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CURRENT ECONOMIC CONDITIONS BY DISTRICT

Prepared for the
Federal Open Market Committee
by the Staff

June 15, 1977

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SUMMARY*

The economy continues on a firm upward path, according to this month's district comments. Retail sales in general remain good, with the sales of autos and other durables showing particular strength. Factory orders continue to rise, and a building up of business inventories could well be underway. At the same time, the capital spending picture, while not exuberant, has brightened somewhat. Residential construction remains very strong, but little evidence of speculation is reported. The outlook for the 1977 harvest is, on balance, favorable. In the financial area, the demand for consumer and mortgage credit continues relatively strong, that for business loans generally weak.

Consumer spending generally continues to support the recovery, although several districts report a mixed performance. Chicago characterizes retail sales in its district as excellent, with sales of appliances, domestic large cars and imported small cars especially strong. Dallas reports department store sales as running about 14 percent above year-earlier levels, with durable goods selling especially well and retailers looking for a steady increase for the rest of the year. Similarly, solid gains in consumer spending were also reported in the New York, Minneapolis and San Francisco districts. And Boston indicates that, after rather disappointing performance in early May, retail sales gained considerable strength in the second half of the month. On the more restrained side, Cleveland reports a recent flattening in retail sales, although new car sales remain strong if off somewhat from the March and April pace. Richmond finds little change in total sales during May, but some decline in sales of big ticket items, while Atlanta reports that retail sales have turned spotty, although car sales remain robust. Philadelphia finds the pace of sales mixed,

*Prepared by the Federal Reserve Bank of New York.

but generally below the expectations of retailers.

Housing construction continues very strong, in virtually all districts, and sharp increases in real estate prices, including farmland, are widely noted. Against this background, district reports address themselves to the question of the possible role of speculation in the current real estate market. With few exceptions, little or no evidence has been uncovered that speculation has been a significant factor in that market. Comments from the San Francisco district in general explain the sharp rise in housing prices as the result of a surge of post-recession demand confronting a housing supply reduced by the preceding recession. The influence of speculation, however, is reported in Southern California, where speculators may account for an estimated 20 percent of some markets. Scattered instances of possible speculation are also noted by Philadelphia and Atlanta.

Business sales and manufacturing activity continue strong. Manufacturing respondents to the Philadelphia monthly survey report that new orders and shipments are higher in June, and further increases are expected. Similar sentiments were echoed by respondents in the Richmond district survey. St. Louis reports that manufacturing activity continues to register gains in sales and orders over a wide range of industries, including the chemical, home building products, and commercial aircraft industries. Dallas mentions further gains in manufacturing output, and Minneapolis reports that district manufacturing activity remains quite strong, with manufacturers responding to its latest survey looking for year-over-year increase in sales of about 15 percent in the first half of 1977.

Against this background, a period of modest inventory rebuilding may be underway. Manufacturers in the Philadelphia district thus project an increase in inventories over the balance of the year, and Richmond reports that manufacturers' inventories, after remaining flat for several months, are once again moving upward. San Francisco reports that some industries, including aerospace and electronics, are cautiously bringing inventories back to "normal" levels to support higher production levels and sales. Minneapolis' manufacturers in general feel inventories to be in line with expected sales, as are department store inventories in the Dallas district. Similarly, Chicago reports inventories of some items, mainly hard goods, to be below levels necessary to maximize sales. Growing shortages of drilling equipment are mentioned by Dallas and Atlanta.

Reflecting the continued strength in manufacturing activity, improvements in the labor market are reported by several Banks, including Philadelphia, Richmond, Chicago and Minneapolis. Growing shortages of certain types of skilled workers are mentioned by St. Louis (carpenters) and Dallas and Atlanta (oil drillers).

Assessments of business capital spending generally remain cautious, but on balance have become somewhat brighter. Among others, Boston reports increased orders at machine tool manufacturers, as well as an expansion in the investment plans of New England firms themselves. Capital good producers in the Cleveland district expect capital spending in 1977 to at least match that projected by the latest Department of Commerce survey, in some instance to exceed it. Chicago reports increased steel shipments to capital equipment producers as well as a "well grounded" upswing in spending on such equipment, although the strength of demand varies greatly among industries, with construction leading the way. St Louis reports strong sales of machine tools, welding and cutting equipment, and commercial aircraft. However, the proportion of manufacturers in the Philadelphia survey anticipating increases in their capital spending over the next six months declined somewhat. Several Banks including Cleveland, Minneapolis and New York, mentioned the uncertainties surrounding the energy program and/or environmental controls as factors inhibiting capital outlays.

Reports from the agricultural areas are generally good. Kansas City reports that the wheat harvest now underway in that district is expected to top the 1976 harvest by 15 percent, while Minneapolis indicates that recent rains have eased concerns about the draught. San Francisco, on the other hand, reports that the agricultural sector in that district seems "resigned" to a less than good year, while weather has adversely affected some crops in the Atlantic district.

FIRST DISTRICT - BOSTON

Respondents in the First District report that the favorable trends of the past several months are continuing. A steady decline in unemployment is an important source of optimism. Capital spending appears to be picking up and the housing industry is at last showing vitality. The retail sales situation is somewhat mixed with a fall-off in early May followed by a strengthening in recent weeks. Fears of inflation seem to have lessened but some businessmen appear to have become slightly apprehensive about the general outlook. This reflects concerns about national and international developments, particularly as regards energy, rather than their own experience.

The most important development in the manufacturing sector is the apparent pick-up in capital spending. Manufacturers of producers durables, particularly machine tools, report increasing orders. In addition, New England firms themselves seem to be expanding their investment plans.

Retail sales in New England had a rather disappointing early May. However, there was considerable strengthening in the second half of the month. Assessments of the retail sales performance range from pretty strong to mediocre. Housing products are selling particularly well. One major retailer in the region commented that inventories are slightly higher than desired. He believes the industry as a whole is apprehensive about the future and is trying to keep inventories low.

One of the disappointing aspects of the New England economy has been the housing industry. However, there are now significant signs of improvement. Although new construction remains relatively weak in most of the region, there are now fairly widespread reports of a pick-up, particularly in single family homes. In addition a special survey of realtors revealed a very active market in existing units. Several realtors said that sales are 50 percent above last year. Single family units account for most of the activity, although two realtors ventured that the slower market in multi-family units reflects lack of supply. Responses regarding price ranges were quite varied, but in southern New England the market seems to be strongest among higher priced units. Prices are escalating quite rapidly as the overhang of unsold housing from the recession period has moved off the market.

Commercial and savings bankers in New England also report moderate to high levels of activity in real estate markets, but no unusual speculative activity. Demand for both completed single family homes and improved building lots remains strong in southern New Hampshire and house prices there are currently appreciating at a rate of 1 percent per month. However, banks in the area report that most local builders operate on a very small scale and that while some of these builders are constructing units on speculation, the overall level of speculative activity does not appear to have increased over that occurring one year ago.

