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CURRENT ECONOMIC COMMENT BY DISTRICT

Prepared for the
Federal Open Market Committee
by the Staff

May 17, 1972

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SUMMARY*

Overall, District reports reveal continued economic expansion in most sectors of the economy, although there are indications of slowing in certain activities. In the forefront, there is continued concern about inflation, the wage-price controls, and the performance of profits. Consumer sentiment and spending appear to be gathering strength in many areas, as is capital spending. Residential construction, however, is showing some signs of weakening. On balance, businessmen are still cautious with regard to inventory investment. Employment is generally rising, unemployment remains a problem. Current and prospective agricultural conditions are excellent in most parts of the nation. The major categories of bank loans are improving.

Boston reports concern among businessmen about inflation and about the ability of the price and pay boards to achieve their goals. Economists attending a regular outlook session at the Cleveland Bank expressed the view that further progress in reducing the rate of inflation will be difficult to achieve, and they think it unlikely that inflation can be held below 3.5 percent for any sustained period over the next year or so. Chicago reports there is widespread irritation among businessmen over recent actions of the price commission. Atlanta, on the other hand, mentions that there have been few reports of inflationary psychology, despite tight labor markets in their area.

*Prepared at the Federal Reserve Bank of Cleveland.

Districts "taking the pulse" of the manufacturing sector report further gains in new orders and shipments, coupled with improvement in employment and the workweek. Richmond and Cleveland, however, detect a recent slowdown in steel orders.

Chicago reports the demand for certain types of capital goods is up sharply, primarily for modernization rather than for expansion. Sales of heavy trucks in particular are expected to remain vigorous through mid-1973. Businessmen in St. Louis also say their capital spending is largely for modernization and equipment, noting that profit margins are still too low to provide incentive for major plant expansion. Chicago and Minneapolis both mention extremely good sales of farm machinery and equipment. Respondents in New York and Cleveland raise questions about accepting too readily the strength implied by recent plant and equipment surveys, at least until more evidence is available. San Francisco mentions some caution in business spending plans.

Recent consumer spending patterns are difficult to interpret, in part because the early Easter season may have distorted March and April retail sales data. New York, Minneapolis, and Kansas City report gathering strength in consumer sales. Chicago and Atlanta emphasize strong sales of consumer recreational goods. On the other hand, Cleveland mentions a recent weakening of GAF retail sales; St. Louis reports a leveling in department store sales; Dallas sees some signs of weakening in nonautomotive retail trade; and Richmond says retailers in the Baltimore area were disappointed with sales in April and early May.

Construction generally remains strong in most Districts, especially in Atlanta. Cleveland, however, reports a sharp drop in residential construction. Minneapolis mentions that rising vacancy rates in the Twin Cities are causing banks to be more cautious in their lending policies. San Francisco notes that the high level of apartment and commercial building in Southern California is raising concern over vacancy rates and causing banks to be more cautious in extending credit.

Districts commenting on agricultural conditions (St. Louis, Minneapolis, Kansas City, Dallas, and San Francisco) report highly favorable prospects for crops and livestock. Chicago mentioned that recent wet weather delayed corn planting.

Districts commenting on bank loans report moderate to strong increases in loan demand, except Boston, where business loans are weak.

FIRST DISTRICT - BOSTON

Concern over inflation and the ability of the price and pay boards to meet their goals is continuing. While profits were generally reported as having risen substantially in the first quarter of 1972 and new orders were generally rising, employment and inventories have not been increased.

None of our directors indicated that their firms were currently increasing employment, although one director indicated that his firm plans to increase employment in the second half of the year.

There have been no recent upward revisions in capital spending plans. Two manufacturers of machinery for the can industry indicated that current orders were below last year's levels, but were optimistic about the second half of the year. New orders for intermediate processing goods, like white pigment, and for consumer durable recreation equipment were reported at record levels. Despite the pickup in orders, all the firms indicated that inventories either were being held at current levels or were continuing to be cut.

A large area bank indicated that during the past six weeks savings deposits have not been experiencing the previous rapid gains. There also appears to be a softening of mortgage interest rates, with a slight drying up of demand at the current 7 - 7 1/2 percent levels. Weakness in business loan demand has made this bank turn to new aggressiveness in finding customers and to a changing of loan standards, at least in terms of geographic location.

Professors Eckstein and Wallich were critical of the recent surge in the growth of bank reserves. While each recommended a tapering off, they were both careful to point out that it is now too early in an expansion to introduce a restrictive monetary policy. Although it is not yet time to reverse monetary policy, Wallich urged the Board to consider what policy would be appropriate if the pay and price boards are not able to curb inflationary pressures. Both Samuelson and Wallich found encouragement in the first quarter GNP figures. On the basis of the large gain in final demand, Samuelson felt most forecasters had, like himself, revised their forecast back up to the $1145-1148 range where they stood last fall. Wallich granted that the first quarter figures did not reflect a hesitancy he had expected. He believes that the expansion should be strong "from here on out" but qualified this by warning of the danger of "spring euphoria." Samuelson prescribed a 7-8 percent rate of monetary growth over the first seven months and a trailing off to 5-6 percent in the latter part of the year. He expects short-rates to be over 5 percent by the end of the year, leaving little room to keep long rates steady or declining. In recent talks abroad, Wallich has been surprised by the depth of the criticism by foreign central bankers of recent and past U. S. monetary policy. He noted there is a wide gap between their views and those of most American economists.

