

CONFIDENTIAL (FR)

CURRENT ECONOMIC COMMENT BY DISTRICT

Prepared for the
Federal Open Market Committee
by the Staff

June 17, 1970

TABLE OF CONTENTS

SUMMARY.	i
First District -- Boston	1
Second District -- New York.	5
Third District -- Philadelphia	8
Fourth District -- Cleveland	10
Fifth District -- Richmond	13
Sixth District -- Atlanta.	16
Seventh District -- Chicago.	19
Eighth District -- St. Louis	23
Ninth District -- Minneapolis.	26
Tenth District -- Kansas City.	29
Eleventh District -- Dallas.	32
Twelfth District -- San Francisco.	35

SUMMARY

Comments on economic conditions in the twelve Federal Reserve Districts indicate that in most Districts bankers and businessmen find economic activity has been weakening, and they generally expected the decline will continue. In virtually all Districts, unemployment is rising, and in many, labor markets are easing noticeably. Retail trade is weaker almost everywhere, and consumers are "downgrading" and bargain-hunting. A few Districts report large cuts in capital spending. In a number of Districts, special note was made of the profit squeeze that is affecting many businesses, and in some, concern was expressed about a decline in corporate liquidity. Mention was again made in several Districts of the dangers from wage and price developments, and in four Districts a substantial number of respondents reportedly favor some sort of incomes policy.

In only one Federal Reserve District, St. Louis, was recent economic activity regarded as "good"; and in Kansas City it was deemed fair to good. In most Districts, activity has weakened significantly, and a decline in new orders was noted in three Districts. Expectations of a further decline are widespread. These range, however, from the belief that the bottom will come in the third or fourth quarter of this year, to the belief of the directors of the Cleveland Federal Reserve Bank that the contraction will be "more prolonged and deeper than most economists and public policy makers are currently expecting".

A growth in unemployment is noticeable throughout the country, in some Districts only mildly, but in others strongly. Until recently, many firms were reducing their work forces simply by letting "attrition" take its toll, but now firms are "furloughing" workers, "cutting back" their staffs, and "pushing" early retirements. In a few Districts, even "quality" labor has begun to be

available. An easier market is noted for, among others, "middle management" and "professional" types and one District remarked upon an "extremely sharp increase" in unsolicited summaries from applicants with "extensive experience".

Very few exceptions were noted to the general pattern of weakness in retail sales and of "downgrading" and bargain hunting. Department stores seemed to be particularly hard hit by the softening of demand, while discount stores and "bargain basements" were holding up well. Weakness was particularly strong in furniture, appliances, television sets, and clothing. Auto buying was an area where "downgrading" was especially intense--except in Dallas. The trend was heavily to cheaper models, stripped-down models, "compacts", low-priced imports, and late-model used cars. Outside the auto field, in the few Districts where no "downgrading" was apparent, consumers nevertheless had a sharp eye out for "sales" and "specials". In the San Francisco District, a "strong" demand for mobile homes was interpreted as possibly a form of "downgrading".

In two Districts, Richmond and St. Louis, capital spending plans continue strong, out of "fear" of inflation or to offset increased labor costs. However, in the five other Districts that made reference to the subject, many firms are making substantial cutbacks. Among the comments: General Motors is making "huge" cutbacks, a "large retail organization" is cutting back by 50 percent, a "large oil company" is "continuously" reviewing its plans, in the Philadelphia District there has been a "marked" cutback since April, and in the New York District some firms are reviewing their plans for the "second or third time this year".

Inventory holdings were specifically mentioned by half of the Districts. They were regarded as "excessive" in two of the Districts, and were being "reduced" in a third. In two others they were at a "satisfactory" level, partly because firms were working on a "hand-to-mouth" basis. In another

District, reference was to merchandising firms, which were being "extremely cautious" regarding their fall and winter stocks.

The profit squeeze is hitting many businesses very hard in many parts of the country. The situation is aggravated by a liquidity squeeze. Slow payment on accounts receivable was mentioned by both Chicago and New York as one of the reasons for this latter development. Because of their uncomfortable situation, many business firms have embarked on cost-cutting programs (including the reduction of staffs, of inventories, of advertising, and of capital spending). In the New York District, it was reported that many companies may not be able to "meet their maturities" and that some "substantial" companies would be unable to "meet their payrolls without refinancing". The liquidity squeeze is having repercussions in the commercial paper market. Some commercial paper dealers have told corporate customers they can no longer handle their issues. Among financial concerns that are troubled by their own liquidity situation are some life insurance companies. The latter were reported as wishing to increase their liquidity and therefore not seeking any new long-term investment outlets.

Concern about continuing inflationary pressures, particularly arising from large wage hikes, was mentioned in several Districts, although some price declines were noted in Cleveland (machine tool and aluminum industries) and in Richmond (textiles and furniture). Respondents in some Districts expressed disillusionment with "conventional" stabilization measures or with the "Administration's economic policies", and a few Districts reported there was considerable sentiment in favor of some kind of incomes policy. In one District it was reported that some labor leaders noted confidentially that guidelines would provide them with "an excuse to argue for lower wage settlements" than their members are currently ready to consider.

FIRST DISTRICT -- BOSTON

Seven members of our Board of Directors and three well-known academicians were contacted in the preparation of this report. Because of noncomparable types of responses as well as wide differences of opinion, no general summary seems possible. Respondents' viewpoints ranged from serious concern over the economic outlook to satisfaction that we are about on course. Their comments, as given below, are separated on the basis of real versus monetary markets.

Monetary Conditions and Capital Markets:

Professor Otto Eckstein characterized capital markets as currently being in a "most unusual state", attributing this to (1) the System's switch to aggregate targets, (2) the continuing high rate of inflation and suspicion that it will not abate, and (3) uncertainties wrought by Cambodia and-- particularly--the stock market. With respect to the Fed's current stance, Eckstein emphatically pointed out that policy can be judged as having been easier over the last few months only by a monetarist's standards. Measured from any starting month previous to February 1970, the widely touted 10 percent annual growth rate of money stock shrinks to 3 to 5 percent. On top of this moderate rate of growth, Eckstein interprets the events of April and May as having led to a greatly increased liquidity preference on the part of the public, concluding that endorsement of a 4 percent rate of monetary growth during the current period is "really somewhat cavalier".