Bankers in the agricultural district of northern Maine report an acceleration in the rate of increase of land prices there. Loan officers also noted that an increased number of sales were to buyers from outside Maine. However, these bankers feel that the effect of the recent acceleration in land prices was to restore the historical relationship of Maine land prices to agricultural land prices elsewhere, since Maine land prices had lagged national prices in recent years.

Sources elsewhere in New England report no unusual speculative activity at present. While some banks reported requests for second mortgages, they did not consider the number of such requests to be abnormal. None of the banks reported requests for wrap-around mortgages. None of the banks reported purchases of single family homes by nonoccupants, and several said that the customary policy in New England is to only lend to owner-occupied units.

On balance the performance of the New England economy is quite promising at the moment. Businessmen are optimistic but vaguely concerned about the possibility of external shocks.

Professors Houthakker and Samuelson were contacted this month. Houthakker is satisfied with the performance of the economy and of monetary policy. He sees no need for immediate further correction of April's excessive money growth and guesses that the current level of rates will be adequate to bring money growth back within the target range. On the inflation outlook, he sees the rate of inflation as fairly stable with no significant acceleration or deceleration. He notes weakness in various raw materials markets which serve as a good leading indicator of inflation. The world economy is still growing slowly but is no cause for alarm.

On the basis of the recent economic data, Professor Samuelson would favor some tightening <u>provided that</u> policymakers are willing to reverse course subsequently if economic targets are not being met. Specifically, Samuelson feels that annual real growth of less than 5 percent over the next six quarters would be politically unacceptable. While a prestigous minority of forecasters expect this goal to be met, the consensus forecast is of somewhat slower growth over that period. Samuelson's philosophy is that a "zig-zag" policy, such as tightening now and reversing if the optimistic forecasts gets marked down, is not fine-tuning (which implies perfect command). Zig-zagging around the desirable range as new information accumulates is, to the contrary, the optimal policy posture in a changing world filled with uncertainty.

SECOND DISTRICT--NEW YORK

The Second District economy continues to expand at a moderate pace according to recent reports from directors, business leaders and economists. Residential construction activity appears to be picking up, but respondents reported no evidence of speculative excesses. Retail sales continue to post solid gains, and inventories appeared to be at satisfactory levels. While many directors voiced concern that the uncertainty created by the proposed energy program would delay capital outlays, District industrialists report few revisions in spending plans. Employment growth remains sluggish, but directors heralded a step toward an improved business climate offered by a ruling against payment of unemployment insurance benefits to strikers.

Several respondents noted a recent improvement in residential construction activity in the Second District. The president of a leading New Jersey bank stated that the demand for residential mortgages was the strongest in more than five years. The president of a major telephone utility reported phone sales were running at rates much higher than anticipated. For the most part, the strength appears concentrated in single family and low-rise condominiums. Construction of new apartment houses in this area continues to lag. Boding well for continued regional growth, none of the respondents, including the directors of the head office and Buffalo branch, saw any indication of the speculative fever reported on the West Coast. One banker noted that New York City apartment prices have improved tremendously in recent months, but there is nothing speculative about that.

Retail sales have shown further gains in the New York metropolitan area. An executive of one national chain reported a much brisker pace here than in the country as a whole. For the third consecutive month sales gains at several large New York City stores outpaced gains at suburban counterparts. The president of one major department store attributed much of his store's improvement to a recent, large-scale refurbishing of its New York City site. The increase in retail inventories generally was viewed as accompanying the rise in sales. Merchants felt sales prospects remained bright.

Most businesses remain cautious about inventory levels, expanding stocks only in response to gains in sales. One business economist noted that inventory building was quite low for this stage of an economic recovery. Overall, inventories appeared to be in good balance with sales. While some respondents reported inventories were somewhat below desired levels, most firms felt inventories were at generally satisfactory levels. A vice-president of a large capital goods producing firm, which had been facing sluggish demand, reported that with a good flow of new orders his firm could establish a satisfactory level without having to curtail production. The languishing demand for structural steel prompted one steel producer to close one of its older, less efficient plants in western New York. Steel inventories were somewhat higher than desired due in part to less-than-anticipated hedge buying by customers prior to the mid-June steel price rise.

The regional employment picture shows little near term improvement. In addition to the steel plant closing, a major automobile manufacturer announced a substantial reduction of New York City personnel. More positively, the Buffalo branch and head office directors cited the ruling against the payment of unemployment benefits to strikers in New York as a step toward reestablishing a healthy business climate. It was expected that employment costs would only be marginally reduced, but the general impact toward improving New York State's competitive position will be considerable. Thus, while it would be unlikely to bring in new industry, the motivation to leave should be reduced. One Buffalo director felt it might lead firms to reconsider or alter decisions not to expand New York facilities.

Regarding the impact on capital spending of the President's energy program, opinions were mixed. Spokesmen from industrial companies stated that their current plans were unaffected either because they comply with the proposal or are firmly fixed. On the other hand, the chairman of a major New York City bank felt that on balance the program appeared to be having a negative effect on capital spending. The chairman of an international oil company said it could result in lower investment by the petroleum industry. Several economists and directors believe that longer term capital spending is likely to be temporarily postponed until the uncertainty concerning the final program is resolved. On the general outlook for capital spending, one director noted that sharp increases in costs have clearly had a major impact on capital spending and may keep the rise in spending down even through 1978. Capital appropriations have been high, but follow-up in terms of spending may be slow since many businesses do not think they can pass on higher costs in terms of product prices.

In the financial area, there are some indications that loan demand is increasing in selected parts of the District. One of the directors noted a quickening of demand in upstate New York while another reported that business loans were up in the central part of the state. A banking director from New Jersey noted that while overall loan demand was still lagging, home improvement and installment loans were strong. Business loan demand in New York City shows little growth.

THIRD DISTRICT - PHILADELPHIA

Economic activity in the Third District is expanding but at an uneven pace. Sales at area department stores are reported to be mixed, while activity in the industrial sector continues to expand. New orders and shipments are higher than in May, while inventories remain stable. Employment and the workweek also continue to increase. For the longer term, retailers report widely differing sales forecasts while manufacturers anticipate additional improvement in business conditions. Plans for increases in capital spending over the next two quarters are less widespread than in previous months. Commercial bankers say that business loan demand is flat, but consumer loans are increasing. Housing markets are active, but with the exception of Atlantic City, no speculation in real estate is reported.