SECOND DISTRICT - NEW YORK

Opinions expressed by Head Office and Buffalo Branch directors and other business leaders point to further advances in economic activity. Plant and equipment spending is apparently being upgraded, consumer confidence is improving, and the demand for business loans is strengthening. The unemployment situation, however, while improving slightly, remains far from satisfactory.

Most respondents looked for a further upgrading of plant and equipment spending over the balance of the year, but were more restrained regarding the strength of the upswing than suggested by recent surveys. Among the Head Office directors, the chairman of the board of a large New York City bank thought the capital expenditures outlook was good, but not as favorable as the McGraw-Hill Survey indicated. The president of a large nonferrous metal firm stated that recent reports of an upgrading of plans for capital outlays may be "fairly accurate," but could not confirm these on the basis of his business' own experience. The Buffalo Branch directors felt the tone in the capital goods sector was taking a turn for the better and reported that a number of small businesses were expanding facilities and that the demand for improved equipment was particularly strong. However, a Rochester retailer, a Head Office director, stated that while the largest upstate firm was adhering to current expansion plans, several other companies were planning cutbacks. Opinions expressed by some business leaders were also less optimistic: A senior official of a large electric equipment firm said talk about heavy capital spending was not reflected in his firm's heavy machinery business, which was slow.

As noted in last month's report, the March-April retail sales picture has been somewhat blurred by the early Easter, which favorably affected March sales. Nevertheless, the views expressed by most respondents, on balance, point to the emergence of a brighter consumer spending picture. Most of the Buffalo directors thus reported a pickup in retail sales following a somewhat disappointing Easter season in Western New York, and these directors felt that consumers' moods had brightened. Most reported local retailers are expecting to meet 1972 sales projections as consumer demand continues to strengthen. Among the Head Office directors, the large New York City banker found the retail picture fairly encouraging, and the Rochester retailer was optimistic about the outlook, despite the fact current business in the Buffalo-Rochester-Syracuse area was not good. The vice president of a large nationwide chain of department stores reported that sales in both March and April had been good, indeed better than his firm's expectations, and that on the basis of preliminary reports, the trend was continuing in early May. He noted special strength in home appliances and furnishings, presumably linked to the occupancy of new housing. In his view, the consumers have not become reasonably confident, and his firm was optimistic regarding the remainder of the year. Moreover, indirect indications of gathering strength in consumer sales were also evident in the comments of several manufacturers. Thus, the senior official of the electric equipment firm reported their consumer goods sales were moving well, in some areas with "considerable strength," while the president of an upstate manufacturing firm reported a significant pickup in his company's sales of auto parts.

Those directors who expressed an opinion on the business loan situation reported a strengthening in such credit, primarily related to construction projects. Three of the Buffalo Branch bankers pointed to the increase in loans to finance the construction of multiple dwellings units, including condominiums. One of these directors, while noting the strong demand for construction credit, referred to the sluggishness in demand from national firms, which he felt were raising needed funds in the equity and bond markets rather than drawing on their credit lines. Some of the respondents expected an eventual improvement accumulation would bring further increases in the demand for business loans. With respect to other types of loans, among the Head Office directors, the president of an upstate bank reported a strong demand for credit in his area, especially in mortgage loans for new apartments (but also for new factories), while the chairman of the large New York City bank stated that loans to finance companies and real estate loans have been particularly heavy.

The Directors felt that some improvement--albeit scattered and as yet limited--was occuring in the unemployment situation. The president of the metal producing corporation reported that there seems to be some improvement in Arizona and California and pointed to the fractional rise in March and April in help wanted advertising in the West and Southwest. The New York City banker felt the situation had improved slightly, but remarked that a decline in the overall unemployment rate was difficult because of the sizable influx of new entrants into the work force. The Buffalo Branch directors generally agreed that there had been some recent improvement in the local employment situation, but noted that this must be viewed against the high unemployment rates prevailing during the winter. They noted that the local picture was still not good--while skilled workers were again in demand, unemployment among the unskilled would continue to plague the area.

THIRD DISTRICT - PHILADELPHIA

The general tone of conditions in the Third District continues to be one of steady improvement. Area manufacturers report further increases in new orders and shipments for both April and May and, as a result, have added employees and lengthened the average workweek. And these firms see continued expansion during the months ahead. Prices show signs of stability at these firms, both for prices paid and prices received. Loan demand is growing steadily at area banks with more of the same predicted for the next month.