Professor James Tobin concurred with Eckstein on this view of System policy, additionally pointing out that with a 4 or 5 percent rate of growth, money supply is shrinking in real terms. Tobin also voiced fears that the

Fed's excessively tight policy in combination with its shift to aggregate targets has forced interest rates to a point well above the real rate of return on capital, a state of affairs he feels will depress real activity more than we are bargaining for.

At the opposite end of the spectrum was Professor Henry Wallich, who stated that Fed policy is threatening to become overly easy "no matter how money stock is measured".

Views varied also on the causes and the implications of the stock market decline. Wallich feels the principal explanation is the necessary, but painful, adjustment of equity markets to a 9 percent bond market. Tobin, on the other hand, feels the decline has been serious, stating that it will have both wealth and cost of capital effects, and that it is symptomatic of a general economic malaise. When viewed from the more regional, micro outlook of our banking directors, money market conditions appeared more optimistic. Only a month ago all three of our Class A directors were reporting commercial loan demands at an all-time high at their respective institutions. Two now report that this situation has moderated to a degree where their banks can handle it. Our directors also report a healthy pickup in deposit inflows over the last three weeks in all categories, but particularly in consumer-type deposits. Mr. Kennedy noted that for the first time in 1970, deposit figures at his institution are now exceeding year-ago levels. Taken together, these factors represent a substantial shift toward optimism among our banking directors from a month ago.

GNP and Real Market Aggregates:

Our academicians shifted positions in their discussion of the outlook in real markets, with Eckstein becoming the most bullish. He sees the economy

currently hovering between recession and no growth, but remains convinced that most of the GNP markdown will occur in the first half of this year. While he hasn't made a run on his model for about three weeks now, he sees total 1970 GNP falling in the \$982-\$985 billion range, with unemployment at 5.0 to 5.2 percent by the year-end. Eckstein further offered the opinion that, if we do have a recession (however measured), it will be far and away the mildest of the postwar period.

Wallich similarly sees 1970 nominal GNP winding up in the \$980-\$985 billion range, with a nominal fourth-quarter gain of about \$15 billion. While he identified unemployment, prices, and interest rates as all behaving worse than expected, he expressed confidence that the nominal GNP forecasts made earlier this year will hold up quite well. Noting how successive capital surveys have shown a consistency, he does not feel that capital expenditure plans are collapsing, and he sees the possibility of bringing the GNP deflator down to a level of 4 percent by the year-end. On the outlook for unemployment in the third and fourth quarters, he was somewhat more bearish than Eckstein.

Tobin once again provided the most gloomy assessment, predicting unemployment will rise to at least 5 1/2 percent by the year-end, and very possibly higher. He did not provide us with GNP projections for the next two quarters.

Again turning to the micro-oriented views of our directors, the picture is quite mixed. Mr. Robertson of the Bangor Punta Corp. (aircraft firearms, recreational equipment, farm products, etc.) reports that sales are continuing a sharp deterioration in nearly all their lines, with the one major exception the capital goods produced in their process engineering division. Their layoffs have been substantial, and capital expenditure plans have been cut back 30 to 40 percent. Other directors, however, noted that layoffs seem

to have subsided in their areas. Messrs, Cabot (Cabot Corp.) and Carter (Nashua Corp.) report their capital expenditure plans are continuing at or near the levels originally planned, although--apropos of Tobin's point above--Mr. Carter did note that their capital spending is becoming increasingly contingent upon securing reasonably priced financing. Other queries to our directors produced no shift in sentiment from the views they expressed a month ago.

SECOND DISTRICT -- NEW YORK

Remarks by leading bankers and businessmen in the Second District suggest a significant further slowdown in economic activity as well as increased financial pressures. The labor market is showing signs of greater ease; consumers are downgrading their purchases, and retail profits are being squeezed very hard; capital spending plans are being further reduced; and a growing number of firms may be unable to repay their credits at maturity. Although expectations of a real recession have increased, inflation continues to be viewed as a major problem.

As for the labor market, most respondents indicated it was still difficult to get "quality" labor, even though there are many more applicants than formerly. One, however, declared the market had recently undergone a "sharp change", with "quality" people now available, and another observed that the rate of turnover amongst his firm's management trainees had declined.

Consumer spending is generally weak, and profits in the retail industry have suffered considerably from narrowed margins. Conditions were described as "very bad" by the head of a nationwide chain of department and discount stores and a top official in one of the country's largest department stores characterized late May and early June as "very, very soft". Notably weak sectors included home furnishings, television sets, large appliances, and men's wear. Among reasons given for consumers "holding back" were: fear of unemployment, effects of higher prices, high interest rates, the "rather poor" business situation, and "general uncertainty".

Consumers in general were said to be "downgrading", or to be paying more attention to "value", to "utility", to "price". Discount stores were reportedly doing better than regular department stores. A "very definite

tendency" toward downgrading was noted in the purchase of clothing. There has also been a definite downgrading in auto buying, with a shift toward cheaper models and stripped-down versions without radios, air conditioning, or heaters. Moreover, people are turning increasingly to used cars. Another sector affected by either downgrading or value considerations has been education. Increased tuition, as well as other costs, has resulted in lower enrollments in private educational institutions, with more students choosing state-supported schools. Only a few comments were at odds with the "downgrading" picture: food dealers reportedly see an opposite trend; and a recently developed camera priced to sell for less than \$10 is eating up company storage space.

Capital spending plans for 1970 are reportedly being reduced further by many firms. Some are reviewing their plans for the second or third time this year; others are reported to have already trimmed plans "significantly". Apparently, projects that are being stretched out or delayed are most often those designed to provide additional capacity. However, firms in the food industry do not seem to be altering their plans, nor are cutbacks being made in plans designed to save labor or to reduce pollution.

