CONFIDENTIAL (FR)

CURRENT ECONOMIC COMMENT BY DISTRICT

Prepared for the
Federal Open Market Committee
by the Staff

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SUMMARY*

The recovery has been solidly reestablished, according to this month's district reports. Manufacturing activity has increased, retail sales are generally good, inventories appear to be at satisfactory levels and there are signs that capital spending is picking up. Deposit inflows continue to be strong, particularly for savings accounts. Loan demand seems to be up overall, but there is considerable variation in the reports on commercial loans. Recent rainfall has eased problems in the agricultural sector, but several districts mention that this area remains a trouble spot. Farmers are caught in a profits squeeze as costs, often drought related, are rising faster than prices. The one rather negative element in this generally favorable picture comes from reports of widespread price increases.

Consumer spending continues to be strong. Almost all districts observed that retail sales are in an upward trend. Large ticket items such as appliances and furniture were singled out as moving particularly well by several Banks. (Boston, Richmond, St. Louis and Minneapolis). Sales of automobiles were reported to be healthy by Cleveland and Minneapolis, although in New York's district they are lagging last year. All three Banks observed that standard and intermediate size cars are in much greater demand than compacts. When mentioned, inventories were said to be within desired limits. Boston expressed concern that the tax rebate might lead to an excessive inventory buildup as a result of temporarily higher sales.

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*Prepared by the Federal Reserve Bank of Boston.

Manufacturing output and employment have picked up. Surveys by Philadelphia, Richmond and Chicago indicated that new orders and shipments are higher for many manufacturers. In both Philadelphia and Richmond this improvement has caused increases in both employment and the workweek. Cleveland, St. Louis and Minneapolis also expressed optimism about business prospects. Among the industries which were observed to have made significant gains in recent months were primary metals, especially steel, textiles and chemicals. Manufacturers of apparel and furniture were reported to be doing well in some districts but not in others.

The outlook for capital spending remains confused but there are signs of an improvement. Producers of capital goods, particularly small items, are experiencing increased interest in their products, but there seems a general reluctance to undertake any large-scale expansions. Increases in the demand for component capital goods like bearings, castings and engines were reported by Boston, Cleveland, Chicago and St. Louis. New York and Chicago observed that steel sales were strengthening. Boston and San Francisco reported that sales of aircraft and aircraft equipment were expected to improve; and Cleveland and Chicago noted a strengthening in orders for equipment used by the lumber industry. St. Louis indicated that sales of construction equipment have increased but Cleveland commented that these were still weak in its district. Despite these indications that capital spending is picking up, several Banks expressed dissatisfaction with the level of investment in their districts. Boston and Richmond noted that there was little interest in their regions in expanding capacity, New York reported that capital spending was recovering slowly. Businessmen in its district are said to feel strongly that investment is being discouraged by government regulations. Environmental regulations were singled out. This view was echoed by Chicago and St. Louis: while capital spending is picking up, government regulations are hindering it. Similar sentiments were expressed by Kansas City. On the more positive side, approximately 40 percent of the firms responding to Philadelphia's survey plan increased capital spending. Kansas City reported that investment in the energy field has been strong and will increase if there is a shift from natural gas to coal. According to Dallas, oil drilling activity is continuing to rise and the demand for oil field equipment is climbing steadily.

Recent rains have relieved drought conditions in the west, but several districts remain very concerned about low crop prices and drought-induced cost increases. Chicago and St. Louis reported that soil moisture conditions are considerably improved in their districts and planting is proceeding normally. Minneapolis, Kansas City, Dallas and San Francisco, on the other hand, reported that while drought conditions have been alleviated considerably more moisture is needed. All are concerned about depressed product prices, particularly for wheat and cattle. These prices in combination with rising costs have reduced farm income and except in San Francisco's district have resulted in heavy borrowing at rural banks.

Financial developments seem generally consistent with other sectors of the economy. Loan demand appears to have increased with real estate and consumer loans accounting for most of the gain. Richmond, Kansas City and San Francisco noted increases in commercial loan demand; Boston, Philadelphia and St. Louis observed that it was flat or varied throughout the district and Dallas reported a decrease. As mentioned above, agricultural loans have increased in parts of the west. Philadelphia reported that banks are receiving inquiries about fixed rate loans and that one is offering high quality customers loans at 8 percent with an outside maturity of five years and no balance requirement. Kansas City noted that in Oklahoma a number of banks had raised their local prime lending rate from 6 3/4 to 7 percent because of a strong demand for energy-related loans. Deposit inflows to savings accounts and savings and loan associations are said to be strong, although they have slowed recently in St. Louis and Minneapolis.

The ominous note in this month's reports is the widespread price increases observed in several districts. All the eastern banks - Boston, New York, Philadelphia, Cleveland, Richmond and Atlanta - noted that manufacturing prices are increasing. Over half of the respondents to Philadelphia's survey reported higher materials prices. Price increases in metals appear to be holding according to Boston and Cleveland, although Cleveland also noted that producers of stainless steel withdrew increases announced earlier this month. Concerns about inflation were apparently quite common among respondents for New York and Boston, although the academic economists consulted by Boston believe that recent spurts in prices are temporary and that the underlying inflation rate is still between 5 and 6 percent.

FIRST DISTRICT - BOSTON

Directors and other Redbook respondents in the First District are optimistic about continued economic recovery although several expressed concern about inflation. Retail sales in New England continue to improve, consumer durable producers are doing better and construction is starting to recover slowly. While increased interest in capital goods is reported, sales growth continues to be slow and bankers report continued spotty commercial loan demand.

A large retail chain reports that after a slight pause in late March, sales have resumed a strong upward trend. While gains are expected throughout the rest of the year, inventories are being watched very closely. One retailer expressed concern that the tax rebate if enacted may come at just the wrong time, provide a temporary boost in sales leading some stores to build inventories too much, necessitating a later correction. A thread producer reported strong increases in sales, particularly to the garment industry.

Manufacturers of consumer durables in the First District indicate strong demand for major appliances and also for goods related to the housing market. Several respondents who sell to the automobile market also report very strong sales with a producer of an input to tire production indicating they were operating flat out.

Capital goods producers in New England report that while they have been asked for more price quotations, sales continue to be slow. Sales are particularly poor for big ticket items although purchases of smaller items such as milling machinery are reported to be increasing; ball bearing sales are also doing well. Commercial purchases of aircraft equipment are seen as improving and one supplier to the airline industry expects substantial increases in this area. Capital goods producers report that overseas sales are not improving as much as they had hoped.

Southern New England bankers report continued slow growth of commercial loan demand although smaller banks in the northern part of the region indicate more substantial increases. Bankers across the district report that consumer loan demand is quite healthy and deposit inflows remain strong. Construction loan activity is starting to increase from depressed levels.

