

CURRENT ECONOMIC CONDITIONS BY DISTRICT

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SUMMARY

The predominant view of businessmen and bankers in the twelve Federal Reserve Districts is that the economy has not yet returned to a faster rate of expansion. There are both elements of support for further expansion and of weakness. For example, consumer spending is being maintained in most areas, yet the rate of increase is below that achieved last year and expected sales targets are not being achieved. Construction activity also remains at its current levels with a mixed picture of good demand in some areas and poor in others. The situation in capital goods seems to have stabilized with few cases of further reductions being mentioned, although there is little evidence of a general recovery in capital expenditures. It appears that businessmen are waiting for stronger evidence that the economy has begun its recovery.

A major source of uncertainty concerns the future course of the General Motors strike. The immediate impact is currently greatest in the Chicago and Cleveland Districts, where unemployment is rising as a direct consequence of the strike. Industries supplying the automobile industry are also beginning to be affected; glass, tire, and steel production is being cut back. In the other Districts, there have been some increases in unemployment in areas with GM assembly plants and some reports of reduced auto sales, but the repercussions for the moment have been small.

Other labor disputes are creating problems: in Kansas City with a drawn-out construction strike and in Minneapolis with the Northwest Airlines strike. Businessmen and bankers in other Districts remain concerned about continued wage increases, especially in the construction industry, and, according to a report from the Chicago District, the

"huge number and variety of demands by the unions." On the other hand, there are signs of a moderation in union demands noted in the Boston District.

Unemployment continues to rise both as a consequence of the GM strike and layoffs in other industries. Among the other industries reported as having further reduced their work forces are machine tools (Cleveland, Boston), furniture (Richmond, Atlanta), textiles (Richmond, Atlanta), and metals (Richmond, Chicago). Aerospace employment continues to be low and to be the major depressing influence in such cities as Seattle. There are offsetting forces in other industries which are expanding. In particular, companies in coal mining, railroad-car and large truck parts report growing sales.

Capital expenditures show little sign of recovery in prospect. Most Districts report that few large projects are being planned until there is a stronger recovery. Current capital expenditures are being stretched out or delayed. Similarly, other costs are subject to close scrutiny. Inventory reductions have not quite ended. There are reports from the Richmond, Chicago, and Philadelphia Districts that indicate there is little sign of a shift toward a building-up of inventories.

The construction industry is still maintaining its overall volume but with considerable variation in the pace and type of local activity. In general, nonresidential construction remains strong. The major weakness in most areas is in residential, particularly single-family homes. There has been a slight increase in the availability of mortgage funds in some areas, but not in others. There has been little or no reduction in mortgage rates.

Consumer spending has been maintained but it seems to be below retailers' expectations in most areas. There are some exceptions-- for example, one major New York City department store reports a steady improvement and tourist expenditures are heavy in the Boston District. The net impression is that in most Districts retail activity is only at a moderate rate.

Agricultural trends suggest the possibility of higher food prices. The effect of heavy rains and the spread of corn blight point toward a reduction in some crops, which will tend to push up prices. The corn blight has seriously reduced the corn crop in the Kansas City District but apparently has caused only a minor reduction in the crop in the St. Louis District. Nonetheless, the expectation is that the reduced supply of cattle feed will tend to push up meat prices in the future.

The Dallas District reports that a survey of thirty-one city and county finance offices indicates a continued increase in local government expenditures and borrowing in the coming year.

The financial situation has moved toward greater ease. Most banks have experienced an inflow of deposits. The banks in some Districts are making somewhat more business loans but without any substantial change in their lending requirements. In other cases, the banks used the funds to rebuild their liquidity.

FIRST DISTRICT - BOSTON

This month's calls turned up virtually no new regional business or financial developments. Perhaps the one summary impression most worth noting is a somewhat diminished conviction among our respondents that we have actually embarked upon a clearcut course of recovery from the first half of this year.

Deposit flows continue to hold up quite well at New England financial institutions with time accounts of all types showing particular strength. Moreover, the non-financial business community now seems to be showing an increased awareness that monetary conditions have loosened appreciably. Loan demand continues flat in most categories at our commercial banks.

The consumer picture appears quite mixed. While many signs of continuing consumer caution are apparent, other selected indicators would seem to indicate a greater willingness to spend. Autumn tourism, for example, appears headed for record levels and advance sales of winter recreational equipment are running ahead of expectations.

In regional industry, one of our directors noted that we are finally seeing some moderation of wage demands in current union negotiations. The machine tool industry continues at a severely depressed level, with even more layoffs developing over the last month. Many other lines of industrial equipment and basic industrial inputs still have not felt any appreciable slowdown, however, and they do not now expect any to develop. No upturn in construction levels are yet apparent, nor have mortgage rates started to ease. Some institutions, however, have now begun to rebuild their mortgage commitments.

Our academic consultants once again provided a range of views.

Professor Henry Wallich expressed no surprise at the 5½ percent unemployment figure, suggesting that the statistics are just now catching up to what's been happening. Wallich pointed out that while this figure may be unfortunate on other grounds, it does bode well for a pickup in productivity and hence for progress against inflation.