Manufacturers responding to the latest Business Outlook Survey report that general business conditions are better than in May. Of the executives surveyed, 42 percent say that business has improved this month. This is similar to the proportion reporting gains in the previous survey. New orders and shipments are higher in June, and inventories remain unchanged after increasing fractionally last month. At the same time, employment and the average workweek in the industrial sector continue to expand, although the gains are not as widespread as in May.

For the longer term, manufacturers continue to be optimistic. More than two-thirds of those polled expect better business conditions by year-end. Specific increases are projected in new orders by about two-thirds of the respondents, and shipments are expected to climb at a similar proportion of the sampled firms. At the same time, inventory levels are expected to increase over the period, and gains in employment are forecast as well. One out of three respondents plans to add to their work forces by December, and one out of five foresees a longer workweek. Increases in capital spending six months out are anticipated at one-third of the firms polled. This is down somewhat from last month and the lowest fraction since last summer.

Prices in the industrial sector continue to climb but increases are no more widespread than in May. Fifty-six percent of those sampled report paying higher prices for their inputs, while 29 percent are receiving higher prices for the products they sell. By December, about eight out of ten expect to be paying more for supplies and seven out of ten anticipate receiving higher prices for their finished products.

Department store sales in the area are mixed. Reports of current dollar sales range from 17 percent above to 8 percent below year-ago levels. For the most part, merchants say that sales are running somewhat below their expectations. They cite unseasonably cool weather, a public transit strike early in May, and going-out-of-business sales by a major competitor as reasons for sluggish performance. In general, inventories are said to be in reasonably good shape.

For the longer term, some retailers expect sales to remain weak throughout the next two quarters, while others look for a pickup. One merchant expects sales by the end of the year to be "about the same as last year in real terms with a 5 percent increase in current dollar sales."

Bankers in the region report that while consumer loans are expanding, business loan demand remains essentially flat. All of the banks contacted have hiked their prime rate to 6 3/4 percent, but bankers say that this has probably not slowed loan demand. One notes that his bank has made a few loans at rates below prime in order to attract some non-local customers.

For the longer term, bankers look for moderate gains in business loans and further increases in interest rates. One banker expects commercial and industrial loan volume by the end of this year to be about 6 percent above year-end '76. He notes that loan volume is currently running behind that expectation. At the same time, gradual increases in interest rates are expected with a prime rate at the end of the year in the 7-7 1/2 percent range.

The subject of real estate speculation was discussed with several contacts at various locations in the Third District. With the exception of Atlantic City, there are no reports of any speculative activity. Mortgage lending is reported to be strong in some parts of the District, but there is little in the way of "second mortgage" activity at the institutions surveyed. One executive of a large MSB in Philadelphia notes that, "We don't have any speculation in this area, and we don't expect to see any." According to this official, land prices and construction costs are going up at "expected" rates and appraisals of existing housing are not climbing "inordinately." Moreover, he adds that there is little or no excess demand for housing in the region, and this type of market will not support much speculation.

Commercial bankers in the Pocono Mountains resort area say that residential and commercial real estate markets appear to be "orderly"--sales activity and price movements are well in line with their expectations. In the Lancaster area, price increases for housing and farmland are about the same as last year. Some farmland there is being converted to commercial use, and all land that is being sold appears to be for the immediate active use of the buyers.

One area where real estate prices have gone up at a much faster rate than in the past is Atlantic City. An official with that city's Housing Authority attributes this to the recent legalization of casino gambling in that city. In one case, a lot which sold for $800 before the casino referendum sold for $10,000 afterwards. In this contact's view, "Some of these prices seem out of line, but with the casinos on the horizon, who knows?"

FOURTH DISTRICT - CLEVELAND

Economic activity in the Fourth District continues to expand moderately, except for recent flattening in retail sales. Retailers have experienced some slowing in sales, including new cars, although producers are still optimistic about prospects. Capital goods producers expect spending in 1977 will rise at least in line with the latest Department of Commerce survey on capital spending. The recent surge in steel output, supported by a high level of auto production and inventory buildup, is expected to end shortly. Economists who met at this Bank on June 3 expect the rate of growth in real GNP to slow to an annual rate of about 4 1/2 to 5 1/2 percent from 1977-III to 1978-II. Bank and savings and loan officials see little evidence on speculation in housing, but savings and loan associations have been expanding the use of second mortgages as a source of consumer financing.

Retailers indicated a mixed pattern of consumer spending over the past several weeks. Some department store officials are concerned about near-term sales prospects. One reported sales in May were a bit better than in April although still below expectations in real terms. In his view, consumers are still paying for high fuel bills and buying new cars; therefore, sales promotions might be necessary to stimulate department store-type goods and to hold inventories to desired levels. Another executive fears consumers will retrench because of the rapid buildup in debt in recent months. An official with a producer of nondurable housewares, including wall coverings and window shades, indicated a flattening in sales in recent weeks. Others are still relatively optimistic about sales prospects. A loan officer with a major bank commented that increasing demand for loans to finance autos, boats and recreational vehicles suggests greater consumer confidence in economic prospects than indicated in the latest consumer surveys. While somewhat off from the pace of March and April, new car sales in recent weeks remained strong, according to several new car dealers. One dealer stated that consumer interest in large cars stems from the belief that buyers get the most for their money from large cars. An economist with a major auto producer expects an average annual rate of new car sales in the second half of 1977 of about 11 million units, compared with an average annual rate of about 11 1/2 million units during the first half of this year. He does not regard the runup in consumer debt as a major concern and believes that consumers are unlikely to step up their rate of personal savings much above 6 percent of disposable income.

Capital goods producers generally expect that the increase in capital spending this year will at least match the 12 percent increase indicated in the latest Department of Commerce survey. An economist with a major capital goods producer expects a 14 percent increase in capital spending this year and 15 percent in 1978 (about 8 percent in real terms each year). A producer of transmissions, axles, and other equipment for trucks expects a 12 percent increase in capital spending this year and continued strength in heavy-duty truck sales, although they are likely to slow by mid-1978. Small gains in capital spending are expected in a few industries. An economist with an oil refinery in the District expects refinery capacity in the U.S. will expand by 500,000 barrels this year but only 200,000 barrels next year, because of uncertainty over the

Administration's energy program. At a meeting of sixteen financial officers from Cincinnati-based firms held by this Bank on June 10, several officials commented on the difficulty of devising projects that will meet a satisfactory return in investment. Contributing to these difficulties are such factors as changes in environmental and OSHA regulations, inflation and other shocks in the economy. Some say that the target rate for return investment has been increasing in recent years, while others feel the target may not have increased but that it is more difficult to achieve the same target rate. Several asserted that despite a need to replace some existing inefficient capital stock occasioned by higher costs of energy, new spending projects are hindered because of uncertainty over return on investment.