Although most Redbook respondents were quite optimistic about the economic outlook, few reported any interest in undertaking major new investments of their own. Some respondents expressed concern that rates of return still do not justify major new plant and equipment commitments. Most expressed continued apprehension about inflation and some are worried about the possible reimposition of wage and price controls. Price increases in metals are seen to be sticking more now than a few months ago and chemical price jumps are expected. Several respondents also indicated they had increased their own prices recently or intend to do so soon.

Professors Eckstein, Tobin and Samuelson were available for comment this month. All three focused on fears of inflation. Professor Eckstein believes that inflation fears have been blown out of proportion in recent months. The underlying rate of inflation remains between 5 and 6 percent. Last year's price increases were relatively modest, but so far this year's price increases have been much larger, due in part to the weather and to a desire to realign prices with costs in some industries. Eckstein suggests that April's wholesale price index will increase sharply reflecting recent announcements in the steel and aluminum industries. Nevertheless, with an average inflation rate of 5.5 percent, it is not startling to encounter periods of price increase as low as 2 to 3 percent or as high as 9 to 10 percent; neither development marks a trend. From discussions with clients, Eckstein infers that businessmen's inflation concerns are founded in the fear that the tone of demand for their products will not be sufficient to maintain profit rates. With regard to policy, Eckstein believes it may be appropriate for the federal funds rate to increase 100 basis points by this fall. However, should short-term yields increase as much as the futures market suggests, he claims his forecast of 5 percent real growth of GNP would be too high.

Professor Tobin also believes that monthly price indices contain a lot of noise, and expects inflation to average 5 or 6 percent although sensitive sectors may produce much higher or lower rates of price increase occasionally. "In any case, we shouldn't try to fight commodity price increases with macro monetary policy." Tobin observes that businessmen and investors remain very uncertain about future growth. Fears of tight money, wage-price controls, and soft demand have contributed to a collapse in stock prices, restrained investment spending, and produced strong fears that short-term interest rates will rise sharply. Indeed, now that the program of fiscal stimulus appears to be foundering, monetary policy must be prepared all the more to assist the economy in reaching 6 percent real growth during 1977. For now, Tobin advocates not changing the federal funds rate.

Professor Samuelson contends that recent spurts in prices are not related to changes in business conditions; in fact, we have not seen great strength. Consequently, there is no rational cause and effect linkage to justify more macro demand restraint. The rapid growth rates forecast for the middle quarters of 1977 can be regarded as a healthy "catch-up." Inflation can unwind only very slowly, and the present goal of policy should be to accomodate the momentum of 6 percent real growth. Major sacrifices in employment and real growth would be required to force the underlying rate of inflation substantially below 5 percent.

SECOND DISTRICT--NEW YORK

Business activity in the Second District has continued to improve moderately according to directors, business leaders, and analysts contacted recently. Department store sales have for the most part been satisfactory, and several merchants reported that the New York metropolitan area was doing better than the rest of the country. This pattern did not carry over to District auto sales, however, which were lagging the remainder of the country. Inventory positions were generally considered to be in line with sales, although several respondents indicated that inventory building would soon be under way. Orders for capital goods remained weak; government regulations, sluggish demand, and financial constraints were among the reasons given. The Buffalo directors did report, however, that the near-term outlook for orders in the steel industry had improved. Finally, considerable concern was voiced over the outlook for prices.

Reports on department store sales in the District were generally favorable. Indeed, several national retailers indicated that, in contrast to recent experience, sales throughout the New York metropolitan area and the East Coast in general were outpacing sales elsewhere in the country. Certain other New York merchants, in contrast, found sales a bit disappointing, yet even they seemed "cautiously optimistic" about future sales. In upstate New York, expectations for the spring buying season were characterized as "reasonably good" by the Buffalo directors.

Reports on District auto sales were less encouraging. Although sales nationwide appear to be booming, the president of an automobile dealers' trade association indicated that so far in 1977 sales in the New York metropolitan area were lagging sales of a year ago. Uncertainty about economic conditions, talk about taxes on large cars, and concern about financial conditions in New York City were blamed for keeping customers away from the auto showrooms. The president of a New Jersey trade association likewise categorized automobile sales in northern New Jersey as weak. Although dealers throughout the country are experiencing difficulty in moving small cars, this problem is even more pronounced in New Jersey.

Inventories generally appeared to be at desired levels, although plans to restock inventories were reported by some respondents. The vice president of a large petroleum company stated that oil inventories, which had been depleted by the cold weather, were rising to planned levels and that no inventory problems were expected before the next heating season. Retailers have been keeping a close watch on inventories, which has kept them in line with sales. In the paper industry inventories had been allowed to run down since mid-1976, according to a top executive of a paper company, but some rebuilding is now anticipated. An economist for a large publishing firm stated that he expects inventory accumulation to occur throughout the year.

Capital spending in the Second District, as in the nation, has recovered slowly, although conditions may be improving. The chairman of a major oil company observed that, due to confusing regulations in the oil industry, it is not profitable to build plants today. He further stated that unless controls are eliminated, a shortage of refinery capacity will develop in the early 1980's. The view that government regulations inhibit capital spending was echoed by an executive of a major commercial bank. In the same vein, the director of finance for a private utility company complained that, because of delays caused by environmental regulations, the time required for constructing a nuclear plant has been lengthened from six years to ten years. The vice president of an iron and steel company attributed the sluggishness in plant and equipment spending to insufficient financial capital. And in the rubber industry, a spokesman for a trade association stated that the industry is reluctant to add further to its already heavy debt burden. On the brighter side, a textile industry economist reported that capital spending, long lackluster, has recently shown signs of turning up in response to improved demand conditions. Moreover, the Buffalo directors reported favorable near-term prospects for capital goods orders as well as for production and employment. This was especially true for the steel industry in Western New York, which is experiencing new demand by Canadian customers as well as strong demand by the automobile industry.

Concern over the outlook for prices was voiced by many respondents. The production manager of a machinery company reported widespread increases in the cost of materials and fabricated inputs. He also expressed his belief that the effects of recent increases in the price of steel would continue to ripple through the economy. While most businessmen were reporting higher materials prices, the president of a major capital goods-producing company stated that, despite increases in list prices of steel and various other materials, actual prices paid by his company were about the same as a year ago (with the notable exception of aluminum). An economist for a paper company said he expects upward pressure on prices as businesses try to rebuild their profit margins after the cost increases of the past year. Oil prices are expected to continue rising as the import share grows. In the consumer goods sector, the editor of an industry publication reported a round of wholesale price increases in February and March that are expected to show up in the form of higher retail price tags in late summer and early fall.