Wallich expressed optimism that we will be back to a full potential real rate of growth by early next year, and suggested that real quarterly GNP growth over 1971 might behave along the following lines: 3½ percent, 4½ percent, 5 percent, 6 percent. This outlook was based on several factors, including the good prospects for a housing recovery, state and local expenditure levels, the Edie survey on plant and equipment expenditures, and the conviction that the consumer will respond to current conditions with a lag. Professor James Tobin took nearly the opposite tack on all of these points. He sees no strong lifting force in the economy right now, and feels none is likely to develop. He concurs with Walter Heller on his prediction of a 5 percent GNP gap by the end of the year, and feels that both fiscal and monetary policies for stimulus are needed.

Professor Paul Samuelson expressed a feeling that the economy "has a little less zip now than a month ago", although he is not alarmed at the 5½ percent unemployment figure. Both he and Wallich voiced a concern that the current "endogenous" deficit will produce no real economic stimulus, but that it may very well interfere with capital markets enough to threaten the housing recovery. Referring to the arguments of Sprinkel and other monetarists that the Fed may be creating a large dormant money supply which will activate itself at some later date, Samuelson made a strong plea for the System to maintain its current rate of monetary expansion. He did acknowledge the fact that

the current growth of aggregates cannot be maintained for too long, but that, while the time for slowing them down may be very near, it is not yet here.

Professor Eckstein was unavailable for comment this month.

SECOND DISTRICT - NEW YORK

The overall impression gained from opinions expressed by Federal Reserve Bank directors and business leaders was one of a somewhat sluggish economic recovery, with an upward drift in unemployment. The assessment was: further cutbacks, on balance, in planned capital outlays; with one notable exception, indications that consumer spending was still restrained; and, continued relatively strong upward pressures on prices. The directors felt current System policy to be about right and felt that further easing would be inappropriate.

Most of the directors felt that the tendency to cut back on plant and equipment spending is persisting. The vice-president of the largest corporation in Rochester indicated that his company's spending program was influenced by a large project already underway, and little could be done to cut back that project. However, he reported hearing of instances where planned spending was being deferred or cut back. Another director stated that while he had not seen any evidence of cutbacks in general, he believed they were occurring in certain special cases, notably the aerospace industry.

Responses were mixed among top officials of nationwide corporations regarding their plant and equipment plans. The president of one of the nation's largest steel companies expected his firm's 1971 outlays would be about the same as this year's, as against an originally planned increase of 25 percent, with the reduction to be implemented by deferments and "stretching out" rather than through cancellations. A diversified manufacturing corporation has budgeted a small increase in capital outlays for the next year, following "severe" cuts last year. Conversely, a large corporation in the financial services, aerospace and insurance fields has planned a sizable cut in such expenditures for

the coming year after "abnormally high" outlays in the past two years. Several business leaders stressed the increasing importance of environmental control in their capital spending plans, and its adverse effect on productivity gains.

The chairman of a Rochester department store characterized retail business in his area as "not too good." Consumers are not spending freely, partly as a result of higher unemployment. The president of a Buffalo bank noted that instalment loans at his bank were at a somewhat lower level than last year. On the other hand, the president of an upstate bank reported a rise in such loans, particularly automobile paper. The chairman of a large medium-sized retail chain specializing in software was somewhat less optimistic than last month, when he had felt that consumer confidence had improved significantly and would soon be translated into increased retail sales. In the case of his firm, these hopes have not yet materialized. He still believed that "the corner had been turned", but that the recovery will be at a slower pace than he feels is generally expected. Among the factors he mentioned as currently inhibiting his own sales were the persisting--indeed intensified--confusion over fashion styles, and the warm weather for this time of the year. He also felt that the "ripples" of the General Motors strike were beginning to adversely affect sales--particularly in those areas where plants that were on strike, or laying off workers as a result of the strike, loomed large in the local economy. The one notable exception in this generally gloomy retail sales picture was provided by the president of a large New York City department store with several suburban branches. He reported that September had been a very good month for his firm and that business was "steadily improving on a broad front." The sale of hard goods, notably television sets, had picked up smartly,

while in his view the confusion over fashion styles was being rapidly clarified, with a concomitant improvement in apparel sales. He expected sales during the coming Christmas season to reach a record high.

Most of the directors indicated that the somewhat less rapid rise in prices in recent months should probably be regarded as temporary. The chairman of the nationwide manufacturing concern noted that there were still some big price increases to come, for example, in the automobile industry. The president of an upstate bank observed that "if wages go up 8-10 percent per annum, how can higher prices be avoided?" Several other directors as well as other business leaders also commented on the continued upward pressures generated by higher labor costs. The Federal Reserve Bank directors, both at the head office and at the Buffalo branch, generally regarded current monetary policy as correct and felt that further easing at this time would be inappropriate.

THIRD DISTRICT - PHILADELPHIA

Reports from businessmen in the Third District suggest: (1) Consumer spending is likely to remain a passive element in the business outlook into 1971; (2) Capital expenditures will be a major drag on economic recovery; and (3) The unemployment rate is likely to move up still further.