Many business firms are suffering a liquidity squeeze. Among contributing factors are reduced profits and a relatively rapid rise in accounts receivable. The transportation industry has "real liquidity problems", and petroleum companies are finding liquidity "more of a problem". The head of a large bank said he was hesitant to discuss the "quite serious" corporate liquidity problem because of "the possible pyramiding effect", but declared that "many" companies may not be able to meet their maturities and that some "substantial" corporations will be unable to meet their payrolls without refinancing.

The liquidity squeeze is having repercussions on the commercial paper market. This market is giving one New York City banker "nightmares". Some

companies that use the market in very large volume are having difficulty rolling over their paper. Some commercial paper dealers have told some corporations they cannot continue to handle their issues. It was estimated that 60 percent of all commercial paper "issued today" has back-up bank credit lines; if the commercial paper market were "to collapse", the major money market banks would not be able "to meet the demand for credit". Moreover, many of the "smaller banks" around the country are holding "large amounts" of commercial paper.

The number of bankers and businessmen who expect a further slowdown in the economy has increased markedly. (Upstate New York bankers made special note of the "considerable" decline that has occurred in new orders received by "many" manufacturers.) Some, however, still think it "most likely" there will be a resumption of real growth in the second half.

Regardless of expectations as to real growth, there is continued concern about wage-cost pressures and the dangers of inflation. Two comments seemed to suggest a belief that inflation can be ended only by a recession: the public will believe price stability is assured only if we have "a serious recession or depression"; and the "risk of a recession" is preferable to continued inflation. Many bankers and businessmen see some sort of incomes policy as desirable. One banker expressed opposition to any sort of incomes policy, declaring it was not needed and could even do harm by producing an anticipatory rise in prices and wages.

THIRD DISTRICT -- PHILADELPHIA

In the Third Federal Reserve District, views on current economic conditions and the near-term outlook were solicited from the Board of Directors, a sample polling of large manufacturers (business outlook survey), and selected non-manufacturers. In summary, there is considerable agreement that (1) consumers remain pessimistic, (2) outlays for plant and equipment are being cut back or deferred, (3) labor markets are easing but wage costs are not, and (4) growth in the money supply is too fast.

Reports from around the District indicate widespread pessimism on the part of consumers. Large department stores in the region report poor sales for large luxury items all the way down to small inexpensive goods. One department store executive quipped that "...only \$12.95 shirts on sale for \$3.98 are moving-- and even then customers aren't waiting in line". Hence, merchandising firms are being extremely cautious in stocking for fall and winter.

There is increasing evidence that industrial firms in Pennsylvania, New Jersey, and Delaware are canceling and postponing outlays for new plant and equipment. A canvassing of large manufacturers in the Third District shows that since April there has been a marked cutback in spending plans for the next six months. Three out of four firms responding anticipate either no change or an actual decline in expenditures for plant and equipment for the balance of 1970. Falling profits and a shortage of funds are most responsible for these cutbacks, say regional executives.

Additional softness in the labor market for the near term also appears likely. Very few firms plan to increase their payrolls in the coming months, while most firms plan to freeze employment levels or lay off jobholders. There has, however, been no let up in wage demands. One director postulated that the

rate of inflation is more relevant for wage demands than the rate of unemployment. With cost-push pressures unabated, inflationary expectations remain intact.

Both bankers and businessmen on the Board of Directors are still concerned about a liquidity crisis. One banker further noted that the move toward monetary ease apparent in national figures has somehow bypassed the Third District. Along with concern about taut liquidity, directors are disturbed by the accelerated growth in the money supply. Although aware of some of the recent problems in monetary management, including a possible liquidity crisis, they believe that, unless growth in the aggregates is slowed, a new round of inflation may be in prospect. Also, the directors are concerned that the large amount of Treasury financing scheduled for the second half of the year will make modest growth in the money supply a difficult target to hit.

FOURTH DISTRICT -- CLEVELAND

Economic conditions in this District appear to have stabilized at a depressed level. There is little evidence that a general upturn is in progress, although most of the strike-related distortion seems to have been eliminated. In retail stores consumers appear to have become more price conscious, but softness of demand is selective rather than general. The mood of our directors has recently shifted from cautious optimism to deep pessimism. They now believe that the current economic contraction will be more prolonged and deeper than most economists and public policy makers are currently expecting.

Recent terminations of strikes in the trucking and rubber industries resulted in a peaking in mid-May in the sharp rise in the District's insured unemployment rate. The rate has subsequently declined moderately although it remains roughly three times as large as the low point of last autumn. Our regular monthly survey of District manufacturers conducted during the first two weeks of June revealed further distortions caused by strikes and lockouts. Some of the major metal-producing and metal-working firms expect to be shipping in June partly from inventories that they were unable to ship in May. The survey accordingly showed an anticipated rebound in shipments and in employment during June, coupled with a sharp decline in inventories. Other anticipatory data for the current month do not suggest an immediate general recovery in the District's manufacturing sector.

Discussion with an economist from a major department store chain doing nationwide business revealed that consumers have sharply curtailed their purchases of high-price luxury items and certain appliances. On the

other hand, bargain basement business is extremely good for many items such as ready-made apparel. Confirmation of the fact that sales of big-ticket items (refrigerators, televisions, and other durable goods) have suffered came from one of our directors who is on the board of a major department store in Cleveland. Most of our directors, especially those associated with large industrial firms and banks, are now extremely pessimistic. They believe that real economic activity will show little, if any, recovery in the second half of 1970, and they are deeply concerned by their inability to counter labor's monopoly position in collective bargaining negotiations. A number of directors expressed reservations about the Administration's economic policies although most of them endorsed our current monetary policy of moderate growth in money and bank credit. There was a general feeling that senior executives in a broad range of industries shared this pessimism and were as a result lowering their sights for capital spending and employment.