THIRD DISTRICT-PHILADELPHIA

Economic activity in the Third District is expanding. Retail sales are reported to be good except in areas affected by the Philadelphia transit strike. The manufacturing sector is on a clear upward trend with expansion reported for the fourth month in a row. New orders, shipments, and inventories are higher this month, and employment is improving as well. Manufacturers foresee additional expansion over the next two quarters. Price increases for finished products in this sector are more widespread this month, but projections of increases six months out are less widespread than in March. Sales of existing housing are brisk, while new construction is limited. Commercial bankers report that business loan volume is flat but see signs of increased interest by potential borrowers.

Manufacturers responding to the latest Business Outlook Survey report additional improvement this month. More than half of those polled say that business conditions are better than in March. This is the highest proportion indicating expansion in a year, and the fourth consecutive month in which gains have been reported. New orders and shipments are higher in April, and inventories, which declined in February and held steady in March, are up as well. This expansion in industrial activity is giving a boost to employment. Factory work forces are increasing at one-fourth the firms sampled, and a similar proportion reports a longer workweek. This is the second month in a row in which both employment and the workweek have expanded.

For the longer term, manufacturers look for additional growth. Three out of four expect better business conditions by October. New orders and shipments are expected to increase from their present levels, and inventories are projected to climb as well. At the same time, additional growth in factory employment is anticipated. For the third month in a row, one-half the executives surveyed plan to add to their work forces six months out. In addition, close to one-third plan to lengthen the average workweek. This is down somewhat from last month, but still well above the proportions reported in 1976. Capital spending increases are planned at 40 percent of the firms sampled--about the same as last month.

Prices in manufacturing continue to increase. Fifty-six percent of the respondents report higher prices for supplies this month. This is about the same as in March. On the output side, 40 percent of the businessmen surveyed report higher prices compared to 31 percent last month. By October, 84 percent look for higher prices for supplies and 64 percent expect to be receiving more for their finished products. Last month, these proportions were 86 percent and 74 percent respectively.

Except for a public transit strike in the immediate Philadelphia area, department store sales in the region are showing gains over last year. Sales in areas served by the affected public transit are down considerably, and merchants say the strike is an important factor in this drop. The average guess by retailers contacted is that the strike, which began on March 25, is reducing sales by one-third. Outstide of the affected area, sales are up over the same period last year with reported increases ranging from 6 to 11 percent.

Retailers say they may be experiencing a slight drop in sales as a consequence of the upcoming shutdown of a major competitor. Lit Brothers, one of the four major Philadelphia department stores, has announced its intention to close within a few weeks. The chain has 10 branch stores in addition to its downtown location, and employs 2,800 people. Since the last week in March it has been offering hefty discounts on most of its merchandise.

In general, retailers say that soft goods are selling well, especially spring and summer apparel. At the same time, inventories are reported to be in "good balance," although some say that their stocks could become excessive if the transit strike should last through Easter.

The market for existing housing is reported to be very active, but construction of new units is limited. At one large MSB mortgage lending is at its highest ever, and most of this is for existing housing. Mortgage rates have firmed within the past two weeks after being under downward pressure earlier in the year. The current rate on conventional mortgages with financing between 65-80 percent of purchase price is 8 3/4 percent.

Demand for NINOW accounts, which MSBs in Pennsylvania could offer as of March 12, is said to be "slow but steady." Overall deposit inflows are reported to be reasonably good, although they have moderated recently. One MSB official looks for inflows to be fairly good, at least until the third quarter when there are heavy CD maturities. According to this executive, "I don't expect market rates to move up enough to cause any problems by then, but if they do, thrifts are going to lose deposits and people in the housing industry will start screaming."

Bankers in the area report that business loan demand remains basically flat, but a few indicate that they do see some encouraging signs. One notes that, "We're seeing customers who haven't been in to see us for some time." Two other bankers say they're receiving an increasing number of inquiries about fixed-rate loans. One reports that such requests are being handled "gingerly," while another says that his bank has made commitments for fixed-rate loans of $50 million. These are to high-quality customers, and typically have no balance requirement. Rates are in the 8 percent range and the outside maturity is five years.

For the longer term, bankers look for no more than a gradual pickup in business loan demand over the next few quarters. Interest rates are expected to rise gradually as well with a prime in the neighborhood of 7 percent by year-end. Liquidity is reported to be ample for expected credit demands and several banks have lowered rates or extended maturities on their CDs. Bankers say they are concerned about NINOWS, but add that it's too early to get a good idea of their competitive impact.

FOURTH DISTRICT - CLEVELAND

Strengthening in capital goods, steel, and housing is boosting output and employment in the fourth district this quarter. Additional thrust is coming from some rebuilding of inventories. Capital goods producers generally seem more optimistic that production and spending will accelerate this year, although none expect a boom. Auto retailers are optimistic that 1977 will be a strong year for sales, but other retailers are still cautious over prospects. Upward price pressures remain about as intense as they have been since last fall.

Output and employment in district manufacturing should strengthen this quarter in response to completion of inventory liquidation or to a buildup of inventories. Steel economists report that a good recovery in orders in the last two months is likely to boost production this quarter to within an 85-90 percent operating rate, compared with about 73 percent last quarter. Price hedging and inventory rebuilding account for only a small part of the improvement, according to two steel sources.

Some major appliance producers in the district are rebuilding inventories that were depleted late last year and early this year. For one firm, the inventory buildup is expected to bring inventories up to desired inventory-sales ratios, while another producer expects a buildup of in-process materials of about 10 percent above expected sales.

Capital good producers seem to be gaining confidence that plant and equipment spending in 1977 will increase at least as much as indicated in the latest Department of Commerce survey, despite erratic behavior in new orders. While none expect a boom in capital spending in 1977, some indicate that their forecasts of a 12 to 15 percent increase in spending now appear to be reasonable. They also indicate emphasis is on modernization of facilities rather than on expansion. Two large machine tool builders remain optimistic that orders, shipments, and backlogs will improve from 1976. They note that their orders in February continued to increase (in contrast to a drop reported in national data) and doubt that their industry has reached a cyclical peak in orders. An economist with a major producer of motors, generators, and general industrial equipment noted that since last November orders began to pick up for a broad line of products, with the exception of equipment used by utilities. He indicated there is a lack of major projects but feels his forecast for a 13 to 14 percent increase in capital spending this year will be realized. His firm will boost capital spending by 20 percent from a depressed 1976 level, with expenditures allocated largely for modernization rather than expansion, except for a few high technology items and new products. Similarly, a financial officer with a large capital goods producer reports its projected increase in spending for 1977 will be for modernization, except for completion of some plants that will produce products different from those originally intended when the plants were started a few years ago. He noted further strengthening in orders for heavy-duty trucks and materials-handling equipment for the lumber industry but continued weakness for industrial-purpose lift trucks and shovel loaders used in construction. Recent demands for communication equipment, presses, mini-computers and terminals have been at a rate well above shipments in recent months, according to one producer. A bank economist noted several capital goods clients commented that it is now easier to get finance committees to approve appropriations for all but large projects. Welding equipment and electrode producers expect record sales in 1977 with real gains of at least

7 percent from last year.