The performance of consumers remains lackluster in the Philadelphia area. For three of the last four months, sales volume in large department stores has been below a year ago. Only substantial markdowns in prices, as occurred in September, for example, seem to stimulate buyers, according to area retailers. Most of the large retailers indicate they would be happy just to repeat last year's Christmas volume. Many admit they would not be surprised, however, to see sales fall below last year's pace during the closing months of 1970. Looking ahead to 1971, few retailers expect a rejuvenated consumer before spring.

A large majority of regional manufacturers polled in early October indicate they will either cut back or not increase capital spending during the next six months. New orders have been disappointing and order backlogs are still headed downward. Although most manufacturers do expect a pick up in the overall economy in the months ahead, they intend, for the most part, to keep a lid on capital outlays until the outlook is more optimistic for their own firms. In the same cautious vein, few manufacturers plan to increase inventories during the coming months. On the employment front, nine out of ten manufacturers plan no increase in the number of employees through November. At the retail level, area department stores say the beginning of the normal seasonal buildup of Christmas employees will be delayed about a week. Further,

total seasonal increases will be somewhat under a year ago. All in all, particularly with an expanding labor force, the rate of unemployment will probably continue to rise in the Third District.

FOURTH DISTRICT - CLEVELAND

The direct and indirect effects of the auto strike, coupled with weakness in the capital goods sector, are dampening economic activity in the Fourth District. On the other hand, shortages of freight cars and coal are providing support to some manufacturing and mining sections of the District. Barring a prolonged auto strike, the members of the Fourth District business economists round table expect continued real economic growth in the current quarter and throughout 1971.

At a joint Board meeting held in Erie, Pennsylvania on October 8, several of our directors commented on repercussions of the auto strike on their companies or in their areas, and also on the continued weakness in capital goods. One director representing a large paint, glass and chemical concern reported recent strength in residential construction materials and industrial chemicals, although production of glass and coating materials used for autos has been adversely affected by the GM strike. Another director, representing a medium-sized packaging firm, also noted a recent upturn in activity in glassware and other packaging products, but suggested that part of the improvement may be artificial since buyers are anticipating a possible strike in that industry. A third director, from a large capital goods producing firm, reported that demand for most of his firm's industrial goods is sluggish, with the exception of production of parts for large trucks and railroad cars, where demand remains strong. Finally a director from a small bank in eastern Kentucky noted that the low-sulphur coal shortage has helped to restore near-boom conditions in that area. Mines that were

idle for many years have been reopened and employment and income have been bolstered. However, coal supplies are beginning to catch up with demand, and as a result, coal prices declined in early October.

About 40 business economists attended the regular meeting of the Fourth District round table held at the Cleveland bank on October 2. Most of the economists submitting forecasts assumed that the auto strike would last approximately six weeks and accordingly predicted a continued improvement in the real growth rate during the current quarter. The median forecast of the group also projected a 3.0 percent gain in real GNP and a 3.7 percent increase in the price deflator for 1971. Assistant Secretary of Commerce, Harold Passer, who attended the meeting, noted that fourth quarter current dollar GNP could be expected to remain unchanged from the third quarter level if the auto strike were prolonged and lasted for the entire fourth quarter.

One economist, representing an auto and truck parts company, discussed his projections that linked the recovery in output and sales of new cars to the length of the strike. The results indicated that the adverse income effect on new car sales in 1971 will depend to a considerable extent on the length of time that the auto workers are on strike as well as on the length of time of secondary unemployment of other workers.

Another economist, associated with a machine tool company, reported that new orders for machine tools recently have been at the lowest level since 1962, and that recovery in the industry is not expected to begin over the foreseeable future. This economist's analysis indicates that the manufacturing sector is at least 12 to 18 months ahead of its need for installations of new capacity.

The consensus of the business economists was that, with the capital goods sector weakening, the strength of business activity in 1971 would depend largely on a continuation of the current uptrend in residential construction, and stronger gains in consumer and government spending, especially at the state and local levels. Inventory building during the first half of 1971, particularly by steel users in anticipation of a possible steel strike next year, was also expected to provide some thrust to the recovery (and also to obscure underlying trends in the economy).

FIFTH DISTRICT - RICHMOND

Surveys of businessmen and bankers in the Fifth District indicate general agreement on the following points: (1) An increase in manufacturers' shipments but some decline in backlogs of orders; (2) Some improvement in retail sales except for a sharp decline in automobile sales; (3) Increased inventories in manufacturing and retail trade and higher levels of inventories than desired in both areas; (4) Continued declines in employment and a further increase in available labor supply; (5) Continued price increases in important industries and further upward pressure on wages; (6) Further decline in residential building, but increased nonresidential construction; (7) Increased loan demand at District banks; and (8) Improved sentiment regarding future business conditions.

District manufacturers report some increase in shipments in October for the first time in six months. Improvement is reported in such industries as building materials, lumber, furniture, and electrical equipment. Several major textile producers continue to report declining shipments. Backlogs of orders in October are reported to have receded slightly since the September report, and new orders remain about unchanged.