Economists who met at this Bank on June 3 expect that the expansion will continue at a relatively moderate pace at least into the second quarter of 1978. The median forecast of 29 economists indicates an increase in real GNP at about a 6 percent annual rate for the second and third quarter of 1977, followed by a rate of increase of from 4 1/2 to 5 percent (annual rates) from the fourth quarter of 1977 to the second quarter of 1978. The slower pace of growth expected for the first half of next year is attributed largely to a slower buildup in inventories than in 1977 (annual rate of about $16 billion for the first half of 1978), and to a reduced level of domestic new car sales (9.0 million annual rate). The group also raised their forecasts of the implicit price deflator to about a 6 percent annual rate from the second quarter of 1977 to the second quarter of 1978, compared to the 5.6 percent annual rate expected last February. Consistent with the median forecast, a bank economist expects continuing strength in business loan demand to finance working capital needs, an increase in short-term interest rates of 100 to 150 basis points by year-end 1977.

Loan demand continues to be strongest for residential and consumer credit, but is still mixed for business loans. Banks and thrift institutions have indicated strong mortgage loan demand, especially for single-family dwellings, while apartment construction remains generally weak in the District. Several savings and loan officials expect their liquidity will be reduced by the end of this summer, and some expect to increase borrowings from the Federal Home Loan Bank to support a high level of mortgage commitments. Several large district banks indicate a strengthening in demand for business loans, although some still report an irregular and mild upward trend.

Bankers and officials with savings and loan associations see little evidence of speculation in housing, that is, purchasing of non-owner occupied housing. Responses generally indicate builders and lenders have stepped up construction in anticipation of continuing rising demand for single-family dwellings. Some attribute lack of speculation in housing in this area to a relative balance between supply and demand for housing, a relatively stable population, and price increases in housing that have recently averaged about 10 percent annually, considerably less than in some other parts of the country. One builder, however, pointed out that speculation has increased for land in some non-urban areas where values have been rising rapidly, especially as residents leave locales where schools have been or will be desegregated.

There appears to be considerable difference between District banks and savings and loan associations in the use of equity loans and second mortgages. Banks do not seem to be promoting equity loans. Moreover, few banks seek or make second mortgage loans. Those advancing second mortgage loans do so only if the bank holds the first mortgage and if the loan is for home improvements. Some banks prefer to rewrite the first mortgage as an alternative to making a second mortgage loan. Where made, second mortgages are used for swing loans, for periods of 3 to 6 months. On the other hand, savings and loan associations contacted are involved in equity loans and second mortgages, which have been gaining in use in recent years. Savings and loan associations seem to be more aggressive in the use of second mortgages as a source of consumer finance. One official explained equity loans are made when used as a swing loan, but second mortgages have a variety of purposes, ranging from home improvement to financing a college education. Another official feels a second mortgage involves no greater risk than the first; the amount of a second mortgage is restricted to the difference between the original loan less the unpaid balance, and for a home improvement loan to the difference between the original value of the mortgage and the appraised value of the property.

Several bankers have suggested that District farmland prices have continued to increase despite lower grain prices and the associated effect upon returns in farming. Cash rents are also reported as rising in line with farmland prices, a matter of concern to rural bankers. Often times landholders have purchased farmland to enlarge their present holdings which were purchased at significantly lower prices. In these situations, the equity stemming from past increases in farmland prices provides the base for enlargement. Other bankers noted some effect on land prices by buyers who are not presently engaged in commercial agriculture.

FIFTH DISTRICT - RICHMOND

Responses to our June survey of business conditions suggest that further expansion of the Fifth District economy occurred during the past month, although optimism concerning the prospects for further gains appears to have been dampened somewhat. Manufacturing respondents continue to experience increases in shipments, new orders, and backlogs of orders, along with increases in inventories, particularly of finished goods. Retailers report essentially no change in total sales during May and a slight decline in relative sales of big ticket items. Retailers noted little change in prices from a month ago but manufacturers continue to report widespread price increases. Although respondents expectations on balance remain optimistic the fraction anticipating further gains over the next six months has declined markedly over the past three months. Comments of Directors and District bankers suggest the existence of little or no real estate activity that might be termed "speculative."

Approximately one-third of the manufacturers surveyed this month continue to report increases in shipments, new orders, and backlogs of orders on a month-to-month basis. Reports of declines in these measures of activity are somewhat more common than in recent months, however. Manufacturers' inventories, which have been essentially flat over the past several surveys, appear to be moving upward again. Current inventory levels remain basically in line with desired levels, at least when compared to recent months. Employment by manufacturers apparently made widespread gains in May and employee compensation continued a broad advance. Other prices paid by manufacturers were also reported to have increased across a broad front. Current plant and equipment capacity remains in line with desired levels as do current expansion plans.

Among retailers surveyed there was little change in total sales during May and a slight decline in the relative sales of big ticket items was indicated. Retail inventories were unchanged to slightly larger and remain basically in line with desired levels. The number of employees of the responding retailers declined over the month, while employee compensation continued to rise. Other prices paid and received by retailers showed little change.

Sentiment among the District's business community, while still generally optimistic, is considerably less buoyant than was the case three or four months ago. About a third of both manufacturing and retail respondents anticipate further improvement in business, both nationally and locally, over the next six months. The fraction expecting improvement, which stood at 75 percent in March, has declined steadily in each of the last three surveys.

Directors' comments suggest no serious speculation in residential real estate or farmland in any part of the District with the possible exception of the Washington-Baltimore area. Within the latter area, such apparent speculation as may exist does not appear to be of the same general variety as that reported in California and Texas. In particular, it does not seem to involve existing housing or houses about to be completed. The single exception seems to be in Baltimore where restoration of historic houses has recently become quite popular. There are reports of speculative buying of such properties for quick resale at a profit. One banker active in northern Virginia and Maryland also reports growing speculative activity in land suitable for residential development, but no activity in residences as such. Farmland remains in good demand throughout most of the District but this demand appears to be related more to longer run investment or development plans than to quick turnover for a profit. Contacts with agricultural bankers around the District lead to much the same conclusion, i.e., that there is little, if any, speculative activity in the farm real estate market at this time.

Reports from the banking community indicate that business loan demand remains essentially flat at larger banks but somewhat more robust among smaller institutions. At least one large bank reports losing business to long-term debt markets. Competition for loans is very intense, resulting, in some cases, in longer maturity offerings and some reductions in the mark up over the prime rate. Consistent strength persists in the consumer lending area.

Recent rains have relieved dry conditions and aided crop growth in all District states except West Virginia. But soil moisture supplies in areas where rain has fallen continue to vary widely, ranging from short to surplus. Heavy rains damaged the flue-cured tobacco crop in the North Carolina Coastal Plains, causing an estimated $25 million loss in sales this fall. The District's peach crop is expected to be about one-fifth larger than last year's in contrast with a slightly smaller crop nationwide. District farm income showed considerable strength during the first quarter, rising 12 percent over a year ago. This advance reflected a sharp 28 percent upturn in crop receipts and a 6 percent increase in receipts from livestock and livestock products.