Two soft spots in capital goods are utilities and steel. Spending by utilities remains weak, with little sign of improvement, according to several major suppliers. Some steel economists expect that capital spending by their firms will be no higher than last year because of continued inadequate cash flow and a loss in profits last quarter. A major steel producer is expected to allocate expenditures primarily for replacement, repairs, and pollution control equipment.

Retailers' views of consumer spending range from mild optimism to confidence that real sales will improve this quarter further from last quarter. Several auto retailers and producers are encouraged by the sharp comeback in sales last month and do not expect much consumer resistance to recent price increases in new cars. Auto plants in the district, except for the GMC Lordstown plant which produces the slow-selling Vega, are expected to work overtime or six days a week to meet projected high demand for standard and intermediate size cars. On the other hand, department store executives comment that although sales have been good, they have not increased across-the-board. Some note considerable strength in sales in recent weeks, in part because of a make up for winter losses.

Demand for new and used housing is reported to be strong, according to directors and mortgage lending officials. Higher prices are not a deterrent in the present market, which is described as a sellers market. One director expects new starts to reach 1.8 million units this year and 2 million units in 1978. Multi-family starts remain weak in the district. An official with a savings and loan association in northeast Ohio expects mortgage rates will increase by at least a quarter of a percent before the end of May. Liquidity of several savings and loans is well above the required rate and can amply support a considerably higher volume of commitments than a year ago. Some directors associated with banks note substantial growth in passbook savings accounts and slow growth in time deposits relative to a year ago. S&L officials report continued strong flows in deposits that in some cases still exceed demand in this area.

There appears to be little relaxation in upward price pressures. In addition to increases for some steel prices expected by next month, price increases have been announced in recent weeks for glassware, polyvinyl chloride, polyester resins, aluminum and publishing paper. Recent steel price increases appear to be sticking; however, producers of stainless steel withdrew increases that were scheduled to take effect early this month. On the other hand, an official with a petroleum refinery expects that motor gasoline prices, which tend to rise during peak demands in the summer months, may not increase this year if inventories continue well above normal as they have been in recent weeks.

FIFTH DISTRICT - RICHMOND

Business activity in the Fifth District picked up sharply in March judging from our latest survey. Manufacturers surveyed indicate widespread increases in shipments, new orders, and backlogs of orders. Also in the manufacturing sector employment and weekly hours increased after experiencing minor declines in the last survey period. Total inventories remain above desired levels. Manufacturers continue to report widespread price increases, particularly in the prices they are paying. Retail sales improved among our survey respondents and sales of big ticket items relative to total sales also picked up slightly during March. Manufacturers and retailers remain strongly optimistic although the strong gains experienced recently have apparently fulfilled their positive expectations to some extent. In the banking sector, the center of activity over the past few weeks has been the commercial lending area. Virginia's early peach and apple crops suffered extensive freeze damage during the first week in April.

Of manufacturers responding to our April survey, more than one-half report increases in both shipments and the volume of new orders over a month ago. There was also a general increase in the level of backlogs of orders. Despite the fact that stocks of materials were essentially unchanged and finished goods inventories showed some decline, the number of manufacturers reporting current inventories exceeding desired levels increased from the last survey period. More than one-third of the manufacturers view current inventory levels as excessive, while fewer than one in eight considers them inadequate.

Over one-third of our manufacturing respondents increased employment during March while nearly one-fourth worked more hours per week. Although a few more respondents have come to view current plant and equipment capacity as inadequate, they continue to be outnumbered by those who feel it is in excess, and there is still little sentiment for enlarging current expansion plans.

The textile industry appears to have accounted for much of the improvement in our survey results this month. Nearly 90 percent of the respondents from that industry reported improvement in the volume of new orders and one-half also noted increased levels of shipments. The chemicals and primary metals groups also experienced some general improvement as they did a month ago. The apparel industry, on the other hand, appears to be still awaiting any significant improvement in activity. The furniture industry also has not experienced any general pickup, although there are some signs this month the industry may be nearing a turnaround.

Of the retailers responding to our survey this month, two-thirds experienced improved sales activity and 40 percent report an increase in the relative sales of big ticket items. Inventories at retail rose generally but remain essentially in line with desired levels.

Both manufacturers and retailers continued to experience widespread price increases, particularly in prices paid, during the past month. Prices received and employee compensation also continued to rise across a broad front. Manufacturers and retailers surveyed remain quite optimistic concerning the outlook for the next six months, with half the retailers and nearly two-thirds of the manufacturers expecting further improvement in business conditions nationally, locally, and within their respective firms over that time period.

Business loans of weekly reporting banks have risen $100 million in recent weeks, more than the increases in other major lending areas. Consumer instalment lending has slowed down a good deal and real estate lending is likewise not as strong as it has been. The increases in business lending are fairly well distributed across industry groups, although the durables manufacturing area seems to stand out; borrowing by metals and machinery producers is strong. There have also been significant increases in loans to the textile industry, and to the wholesale and retail trade groups.

In the agricultural sector, the full extent of the freeze damage to the peach and apple crops has not been determined, but the loss is believed to be as high as 90 percent in some orchards. With this year's loss, Virginia orchardists have had a major peach kill for six consecutive years and a major apple kill for two years in a row.

District farmer's cash receipts from farm marketings in January were up about 9 percent over a year earlier, compared with an 8 percent increase nationally. Sharply higher crop receipts, due primarily to marketings of crops carried over from last year, accounted for all of the increase.

SIXTH DISTRICT - ATLANTA

Warmer weather has revitalized major parts of the southeastern economy. A special survey elicited indications of pervasive, tenacious price increases. The construction industry continues to benefit from strong home construction, while apartment building lags. Financial developments largely reflect the trends in construction. Retail sales are vigorous, in general, with particular strength evidenced by auto sales. Tourist traffic and expenditures have revived. Trends in transportation, inventories, and new orders suggest increasing economic vitality. Federal Government review of water resources projects may pose a threat to economic prospects in several parts of the Southeast.

Responses to a special survey of directors suggest that persistent, widespread price increases are continuing, partly in response to adverse weather. In Florida, in addition to the price increases resulting from the reduced juice yield of citrus fruit, the heavy demand for harvesting labor has boosted labor costs 10 to 20 percent. Vegetable growers in South Florida are now shipping their first replanted crops of beans, yellow squash, and zucchini, but tomatoes will remain in short supply until late April. Growers in central Florida report ideal conditions in recent weeks, promising high yields.