Businessmen in trade and services report retail sales to be improved slightly during the past month, but automobile sales are reported to be off substantially, reflecting the effect of work stoppages in that industry.

District manufacturers report that inventories have increased slightly, and the majority of them continue to regard inventory levels to be higher than desired. Similarly, retailers report increased inventories and higher levels than desired.

District manufacturers report continued employment declines

affecting such industries as furniture, textile, electrical machinery, metals, and paper. Employment in the textile industry in the District has fallen considerably under seasonal expectations. No significant change is reported by manufacturers in hours worked per week. Respondents in trade and services, however, report no change in employment but a significant decline in hours worked.

District bankers report considerable declines in employment in most areas of the District, accompanied by an increase in the available labor supply. Numerous manufacturers, however, continue to report that skilled labor--particularly of the quality which they desire--remains in short supply.

Reports of price increases continue in manufacturing and in trade and services. Increases are reported in machinery and equipment, coal and apparel. Some declines are reported in nonferrous metals and hosiery, but reports of declines continue to be infrequent. Wage pressures are continuing strong in manufacturing according to respondents, and especially strong in the retail trade and services categories.

Residential construction in the District reportedly declined further in the past month and remains in a slump. Nonresidential building, however, has tended to remain relatively strong throughout the District in recent months and is reported to have increased further last month.

Increases in loan demand are reported by District bankers. The recent increase in the demand for business loans is reported strongest, while consumer loan demand rose less last month than in August. Mortgage loan demand, which was reported off in August is now reported to have recovered significantly in September.

The number of District respondents indicating that they expect further improvement in general economic conditions increased sharply in the October survey, following a similar rise in optimism last month.

The proportion of District manufacturers reporting excessive plant and equipment capacity has gradually declined, and most respondents indicate that they do not feel further cutbacks in capital spending plans are necessary. Some respondents in the coal, chemical, fabricated metal products, and apparel industries report a desire to enlarge capital spending plans.

Manufacturers in a number of the District's important industries--furniture, textiles, paper, and metals--report that excessive inventories of finished goods continue to present a problem. The same is true of numerous retailers who report that efforts to reduce inventories have been less than successful.

SIXTH DISTRICT - ATLANTA

A midsummer business recovery in the Sixth District has suffered a setback, yet confidence has not been shaken and our directors remain more concerned with inflation than with the business slowdown. The GM strike has idled workers at two assembly plants in Atlanta. Some of the substantial layoffs occurring in the rubber industry are also tied to the strike. Quite aside from the strike, however, layoffs have occurred in the aluminum, textile, and furniture industries, and employment in the aerospace industry continues to shrivel.

The direct effects of the GM strike on the District have not been large or widespread, since the only GM assembly plants are located in Atlanta, where about 9,000 workers have been affected. However, about 2,200 employees have been laid off by the rubber industry in recent weeks--1,000 at a plant that shut down completely. Although the strike was mentioned as a reason for the plant closing, it is suspected that labor difficulties at the plant and a poor production record also entered into the decision. Another tire plant, which had been on a 7-day week prior to the strike, is down to a 4-day week. Still another tire plant has laid off 600 workers for 9 days, and a chemical plant supplying the tire industry has idled 600. The GM strike is also mentioned by some car dealers as a depressant on sales, as prospective buyers wait out the strike before buying.

Cutbacks in aluminum production in Louisiana, Alabama, and Tennessee have resulted in about 350 workers being laid off, and Alcoa is reportedly "stretching out" its construction schedules. The 23-percent increase in TVA rates, which amounts to a \$5-million increase for one company, is hitting the aluminum industry hard. Conversely, the cutbacks

in aluminum production may ease pressure on TVA coal supplies, which have been reported as low as a 10-day supply at full burn.

In the textile industry, carpet mills have experienced lower orders in August and September, after an increase in July, yet one carpet mill is raising prices. Hosiery manufacturers are having the worst year in 10 to 15 years and the sewing of women's wear is slow, partly because of a rejection of new styles. Businesses are reportedly switching to the sewing of pantsuits.

In Florida, Brevard County has become eligible for federal aid because of rising unemployment associated with layoffs at the Kennedy Space Center, and Dade County (Miami) has applied for federal aid, also because of increases in unemployment. The tourist business in Florida is sluggish, with receipts only about equal with last year.

A major layoff has occurred at a furniture manufacturer in Jackson, Mississippi. Retail sales in that area, and in many other parts of the District, have been adversely affected, as consumers have diverted funds to private school tuition.

In Jackson, enrollment is up sharply at 17 private schools and off 10,000, or 25 percent, at public schools. Still on the pessimistic side, directors report reduced profit margins and a slowdown in the collection of accounts receivable. Gains in telephone revenues in Alabama and in south Florida continue to lag behind those of recent years, and feedlots in north Florida are taking in few calves because the corn blight has raised doubts about obtaining feed.

On the bright side, several directors report home building on the rise, although one mentions that most of the homes being built are "stripped down" versions. An oil and gas find in a Tennessee county is generating considerable drilling interest. On the "price shading"

front, a firm reports that a machine it considered purchasing at \$100,000, with a six-month delivery, has recently been offered at a price of \$78,000, with a five-week delivery.