One director who was formerly quite optimistic emphasized concern about growing weakness in new orders in his industry: auto and aircraft components. Another director representing a very large office equipment manufacturing firm reported that many firms were limiting or reducing expenditures for computers and related equipment and that he expected further cutbacks over the months immediately ahead.

The following comments were received about the machine tool industry, which is important in this District. A director who is the president of a substantial machine tool manufacturing firm mentioned that, although his competitors are experiencing a slowdown in new orders for machine tools, his company's business continues to be good. The chairman of a very large machine tool company headquartered in the District informed this Bank that, in contrast

to poor domestic business, his company's plants in European countries are booking some 30 percent more orders than a year ago. An economist from another large machine tool company said he believed there was definite evidence that business has bottomed out in his firm, although he saw no signs of an upturn and did not expect one until after Labor Day. The same economist, who is highly regarded in the profession, volunteered the information that there is "across-the-board weakness" in his firm's prices. For example, prices of metal cutting machine tools, for which there are no official Bureau of Labor Statistics price data, are declining. Similar price reductions not reflected in the BLS data were reported by a director currently engaged in consulting work in the aluminum industry.

Other comments of interest from the directors included mention of the fact that the supply situation in the coal industry is so tight that some utilities are currently importing coal at prices above domestic rates. A director from a large reserve city bank noted a recent sizable increase in business loans for current working capital--i.e., for "paying the bills". One director, the chairman of a large rubber company, reported a highly front-loaded labor compensation settlement for his firm. The contract calls for increases of 12 percent in the first year, 8 percent the second year, and 4 percent the third year.

FIFTH DISTRICT -- RICHMOND

Information obtained in the Fifth District, primarily through surveys of businessmen and bankers, indicates substantial agreement on the following points: (1) a weaker employment situation with some further increases in unemployment, (2) continued upward wage pressure, with a few price declines in manufacturing, (3) further weakness in retail trade and automobile sales, and weakened consumer loan demand, (4) continued severe slump in construction, but some increase in the demand for mortgage loans, (5) no diminution in demand for additional capital facilities, (6) continued weakness in new orders, order backlogs, and shipments in manufacturing, and (7) excessive levels of business inventories.

Manufacturers in the District continue to experience declines in shipments, volume of new orders, and backlogs of orders. Both durables and nondurables manufacturing lines are affected by the current slump which has been in evidence since the beginning of the year. This situation is reported in such important District industries as textiles, chemicals, nonferrous metals, and furniture.

Weakness continues in the retail trade sector, including automobile sales. Some survey respondents report that, while dollar volumes of retail sales are not necessarily declining in all cases, physical volumes definitely are. The consensus in the District is that consumers are also sacrificing quality, and are reacting to inflation by purchasing goods of lower quality with cheaper price tags.

Inventories in manufacturing reportedly have declined only slightly during the preceding month, and no significant change is reported in retail inventories. Current levels of inventories in both areas, however, are reported to be higher than desired.

The employment picture in the District is reported to be considerably weaker overall. Survey respondents in manufacturing also report a further decline in hours worked per week. The trade and services area seems somewhat stronger with regard to employment than does manufacturing.

On the unemployment question, persons in trades and services say that ample supplies of both skilled and unskilled labor are now available, in contrast to reports of previous months. Respondents in manufacturing, however, where the employment situation is apparently weaker, report local supplies of skilled and unskilled labor still to be inadequate. Many respondents, though, report the quality of available labor to be seriously deficient in both skilled and unskilled groups.

Wages in the District are reported up sharply across the board, particularly in the trades and services. Prices have reportedly declined somewhat in the manufacturing sector, while continuing to rise in other areas. Price reductions are reported by several large textile manufacturers as well as by some furniture producers.

Residential construction reportedly declined further in the preceding month and remains severely depressed. Nonresidential construction also is reported down, a reversal of the report received in May.

Demand for consumer loans apparently weakened somewhat during the preceding month. Some respondents link this to reduced work weeks and general uncertainty about the future course of incomes, particularly among manufacturing employees. Further increases are reported in demands for business loans and mortgage loans.

Opinions expressed in the Fifth District continue to emphasize the numerous noneconomic factors presently contributing to uncertainty, both at home and abroad. Economic decisions in the District apparently are being influenced by these factors.

A more detailed survey of capital spending plans in the District last month indicated continued strength in plant and equipment spending. The most recent survey indicates no significant change in plans. Manufacturers generally report capacity to be somewhat in excess, but the proportion of them desiring to increase investment spending continues to outweigh the proportion that does not plan to do so. In the trade and service fields, the reported consensus is that facilities are inadequate, and there is evidence of increases in investment plans. Fear of continued inflation is apparently an important factor.

Respondents report inventory levels to be excessive across the Board. More concern is expressed by manufacturers than by retailers, and the reports cover a broad spectrum of District industry--textiles, furniture, metals, and building materials producers.

District bankers express the view that further economic decline is probable before a general recovery occurs, although a smaller proportion of respondents hold this view than in previous months.

SIXTH DISTRICT -- ATLANTA

Summary of Findings. Sixth District directors have mixed opinions about future business conditions. If any concensus exists, it is that the economy has not yet bottomed out and that recovery will be less than spectacular when it comes. According to directors' reports and other sources of information, further weakening in sales, employment and production is likely. Department stores report lower volume and growing resistance to higher priced merchandise. Belt tightening by businesses has spread, and directors report many instances of slowdowns in capital spending. Employment and production cutbacks are common.

Retail Sales. Department stores surveyed report no discernible shift from the "upstairs" to the "bargain basement". However, customer resistance to higher priced brands has increased, with lower priced merchandise receiving the benefit. A canvass of merchants by one of our Branch offices indicated that they expect no improvement in sales within the near future. Regarding auto sales, distributors contacted report some shifting from larger cars to the compact sized, loaded with optional equipment. Rather than settling for a stripped-down version of a full-sized car, customers are purchasing lower priced equipment-packed models.

Belt tightening. A profit squeeze is causing many businesses to trim fat wherever possible. Reports of capital expenditures being reduced or stretched out have been coming from several sources. A major airline reports more executives are flying coach, and some companies are pushing early retirements. Attrition is being allowed to take its toll, and the workweek is being reduced in some industrial areas.