SIXTH DISTRICT-ATLANTA

Decreasing momentum is evident in parts of the District economy. Despite a rapid pace of single-family home construction, there are few signs of unusual speculative activity in the Southeast. Normal construction and financing practices are being pursued on the whole. Retail sales gains have become spotty. Auto sales still lead the consumer sector in strength, despite increased uncertainty concerning size preferences. Tourist traffic has slowed. Shortages and government actions are disrupting plans for offshore oil exploration. Dry weather is curtailing the District's production of cotton, corn, and soybeans and is worsening herd depletion in the dairy and cattle businesses. Florida and Georgia continue to attract increasing interest as centers for international banking.

In reports from the 44 directors of the Atlanta Bank and its five Branches, only one report from central Florida finds any concern over actual excesses in subdivision development. This development is being financed with funds obtained from a state in another region.

In the Miami area, a decrease in speculative purchases is noted. One director notes that speculative activity has been dampened by land use plans, restrictive zoning, and development restrictions. Elsewhere in South Florida, an increase in speculative activity simply reflects a temporary rush of property development to avoid tighter requirements for flood insurance, stiffer density restrictions for multifamily housing, and more stringent insulation requirements under the National Energy Program.

Neither is there any evidence of increased speculation in commercial or farm property, although normal speculative purchases of land for property development are taking place. Banks are limiting the size of purchased tracts to limit risk exposure and are monitoring the activities of builders to forestall excessive accumulations of unsold homes.

Financing practices are entirely normal, according to most reports. Still, some conditions are noted which may require continuing attention, including: extremely easy availability of mortgage financing; the possibility that builders may avoid lenders' limitations on the number of homes they construct by borrowing from a number of sources; inducements to purchase condominium units, including low prices and extremely accommodating terms of credit; and advertising campaigns designed to stimulate home sales by playing on the customer's fear of future inflation. A billboard, part of an advertising campaign being conducted by local realtors, inquires: "Do you want to buy a $30,000 home for $40,000? Wait 'til next year."

An inquiry at the Federal Home Loan Bank of Atlanta confirms the absence of unusual real estate speculation in the Southeast.

Retail sales activity has been uneven in recent months. Most areas report fairly steady but unspectacular gains relative to last year. Softening has occurred recently in some areas, while others continue to enjoy unexpected strength. Some retailers attribute slowing gains to the withdrawal of the $50 tax rebate.

Auto sales also vary greatly in strength but are more robust. Most areas have either noted an increase in sales in May or are holding even with previous gains. Some had expected greater strength, and a few report weaker sales. Local television spot advertising sales have been very strong in recent weeks, primarily because of heavy advertising by auto dealers. Some dealers report changes in size preferences, with a shift from large to intermediate cars for new car purchasers, and a strong preference for small used cars. Small foreign cars are selling rapidly.

Tourist traffic has receded in central Florida, according to tourist attractions and motels. Improved employment levels and more hours of work per week have reduced the time available for vacations, according to observers. Gains in tourist activity are reported in New Orleans.

Although Louisiana's oil and gas industries are experiencing heavy activity, an otherwise optimistic outlook has been tempered by shortages and government actions. Expected increases in drilling activity may be restrained by shortages of labor, barges, and rigs. Recent Carter Administration actions with regard to outer continental shelf lease sales and gas prices have caused cancellation of drilling permits or plans involving drilling costs of $31 million. Local exploration offices and investors fear running out of drilling prospects. But both Standard and Continental Oil Companies have announced 1977 capital spending and exploration budgets substantially greater (23-30 percent) than last year's, and Shell Chemical Company will expand its Louisiana facilities.

Drought is taking a toll in some portions of the District. Cotton and soybean plantings have been hampered in Mississippi; dry soil has already spoiled part of the cotton crop that had been planted. In Louisiana, soybean growers face the possibility of a serious seed shortage, as drought threatens plantings and replantings of a record acreage; seed prices have already risen dramatically. Direct losses of the corn crop in

South Georgia and Alabama may reach $227 million, and the surviving crop will probably provide a low yield. Many corn growers are replanting their land in soybeans. Drought damage to nonirrigated crops in North Florida may run $4-5 million.

Mississippi and Florida dairymen face poor profit prospects and are reducing their herds. A shortage of forage crops due to dry weather continues to force beef cattle to market at low prices. With pastureland being converted to soybean production and cattle supplies dwindling, price increases are anticipated.

The international scope of District banking is widening. A newly enacted Florida law removes barriers to transactions of foreign-owned banks and lifts the documentary stamp tax on all foreign transactions. Foreign banks will not be permitted to compete for local deposits or loans, however. Several foreign institutions reportedly are considering Miami, which already claims ten Edge Act banks. The Toronto-based Bank of Nova Scotia will soon open an agency in Atlanta, the third foreign bank office for that city, and the Bank of Tokyo is said to be considering an Atlanta facility.

SEVENTH DISTRICT - CHICAGO

Seventh District executives and analysts see the expansion continuing at a good, but not exuberant, pace. Price inflation is not expected to abate in any time frame employed for planning purposes. Retail sales are excellent. Shortages and stringencies are not yet worrisome. Equipment spending is rising overall, but varies in strength by product. Speculative elements and second mortgages are not believed to be significant in purchases of single-family homes or farmland.

Throughout the district employment, retail sales, output, orders, and order backlogs continue to rise at a moderate pace. Few if any sectors are declining, but the pace of advance varies greatly among industries and among product lines within industries.

Employers plan to increase hirings in the next several months, including college graduates. Unemployment is declining gradually in most areas. There are complaints about the quality of job applicants.

Retail sales of two large national chains headquartered in Chicago have been well above budgeted levels in May and June. Inventories of some items, mainly hard goods, have been below the levels necessary to maximize sales. Sales of appliances, trucks, domestic large cars, and imported small cars have been especially strong. Airline passenger traffic and sales of large RVs, on the other hand, have not matched expected levels.

The upswing in spending on equipment is well grounded, but strength of demand varies greatly. For example, construction equipment sales have increased substantially this year, but only to a slight extent for the larger units using diesel engines. A producer of large mining shovels and heavy overhead cranes continues to produce and ship at a high rate, but order backlogs are being depleted. Orders for components such as controls, bearings, electric drives, electric motors, and fasteners are well above last year--back to very high 1973 levels for one company. Some production managers are unwilling to schedule increases in output, e.g., of construction equipment and heavy trucks, at the level suggested by more optimistic sales forecasters.