SEVENTH DISTRICT - CHICAGO

The continuance of the General Motors strike into its fourth week with no evidence of agreement in the near future, has had a somber effect on attitudes of businessmen and bankers in the Seventh District. In part, this pessimism is related to fears of difficult negotiations in other industries, especially farm and construction machinery. Secondary layoffs by producers of parts and materials for motor vehicles, including steel, continue to mount. Steel companies had suggested earlier that they would continue production for the auto industry for two weeks. This period has passed and they have cut back.

The announcement that one large construction machinery producer has agreed to an unlimited cost of living adjustment (no "cap") means only that an immediate strike was avoided. Demands for a large first year pay increase, and the demand for a \$500 monthly pension after 30 years remain unresolved.

Job markets continue to ease throughout the District, more than can be accounted for by the GM strikes. Orders continue weak for capital goods producers, although many believe new business is merely postponed, and will pick up as soon as the general economic outlook is clarified.

Management negotiators in labor disputes are perplexed by the huge number and variety of demands by the unions. At GM these are supposed to number 32,000, including permutations and combinations at the local level. At one medium-sized plant in another industry, more than 300 demands have been made. Moreover, the international unions are yielding more autonomy to locals as to when strikes can be called regarding grievances. Aside from large demands for increases in compen-

sation, business managers are greatly concerned about pressures for more union control over work standards, work assignments, and other operational matters over which they believe management must retain control to achieve maximum efficiency.

Virtually all business firms continue to follow very cautious policies on new hirings and nonessential expenditures. For example, expense accounts and travel budgets are under very close scrutiny.

Price increases continue to be widespread and substantial, but not so numerous as last year or earlier this year. Most important of the recent increases have been in vehicles, business equipment, electrical apparatus, consumer durables, chemicals, and containers. Price weakness now is showing in steel as well as in non-ferrous metals. Price cuts have been indirect in some cases, involving reclassifications of products and other methods. On the other hand, some substantial price increases (6 percent for an important class of equipment) are being effected "quietly."

Credit continues to become more available, but mortgages for single-family homes are still difficult to obtain in this region. Also, a number of banks and finance companies have reduced or eliminated purchases of automobile paper from dealers because of reduced profit margins and increased delinquencies and repossessions.

A committee of business and financial economists from the Indianapolis area (with representation also from Indiana University), that has routinely prepared economic projections to aid the state in making revenue estimates, recently has prepared a GNP forecast for the period through mid-1973, that closely parallels the Board staff projection for the current and next two quarters: 1970 - fourth quarter \$998 billion; 1971 - first quarter \$1,016 billion; 1971 - second quarter \$1,035 billion.

For the period after mid-1971, the Indiana committee projects quarterly increments in current dollar GNP (SAAR) climbing from \$20 billion (1971-3) to \$25 billion (1972-3). Underlying the committee estimates is a slightly higher projected unemployment rate and slightly higher price deflator than those in the Board projections.

Purchasing agents in the Chicago area report an improvement in delivery schedules from suppliers in recent months. Price increases are not quite so numerous as earlier in the year, but the proportion reporting paying higher prices is still almost 70 percent, while lower prices are reported by only 1 percent. The number of firms reporting reductions in output, employment and new orders continue to be more common than those reporting increases, but the margin has narrowed. The number of firms cutting inventories has declined, but reductions continue to be more numerous than increases.

Larger commercial banks in the District report that loan demand is rather sluggish or at least not "robust." Reins have been loosened on loan officers but loans after adjustment for sales are not going up. Corporations continue to express concern with their illiquid positions and are reported to be willing to "pay the price" to fund debt. However, with compensating balances, the prime rate is still above market rates. The receivables position of some corporations has apparently improved and payments are now on time. Banks have no problem in getting funds. Several continue to pull rates down and still get all that they need.

EIGHTH DISTRICT - ST. LOUIS

"Guarded optimism" describes most views of businessmen relative to current economic activity in the Eighth District. Except for the automobile strike, which is beginning to have an impact throughout the District, the major employment changes are seasonal in nature. Although home construction is still below levels of a year ago, industry representatives are not so pessimistic as in recent months. Capital investment plans generally remain unchanged. Because of recent adverse weather and the southern corn blight, agricultural production is below earlier expectations but is still generally good. Loans and deposits at commercial banks continue to increase.

A major employment disturbance in the District is the automobile strike, which has directly affected more than 9,000 workers in St. Louis. A number of automobile parts suppliers in St. Louis and other District cities have recently announced temporary layoffs. For the first time in several months, attrition and layoffs were not mentioned by District industries as a method of reducing production cost.

In Little Rock and Louisville, residential housing construction is singled out as being especially slow. In St. Louis, however, low-cost housing (under \$16,900) is strong, and a general improvement is expected within the next six months. Potential homebuyer traffic has increased, and borrowing rates are creeping down.