Production and employment. Cutbacks--some sizable--are occurring in steel, furniture, textiles, and rubber and paper products. A large steel producer in Alabama and a large aluminum company in Tennessee are reportedly cutting employment by as much as 20 percent. A Mississippi furniture manufacturer is reported to be trimming employment from 2,800 to 1,700. A 500-man cutback is imminent at another firm, and a District bank is cutting employment--this one by 10 percent across the board. A regional airline is cutting its work force by 100, "purely as an economy move". A shorter workweek has also been used to adjust output: for example, a major rubber company is going on a four-day week.

A strike involving 5,000 workers at the Atomic Energy Commission's Oak Ridge, Tennessee, plant is entering its third month. Gulf states utilities continue to be picketed, and a walkout involving 1,200 has idled production at a Birmingham plant. The Florida Power and the Miami plumbers' strikes have been settled. The plumbers will receive about a 25 percent yearly pay boost over the three-year contract. Employment is stabilizing at two large military installations contacted. Recent employment cutbacks at these two installations have been accomplished by normal attrition.

Capital spending and construction. Major utility construction is strong and a twenty-story office building will be built in Jackson, Mississippi. Despite postponements in capital spending, there have been some announcements of new plants and plant expansions, including a needle factory in Alabama, a \$70 million expansion of a mining and industrial chemical complex in Tennessee, and a \$15 million expansion of an engine plant in south Alabama. Recent contacts with four Atlanta building supply companies--two in glass and one each in cabinets and plumbing supplies--indicate reduced volume and price cutting.

Agriculture. Soaking rains throughout the District have contributed to an excellent agricultural outlook. Prices of farm land have leveled recently after a steady rise, perhaps because of uncertainty about farm legislation and high interest rates.

Loan terms. A recent survey indicates a slight decline in the average interest rate on bank loans from February 15 to May 15. Firmer nonprice terms, however, nullified the effects of the lower interest rate. Loan demand has weakened slightly.

SEVENTH DISTRICT -- CHICAGO

Businessmen and economists in the Seventh District have tended to lower their expectations on output and sales for the economy and for individual firms for the remainder of this year. Increasingly, expectations are that the "low" for the general economy will be in the third or fourth quarter with no substantial recovery until 1971. Labor markets have continued to ease, especially for marginal workers and middle management and professional types. Although most respondents have not observed a slowing in the rate of price inflation, price increases appear to be fewer in number and harder to sustain.

The general atmosphere is one of uneasiness rather than deep gloom. The stock market, price inflation, reduced liquidity, slow payments on receivables, lower profit margins, strikes, Cambodia, and civil unrest continue to be mentioned in any conversation. Nevertheless, very few informed persons expect a cumulative decline in the economy. Rather, the prevailing pessimism reflects the view that a significant improvement is not at hand, and may not occur until next year.

Consumers are said to be purchasing lower priced autos, furniture, appliances, television sets, and clothing, and to be reducing purchases of such foods as meats and delicatessen items. The truck strike in the Chicago area has seriously depleted many retailers' inventories, making it difficult to discern shifts in consumer purchasing preferences. But outside Chicago, department stores report intensive price consciousness in shopping and reduced sales in most departments except in the "budget or bargain basement". Discount store sales are reported to be holding up well.

Many businesses are pushing cost-cutting programs through reductions of staff; lower outlays for advertising, public relations,

entertainment, and other items not directly related to production; inventory curtailments; and postponements of short lead-time capital expenditures.

The truck strike continues to be a very significant depressing force on output and retail trade in the Chicago area. The embargo on truck shipments of components and finished goods to and from the Chicago area, of course, continues to hamper output in other parts of the country. The impact of the strike is said to be especially hard on smaller manufacturers and retailers who are less able to utilize alternative arrangements for moving goods.

The rise in policy loans at life insurance companies has moderated in the past month from the extremely high levels noted in the first third of the year. Life insurance companies would like to improve their liquidity and are not seeking new long-term investment outlets.

Loan demand at large commercial banks appears to have eased somewhat, but this is not a universal view. Demand on the capital markets by corporations and municipalities continues to be intense. Little hope exists for lower interest rates in the near future, and some experts think the peak in long-term rates has not yet been reached.

It is becoming increasingly clear that output of nonelectrical machinery is declining. Manufacturers are ordering less equipment. Farm machinery sales continue poor. Construction machinery has been holding up fairly well at least for large pieces of equipment used in road building and heavy construction. Orders for capital goods components have dropped sharply in recent months.

Inventories of manufacturers generally do not appear to be excessive. Emphasis is placed on smaller shipments and rapid deliveries.

In some cases, producers emphasize that distributors and dealers are working on a "hand-to-mouth" basis. Inventories of consumer hard goods, other than automobiles, have been reduced in line with lower sales since the start of the year.

The steel picture in the Chicago area is clouded by the truck strike, but output and orders have been holding up fairly well. Increasing competition in European markets has been associated with lower prices which, in turn, have reduced the incentive of Chicago area producers to sell in those markets. Foreign demand is expected to soften in the second half of 1970.

The rise in unemployment is expected to continue through the year, with some analysts expecting the national unemployment rate to reach, or exceed, 6 percent in late 1970 or early 1971. Some firms that had been allowing attrition to reduce their labor force rather than laying off workers have now begun to furlough workers. Many employers comment on the extremely sharp increase this year in the number of unsolicited summaries from job applicants with extensive experience.

Domestic airline traffic in May and early June has continued below last year, despite the end of the controllers' strike. Pilots have been laid off, training of stewardesses has been reduced, equipment has been grounded, and profits (or losses) are "near the disaster stage". Air travel to foreign countries, in contrast, is extremely good, running about 30 percent above last year.

Sales of passenger cars continue to be disappointing. Truck sales have failed to pick up with the settlement of the national truck strike, as had been expected. A long strike in the motor vehicle industry is taken as "in the cards" by most observers.