Manufacturers of products which use petroleum-based raw materials, such as fiberglass boats and tires, anticipate price increases stemming from the forthcoming energy program. Energy-dependent producers, such as transportation, utility, and lumber companies are requesting or posting price hikes. A large aluminum producer notes that recent aluminum price increases are "sticking." They expect additional price boosts resulting from power cutbacks in the northwestern U. S. and a lack of sufficient capacity in other regions to offset the production losses.

Food manufacturers are presently increasing their list prices but are maintaining transaction prices by offering discounts. No immediate increases in wholesale food prices are anticipated. However, the price of beef has been held down by cold weather. Feed supplies were cut sharply by the adverse weather, which maintained the supply of cattle for slaughter. The resulting herd depletion may eventually result in a sharper upturn in prices.

Construction executives note that home prices are rising in step with materials prices and that increasing costs of construction will gradually be reflected in prices of industrial commodities and in apartment rentals. Observers also note a shift in a number of industries from fixed price to flexible price contracts containing pass through clauses.

Directors also indicate that single-family construction continues to dominate the District's construction recovery. In most areas, large increases from year-ago levels in home construction and sales are reported. In some areas, sales have doubled. Areas where sales have not increased sharply are those where sales were already strong. Multifamily residential unit sales continue to gain, reducing the stock of unsold units; in some cases this decrease is quite rapid. The foundation appears to be developing for a slow recovery in this depressed sector.

Apartment construction has increased in Alabama. In other District states, high costs of construction and financing, as well as the conversion of condominium units to rentals in some areas, have limited the construction of new apartment units.

Financial developments primarily reflect construction activity trends. Savings and loan associations have felt increased demand for construction loans in some, but not all, areas. Despite decreasing vacancy rates, lenders are reportedly reluctant to lend for apartment construction as a result of previous adverse experiences. However, inquiries about financing of new condominium projects are reported. These are mostly small projects in the mid- to upper-price range. Stringent terms of lending and financial standards are reportedly being applied.

Retail sales are improving, according to most reports, although some retailers found March sales disappointing in view of an early Easter, which was expected to boost sales. Concern is voiced about the inhibiting effects of increased utility bills, the cost impact of the minimum wage increase, and the response by consumers to higher prices on fall merchandise. Inventories remain in a satisfactory range.

Auto sales are very strong; the strength continues to be centered in the large- and intermediate-sized models. Dealers are still experiencing difficulty in obtaining deliveries of the models most in demand.

Tourist traffic has rebounded strongly in the Southeast, following the dampening effect of severely cold weather. Hotel and motel occupancy has risen markedly; highway traffic and air passenger arrivals have increased sharply. In Florida, tourist attractions and beaches are packed. Retailers are enjoying increased sales. Employment in service businesses has grown. However, one director notes doubts concerning the strength of tourism by sources within the industry, based on a sustained weakness in business prior to the cold weather period and the absence in recent weeks of an appreciable upsurge.

General business developments include an improved, although erratic, pattern of truck rental and leasing business in Florida and Alabama. Strong rental business is said to indicate that industrial shippers are moving large quantities of goods. A Louisiana trucking executive cites recent contacts with his accounts that indicate a general increase in the volume of their business. In Florida, an employment increase is noted in business support services, including janitorial, engineering, and computer services.

Appliance manufacturers are reportedly building inventories to meet an anticipated expansion in demand. Some retailers report plans to increase their inventories, while the improved retail sales picture in Florida is attributed, in part, to better selections of merchandise resulting from increased stocks.

An office and home furniture manufacturing division of a national firm reports a recent significant increase in orders. Heavy domestic and international demand for phosphate has caused congestion at the Port of Tampa docks.

Georgia mobile home plants should benefit from recently enacted legislation permitting 14 foot wide mobile homes to be transported on state highways. Employment and the number of firms in the industry have fallen sharply in recent years. Restrictions on transportation were viewed as a major impediment by the industry.

The major development affecting employment is the impending layoff of as many as 15,600 employees of a major shipbuilder located in Mississippi. Fortunately, some of these workers may be hired by New Orleans shipyards which have a substantial backlog.

Recent scrutiny of Federal water resource projects has raised questions concerning the continuation of several major projects in the Southeast, including the Richard Russell Dam on the Savannah River, the Tennessee-Tombigbee Waterway in Alabama and Tennessee, and the Red River navigation project in Louisiana. Each project is regarded as significantly affecting current and prospective economic development in its surrounding area.

SEVENTH DISTRICT--CHICAGO

The expansion of activity in the Seventh District appears to have been firmly reestablished. Retail sales remain strong for both hard and soft goods. Inventories are in good shape in virtually all sectors. Forecasts for 1977 for motor vehicles, steel, some types of capital goods, and residential construction have been raised since December. Prices are rising somewhat more rapidly. Except for fuel, there are few reports of shortages, currently, but some leadtimes are moving out. Labor markets have strengthened in most areas and many employers expect to increase hirings as the year moves on. Soil moisture conditions have improved "dramatically" throughout the district in the past two months and drought fears are over, at least for the planting period. Some farmers are shifting acreage from corn to soybeans, causing a scramble for seed beans in certain areas.

Virtually all business and financial executives in the district expect that the uptrend in their lines will continue throughout the year. Some are virtually certain of further gains in 1978, but others are pushing "contingency plans" in case demand declines. There are more than the usual complaints about uncertain government fiscal and regulatory policies and specifically about rising costs of unemployment compensation, workmen's compensation (especially in Illinois), and product liability insurance which is especially costly for small firms.

Reports of purchasing managers and other statements indicate that inventories, output, employment, new orders, backlogs, and prices charged by vendors have been rising moderately on a broad front in recent months. Pressing shortages are rare, but leadtimes on orders are stretching out and some buyers complain of deterioration in product quality and delivery dependability. There is apprehension over supplies of coated paper, certain types of bearings and castings, building materials such as gypsum board and lumber, and, of course, fuel of all types.

Major retailers continue to be pleased with sales of most classes of merchandise. Credit purchases have increased relatively, and delinquency experience has been favorable. Inventories are within budgeted limits generally.

Plants making the most popular auto models have been operating on full overtime, but successive shutdowns are continuing for domestic small cars. Demand for light trucks is excellent. Sales of heavy trucks and trailers are expected to move to record or near-record levels next year. No significant shift in the trend to highway transport from rail is considered likely or even feasible, even though shippers have been fairly well pleased with the performance of Conrail and the private lines.