Consumer buying is still restrained, but most businessmen expect substantial improvement after the automobile strike is settled. Total retail sales are still trailing levels of a year earlier, despite somewhat stronger promotional efforts. One major St. Louis retailer, however, reports some pickup in sales in recent weeks. Durable goods are moving slowly, and a number of automobile dealerships are changing hands

in some areas. The chemical industry throughout the District reports sales below expectations, but a large St. Louis-based firm is planning for a moderate expansion of output in the near future.

Capital expansion plans generally remain unchanged, but some of the firms contacted indicated that internal cash flows for investment purposes were less than expected when the current investment plans were made.

The agricultural situation is mixed. Recent rains had some deleterious effects on the soybean crop in western Tennessee, but the overall yield for the District is expected to be high. The cotton crop in Arkansas and northern Mississippi is of lower grade than the average of recent years due to boll rot and overgrowth brought on by the rains. The corn blight is reducing the corn crop as much as 50 percent in some local areas. Overall, however, the crop will be only a small percent less than a year earlier in the District. The reduced corn crop nationwide has already had a major impact on average crop prices. To date, there has been little impact on livestock prices, but the higher feed grain cost is expected to have an impact on meat and other livestock prices in the year ahead.

Commercial bank loans and deposits have increased in the Eighth District. Savings and loan associations are reported to be liquid and are seeking to increase their loans.

NINTH DISTRICT - MINNEAPOLIS

The downturn in Ninth District business activity appears to have leveled off, but there are no indications of a significant recovery over the next few months. So far, the General Motors strike has had only a minimal impact here, but the Northwest Airlines strike is having a considerable influence on scattered areas of the District. Loan demand is still very strong according to directors and officers of this bank, in contrast to reports from other sections of the country. Agriculture income in the District is expected to fall below last year's level because of lower crop yields and declining livestock prices.

The directors and officers of this bank feel that the General Motors strike is having only a minimal effect on the District economy. For the most part, GM dealers entered the strike with heavy inventories, especially of the 1970 models and have actually increased their sales in recent weeks. According to the car dealers, people seem more than willing to buy 1970 models because of their lower prices and longer warranty periods. At the same time, auto sales of other makes have been brisk, and these dealers feel a part of the increase is due to the GM strike.

An officer of the Minnesota AFL-CIO feels that the GM strike will continue longer than the 1967 Ford strike and could very well extend for at least three to four months. He based this expectation primarily on the fact that about 40 percent of GM's production workers are under 25 years old, and these workers tend to be more militant than the older workers. If his expectation is borne out, GM dealers in the District will probably run short of parts and new autos, as inventory shortages are already becoming apparent.

The Northwest Airlines strike is also having scattered effects throughout the District. A few firms servicing Northwest Airlines have furloughed employees, and a number of retail establishments have experienced noticeable sales reductions. In addition, Northwest Airlines has cut their flight schedules because of the strike, and as a result landing fees to a number of airports in the District have been drastically reduced. These landing fees are important contributions to airport sinking funds, and in at least one case so far, these reductions have become especially troublesome.

Ninth District bankers are still experiencing strong demands for loanable funds, according to information gathered during go-around sessions with both directors and officers of this bank. The continued strong loan demand seems to be general throughout the District as no one cited a case where loan demand had diminished. On the contrary, numerous instances were cited where demand had actually strengthened and non-financial businesses had taken further steps to economize on the use of funds. One reason frequently cited for the continued strength in loan demand was that inventories seemed to be moving above planned or desired levels. One director stated that he knew that one of the top 50 firms in the nation and two mining companies have begun pushing off their accounts payable to the latest date possible.

The power shortages that have plagued the East Coast have not yet been felt in the Ninth District, but such occurrences in the next few months would not be surprising. Moreover, indications are that over the longer horizon the problem could become critical. Anticipating possible shortages during the coming winter, the Minneapolis Gas Company, which buys gas primarily from the Northern Natural Gas Company, recently notified its interruptable gas customers to check their emergency back-up

equipment because of potential shortages in the coming months. In addition, fuel oil suppliers are reluctant to make firm price bids for fuel oil to be delivered at a later date because of possible future shortages and further price increases. The price of "heavy" oil to industrial users in the Twin Cities has already risen to 10 cents per gallon from the seven cents per gallon last year.

Farm income is down from a year ago, according to the results of the latest agricultural credit conditions survey. The survey reflects conditions on October 1 according to the responses of 142 agricultural bankers. There were two major reasons cited by respondents for lower income: (1) lower crop yields, which were not entirely offset by higher grain prices, and (2) declining livestock prices, especially for hogs. Lower farm receipts have caused both a drop in farmer and rancher spending and a slower rate of debt repayment. Bankers are anticipating an increase in the demand for farm debt refinancing as a result of the lower income. The current survey indicated that farm credit conditions had eased slightly in the last three months, but still remained tight compared with conditions in previous years. The rise in interest rates at agricultural banks appears to have slowed down and fewer bankers report reducing or refusing a loan due to a shortage of funds.

TENTH DISTRICT - KANSAS CITY

There is evidence that future growth in large CD's at Tenth District banks will be less. There are indications also that business loan demand may be easing slightly. The labor situation in the Kansas City area has worsened as the construction strike--now in its seventh month--continues and the General Motors strike prevails at several large GM assembly plants. The reduction in output of feed grains and high feed-grain prices is likely to have an impact on the WPI and CPI within several months. Instead of providing a downward pressure on these indices which occurred from March to August, farm prices may again exert upward pressure later this year or early next year.