Electric utilities were able to handle demand, one-third above year ago in the Chicago area, during the extended May heat wave without apparent difficulties. Electric power also is expected to be adequate when the summer peak arrives--probably in July. Long-term planning by electric utilities is handicapped by uncertainties concerning future demand, environmental restrictions, regulations on nuclear plants, and availability of acceptable conventional fuels.

Steel shipments have been at a high level in recent weeks, especially for motor vehicles and appliances, but increased tonnages also are going to capital equipment producers. Order books are somewhat slim for the summer because of high June deliveries to beat the price hike. A large Chicago steel company is going ahead on schedule with "phase one' of its expansion program to be completed in 1979. "Phase two' has been deferred because of concern over steel imports, availability of fuel, and questions as to the level of future demand--especially from the motor vehicle industry.

Demand for structural steel has begun to revive after a long dry spell. Firm plans for large new office buildings are coming forward again. Demolition has been started in Chicago's Loop to prepare a site for a 40-story building--first large new stucture in three years. Much of the overhang of quality office space has been absorbed. Sizable new hotels also are underway or planned.

We are unable to uncover significant elements of speculative purchases of single-family homes. Banks and S and Ls are not offering second mortgages, or "equity loans," except in special circumstances. A recent report in a national business magazine that a certain large Chicago bank is about to launch a heavy promotion of second mortgages is categorically denied. Most banks and S and Ls are prepared to renegotiate existing mortgages if homeowners with large equities need cash. Consumer finance companies are actively promoting second mortgages for purposes of debt consolidation, vacations, purchases of recreational equipment, and college costs, but at higher rates than banks are able or willing to charge.

The market for existing homes and apartments continues strong, but fairly stable, after allowances for seasonal factors. Sales of new homes have declined, according to some reports, partly because of rising building costs, but also because many builders have "sold out" this year's schedule. Home building got off to a late start because of bad weather. In major metropolitan areas suitable lots have increased very sharply in price because of limited availability of sewerage capacity, water, and natural gas.

The farmland boom continues unabated in the district. Farmers who desire to expand operations dominate the market, as in the past. They are able to bid aggressively because of the ready availability of mortgage credit. Sharply rising farmland prices have attracted increased interest among nonfarmer investors, both domestic and foreign. Nonfarmer investors have not yet become a significant factor, but their purchases could prolong the boom. Returns to farmland appear to be capitalized at about 1 1/2 to 2 1/2 percent in recent sales, compared to a traditional 5 to 6 percent. Heavy debts could place pressure on cash inflows of farmers.

EIGHTH DISTRICT - ST. LOUIS

Business activity continues to improve in the Eighth District according to area businessmen. Consumer spending has been mixed in the past two months with sales of consumer durables, particularly automobiles, quite strong and department store sales relatively weak. Manufacturing activity continues to register gains in sales and orders over a wide range of industries. The home building industry is especially strong in the District with gains in both single- and multi-family units. Loan demand at financial institutions has been sparked by demand for homes, land, and consumer durables, while commercial and industrial loans remain sluggish at larger banks. Sharply rising farm land prices have outpaced the growth of farm income in the past two years. Several real estate observers are questioning whether land sold at current prices can be farmed profitably. Continuing dry weather conditions are making crop prospects for the current year more uncertain than usual.

Sales of consumer durables, such as appliances and cars, generally continue upward in the District. In some areas, small cars are reported to be outselling larger models. On the other hand, department store sales have been rather sluggish. Major department stores in the St. Louis area experienced only small gains in May over a year ago, not enough to offset price increases, hence real sales have declined. Reports from Mississippi, Tennessee, Arkansas, and Kentucky tend to reinforce this general pattern.

Manufacturing industries are moving closer to capacity as orders continue to rise. Representatives of the chemical industry report continuing strong sales over a large number of product lines. Heating and air conditioning equipment sales for the home building industry continue to flourish. Firms in this industry expect internal capacity problems in sheet metal fabricating to develop within the next two years. Welding and cutting equipment firms also report strong demand for their products and one such firm recently started scheduling overtime. Demand for commercial aircraft from domestic sources is increasing, but weakness in foreign sales is expected to offset these gains this year. Current orders, however, indicate that commercial aircraft manufacturing will increase substantially next year, perhaps as much as 35 percent. A major appliance plant in the District reports strong orders so far this year and plans to add 1,200 workers to their work force within two months. Strong sales gains were also reported by tools and automobile parts manufacturers. On the negative side, a local steel processing firm, has announced that several small plants will be closed throughout the country. This move is said to be linked to the sluggish pickup in overall plant and equipment spending.

Home building remains one of the strongest sectors of the District economy. Current sales for single-family dwellings now exceeds the ability of builders to deliver in the near term, thus backlogs are lengthening. One of the chief bottlenecks in expanding housing production is said to be the availability of skilled carpenters. As a result, overtime is a fairly common practice in the industry. Overtime was made more attractive in the St. Louis region as a result of the reduction from double-time to time-and-a-half overtime pay in the recently negotiated wage contract.

Multi-family housing construction is also making significant gains in some parts of the Distrit. Surveys conducted in the St. Louis area indicate apartment occupancy is now in the very high 95 to 99 percent range.

New projects in the St. Louis area so far this year already exceed the entire production of last year. About one-half of these units involve government programs. In contrast, multi-family construction in the Memphis area is still quite low, although reports indicate that the occupancy rate is increasing steadily. Some signs of a revival of construction in the commercial area is also being detected. One St. Louis area observer noted that while few major projects are underway, numerous small projects are having a significant impact. A contractor in the southern portion of the District reports a number of new industrial projects as well as a number of new shopping centers are in the planning stage.

Growth of savings deposits at thrift institutions has slowed from the high rates of a year ago but is still reported to be fairly strong. Savings deposits at commercial banks have slowed noticeably in the past several weeks. Liquidity, however, remains relatively high and loans are still readily available. Loan demand is strongest for homes, land, and consumer durables. On the other hand, business loan demand at large commercial banks has continued sluggish in recent weeks. Mortgage interest rates have remained generally unchanged in the past month in the St. Louis area, while bank lending rates have gone up with national rate increases.

Dry soil conditions are again plaguing some areas of the District. After substantial rainfall in the early spring, there has been little precipitation for several weeks in some areas. Most of the spring planting has been completed, but plantings in some parts of the District have been postponed due to lack of sufficient moisture to germinate seed. The recent dry weather, combined with last year's subnormal rainfall in the eastern portion of the District, makes this year's crop prospects very much subject to timely rainfall during the growing season.

Land prices have risen rapidly in the past two years in the District, despite little or no net income gains in farming. Reports from the Delta portions of Arkansas and Mississippi indicate land prices have increased about 30 percent in the past year alone. Bankers say these large increases are difficult to justify on the basis of current returns in agriculture. Reports indicate that the purchasers are largely existing farmers plus some foreign buyers.