District manufacturers polled in the Bank's Monthly Business Outlook Survey report continuing strength in the regional economy. Over 45 percent saw overall business conditions improving during the last two months. This increased activity meant improved conditions for many firms. Approximately 30 percent of the firms reported increases in new orders and shipments for April, while over 35 percent report increases in the same categories so far in May. This pickup is having a favorable impact on the regional employment picture. Nearly 8 percent of the firms added employees in April, while over 16 percent report they are doing so in May. In addition, some firms are lengthening their average employee workweek. And the outlook appears favorable during the next few months. Over 40 percent of the firms see improved overall conditions in June, with over 35 percent predicting a pickup in new orders and shipments. On the six-month horizon, nearly 70 percent see increases in new orders and shipments. Almost 30 percent plan to add employees over that time span, with 17 percent stretching out the average workweek. Nearly 50 percent report they will be increasing capital expenditues during the next six months.

Despite this increse in business activity, the price picture appears to be remaining fairly stable. In April, nearly 65 percent of the firms reported no change in prices paid, while nearly 80 percent reported no change for prices received. Comparable figures for May are at the 70 and 90 percent levels respectively.

Loan demand at area banks is growing slowly but steadily over a wide variety of sectors. Commercial and industrial loans show moderate improvement.

There appears to be particular strength in construction, mortgage, and foreign loans. The outlook over the next month appears optimistic, especially in construction, real estate, and consumer categories.

FOURTH DISTRICT - CLEVELAND

District manufacturers, our industrial directors, and economists attending a recent meeting of the Fourth District Roundtable report continued improvements in business conditions, although there were indications of some recent slowing in steel and retail sales. Residential construction in the District has weakened recently. Business economists in the District are now just a shade less optimistic with regard to the business outlook than they were at the beginning of the year.

Our latest survey of District manufacturers reveals a slight moderation in the rate of increase in new orders and shipments during April (reflecting what is thought to be a temporary lull in steel orders, following a surge earlier this year). Moderating tendencies are expected to continue during May. Manufacturers still seem reluctant to accumulate inventories, according to our survey, but they have been increasing employment moderately and lengthening the workweek.

Our industrial directors report that consumer-related business has been strong, particularly those portions reflecting the housing and automotive markets. Some hesitation in packaging, however, was noted. Directors also mentioned improvement in cutting tools and defense business.

Residential construction contracts in the District leveled off in December, declined moderately in January and February, and dropped sharply in March (30 percent below their November 1971 peak).

On May 12, about 40 business economists attended the regular Roundtable meeting held at the Cleveland Bank. The median forecast of the group called for a $98 billion gain in this year's GNP, with real growth at 5.5 percent, and the price deflator rising 3.7 percent. There was widespread agreement that it would be difficult to reduce the rate of inflation to below 3.5 percent for any sustained period during the next year or so. (Estimates of the Federal deficit for fiscal year 1973 in the $35 to $40 billion range were viewed as an adverse factor in the price situation.) Unemployment was expected to average 5.6 percent during 1972, with the rate declining to 5.3 percent by the fourth quarter.

Professor John Kendrick, a guest speaker at the meeting, forecast a 3.5 percent, or better, gain in productivity in the private economy during 1972, and a tapering in the rise for 1973. He indicated that as more companies reach their profit ceilings, there would be less incentive to hold down costs; as a result, productivity would be adversely affected. Over the longer run, Kendrick predicted a lower rate of productivity growth (conventionally measured) in the 70's than in the 60's--reflecting a significantly higher share of capital spending devoted to ecological controls.

Business economists whose firms are in the consumer market expressed some concern over recent weakness in retail sales of general merchandise, apparel, and furniture. It was thought that these sales may be suffering in part because of consumers' adverse reactions to rising prices of food and utilities. There was also concern that recent developments in Indochina may be a disruptive influence on consumer spending. Economists associated with the automobile industry said consumers have increased their new car purchases in response to price reductions and income changes in line with past experience. The economists forecast domestic new car sales of 9 million units in 1972, and imports of 1.6 million units. For the consumer sector as a whole, the business economists scaled down their forecast of the 1972 gain in PCE (from $57 billion at the previous meeting in January to $52 billion currently).

The business economists also reduced their forecast of inventory investment for 1972, and their forecast of net exports. No further gain in residential construction outlays for the balance of the year was expected. On the other hand, their forecasts for government expenditures and business fixed investment are now higher than they were in January. With respect to capital spending, there was a feeling that we need more confirmation by way of new orders and appropriations than has recently been the case to expect plant and equipment outlays to exceed a gain of 9 percent for the year. (In recent months, surveys have projected gains of 10-14 percent.)

Steel industry economists noted a lull in orders from capital goods users recently, and the steel industry is expected to use less steel this year in its capital spending. Overall, customer stocks of steel are beginning to rise, following liquidation through the first quarter. The steel industry is continuing to recall its furloughed workers, but because of the stretched out "call back" period, it will be some time before employment recovers to the level prior to last year's liquidation phase. The recent steel import quota arrangements have improved the outlook for the steel industry.

FIFTH DISTRICT - RICHMOND

Latest information on the Fifth District economy continues to suggest a stepped-up pace of recovery, although current reports from manufacturers are somewhat less bullish than in the last month or two. The trade sector continues strong in most parts of the District, with most respondents in our latest survey indicating further sizable gains in both general retail and automobile sales. A notable, and somewhat puzzling, exception is the Baltimore Area, where retailers express keen disappointment with the level of retail sales in April and early May. Construction continues strong throughout the District. Employment is also reported on the rise, especially in the Carolinas, with further increases in wages. Our latest survey of the manufacturing and trade sectors provides little evidence of any notable pickup in inventory buying. Banking respondents, however, report increased business loan demands and continued strength in demand for consumer and mortgage loans.