Those large District banks which have actively sought large CD's (many have not) have continued to attract substantial amounts of funds. Growth rates of outstanding CD's have been comparable to those at large banks in New York City and Chicago. One peculiarity in the Tenth District has been that a significant amount of CD funds have come from state and local governmental units--about one-third of the total growth in CD's. This source of funds would seem to be limited, so that future growth of CD's may slow.

Despite the rapid growth of CD's, most of the District banks so far have retained bank-affiliate commercial paper as a source of funds. One large Tulsa bank, however, is actively substituting CD's for its commercial paper. Most of the CD funds have been utilized by the banks to restore liquidity. Only a limited amount of the funds have gone into loan expansion. As a result, some banks are beginning to feel much more comfortable. One larger Denver bank this week reduced its CD rates below those in New York City to slow down the inflow of funds. This bank had been aggressively seeking CD's by offering rates

above those in New York and had more than doubled its outstanding CD's over the past three months.

Business loan demand in the District is showing some signs of easing. In particular, business loans have not reflected any of the growth of CD's in those cities that had been squeezed for funds. Except that some loans have been transferred from parent holding companies back to the banks, there has been no noticeable pile up in loan requests following the reduction in the prime rate.

There is little indication that the Tenth District economy is deviating significantly from national trends. There are a few signs of recovery but areas with significant problems remain. Aircraft production is low and the airline industry has substantial overcapacity because of a sharp slackening in the rate of growth. Airlines with large District installations are cooperating with other trunk carriers in an effort to get CAB approval to reduce flights on some highly competitive routes.

Construction activity is reported to be moving upward at a rapid pace in Denver and some other District cities. In Kansas City, however, long construction strikes this year and last virtually halted construction activity and are resulting in highly inflationary wage settlements which hurt future prospects. Four of the seven striking construction worker locals signed contracts with the building contractors in late August. These agreements provided for the increases of about 100 percent over four years. One of the three remaining locals on strike, the Cement Masons, has recently rejected a four-year increase of 90 percent. This is explained by the fact that many of the Cement Masons are presently being employed by the heavy construction contractors at the wage levels determined a year ago which exceed the rejected offer

made by the builders. Consequently, there is no strong incentive for them to settle the strike that started on April 1.

The effects of the General Motors strike are adding to Kansas City's problems. It has added 8,000 idle workers to the 12,000 still out due to the construction strike. Kansas City led the nation last year in man days lost to strikes with 2.7 million and is leading again this year with 3.3 million lost due to the construction strike alone.

Damage to the corn crop from blight and unfavorable weather conditions apparently is severe. Consequently, grain prices are likely to retain most of the gains of the past few months and may go higher. The reduction in output of feed grains and high grain prices will discourage the rapid expansion that has been occurring in meat production. This set of conditions may have a temporarily depressing effect on livestock prices, as fewer animals are withheld for breeding and perhaps some breeding stock liquidated. However, as the rate of expansion and slaughter weights decline, livestock prices are likely to increase, perhaps sharply.

The net effect of the anticipated changes suggests a bottoming-out of the decline in the index of prices received by farmers that has been occurring since March. It is probable that the index could again start rising late this year or early next year. To the extent that this evaluation is correct, farm prices may soon start exerting upward pressure on the WPI and CPI instead of being a retarding influence such as has been the case since February.

ELEVENTH DISTRICT - DALLAS

For this report, thirty-one city and county finance officers in the Eleventh District were surveyed concerning current and anticipated levels of government expenditures and the means of financing these expenditures. The officers surveyed reported: (1) Most governmental units had a substantial increase in 1970 expenditures over those in 1969, and anticipated additional increases in 1971; (2) Nearly three-fourths of the units had awarded a wage increase to their employees in 1970; (3) Only a few units had postponed capital issues in 1970--due to either legal interest rate ceilings or other reasons; (4) About half of the governmental units planned new capital issues to be sold within the next nine months; and (5) Over 70 percent of the units had participated in some type of federally-funded project requiring matching or local funding responsibility in 1970.

With regard to 1970 expenditure levels (including both current and capital spending), the majority of officers reported a substantial increase (9 to 12 percent) in spending over the 1969 level, with about one-fifth reporting a spending increase in the neighborhood of 20 percent. A few of the smaller units reported no change with one city showing a substantial decline in expenditures due to the completion of a major capital spending program during 1969. Although many officers did not yet have preliminary expenditure estimates available for 1971, of those who did, the majority again foresaw an increase in spending of from 9 to 12 percent. Moreover, about one-fifth of those surveyed anticipated expenditures in 1971 to exceed 1970 levels by 20 percent or more. Two of the city officers noted that they expected over a 50-percent increase in expenditures in 1971 due to large capital spending programs planned for next year.