Many people still talk favorably of wage and price guidelines or controls, perhaps an immediate universal "freeze" but the difficulties of implementing such programs are widely understood, and most people appear to be thinking of the "other guy's" price or wages.

EIGHTH DISTRICT -- ST. LOUIS

Based on discussions with our Branch and Main Office Boards of Directors, officials of larger business firms, financial editors, and others, we conclude that business in the Eighth Federal Reserve District is generally good and is expected to remain so. The concensus for the second half of the year appears to be one of considerable optimism. It is generally believed that the period of slackening business will be over soon after midyear and that the economy will resume its uptrend of recent years. Price increases are expected to continue little abated and consumer spending is expected to continue strong. Any change in the rate of capital spending is likely to be on the plus side, though demand for labor appears to be slackening somewhat. Business inventories are at moderate levels. Pessimism continues to prevail with respect to business profits, as wage settlements appear to be in excess of amounts that can be passed on in higher prices for product. Demand for credit continues to grow at a high rate.

Apart from the fact that food and apparel prices are expected to hold relatively stable, most businessmen in the Eighth District expect inflation to continue at about the current rate throughout the second half of this year. Major forces contributing to these expectations include strong consumer demand, a high rate of capital spending by business firms, and the large wage increases received by workers in recent labor negotiations.

Consumer demand, although slowed somewhat in recent months, is expected to be generally strong in the second half of the year. Considerable optimism is expressed relative to overall consumer expenditures. Most of the recent slowdown is credited to strikes and factors other than a general decline in total demand. As a minority view, one department store reported that sales

expectations for the remainder of the year have been reduced somewhat and that consumer purchases were becoming more selective. Customers were reported to be responding more to good values and as being somewhat less quality conscious than previously.

The rate of growth in demand for labor has apparently declined slightly. There have been a few layoffs, and in several cases workweeks have been shortened and over time eliminated. Job offers to June college graduates are down sharply, according to college placement officials. The salaries offered continue to creep up from 1969 levels, however, indicating continued growth in demand for trained personnel. Little change in overall employment was anticipated by the business community for the second half of the year.

Business investment continues up as budgeted, and no cutbacks are anticipated in the second half of the year. Manufacturing officials held uniformly to this optimistic view. If any change is apparent in recent weeks concerning business investment, it is that capital goods spending is gaining in strength. More modernization and improvement programs are being undertaken in an attempt to maintain profit margins in the face of sharply increased labor costs. Only one establishment, a discount-type retail facility, indicated a slight slowdown in investment.

Inventories of Eighth District firms are generally at satisfactory levels. No firm surveyed reported any excesses to be worked off as a result of the recent slowdown. One apparel manufacturer reported a lower inventory-to-sales ratio than heretofore because of efficiencies from improved inventory accounting methods. A major department store reported that inventories can be quickly reduced at will through planned sales.

Profits are the one item about which the respondents were uniformly pessimistic. High wage settlements are the important problem that is disturbing

all the officials, and little relief is in view. Some further decline in profits is anticipated in the second quarter of this year, and little increase from these depressed profit levels is anticipated in the second half of the year.

Demand for bank credit continues brisk. Both consumer and business loan demands continue strong. Usury laws, however, tend to intensify credit problems in much of the district as market rates are higher than permissible lending rates to noncorporate borrowers in some states.

NINETH DISTRICT -- MINNEAPOLIS

Business and labor leaders in the Ninth Federal Reserve District are very concerned about the persistence of inflationary pressures and seem to be willing to try almost anything, including wage-price guidelines, to control the problem. District investment firms are encountering financial difficulties and, as a result, have had to alter their operations. Businesses are continuing to cut back their investment plans, and scattered instances suggest that consumers may be changing their consumption patterns because of the uncertainty regarding the state of the economy.

During the go-around at the last meeting of the Board of Directors of the Federal Reserve Bank of Minneapolis, the directors were asked whether or not business and union leaders in their local areas would support some kind of incomes policy or wage-price guidelines. They felt that people are becoming increasingly concerned about inflation and are becoming progressively disenchanted with traditional restrictive monetary and fiscal policies. As a result, the directors felt that guidelines would probably be publicly unpopular but in many cases would be privately welcomed. In general, they thought that people would prefer to see voluntary controls imposed rather than new legislation, and that businessmen are more in favor of guidelines than labor leaders. The directors cited a number of instances where business leaders have voiced approval of some kind of guidelines. The directors also cited cases where labor leaders did not want to be quoted but were concerned with the large settlements which have been won by unions in recent labor disputes. Because of these large settlements, rank and file members are expecting large wage increases and union leaders are afraid to ask for less. Guidelines would give them an excuse to argue for lower wage settlements.

The financial difficulties being experienced by Wall Street investment bankers, mutual funds, and securities dealers are apparently also being encountered by Ninth District investment firms. A telephone poll of two leading local investment banking firms explored the implications of these problems in three areas of their operations. First, operating staffs of securities brokers have been cut back about 15 to 20 percent in the last year. These cutbacks, however, were attributed to the decline in volume of trading rather than to the current financial crisis. In general, sales staffs have been reduced, with the declines occurring in some instances through attrition rather than through layoffs. Second, a securities brokerage house is closing one of its suburban offices because of the lack of volume. In addition, a director was aware of a mutual fund in Billings, Montana, which has recently closed down. Third, merger activity among securities brokers appears to be on the upswing. Both investment bankers who were contacted reported that they had been approached by a number of smaller firms in the last three months. Although only two mergers have been consummated, these firms felt that additional mergers could take place in the not-too-distant future.

Scattered pieces of information continue to show that District manufacturers are cutting back their capital expenditure plans. Two directors cited cases where distributors of heavy equipment to agriculture and construction firms have experienced sharp declines in sales during the past month or so. It was also reported that a large retail firm headquartered in the twin cities has cut back its capital appropriations by about 50 percent. One other director stated that General Motors has scheduled huge cutbacks in capital spending, with each division being asked to curtail capital expenditures.