Reports from District manufacturers are mixed, although the diffusion of responses in our latest survey suggests further increases in new orders and backlogs. The gains, however, are concentrated in furniture, textile, and building materials. Chemicals, paper, and steel producers report a fall-off in orders. The Survey of Manufacturers suggest no recent changes in inventory policies, with most indicating general satisfaction with current levels of stocks relative to sales. Current capacity levels are still rated on the high side by most respondents.

In the trade and service sector, both bankers and retail establishments report further improvement, although the number reporting increases in sales was less than in last month's survey. Automobile sales remain strong in most parts of the District, and truck sales are reported as unusually strong. Trade and service respondents report recent increases in inventories but indicate that current stocks are somewhat larger than desired.

More than one-third of all respondents in our latest survey report increases in employment, with both manufacturing and trade and services taking part in the gain. Trade respondents also indicate an increase in hours worked, while manufacturers report no change in the length of the workweek. Some further wage increases are reported, notably in the furniture and textile industries. Both manufacturing and trade respondents indicate no recent changes in prices received.

District bankers report that both residential and nonresidential construction in their respective areas remain strong. Fifty percent of the banking respondents indicated an increase in residential construction, and approximately one-third reported an increase in nonresidential construction. There were no reports of decreased construction activity. Bankers also report sizable recent increases in the demand for all types of loans, with demand for consumer and mortgage loans especially strong. In the Baltimore Area, keen competition for mortgages has led to more liberal terms and conventional rates as low as 6 1/2 percent.

District farmers' January-February cash receipts from farm marketings were 5 percent above a year earlier, but the increase was substantially below the national gain of 14 percent.

A high level of optimism concerning the outlook for business activity in the District continues to characterize both the banking and the general business communities. Seventy percent of the banking respondents believe that business activity will increase in the next three months, while none expects a decline. In most areas of the Distirct, the outlook for retail sales is rated as very good, and retailers express optimism. A notable exception is the Baltimore Area, where central city retailers, especially, remain in a gloomy mood.

SIXTH DISTRICT - ATLANTA

With few exceptions, Sixth District businessmen and bankers report strong economic expansion and an optimistic outlook. A citrus industry executive describes Florida's economy as "busting out all over," and a Tennessee banker indicates that economic conditions in his area are "very strong and the mood of the people is great." "Full employment" conditions are claimed in Atlanta and parts of Tennessee and Florida. However, talk of inflation seems to have subsided somewhat.

Nonresidential construction appears to be strengthening, and residential construction remains strong. Downtown Jacksonville is reported to be a maze of sidewalk barricades because of a near tripling of construction activity in the past three years. A building boom is also reported in Birmingham, and a $30-million coliseum is being planned on the Mississippi Gulf Coast. Plans for a new city of 80,000 have been announced for an area 25 miles west of New Orleans. A 7,400-acre development--with an eventual population of 37,000--is being planned near Palm Beach, Florida. A $25-million motel condominium project has been announced for Florida's Northwest Gulf Coast. Construction has been so great at two areas near Orlando that they have declared moratoriums on multi-family construction in order to study density and site plans and to update zoning maps. A Tennessee director claims that construction is so strong in his area that that any farmer with a saw and hammer has become a general contractor.

Announcements of new plants and plant expansions continue at a moderate pace. For example, a $50-million plant owned by Playtex Corporation has recently been announced for East Alabama. A nuclear reactor component plant under construction in Pensacola is being expanded. This plant is reportedly booked solid through 1975 and is taking orders for delivery as far out as 1981.

In many areas of the District, unemployment is reported to be nearly nonexistent. An Atlanta director adds that output per man-hour has held up well and job turnover has been low compared with other periods of full employment. Some directors have been suspecting that the unemployment statistics are inflated. One notes that workers receiving unemployment insurance have been working as day laborers on farms and taking wages only in the form of cash. Two hundred engineers are being transferred to the Mississippi Gulf Coast because of a high level of shipyard activity. However, unemployment is reportedly high in New Orleans and Lake Charles, Louisiana.

Retail sales are reported strong. Sporting goods are particularly in strong demand. A Central Tennessee boat manufacturer indicates that he does not have sufficient space to produce boats on order. The Nashville recording industry is reportedly experiencing a 25-percent gain over last year. Earlier this year, Disney World's projected 1972 attendance was raised from 8 to 10 million, but actual attendance is running at a higher rate. Attendance at other Florida tourist attractions is up strongly.

A sample of three New Orleans consumer finance companies indicates loan demand trends from "steady" to "down slightly." All companies polled report that collections have been good and that the downward trend in loan demand "would probably be with us for a few more months." All reported interest rates down slightly, reflecting the lower demand level. One expressed the opinion that consumer borrowers are still uncertain of Phase II controls, as evidenced by the decline in income tax borrowing this year. One company expressed surprise that the improvement in delinquency ratios in recent months has not yet been followed by an increase in loan demand.