Nearly three-fourths of the officers surveyed reported that their units had awarded a wage increase sometime during 1970. Increases made ranged from 3 to 15 percent, most being about 5 percent. Several of the city officers mentioned that fire and police personnel were awarded wage increases from 2 to 4 percent higher than those for other employees. Some units had made across-the-board wage increases from \$25 to \$43 a month which resulted in a 5 percent or more increase--depending on individual pay levels. In addition, many officers reported that their units had improved fringe benefits substantially during the year. A few officers noted that their wage increase was not considered a "cost-of-living" increase, but was extended in order to remain competitive with other employers in their area. Finally, a number of the officers mentioned that they expected additional wage increases early next year.

Only five of the thirty-one officers reported having postponed any new capital issues during 1970. Of these five, two had postponed bond issues because voters had approved the issues with interest rate ceilings (4.5-5 percent) that were not competitive in 1970 markets. The other three officers mentioned that they had no legal rate ceilings, but had postponed the issues until a later date because of what they considered to be excessive interest rates prevailing in capital markets during the past year.

About half of the officers surveyed indicated that their governmental unit planned to sell new capital issues sometime in the coming nine months--many before the end of the year. A number of the other officers noted that some proposed bond issues had not yet been approved by the voters, but could possibly receive the necessary approval and be issued sometime before mid-1971.

Over 70 percent of the governmental units had participated in at least one federally-funded project requiring some local funding responsibility during 1970. There was some difficulty in estimating funds expended on annual basis since there is some overlapping of fiscal and calendar years, and many of the projects are ongoing, requiring a number of years for completion. The majority of the projects involved matching funds (50-50) between federal and local governments; however, there were several projects that involved 60 to 70 percent federal money. A few of the officers surveyed mentioned that their units had made proposals for projects involving federal funds--with approval anticipated in the near future.

TWELFTH DISTRICT - SAN FRANCISCO

Businessmen and bankers in the Twelfth District appear to take a restrained view of current economic conditions. Although there is now no expectation of a marked decline in the economy, there is also no expectation of an early return to a vigorous expansion. The consensus is that the economy is at a plateau and businessmen are consequently making plans in line with that expectation. This opinion is supported by reports from bankers that despite the recent reduction in the prime rate there has been little basic change in either deposit flows or in their lending policies.

Construction trends mirror the economic trends. The demand for single-family homes remains weak in most areas with buyer resistance to high prices and hesitancy because of expectations of lower interest rates. Apartment construction shows strength in some areas but not in others, and there is considerable variation from area to area in commercial construction. The principal weak spot is still in Seattle where aerospace employment has been cut back. Seattle construction activity has fallen off sharply with the lack of demand. Vacancies are high in Seattle (in some suburban areas near 25-30%) and rents are being shaded. A rise in foreclosures is reported. Elsewhere in the District, vacancies are not at such high levels and there are still a few areas where vacancies are quite low. Rents have tended to remain steady or be increased by nominal amounts in areas other than Seattle. The principal weakness remains in the demand for higher-priced single-family homes. For the District as a whole, construction activity is proceeding at a moderate pace.

On the financing side, there have been small increases in the availability of funds, and one respondent reported the return of a few insurance companies to the residential mortgage market. Despite this somewhat greater availability, mortgage rates have not declined to any extent. They remain either unchanged or are down only  $\frac{1}{4}$  percent. The only significant change is a reduction in the interim-financing rate from 14 percent to 12 percent in southern California.

The prime rate reduction is described by local banks as a competitive response and not one that is justified by either improved liquidity or reduced loan demand. Most banks have been gaining both demand and time deposits and are in a slightly better liquidity position, but the improvement is not felt to be of sufficient magnitude to justify the prime rate reduction. Loan demand remains high or at worst only slightly lower, and most banks have not changed their basic policy of continuing to be restrictive in their lending. There are a few banks which reported a slightly more aggressive policy of seeking new loan accounts, but only those of good quality and at an appropriate rate. There are other banks which have gained funds and have treated them as transitory, using the funds for investments of similar maturity and not for expanding loans. Overall, the prime rate reduction to the contrary, banks have not experienced any major change in financial conditions.

Retail sales continue to hold up well even though they may be rising at the rates below those achieved in recent years. One national food manufacturer reported that, despite increases, the sales of food products generally were not quite up to expectations. It was felt that one reason for this slower pace was inventory restrictions by whole-

salers who are trying to maintain their cash positions by lowering inventories. This same firm also reported problems in making deliveries because of a shortage of rail cars and it has resorted to leasing cars on a yearly basis to insure deliveries.

Retail food prices are holding steady in most areas, and in some lines they are falling because of special allowances to meet intensive competitive activities. Several large supermarket chains have recently shifted to a discount basis and are stressing lower prices in their advertising.

Building costs continue to rise and to have a dampening effect on new projects. Construction wages are higher in all areas (even in Seattle where the volume of housing construction has fallen off) and, except for a few isolated instances where competition has forced some price reductions, the cost of building materials is also higher. One banker felt that the high cost of new housing forces more buyers out of the market than the scarcity and high rates of mortgage finance.

In conclusion, businessmen and bankers in the Twelfth District expect that economic conditions will hold for the moment at the current slower pace and that there has been no basic change in either the business or financial situation.