A number of examples have come to light which suggest that consumers are changing their consumption patterns. A Minneapolis-based undergarment manufacturer reports that its sales are 10 to 15 percent below last year's levels. They attribute their poor sales performance this year to the slow-down in department store sales and feel that consumers are taking their business to lower priced stores. Automobile dealers in the twin cities report a downturn in auto sales which has been centered primarily in higher priced automobiles and that sales of basic models are holding up fairly well. In addition, repair shops for both automobiles and other durable goods are experiencing sharp increases in business, which suggest that consumers are tending to hold off on major durables purchases. A telephone poll of resorts around the District reveals that resort owners are experiencing a number of cancellations, although accommodations at Yellowstone and Glacier National Parks are still very tight. All the resort owners who were contacted said that they could accept reservations for any time this summer.

TENTH DISTRICT -- KANSAS CITY

The general pace of activity in the District is moving along on a plateau. Local activity is stronger where the economy has been experiencing a strong growth situation. The agricultural picture also continues to be favorable. At the same time, construction slowdowns, reduced defense activity, and labor strikes have slowed the economies of some areas. The residential construction industry continues to be plagued with a lack of mortgage financing. The construction industry also exemplifies the deeply inbedded impact of inflation, as may be noted by some current wage demands in the industry.

District retail sales, as indicated by selected larger merchants, are fair and in a few geographical areas good. Retailing for May and early June is running somewhat ahead of the same period a year ago; however, the dollar gain is not as large as the increase in prices, so that real volume is down somewhat. The only merchandise that is selling at lower prices is ladies' ready-to-wear, which reflects the need to move heavy inventories of styles being obsoleted.

There is some evidence that the average unit of sale has increased in size: there are fewer customers, and they are making larger total purchases. No evidence was uncovered among major department stores indicating that customers were downgrading quality in their purchases. Rather it seems that customers with higher and more stable income prospects have become relatively more important and are maintaining quality levels. Persons with reduced income prospects are limiting purchases to necessities.

Advance reservations at important winter recreation areas are reported to be slow, indicating that consumers are hesitant to make these longer-term

commitments. This contrast with a strong upward trend in this consumer activity during recent years. Special economic circumstances are having important effects on sales in some areas. For example, while retail volume in Kansas City has held up quite well to this point, merchants are increasingly noting the effect of the construction strike which is now 2 1/2 months old.

The construction industry situation in Kansas City is serious, and it may have implications well beyond the immediate area. Kansas City last year lost more man-days from strikes than any other area of the country. This year the laborers, whose current wage rate is \$4.01 per hour, are asking for an increase of \$4.00 per hour now and a total increase of \$6.00 over three years.

Construction activity reflects a variety of local situations in the context on national financial markets and Federal programs. Highway construction generally is active throughout the District. Commercial construction is strong in some areas where it reflects urban renewal projects as well as other building, particularly office buildings. Current and anticipated construction of new factories and plants is weak throughout the District. Despite strong demand for housing in many areas, new construction of dwellings is slow throughout the District because of difficulty in obtaining financing.

The agricultural sector continues to add strength to District economic activity. Cash receipts from farm marketings during the first quarter of this year averaged a fifth higher, compared with the favorable levels of the comparable period of last year. Although this rate of increase is not likely to be maintained, all indications point toward a substantial improvement over last year's record-high levels of farm receipts. In addition to receipts from the sale of a good wheat crop which is now being harvested, income from livestock

sales remains more favorable than was expected. It also should be pointed out that payments under the various Government farm programs will be made differently this year, compared with other recent years. Payments on wheat certificates, feed grain programs, and the cotton program--which are likely to approach three quarters of a billion dollars--will be made largely during the next two months. These payments, amounting to about 10 percent of total cash receipts from farm marketings in the District, will add substantially to the volume of funds in District banks. These favorable income prospects for agriculture have been responsible for relatively high levels of economic activity in rural areas, even though many marginal farmers are discontinuing operations.

ELEVENTH DISTRICT -- DALLAS

Economic conditions in the Eleventh District resemble those for the nation as a whole. The slowdown in the pace of economic activity seems less pronounced in the District, however, than in the nation. Total employment is still edging upward in the District, and the value of construction contracts awarded during the first four months of 1970 is up sharply from the same period in 1969. The Texas industrial production index has been trending irregularly downward, primarily owing to a drop in durables manufacturing. Bank credit and total deposits at the Eleventh District weekly reporting banks declined in May.

Despite the slowdown in economic activity in the District, inflation remains the major concern of businessmen and bankers for the rest of 1970. This point emerged clearly in recent responses to questionnaires from both Head-Office and Branch-Office Board members. The Branch Board members further revealed an overall lack of confidence that monetary and fiscal policy would succeed in bringing inflation under control. They now favor the Federal Government's setting up some form of wage-price guidelines to be followed voluntarily by business.

Total nonagricultural employment in the five states of the District continued to increase in April, but the slim gain was less than seasonally expected. Manufacturing employment actually declined slightly in April. While widespread employment reductions are not evident in the District, job opportunities, in relation to the labor force, are not as plentiful as a year ago. The unemployment rate has increased, and in Texas, for example, initial unemployment insurance claims are almost twice as high as a year ago. These aggregate data tend to confirm the information given by Board members. Most

of the Board members indicated that employment reductions were not anticipated in their industry, but a comparison of June responses with those received in May revealed some slight weakening in employment.

The seasonally adjusted Texas industrial production index declined in April from the March level and has generally trended downward in recent months.

The manufacturing sector, particularly durable goods manufacturing, has been the source of weakness in the production index. Petroleum mining and refining, however, remained at unusually high levels during the spring period, avoiding the usual seasonal decline. Petroleum stocks have built up to excessive levels recently, and the regulated oil production allowables in the District are generally lower for June than for May. This is likely to cause some further weakness in Texas industrial production this summer.