There have been few reports of inflationary psychology despite tight labor markets and some bottlenecks in construction. A shortage of cement is reported in several parts of Florida. An executive of an Atlanta plumbing supply firm indicates that Atlanta's construction industry is pressing against capacity. A small hospital in Florida reports that it incurred sharp cost increases when renewing service and maintenance contracts recently. There is also reported to be a shortage of small farm machinery.

SEVENTH DISTRICT - CHICAGO

The economic uptrend is continuing in the Seventh District, with most sectors participating. The improvement is expected to continue through 1972 and into 1973. Order backlogs are increasing, employment is rising, price inflation is at a slower pace than last year, inventories are generally low. Shipments of consumer durables are very strong, demand for some types of capital equipment has picked up markedly, and bank loans, especially business loans, have increased substantially. Initial concern over the announcement of the Vietnam blockade (May 8) appears to have died down with no significant impact on spending decisions by consumers, businessmen, or lenders.

Widespread irritation exists in business circles concerning the actions and pronouncements of the Price Commission. In particular, the Commission's productivity and profit margin standards for judging proposed price increases are criticized as arbitrary and inequitable. Nevertheless, a large number of businessmen believe that price and wage controls, overall, have been a desirable stabilizing influence. Compliance is generally very good, perhaps reflecting the fact that most markets remain highly competitive. The momentum of the business uptrend probably will overcome short-run uncertainties related to controls, but longer-term doubts remain.

Some firms have not implemented authorized price increases, and some prices have been cut to improve competitive positions, even though product sales have increased sharply. Examples are household appliances, motor trucks, color TV sets, and some petroleum products.

Factory shipments of virtually all major consumer durables--autos, appliances, furniture, and TV sets--continue for above last year. Demand for recreational vehicles and equipment is taxing capacity for such products as motor homes, bicycles, motorcycles, and camping equipment. There are no signs of a weakening in consumer demand for durables. Inventories are judged to be either "on the thin side," or, at least, not out of line with sales prospects.

In March and April, demand for various types of capital goods was above the year-earlier level by a wide margin. Examples include motor trucks and trailers, materials handling equipment, hydraulic excavators, industrial tractors, cement mixers, electric motors, and mechanical and electrical components and controls. Sales of farm machinery are extremely good. Increases in these sales generally have exceeded expectations, substantially in some cases. Exceptions to the pronounced improvement in capital goods include railroad equipment, heavy overhead cranes, large machine tools, and rolling mill equipment. Increases in outlays for modernization, replacement, and pollution control (rather than basic expansion) dominate the picture. The European market for U. S. capital goods has strengthened more than most experts had predicted. The weakest foreign markets are Australia and Japan.

The strike of an Indiana plant that supplies about half of the heavy truck engines was ended in late April after 56 days. Full production was achieved in only three days. Sales of heavy trucks, 20 percent above last year so far in 1972, are now expected to remain vigorous through mid-1973.

Labor disputes are relatively unimportant at the present time. However, a strike of elevator maintenance men in the Chicago area is now delaying construction of large commercial buildings.

Local experts have raised their projections of U. S. housing starts for 1972 to 2.1 million or more. Real estate transactions in the District are at a good pace and higher than expected. Apartment building may be off this year in the Chicago Area becasue of rising vacancies in luxury type apartments, but production of single-family homes may equal or exceed last year.

More firms are hiring again, but on a selective basis. Demand for executive and administrative personnel has increased further and on a broader front. Experienced engineers, metal-workers, and construction workers are sought, and shortages may become significant in the year. But business firms are not hiring the "warm bodies" that were employed in the last 1960s, at least to the extent they are free to exercise judgment.

Sales to farmers of agricultural equipment, fertilizer, and other production needs have been excellent. However, wet weather across the Midwest has delayed corn plantings to the extent that additional acreage probably will be shifted to soybeans. Wholesale meat prices continue to strengthen, and pressure is being exerted on retail meat prices. Speculators in the futures markets apparently beleive the fall decline in hog prices will be relatively small. Farm land values have continued to rise in the Seventh District. In part, this reflects demand for "residential" farms and for recreational sites.

Demand for all major types of bank loans has strengthened substantially in recent months. One large Chicago bank reports demand for business loans to be at the highest rate in its history. Life insurance companies are accommodating a rise in net policy loan disbursements because of a drop in repayments. Activity in business mergers has accelerated, but there appears to be more desire to restrict acquisitions to enterprises in lines related to existing operations than was the case in the merger surge of the late 1960s.

EIGHTH DISTRICT - ST. LOUIS

Economic activity in the Eighth District continues up at a moderate rate according to a selected group of businessmen. Manufacturing continues to expand at about the same rate as in recent months. Construction, while leveling off from the rapid growth rates of the past year, remains at very high levels in most of the District. Total employment is increasing moderately. The outlook for agriculture is optimistic. Investments in equipment and plant modernization are on the upswing, but profit prospects are still not sufficient to provide incentive for major investment programs. Business loans at banks are expanding moderately, and savings are continuing to flow into financial agencies at a high rate. On the less optimistic side, growth of sales at major department stores has apparently leveled off in recent weeks, and unemployment in the St. Louis SMSA remains near the relatively high U. S. rate.