Capital spending on equipment, as opposed to structures, is improving, but many delays or cancellations are attributed to vague or "unworkable" federal and state regulations relating to health, safety, and environment. Other than highway transport, orders have improved for machine tools, outdoor cranes, bulldozers, large front-end loaders, overhead cranes, hoists, and lumbering equipment. Demand for such components as controls, bearings, castings, diesel engines, electric motors, and transmissions has increased and a larger share of new orders is for original equipment rather than replacement. Some equipment makers have increased output to prepare for an increase in orders that they are fairly confident will occur. Many of the bottlenecks that limited capital goods output in 1973-74--engines, axles, transmissions, castings, and controls--are not so likely to cause problems in the future because of increased capacity.

Steel orders have increased significantly since January. Demand is especially strong from the motor vehicle and appliance industries, but orders have also increased for plate, larger-diameter tubes, bars, and containers. Heavy structural steel remains weak, however. Most analysts have raised forecasts of steel shipments for the second quarter and for the year. User inventories are believed to be quite low. Bunching of orders to beat expected price increases could tighten supplies of some types of steel. The apparent agreement on the steel labor pact over the weekend, still leaves a wide assortment of local issues unresolved, and important strikes cannot be ruled out.

A major oil company reports that product prices are inching up in response to strong demand. Barring stoppages of imports, no shortages of oil products are foreseen for the next year or so. Gasoline stocks are currently ample, partly because of increased output that accompanied the all-out effort to produce heating oil. Oil refineries are operating at practical capacity. Increases in capacity are the result of expanding or modernizing existing refineries. The Midwest imports oil products from other districts. Local experts insist that decisions on the transport and processing of Alaskan oil cannot be delayed much longer without serious consequence.

All companies able to do so are pushing programs to improve efficiency of energy use, increase fuel storage capacity, and, especially, to reduce dependence on natural gas. Some are acquiring their own energy sources, e.g., coal or natural gas supplies. An appliance producer that converted several plants from coal to natural gas a few years ago has recently decided to reconvert these plants to coal.

EIGHTH DISTRICT - ST. LOUIS

Economic activity in the Eighth District continues on an upward course. Reports on department store sales indicate only modest improvement in recent weeks, but a definite acceleration has occurred in manufacturing activity over a broad range of industries. While some signs of a pickup in capital investment were detected, individual firms indicate only modest investment increases for this year. Residential investment, however, is on the uptrend over most of the District with substantial gains in both single- and multi-family dwellings expected this year. The financial sector is generally in a liquid position. Banks report only modest increases in business loans, but savings and loan associations report strong demand for mortgages, spurred by the increasing demand for housing. In the agricultural sector recent rainfall has improved soil moisture. Soil preparation and crop plantings are now proceeding at a normal pace.

Consumer spending continues to increase, although no surge in such spending was evident in reports from District retailers. One major retailer reported that March sales were well above last year, with heavy goods, such as appliances and furniture, beginning to move well. Another major St. Louis retailer, however, reported only small gains in March and sluggish sales in early April compared with a year ago. Overall, retailers are optimistic about prospects for this year, with sales gains of 8 to 10 percent generally expected.

Representatives of several manufacturing firms were quite optimistic about business trends in recent weeks. A representative of a major chemical firm stated that sales of a number of products, including fibers, plastics, industrial chemicals, and agricultural chemicals, had shown significant improvement. Another chemical industry representative making polymer specialties also reported a "good" recovery in March, after a slow January and February. Representatives of firms manufacturing paints and coatings noted that first quarter profits had been adversely affected by bad weather earlier this year, but a pickup in sales in the latter part of the quarter had improved profits over earlier expectations. Reports from various manufacturers of consumer items, including furniture, home fashions, apparel, recreational equipment, and appliances, reported rising incoming orders. Representatives of large food processing firms were quite optimistic about trends in the food business and expected good sales gains this year.

A few reports indicated that capital investment may be starting to pick up. For example, a major manufacturer of heavy capital equipment has experienced some increase in capital equipment orders recently. A steel fabricating firm and an industrial casting firm reported increased requests for bids. A representative of a welding and cutting equipment firm noted continued improvement in sales in recent weeks. A manufacturer of items used in construction had strong sales gains in March. Yet, discussions with a number of small- to medium-sized businesses indicated a reluctance to go ahead with capital spending plans in view of a number of uncertainties, including environmental regulations and energy policies. Plans for capital expenditures were mostly of a routine nature, designed to replace or upgrade existing facilities or to comply with environmental regulations.

Housing continues to be a bright segment of the economy. Home sales have been increasing in recent weeks after the setback early in the year. Backlogs of orders for new homes are beginning to build up in some cases. An observer of the St. Louis home market expects housing starts to increase 15 to 25 percent this year for single-family dwellings. Apartment construction in St. Louis is also expected to make gains. Reports from the Memphis and Louisville areas also indicate some improvement in the housing markets.

District banks have experienced some increases in loans in recent weeks, although much of the increase has been in real estate loans. Business loans have remained relatively stable, after increasing somewhat in the early months of the year. Savings and loan associations in the St. Louis area experienced some slowing in the growth of deposits in the past four to six weeks, especially at those institutions which lowered their rates on deposits. Loan demand at thrift institutions is described as "good," reflecting the general uptrend in housing activity.

Agricultural prospects in the District have been considerably enhanced by sizable amounts of rainfall in the past several weeks. While these rains have not been sufficient to completely replenish subsoil moisture in parts of the District, they will allow field preparation and planting to proceed at a normal pace.

NINTH DISTRICT--MINNEAPOLIS

District economic conditions have brightened considerably in recent weeks. Both housing activity and retail sales have rebounded after weather-induced slowdowns earlier in the year; auto sales, too, have been fairly strong. Recent labor market activity denotes a pickup in district business activity. Although recent rains have helped relieve drought conditions somewhat, the agricultural situation continues to be troublesome.

District homebuilding, which experienced a weather-related slowdown in December and January, recovered substantially in February, and its near-term outlook seems bright. Recent Minneapolis/St. Paul vacancy rates for both single- and multi-family units are below a year ago despite the strong housing expansion in 1976. In addition, outstanding loan commitments at district S&Ls are currently at record levels. Although savings inflows at mortgage lending institutions have declined in early 1977, S&L liquidity is still quite high by recent standards.

Major Minneapolis-St. Paul area retailers report improved sales in March after cold weather depressed sales in January and February. Home furnishing items in particular have been selling quite well, which may reflect the pickup in residential construction. Furthermore, retailers are optimistic about this spring and are satisfied with current inventories. Outside the Minneapolis-St. Paul area, recent rains have made consumers less hesitant to spend, but considerable concern remains about future moisture conditions.

District automobile sales have also been quite good. Regional sales offices report that sales of full- and intermediate-size cars are strongest. Compact and subcompact sales are still weak but improving with recent rebates on certain small cars helping their sales. Vans and, to a lesser degree, pickups are also selling very well.