NINTH DISTRICT - MINNEAPOLIS

Directors report that district business activity is expanding. Consumer spending has been quite good. Recent rains have eased concerns about the drought. District manufacturing activity is advancing. Uncertainty about the Administration's energy program, though, could curb some capital spending. Recent increases in loan demand at district commercial banks reflect an improving district economy. Residential real estate values in the district are much higher than a year ago, and district homebuilding activity is very strong.

Comments from this district's reserve bank directors are mostly favorable. Several directors report that consumer spending has been quite strong in their areas. South Dakota looks for record tourist spending this year. Also, recent rains have helped ease concern about further effects of the drought in eastern Montana and North Dakota, although very dry weather still persists in western Montana. Water supplies there may not be enough to generate the hydroelectric power needed for this summer. And directors say that the prospect of low grain prices is still a concern in some areas.

District manufacturing activity remains quite strong. Manufacturers responding to our second quarter Industrial Expectations Survey foresee year-over-year sales increases of about 15 percent in the first half of 1977. Sales increases during this period are expected to be up around 17 percent for durable goods and 11 percent for nondurables. District manufacturing employment recently has been increasing quite briskly in response to this favorable sales activity. However, most respondents to this survey view their inventories and plant and equipment to be about right in light of expected sales activity.

The Administration's energy program may have affected some capital spending plans. A director whose firm sells control devices used in industrial plants and another who is closely associated with the food industry share similar views. They both indicate that uncertainties about the proposed energy program have delayed some capital spending plans not only in the district but also in the nation. Many directors, however, feel that the President's energy program would have little immediate effect on district farmers and small businesses.

Loan demand has been quite strong throughout most of the district. Some directors point out that mortgage and consumer lending have been somewhat stronger than commercial lending. In the areas that don't depend on agriculture, rising business activity is the greatest cause of improved loan demand. In ag-related regions, loan growth stems in part from farmers having to refinance existing debt. However, a North Dakota director reports that recent rains have helped boost loan demand in his area by improving the local economy's prospects.

Residential real estate values are climbing rapidly throughout the district. The Minneapolis-St. Paul area real estate market is described as "hot." One large savings and loan estimates that home prices are up about 15 percent from a year ago. In Sioux Falls and Rapid City, South Dakota, a director reports, residential real estate prices are up 25 percent from a year ago. And our director from North Dakota describes residential land prices there as "unbelievable." A strong demand for housing as well as increasing costs seem to be the main reasons for these large price increases. With this strong demand for housing, a Minneapolis-St. Paul commercial bank reports that large homebuilders here are looking for a "super" year.

Nonresidential property values are also increasing. Agricultural land values are up throughout most of the district. Land values along the Canadian border of Montana have been increasing very rapidly. Several directors report some speculative buying of real estate, but nothing approaching the high level of speculative activity on the West Coast. Finally, our directors are not aware of any district banks and savings and loan associations making second mortgages for the purpose of acquiring additional real estate.

TENTH DISTRICT--KANSAS CITY

Discussions with Tenth District savings and loans, commercial banks, and homebuilders associations confirm the strength evidenced in the homebuilding sector nationally. Single-family activity is strong, and while some rise in mortgage interest rates and terms is underway, it is not yet major. Evidence of speculative practices in homebuilding is very minimal in the District as a whole, and is not viewed with alarm even in those few metropolitan areas where it was specifically mentioned. The wheat harvest is now underway in the southern regions of the Tenth District with a record crop in prospect for Kansas and with District output expected to exceed 1976 levels by about 15 per cent. With prices unlikely to show much strength over the next several months, cash flow difficulties of some wheat farmers may be aggravated. While some District banks reported net gains in agricultural loans, repayments of old loans by farmers is an apparent reason for a part of the good to heavy agricultural loan demand being reported. Among Tenth District bankers contacted, most reported strong or improving overall loan demand, usually related to factors specific to their geographical area.

With few exceptions, discussions with Tenth District savings and loans and homebuilders associations indicated that homebuilding activity was very strong. Even where some recent moderation was noted, present activity levels were still viewed as very strong, while in other instances, such terms as "super", "fantastic", and "exploding" were used to describe the local homebuilding picture, with prices for new and used homes rising at 8-12 per cent per annum. Little evidence of speculative activity was noted generally, and specific references to such activity were not couched in alarming tones.

Most bankers contacted reported similar views of housing markets and price developments in their areas, with the outlook very good. Respondents attributed the strength in the housing market to inmigration from new industry, or from growth in established industries--especially energy-producing ones. Very little speculation was reported in the District. In Albuquerque and Lincoln, however, respondents mentioned that some houses are being purchased in their areas for investment purposes. The Albuquerque respondent indicated that he thought these purchases are being financed through the banking system. Nonetheless, for the Tenth District as a whole, or for specific metropolitan areas, the "California" phenomenon in homebuilding is not strongly in evidence. Although some up-creep in mortgage rates and terms is in progress, this process is not yet viewed with alarm. However, there were some expressions of concern voiced by savings and loans at the prospect of future disintermediation.

The wheat harvest is now underway in the southern regions of the District, and by the end of June, the Kansas harvest will be nearing completion. Despite the general lack of moisture last fall and winter, production prospects are excellent at this time. In Kansas, output is expected to approach 400 million bushels, a new record, and about 17 per cent larger than in 1976. Production levels in Oklahoma and Nebraska will also be up sharply from last year. On balance, wheat output in the District will exceed 1976 levels by approximately 15 per cent.

Nationally, the 1977 winter wheat harvest will probably fall somewhat below that of 1976. However, because of a substantially larger carryover, total wheat supplies for the new marketing year will be higher than a year ago. Hence, wheat prices are not likely to strengthen over the next several months. While this development might aggravate the cash flow difficulties that many wheat farmers presently have, increased benefits from existing Government crop programs, such as deficiency payments, will help cushion the blow somewhat. At the same time, agricultural loan demand was reported heavy primarily in Nebraska, with some of the loans being for repayments of prior loans coming due. Other District bankers dealing with agriculture also reported good loan demand but mostly for repayment of old loans. One banker in Colorado reported that wheat farmers have repayment problems and are collateralizing new loans out of increased land values.

Among Tenth District banks contacted, most reported strong or improving overall loan demand, usually related to factors specific to their geographical area. Thus, in the southern and western parts of the District, strength was related to energy-producing industries, while in the Colorado resort area it was related to recreation industries. Bankers in the northern and eastern part of the District reported strong loan demand from commercial borrowers, mostly for short-term inventory loans.