Manufacturing firms in the District report that sales and orders continue to expand moderately. No recent layoffs were indicated, and some firms have increased employment. All manufacturers interviewed report considerable optimism as to the business outlook for the remainder of 1972.

Construction continues at a high rate throughout most of the District. Both commercial and residential construction is approaching record levels in many areas of the District. The St. Louis SMSA is, however, an exception. Single family homebuilding in the St. Louis SMSA is up from 1971, but multi-family and commercial construction activity is very low. One-third of the construction work force in St. Louis is estimated to be out of work, as home building can absorb only a small portion of the idled commercial construction workers.

The outlook for farm income in the Eighth District remains optimistic. Weather conditions have been satisfactory, and current price levels for farm products point to the possibility of substantial increases in net farm income for the year. As a result of high income expectations, sales of farm production items are well above year-ago levels.

While investments in plant modernization and equipment continue to expand, little interest has developed in overall plant expansion. Most businessmen report that profit margins are still too low to provide incentive for major plant expansion. Some complain that sales can only be made at profitless levels.

Although still viewed as satisfactory, sales of major department stores have apparently leveled off in recent weeks. Furthermore, retailers report that it is increasingly difficult to make a profit. Nevertheless, this is one area where some new investments are taking place, even in the St. Louis SMSA. A number of new shopping centers are under construction around the fringe areas of the City of St. Louis, but this additional space is partially offset by inner city vacancies.

Bank credit for commercial purposes has begun to increase moderately in recent weeks. Lending officers at District banks report that interest rates on such loans are expected to strengthen in the months ahead as demand for credit expands. Funds at savings and loan associations remain abundant, but no further reductions in mortgage rates are expected.

NINTH DISTRICT - MINNEAPOLIS

District bank directors were unaminous in expressing the opinion that District consumer sentiment has strengthened and that second quarter retail sales are expected to improve. Reports on capital spending, however, varied, with some of the directors reporting a pickup while others reported no increase. Aside from rising vacancy rates for apartments in the Minneapolis/St. Paul Metropolitan Area, the residential construction market in the District continues strong. First quarter demand for long- and intermediate-term agricultural credit was robust and is anticipated to remain vigorous in the second quarter.

Consumer sentiment has improved, and bank directors report that District retailers expect their sales to advance noticeably in the second quarter. Although his firm's sales gain in April failed to match February's and March's performances, one director anticipates a good second quarter and attributes April's poor showing to the year's timing of Easter. A Twin City Area banker noted a marked increase in consumer sentiment and indicated that it was reflected in automobile sales and instalment loans. So far this year, retail sales in another director's area have been good, and he expects them to continue to improve. In South Dakota, the recent improvement in the cattle and hog markets has resulted in improved consumer attitudes and a pickup in retail sales. A similar view was expressed by a director from Southwestern Montana where increased cattle prices and expanding copper production have stimulated consumer spending. Two directors, however, revealed that uncertainties over the Vietnam War recently tended to dampen consumer sentiment in their areas.

A pickup in investment spending was disclosed by several bank directors. A Wisconsin director, for example, stated that a shopping center is under construction in his area and that two additional shopping centers are expected to be built. A Montana director related that a considerable number of small commercial construction projects were under way in his area, while a South Dakota director reported a rise in farm machinery sales. One director did not report an improvement in capital spending, but he did detect an increase in loans to finance inventories. In the opinion of a Twin City Area banker, however, no pickup has occurred in either inventory or capital spending.

Recent surveys revealed that vacancy rates in Twin City Area apartments have risen, but directors' reports disclose that this phenomenon is restricted to the Minneapolis/St. Paul Metropolitan Area. A Twin City Area banker stated that overbuilding has occurred in certain areas of the metropolitan area, but luxury apartments are experiencing no difficulty in attracting tenants. This bank indicated that it has not experienced any deterioration in the quality of real estate loans but is being cautious in extending credit for apartments. Outside the Twin Cities, directors reported no overbuilding of apartments and indicated that the housing market remains quite strong.

According to our latest agricultural credit conditions survey, demand for intermediate- and long-term agricultural loans increased in the District during the first quarter, while the demand for short-term loans did not change. The strength in demand for intermediate-term loans came from an increased level of spending on machinery and equipment.

It appears that the desire for long-term loans was increased by renewed optimism about the long-term profitability of land and land-related long-range capital investment. The survey also indicates that more farmers have sought long-term financing simply because interest rates have declined.

Because survey respondents foresee continued farm spending, they expect the demand for intermediate-term credit to rise throughout the second quarter. Although the demand for short-term agricultural credit does not appear to be poised for more than a normal seasonal increase. Responses indicate that the demand for long-term agricultural credit is anticipated to continue to rise. Bankers also commented in the recent survey that their interest rates charged to farmers have become very sensitive to rates charged by their farm credit system competitors.

