are underway in most states. During the past season available water was used in California's Central Valley for cotton rather than for alfalfa. This will make feed grain for cattle exceptionally scarce and cattlemen are now reducing herds. Prices for agricultural commodities are expected to increase sharply this year. So far, however, crops are still in a state of overproduction and farm income continues low.

Industries

The skiing industry was a total disaster this year and many businesses will probably go under causing problems for bankers. The only industry to wring some good out of the current drought is forest products where the weather has allowed logging operations to continue through the winter. Even here, however, the low rainfall is having unfavorable consequences in that the Northwest had a forest fire in January, an unheard of event before this year.