ELEVENTH DISTRICT--DALLAS

Most economic barometers of business activity indicate that the economic recovery in the Eleventh District is still moving forward at a steady pace. Department store sales remain strong, and an increase in small-car purchases is adding to total unit sales. Manufacturing output and drilling activity in Texas continue to register gains, but some delivery and work schedules are beginning to stretch out. Although total employment remains essentially unchanged, some shortages of skilled labor are cropping up. There is no evidence of speculative buying in Texas in the markets for new homes or agricultural land.

Department store sales are running about 14 percent above year-earlier levels. Durable goods are selling well--especially home furnishings. Retailers also report an improvement in sales of women's apparel and accessories. Department store inventories are generally at desired levels, and retailers remain optimistic that sales will continue to grow steadily for the remainder of the year.

While the current strength in automobile sales is in the large- and intermediate-sized models, dealers report a quickening in small-car sales and a definite trend back to smaller cars since President Carter's energy message. Vans and light trucks continue to sell briskly, but used car sales have weakened in some major urban markets. New car inventories are lower than desirable for the more popular models, and their limited availability is holding down unit sales.

Manufacturing in Texas continues to show moderate gains, and much of the strength in output is being spurred by demand for construction materials. Production of construction steel products is up substantially, and demand for cement is unusually strong. Producers of lumber mill products think that rising lumber prices may soften later this year due to a runup in lumber inventories. Production of oil field equipment is running near full capacity, and a backlog of unfilled orders for drilling equipment is beginning to rise. Delivery times for some rig components and specialty tools are lengthening.

Increased drilling activity in Texas accounts for the strength in mining output, as oil and gas production continues to decline. Drilling contractors have a solid backlog of contracts with drilling costs running 10 percent to 25 percent higher than a year ago. Short supplies of new and used drill pipe and tool joints, coupled with longer lead times for other rig components, are forcing adjustments in many drilling operations. Older equipment, for example, is being pressed into active service. Although contractors report no serious labor shortages, the availability of experienced crews is gradually declining.

Despite little change in total employment in the District, some shortages of skilled labor are appearing in jobs requiring machinists, mechanics, building tradesmen, nurses, and secretaries. The job outlook is good for college students seeking summer employment in construction-related industries.

The housing market in Texas remains robust, but there is no evidence to suggest that speculation has taken hold. The supply of new homes generally continues to grow in line with demand. Developers in Houston indicate that some projects are being held back by delays in public utility hookups and street construction. Second mortgages in Texas are not playing a significant role in the strong housing market because a homestead statute restricts such loans to home improvements.

Agricultural land values in the District have increased only slightly in the past year. A recent survey of agribankers' opinions as to changes in average land values over the preceding 12 months indicated that dryland and irrigated cropland rose about 2.5 percent to 3.5 percent, while ranchland declined about 3 percent. Areas in the District where cotton and soybeans are dominant crops showed a higher appreciation in land values--particularly the southern High Plains and Rolling Plains of Texas, South Texas, and northern Louisiana. Low grain prices tempered increases in land values somewhat in many areas. And ranchland values were stagnated by depressed cash flows and reduced income from cattle operations. However, more than a fourth of the bankers surveyed felt land values will rise this year.

Mortgage financing continues to be covered by the conventional sources of credit--individuals, Federal land banks, and insurance companies. However, several real estate agents report some influx of out-of-state and foreign capital that has been used directly to purchase tracts of land.

TWELFTH DISTRICT-SAN FRANCISCO

Consumer spending continues to expand in the Twelfth District. With a few exceptions, there is no unusual inventory accumulation taking place in the West. Demand for aluminum continues strong but Western agriculture continues to be squezed between rising production costs and depressed output prices. Real estate prices maintain their rapid climb, especially in Southern California where housing prices have been rising in excess of one percent per month. Short term speculators appear to be playing a significant role in a few areas, and savings and loans are actively discouraging speculation through more restrictive terms for the purchase of houses which will not be owner occupied.

Consumer spending continues to expand. Oregon reports retail sales up 14 percent from last year with emphasis on big ticket items and airline tickets. Large auto sales are reported good in several areas.

There appears to be no unusual buildup of inventories in the 12th district, though some industries are cautiously bringing inventory back to "normal" levels. The aerospace industry is increasing inventories in line with production growth but reports no obnormal accumulation to hedge against inflation or shortages. A large electronics producer reports purchased inventories up 18 percent in May over April and work-in-progress inventory up 15 percent from the first of the year, but claims these are to support higher production levels. Auto dealers also report larger inventories to support brisker sales. A large Oregon clothing manufacturer describes inventory levels as comparable with a year ago.

There are only two instances of unusual inventory buildups. One is in activity dependent upon coal in anticipation of a coal strike. The second is in the wood and paper products industry, where log deck inventories are up in anticipation of summer forest closures due to fire danger and also because of depressed export markets.

The agricultural sector seems resigned to a less than good year. Production costs are up and prices flat in most areas. It is reported that farmers in central Washington will be lucky to break even this year. Though beef prices have improved somewhat, the industry is still generally depressed, and two major feed lots in California's Coachella Valley appear to be going under. At the other end of the food chain, the Retail Clerks Union is striking a number of retail food outlets in Washington.

The rapid increase in housing prices continues to be a major focus of attention in the West. The hottest markets appear to be the San Francisco Bay Area, and several countries in Southern California, although some parts of Utah, Washington and Oregon also report upturns in housing prices. During the 12 month period ending March 31, the prices of existing single family dwellings in the 7 county area around Los Angeles rose 27 percent. In particular, Los Angeles County homes in the $30,000 plus category a year ago, experienced a 41 percent increase over the year ending March 31.

District comments explain this price trend as the result of a surge of post-recession demand confronting a housing supply reduced by the preceding recession. Environmental restrictions have also been a factor in the situation, and in a few areas short-term speculation has pushed up prices. The influence of speculation is reported to be greatest in Southern California, with speculators accounting for an estimated 20 percent of some markets. One example of this demand is a lottery recently held by an Orange County (Calif.) developer for 85 low priced ($35,000) homes and 4,435 persons signed up. However, speculation is not really pervasive in the West; our Idaho correspondent reported very little in that state, for example.

There has been some concern that financial institutions were aiding speculation through the promotion of second mortgages, but our reports indicate otherwise. A number of banks do report that second mortgages are an increasing share of their portfolios. This share is still tiny. Almost none of this money is reportedly used for real estate speculation; most is used for home improvement. A possible exception to this pattern is a large California bank whose recent survey showed that of all second mortgage loans, 22 percent was used as down payments on real estate (half of which went for second homes in mountains, desert or on the ocean), 34 percent was used for debt reconsolidation and 34 percent for small business capital or additional investment. Savings and loans associations in Southern California have tried to deter speculation by requiring an extra 5 percent down, an extra 1/2 percent fee and an additional 1/4 percent on the interest rate for homes bought by non-occupants.