TENTH DISTRICT - KANSAS CITY

Consumer spending strength now appears to be widening to include stepped-up purchases of some durables, particularly furniture, according to reports received from large department stores in the Tenth District. Reflecting this improved sales picture, inventory investment by retailers has picked up. Similarly, manufacturers of consumer durables in the District report that they too have increased their investment in inventories of both raw materials and finished goods in response to an improving sales picture. Commercial banks in the District continue to report expanding consumer instalment and real estate loan demand, and the improving business loan demand alluded to in earlier Red Books now seems more firmly established. In the agricultural sector, a good crop and livestock picture, buttressed by strong consumer demand, augurs well for Tenth District farm income in 1972.

Responses from large department stores with outlets throughout Tenth District states appear to confirm that sales to consumers are strengthening. While sales of soft goods remain strong, the scope of consumer demands now has widened somewhat to include more purchases of durables as well, particularly furniture. Present sales of furniture are reported as very strong, with expectations that this trend will continue on into the fall months. Accordingly, these retailers have increased their purchases for inventory, with one store reporting a 6-month delivery lag on new furniture orders. When queried as to whether future price considerations had a significant bearing on stepped-up inventory investment, retailers were nearly unanimous in expressing the view that present and expected future sales strength was the main justification for increased inventories, rather than any present versus future price incentives.

Discussions with District manufacturers of various types of consumer durable goods elicited the view that business sales have clearly strengthened over earlier months. With production rising in response to increased sales, and with growing expectations of future sales strength, manufacturers' inventory behavior also is showing more buoyancy. Purchasing managers continue to stress that stringent inventory controls remain in effect in their respective companies, but an improved sales situation for many has dictated an increase in inventory investment. Manufacturers of small household appliances, radio and television sets, wood furniture, and cabinets were nearly uniform in noting that improved sales, rather than any present price advantage vis-a-vis the future, had dictated growth in inventories of both raw materials and finished goods. One manufacturer of electrical housewares stressed his concern over gaining extended lead time as sales improved in the months ahead. Wood furniture and cabinet manufacturers were adding heavily to inventories of raw material, but were constrained in their inventory accumulation by increasing difficulty in securing raw materials, particularly wood. Nevertheless, they indicated that they would persist in their efforts to build up their stocks in anticipation of continued growing strength in sales.

Loan demand at Tenth District banks continues to expand. Consumer instalment and real estate loans remain areas of steady growth. The improvement in business loan demand noted in the last two Red Books appears established. Furthermore, the gains now appear to be coming from national as well as local accounts. This is attributed to a narrowing or elimination of the spread between the local prime rate and the national rate. Demand from local sources remains strong, supported in some cases by special factors. Denver banks, for example, report sharply increased borrowing by local customers, due in part to construction activity connected with the 1976 Olympics.

Demand deposit inflows at District banks were unusually heavy in April, while some moderation occurred in inflows of consumer-type time and savings deposits. However, bankers contacted appear convinced that time accounts will continue to contribute to future deposit expansion. Large CD's have declined in recent weeks, but at least one large bank plans to begin active solicitation of CD money in response to heightened loan demand.

With the exception of Western Oklahoma and the southwestern part of the Tenth District, which are suffering from drought, crop prospects appear good at this time as soil moisture is reported as adequate-to-surplus over most of the District. In general, wheat condition is rated as good, and maturity is ahead of last year. The number of cattle on feed on April 1 was up 14 percent in District states and 9 percent nationally, compared with a year ago; and current indications are that beef supplies will continue above 1971 levels throughout the remainder of the year. Continued strong consumer demand for livestock products, combined with the present crop outlook, indicates that District farm income may reach a new record high in 1972.

ELEVENTH DISTRICT - DALLAS

Indicators of economic activity in the Eleventh District continue to show strength. Industrial production rose to a record level in March, and total employment in the five District states continued to increase. Construction activity in the District also picked up in March, after slowing in February, and retail sales continued to show steady improvement.

Seasonally adjusted total employment in the five southwestern states rose only slightly in March, and with the labor force continuing to expand, the average unemployment rate rose to 4.5 percent from 4.4 percent in February. Nonfarm payroll employment continued to increase, although not as fast as in recent months. The largest increases among the major industry groups were in construction and finance. Mining, transportation and public utilities showed slight declines, but remained above their March 1971 levels.

The seasonally adjusted Texas Industrial Production Index rose in March for the third month in a row, reaching a record 127.9 percent of its 1967 base. The manufacturing and utilities sectors both contributed to the rise, while mining declined slightly. In manufacturing, all durable goods industries showed production gains, with the largest being in transportation equipment. Among nondurable goods industries, significant gains were reported in textile mill products, printing and publishing, and petroleum refining. Food products, paper and allied products, and leather and leather products experienced declines in production from February, operating below their year-ago levels. Production of crude oil and natural gas declined slightly from February, but the mining of natural gas liquids, metal stone, and earth minerals increased moderately. Output of utilities increased substantially over the month before as a result of the increased distribution of electricity and gas.

Oil allowables in all four major producing states in the District were left unchanged for May. Regulatory commissions in Texas and Louisiana announced that their rates are at the highest level proper conservation will allow. It was believed that any further increases would damage producing fields.