Another encouraging development in early 1977 has been improvement in the labor market. The district unemployment rate, seasonally adjusted, averaged 5.5 percent in January-February compared to 6.1 percent in the fourth quarter of 1976 and 5.9 percent for the year-earlier period. Unemployment insurance claims, seasonally adjusted, declined 12 percent between fourth-quarter 1976 and early 1977 while the help wanted advertising index increased 4 percent. Moreover, manufacturing employment increased 2.2 percent in early 1977 from the fourth quarter of 1976, and average weekly hours worked in manufacturing also increased slightly.

Loan activity at district banks has also picked up during early 1977. Total loans at district member banks increased at a seasonally adjusted annual rate of 19 percent during the first quarter, up from a 10 percent advance in the second half of 1976. The faster growth in early 1977 occurred primarily at large city banks where loans advanced at a 26 percent annual rate and reflected large banks' increased willingness to make business loans. Smaller district banks also reported faster loan growth--from a 12 percent annual rate in the second half of 1976 to 16 percent in the first quarter. This increase reflected greater loan demand--including refinancing of existing loans--at rural banks. Although deposit inflows have recently slowed, liquidity positions at district depository institutions are still adequate and should not be a factor in tightening loan terms.

The agricultural sector is still experiencing stress from drought and low prices. Increased marketings boosted 1976 cash livestock receipts, 11 percent over 1975, but low prices depressed crop receipts 23 percent from the year before. Reduced farm income has led to increased borrowing and refinancing, pushing up loan-to-deposit ratios at rural banks. Although recent rains will probably encourage many farmers to proceed with customary planting intentions, abundant wheat stocks and red meat supplies will continue to have a depressing effect on commodity prices at least until midyear. Also, despite recent rains, there are still many areas in the district that continue to have serious moisture deficiencies and farmers in those areas aren't likely to enter the planting season with much enthusiasm.

TENTH DISTRICT - KANSAS CITY

Tenth District directors report that area businessmen are optimistic about the economy. Recent rains have provided a psychological boost, retail sales are good, and the energy situation should, on the whole, benefit the region. Although farm prices rose in March for the fourth consecutive month, the continued rise in farm costs has kept producers from significantly improving their profit margins. The drought has been somewhat alleviated by recent rains. Nevertheless, additional moisture is needed for normal crop yields. Loan demand in the District increased in March, due to abnormally high levels of agricultural loan renewals and increased commercial loans. Savings deposit growth was also reported as strong, though fears were expressed about the effect on this inflow should short-term interest rates rise.

Directors report that the mood of businessmen in the Tenth District is largely one of optimism. Given the strong agricultural orientation of the District, the recent rains have provided a needed psychological boost, and other areas of the economy are generally showing strength. One troublesome situation that was mentioned is the depressed prices for wheat and cattle. Country banks are highly loaned up to farmers, and there are indications that their correspondents are beginning to apply pressure on these banks to encourage farmers to begin selling their wheat--some of which has been stored for 2 years.

In agricultural areas of Kansas, it was reported that "retailers have been doing amazingly well." Farmers are continuing to spend strongly on consumer goods, although farm implement sales are quite depressed. Elsewhere in the District, retail sales are generally good but not outstanding, while construction spending remains relatively weak.

In the labor market, unemployment still remains abnormally high, but excluding Kansas City (which is experiencing strikes of public school teachers and workers in heavy construction), the situation is untroubled. Furthermore, in Oklahoma City, General Motors announced plans to build an assembly plant which will ultimately employ 5,000 workers.

Several directors also commented on energy and capital investment. Wyoming and Colorado should benefit from the national commitment to shift from natural gas to low-sulfur coal. Outside investment in the energy field has been strong and a solar energy research center has been established in Golden, Colorado. While levels of capital spending appear to be rising, uncertainty remains a strong consideration influencing expansion. One director noted, however, that "a few good moves (by the administration) could restore confidence."

Farm prices rose 1 per cent in the month ended March 15, marking their fourth consecutive monthly gain. Although the index of prices received is now slightly above year-earlier levels, the index of prices paid by farmers for all items was 5 per cent higher in March than it was a year ago. Consequently, many producers are confronted with a rather tight price-cost squeeze in their operations.

The severe drought in many parts of the District has been temporarily broken by recent thunderstorms and showers. Most of Nebraska, Kansas, and the eastern half of Oklahoma have received good moisture during the past months. The wheat crop is now greening up, as are the pastures for cattle grazing.

Reports from District states indicate that the condition of the new wheat crop ranges from just fair to good. There is evidence of wind damage and winterkill in southwest Kansas, and insect problems are increasing in Oklahoma, where the wheat is now jointing. Despite the recent improvements in weather conditions, additional moisture will be necessary to achieve average yields. However, a large carryover of wheat will help maintain total supplies and prevent a sharp runup in price.

Most Tenth District banks contacted for the April Red Book indicated that loan demand had increased in March. In addition to renewals of agricultural loans, which would normally be repaid during this part of the year, a number of banks reported an increase in commercial loans to finance higher levels of inventories and receivables. One Colorado banker expressed apprehension about the effect of President Carter's upcoming energy proposals on the tourist industry and the demand for loans to finance purchases of recreational vehicles. Oklahoma bankers, on the other hand, expect the passage of a comprehensive energy bill to provide further impetus to the already strong demand for energy-related business loans. Some Oklahoma banks have already raised their local prime lending rate from 6 3/4 per cent to 7 per cent as a result of the strong loan demand in their area, and others expect to do so in the near future.

Strong savings deposit growth was reported in all areas of the Tenth District. Most banks indicated that the rate of growth of time and savings deposits was either stable or increasing. Some bankers stated that they expect this trend to be reversed if short-term interest rates rise by as much as 50 or 100 basis points. None of the bankers contacted expect the rebate package to have an appreciable impact on deposit growth, although some admitted that they were still puzzled by the 1975 experience when deposit growth exceeded expectations during the rebate period.

ELEVENTH DISTRICT - DALLAS

The pace of the economic recovery in the Southwest continues to pick up. Although the unemployment rate for the District states edged up to 5.8 percent, total employment continues to climb. Drilling activity in Texas is at a 15-year high, and production of oil field equipment is on the upswing. New orders for apparel have picked up, and output is beginning to rise. Total loans at the District banks have decreased since January because of a moderate decline in business loans. Real estate and consumer loans, however, have continued to advance sharply. Steadily increasing costs of production are pushing up agricultural loans.

Drilling activity in Texas continues to rise, but production and proved reserves of oil and gas continue to decline. Most of the drilling is in low-yield, shallow fields. The supply of idle drilling rigs has dropped to a comparatively low level, but there are apparently no serious equipment shortages. The number of rotary rigs in operation is at the highest level in over 15 years and is nearly a fourth above the level a year ago. Few onshore rigs are idle, and they are mostly deep-well rigs located largely in West Texas. There is strong demand for offshore rigs used in shallow water, while many deep-water rigs remain idle. Demand for drilling crews is increasing, but there are no indications of a shortage of labor.