The value of construction contract awards declined in the District in April from the March level, but on a cumulative basis the January-April 1970 level is nearly one-third higher than in the same four months of 1969. The value of residential construction contracts so far this year has nearly matched the 1969 level, while nonresidential building and nonbuilding construction contracts are sharply higher than in the same four months a year ago. Responses of District Board members indicate that capital spending plans have not been curtailed in most of their firms. One Board member in June and one in May did report a substantial downward revision in plans for the current year. These capital spending plans are consistent with the view of most Board members that sales in their industry are either stabilizing or strengthening at the present time. Furthermore, nearly all the Board members report that corporate planning in their firms for 1971 is based on the expectation of a modest increase in sales and profits. Responses indicate that not a single Board member expects a decline in sales or profits for 1971.

Aggregate data opinions of Board members and responses of District retailers all confirm the observation that retail sales have been weak so far this year and the real volume of goods sold has probably declined. Sales of department stores in the District were very sluggish during the last two thirds of May, and in some weeks the current-dollar sales actually trailed the figure for the corresponding weeks a year ago. Department store sales improved noticeably, however, during the first week in June. Auto dealers in this District who were contacted recently indicated that the bottom of their well-known sales decline may have been reached. Sales results for the first ten days of June indicated to most that the total monthly volume might equal or exceed that in June 1969.

The auto dealers contacted generally felt that their sales weakness was in total volume and that a noticeable shift in demand to lower priced or lesser equipped cars had not occurred. Nonautomotive retailers are noting some substitution of lower priced for higher priced merchandise. This observation was made mostly by department store managers, while more specialized retail establishments reported less shift toward lower priced merchandise. Of particular note was increased consumer attention on specials for specific items or on bargain basement merchandise rather than the regular stock.

Bank credit at District weekly reporting banks declined in May, as a result of reductions in both loans and securities holdings. Business loans fell further in May, following declines in each of the previous four months of 1970.

Total deposits at the weekly reporting banks also declined in May, caused mainly by a drop in demand deposits, much of which represented reduced holdings by the United States Government. Discount window borrowings and net purchases of Federal funds by the Eleventh District member banks also declined in May.

TWELFTH DISTRICT -- SAN FRANCISCO

This report is based upon a survey of Head Office and Branch Directors, supplemented by reports from selected businesses. The general opinion is that the economy is experiencing a mild slowdown, and there is no expectation of a complete recovery until the end of the year. At the same time, there is little optimism that inflation will be brought under control quickly. Consumer demand continues to be high, although sales are somewhat slower than last year, and there is continued demand upon banks for credit. The adverse effects of the slowdown appear in two principal forms. Unemployment is seen to be much higher this year, and many firms report experiencing a profit squeeze. They say that they are unable to offset by price increases or greater sales volume their higher costs. In consequence, they are attempting to cut expenses by reducing staffs, cutting inventories, and delaying capital projects.

Unemployment has risen in most parts of the District. The highest levels are in the Pacific Northwest where the principal problems are centered in the lumber industry and Boeing Aircraft. Boeing is the principal employer in the Seattle-Tacoma area, and it has cut its employment from over 100,000 in 1968 to 58,000 now, with further layoffs announced for the rest of this year to reduce the level to 43,000. Lumber operations have been at a reduced pace throughout much of Washington and Oregon. Apparently the smaller mills are bearing the major burden, while the large integrated mills continue to maintain production. There is some expectation of a recovery, at least in Oregon, toward the end of the year. The other area with a major unemployment problem is southern California, where the affected industries are aerospace and, to a less extent, housing.

Construction of new residential housing and the opening of new subdivisions continue to be slow. The decline in demand is heaviest in the Seattle area because of the layoffs at Boeing. The principal strength is in commercial construction. This is certainly the case in California where commercial building remains high. In many cases there is also a strong demand for mobile homes. This particular change may be part of a tendency for consumers to downgrade the quality of their housing demand.

Retail sales remain relatively steady despite the rising unemployment, and they continue to be a source of strength in most areas. For most kinds of consumer goods, there is no sign of downgrading in choice of items as a means of economizing. Consumers are reported to be more careful in watching for and responding to sales, but there is no pronounced shift to lower grade goods. When purchases of major appliances are made, the demand is still for the higher-grade line. Replies from major department stores indicate the general composition of their business is not changed, although sales are not rising at last year's pace.

There is one major exception to this picture. Reports from throughout the District indicate that consumers are economizing on their automobile purchases. They are shifting away from middle-line models to lower priced and foreign economy cars, although luxury car demand remains high. As part of this shift, there appears to be an increased demand for late model used cars. Therefore, there is evidence of both a reduction of automobile purchases and a downgrading of quality of purchases.

The recent decline in the stock market has not had any noticeable impact on consumer purchases, but it does seem to contribute toward creating

more general uncertainty on the part of businessmen. One specific example of the effect of lower stock prices reported is those cases where stock had been used as loan collateral and the borrowers were forced to sell at a loss to cover the loan.

Many businesses report that their profit margins are being narrowed by higher costs, especially labor costs and by an inability to raise their revenue. Sales are not rising to offset the costs, and general price increases are not always feasible. In consequence, there is more emphasis upon cost reductions. This takes various forms: closer controls over inventories, increased layoffs of employees, and in some cases postponement of capital projects. In fact, one of the clearest responses of individual businesses to this combination of smaller profit margins and continued high interest rates appears in the reduction of capital spending. One large oil company, for example, describes its projects as being continuously reviewed, and several other manufacturing companies report a postponement and reduction of planned expenditures.

Financial pressures are also an element in the slowing of business capital expenditures. Several companies reported credit stringency and high interest costs as factors leading to a revision in their plans. In one case, foreign financial conditions caused difficulties for one company; foreign banks were unable to supply funds normally utilized by this business. Financial conditions continue to be cited as an important adverse factor influencing the construction industry. This is in spite of deliberate efforts by banks to allocate funds to meet this demand. Banks are continuing to be selected in the kinds of loans that they make.

In summary, reports of our directors and other businessmen point to a slowing of the pace of economic activity and a greater reluctance on their part to undertake major expenditures in the near future.