Construction activity in the five southwestern states, as measured by the value of contracts awarded, rose significantly in March after falling in February. Residential building continued to provide much of the impetus to the construction industry, but both nonresidential building and nonbuilding construction also increased substantially. Construction activity in Texas, however, recovered only slightly after a substantial decline in February. Nevertheless, the cumulative value of contracts awarded in Texas during the first three months of this year was more than a fourth higher than in the corresponding period last year.

Sales of department stores in the District continued to show year-to-year gains during April. Among major metropolitan areas in Texas, sales were strongest in Dallas and Houston, while San Antonio showed moderate gains and El Paso no gain over the April 1971 level. Automobile registrations in the four largest metropolitan areas of Texas made substantial monthly and year-to-year gains in March. Total registrations in these four areas for the first three months were up 13.4 percent from the corresponding period a year ago.

Agricultural prospects in the District states are progressing well. Recent rains have improved general crop and livestock conditions in all but the western states of the District. Cattle feeding continues to expand in the District's cattle feeding states of Arizona, Oklahoma, New Mexico, and Texas, as the number of cattle on feed on April 1 totaled nearly 16 percent more than a year before. This compares with a 9-percent gain for the nation's 23 most important cattle feeding states.

A sharp drop in prices of poultry and eggs, together with a decline in livestock prices, caused a modest decrease in the index of prices received by Texas farmers and ranchers during the month ending April 15. The index of all crop prices rose slightly from mid-March.

Total credit at weekly reporting banks in the District rose moderately in April, following a rapid advance in March. Total loans made notable gains, as all major categories of loans rose in response to further improvement in economic activity within the District. District banks also added to their investment portfolios in April, as sizable acquisitions of Treasury Bills exceeded declines in holdings of U. S. Treasury Notes and Bonds and municipal issues. Total deposits of weekly reporting banks contracted slightly in April, due mainly to a sizable reduction in the volume of large CD's outstanding.

TWELFTH DISTRICT - SAN FRANCISCO

In the opinion of our Directors, economic conditions in the Twelfth District are maintaining the trends of recent months. Employment is rising gradually, but unemployment remains a problem in some areas. Construction, despite some signs of weakness, remains a major source of strength. Consumer expenditures and business investment are at satisfactory levels but do reflect some caution in spending plans. Payrolls are rising across the District, yet there appears to be no immediate prospect of a significant reduction in unemployment. There are such favorable factors as increasing hiring by the previously depressed aerospace industry. Boeing is expected to add another 5,000 workers by the end of 1972 in response to increased sales of jet airliners. In California, the aerospace industry is described "on the upswing and no longer is a drag on the area's economy." Employment increases also are reported for the steel industry in Utah. At the same time, Utah's agricultural employment will be below normal because of crop losses due to late frosts. In fact, agricultural employment throughout the District may be lower through a combination of crop damage in some areas and increased mechanization in others.

Directors report no plans to increase hiring by their own firms. This policy is common both for directors in banking as well as in manufacuring. Hiring is aimed at maintaining present staff levels. Some major banks are planning to reduce their staff slightly, and another company, which planned to layoff 50 workers because of a slowdown in orders, is holding these workers for vacation replacements. Several directors report that their firms continue to be cost conscious and are following a restrictive hiring policy. This view seems quite common. Consequently, the consensus is that no major increase in employment is to be expected, and temporary summer employment will be relatively difficult to find.

Activity in the construction industry is currently strong throughout the District. There are some signs of weakness in a few areas, but the basic situation is favorable for the industry. In Southern California, the high level of apartment and commercial building construction is producing concern over vacancy rates, and lenders are beginning to be more cautious. Banks in such areas as Orange County have tightened their financing standards to protect against the possibility of more difficulties in renting new units. In other parts of the District, such as Idaho and Utah, construction starts "continue at a healthy pace." The ready availability of mortgage financing for most kinds of projects is another favorable influence on maintaining current levels of construction.

The agricultural outlook is favorable for most producers. For example, potato growers expect a good price structure. In part, this is due to reduced plantings in response to the heavy crop of 1971. Fruit crops are also expected to be favorable for producers in those areas that escaped late frosts; serious losses in orchard crops had occurred in Eastern Washington, Idaho and Utah. Drought in parts of California has caused serious problems for ranchers and some crops. Other crops such as rice are expected to reach a normal production level.

Bankers report good loan demand for most categories, including commercial loans. No important changes are reported in banking conditions.

CORRECTIONS

Section I   Table I-T-I, for wholesale the seasonally adjusted figures should be: wholesale prices, 117.4; industrial commodities, 117.1; farm products & foods and feeds, 118.5.
The per cent change from preceding period should be: wholesale prices, 3.4; industrial commodities, 4.2; farm products & foods and feeds, -1.0. For consumer prices, the per cent change from preceding period should be 2.0 for food, and 3.1 for commodities, except food. The per cent change from three periods earlier should be 7.2 for food and 1.4 for commodities except food.

Page 22, line 4. Last word should be seven (not eight).

Section II   Table II-T-I. The data for "FNMA auction yield" should read across as follows: 7.63, .07, .02, and .06.

Section III   Page 14. The heading at the top of the first column should read (8/16 to 9/30 only).

Section IV   Page 13-21, should be III, page 13-21.