Reflecting the higher level of equipment utilization, demand for oil field equipment is climbing steadily. Oil field equipment manufacturers expect a strong improvement in sales in 1977 over last year. Better terms of financing, as well as increased business, have spurred many drilling contractors to order new equipment and retire older machinery. With the upswing in production of machinery and drill pipe, prices for equipment have also begun to rise sharply.

Apparel production, which suffered a sharp downturn last year, is starting to show signs of improvement, as indicated by a pickup in new orders. Manufacturers of men's clothing indicate sales this year will be greater than in 1976, but they continue to be very cautious in making sales forecasts. According to observers at a recent showing of women's and children's early fall merchandise at the Dallas Apparel Mart, demand was strong for sweaters and coats. Inventories of these items were drawn down sharply last winter, and retailers appeared to be building ample stocks in anticipation of another cold winter. That buying pattern leads many observers to believe new orders for other winter garments will be up substantially during the next big market in May. Manufacturers estimated that retail prices for fall merchandise would be 10 to 12 percent higher than last year, and those estimates did not take into account higher labor costs that would stem from an increase in the minimum wage.

Total loan demand at District member banks has declined since January. Virtually all of the decrease has been in business loans, and bankers expect only a small to moderate pickup in business loan demand this year. Real estate loans continue to strengthen with further recovery in the construction industry. Consumer loan demand is expanding sharply, reflecting rising consumer confidence. Auto loans are particularly strong, and credit card usage is also up. One bank in Dallas reports the level of credit card debt outstanding has remained near the Christmas peak, and normally it would have run down by $8-9 million by this time of the year.

The inflow of time and savings deposit funds to District banks remains strong, and bankers have not attempted to slow the inflow by reducing interest rates paid or changing other terms on time deposits. Because the supply of loanable funds continues to grow, more banks are becoming more aggressive in seeking new loans or loan participations. Moreover, banks are increasing their holdings of various types of government securities--especially municipal bonds.

Agribankers indicate that reduced cash flows from low grain and cattle prices, coupled with the rising costs of production, continue to adversely affect agricultural credit conditions in the Southwest. At current grain prices and with "normal" weather, only the most cost-efficient farmers will make a profit this year. Drought conditions and rising costs of energy are increasing irrigation costs in the grain-producing northern High Plains of Texas and are leading to greater demand for operating credit. Conversely, cotton and soybean producers in the southern High Plains are faring much better. They experienced a good year in 1976 and are reported currently to be increasing purchases of machinery.

Reduced cash flows and larger lines of operating credit have caused loan-to-deposit ratios at rural banks to rise. Renewals and extensions of loans are also increasing, particularly in the intensified wheat-producing areas of the High and Rolling Plains of Texas. The supply of loanable funds to meet credit needs has declined somewhat in the area mainly reflecting low wheat prices. Bankers continue to maintain firm collateral requirements and are taking a closer look at the credit worthiness of their customers. The number of referrals to nonbank credit agencies is rising sharply. Although the supply of loanable funds has declined, few member banks have used the seasonal borrowing privilege at the discount window this year, as the discount rate still remains well above short-term interest rates.

TWELFTH DISTRICT - SAN FRANCISCO

The recovery appears to be continuing in the Twelfth District, although capital investment is increasing in only a few industries. Retail sales as well as sales of a number of manufactured goods are strong and employment is generally increasing. Low crop prices and drought-induced cost increases have hurt both farm income and agricultural employment. Housing demand and construction activity in general are very strong and a few lending institutions have raised their mortgage rates by 1/4 of a percent.

Retail sales are reported strong in many areas and at least two major shopping centers are under construction. Retail business is reported to be an important source of commercial loan demand.

Sales of a number of manufactured products are also reported strong. Lumber sales are rising due to the housing boom. A major aerospace firm in the Pacific Northwest is experiencing brisk sales of commercial aircraft and expects to expand employment by about 10 percent during the year. To increase mileage ratings, the auto industry is switching from steel to lighterweight aluminum to the delight of Western aluminum fabricators who are currently operating at full capacity. Some primary aluminum capacity in the Pacific Northwest has been shut down due to drought-related curtailments in hydroelectric power. There is some fear of severe aluminum shortages next year. Mineral sales in Utah are good, with mineral production having exceeded a record $1 billion last year.

Mild weather has stimulated tourism in Washington, but has severely hurt the ski industry in most Western states. California's ski resorts however, were aided by March snow which brought business almost back to normal.

There are very few bright spots in Western agriculture. Despite some rainfall in all states in March, reservoir levels remain very low causing severe cutbacks in irrigation deliveries, amounting to as much as 60 to 75 percent in California and 94 percent in one portion of Washington. There is great concern over the survival of vines and fruit trees in Washington's Yakima Valley. It is expected that ranchers in Utah will bring sheep and cattle to market in large numbers as range conditions grow worse. And on top of the drought problems, it is reported that the prices of a number of farm products (wheat, corn, rice, sugar beets, potatoes and cattle) are currently below the cost of production. On the retail food scene, there appears to be another supermarket price war taking shape in the Los Angeles area.

Housing demand and overall construction activity are reported strong throughout the district. Mild weather has allowed construction activity to exceed normal seasonal levels, and construction employment is reported to be increasing. The housing market is still exceptionally strong, with used houses selling within a few days of being put on the market, and housing prices increasing 75 percent over the past year in some parts of Southern California. A major Indian Reservation in Oregon reports very active housing demand and construction activity. Activity is not confined to the residential market. Demand for commercial and industrial property is also strong. In Southern California, $75,000/acre is now considered inexpensive for industrial land.

Employment is on the increase in most parts of the District, especially in construction, wood and paper products, aerospace, and aluminum. Partially offsetting has been a general decline in agricultural employment. For example, the agricultural work force declined by 5,600 during January in Kern County, California alone. A large clothing manufacturer in Oregon was forced to layoff a large number of workers when sales of its summer clothing line failed to materialize. But there appears to be a broad upward movement in Western employment.

Banks report that business loan demand is increasing after a period of remaining flat demand during the first quarter, but they expect even greater strength in the third and fourth quarters. Mortgage, construction and consumer loans are reported strong, but business loans are generally static and agricultural lending is generally weak. Still, a few areas are facing strong business loan demand. One banker from Southern California claims no need to even seek borrowers and a northern Washington banker anticipates a shortage of loanable funds before year-end. The frenzied demand for housing has driven mortgage rates up by 1/4 of a percent in parts of Southern California and Utah.