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# CURRENT ECONOMIC CONDITIONS BY DISTRICT

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## SUMMARY*

Overall, district banks report a quickening economic pace and an increasing degree of optimism about the business expansion. Industrial activity is continuing up on a wide front. However, little or no change in unemployment is reported by most districts. Retail sales are up substantially, with automobile sales particularly brisk. Construction continues at a high level with housing starts strong in many districts. Most districts are experiencing slow or negligible increases in inventories. Commercial banks are experiencing strong loan demand. In the coming months interest rates are generally expected to rise, with short-term rates leading longer rates upward. Prices are continuing up in most areas.

On the production front, order backlogs, new orders, and shipments are generally up. Atlanta, St. Louis, and Dallas report strong increases while New York, Philadelphia, Chicago, and Kansas City are experiencing significant but less noteworthy rises. Richmond reports a slight decline in the backlog of orders for some firms in that district but shipments are at a constant rate.

In general, the employment picture appears to be improving only slightly at best. In Dallas the unemployment rate recently fell as low as 4.3 per cent. And, Chicago and St. Louis report modest improvements too. Most districts, however, report no change in their job markets. Serious pockets of joblessness are reported in parts of the San Francisco and Richmond Districts.

Most districts report fair to strong increases in retail sales. Auto sales are mentioned as a leading gainer in the reports from Richmond, Chicago, Dallas, and San Francisco. Chicago commented that some retail

*Prepared by the Federal Reserve Bank of Philadelphia trade analysts are becoming disillusioned with the surveys of consumer intentions to which they subscribe; at least two of these surveys have issued forecasts of lackluster consumer spending in recent months.

In most districts the demand for loans is strong. Boston reports its loan demand is "very strong" in the real estate and consumer areas. Business loans "grew substantially" at Cleveland. "Loan commitments are heavy" in Chicago. At Kansas City local businesses are the leading borrowers. All loan categories are up sharply in Dallas with business loans up the most. Deposits are increasing in St. Louis, Kansas City, and San Francisco. About the only questions raised concerning interest rates are how much interest rates will rise, and exactly when the rise will start.

The various districts are having a mixed experience with respect to the business investment sector. No areas are reporting general increases. Cleveland and New York referred to faster inventory accumulation. But, most districts discuss cautious inventory policies as reasons for lack of investment in this area. Capital spending for machine tools was up "dramatically" in Chicago. But no broadbased upward trend in plant and equipment outlay is reported.

Most of the reports indicate that construction activity appears to have leveled off at the high plateau attained in late 1971. Total construction is being sustained by strong residential housing demand, while non-residential building is performing less impressively in several Districts.

New York's Directors expressed concern over possible increasing rates of inflation, and one of Boston's academic consultants voiced similar views. But, most districts had little or no comment about expected changes in the general price level. In the agricultural sector, Philadelphia finds that some crop prices are rising. Richmond reports tobacco prices are at an all time high. Increasing prices for corn, soybeans, wheat, cattle, potatoes, and some fruits were mentioned in the reports issued by Chicago, St. Louis, Kansas City, Dallas, and San Francisco.

Farmers are enjoying increased incomes in the Richmond, Chicago, St. Louis, Minneapolis, Kansas City, and Dallas Districts. Although the costs of farming are higher than last year, farm receipts are expected to be up even more because of higher commodity prices and good harvests. In spite of higher farm incomes, Minneapolis furnished some data suggesting that farm spending was decreasing. Bad weather hurt fruit growers and canners in Utah and many farmers around the Harrisburg, Pennsylvania area. Some bankruptcies are likely to result from these unfortunate local weather conditions.

FIRST DISTRICT - BOSTON

Our directors report that the economy is advancing in line with expectations and that business activity is now at a good pace.

Our directors saw little change in business conditions in the last month. If anything, they reported that businessmen were a little more bullish on expansion but also a little more worried about whether inflation was going to be a problem again. While orders to manufacturers were generally reported as good, a manufacturer of boats, campers, and other recreational vehicles stated that business was fantastic. This director's firm foresees next year as very good and is planning to start production for next year earlier than usual, thus building up larger inventories than normal earlier in the season. A bank director located on Martha's Vineyard, a resort area, also reports that business is better than last year.

A director of a large Boston bank reports that loan demand is very strong, but that the funds are not going into traditional areas. Real estate and consumer loans, not business loans, are rising most rapidly. Business loan activity is being restrained by the very slow building of inventories. In addition, corporate treasurers were so burnt by the last credit crunch that they have built up a great deal of liquidity and, therefore, do not need bank funds.

Professors Eckstein and Samuelson agreed that recent monetary policy has been very sound. While some tightening for a month or two would be acceptable, a return to the orthodoxy of monetary restraint at this time would abort the recovery. Although there have been three consecutive quarters with real growth over 6 percent, Samuelson cautioned, "We should not conclude we're having too much of a good thing."

Neither Samuelson nor Eckstein saw signs of demand-pull inflation.

Eckstein expressed concern about the inflation outlook, however, observing that imports held down the second quarter GNP deflator, that wholesale industrial prices are rising too fast to achieve inflation goals, and that the controls are slipping away. In Eckstein's view, the leading indicators in the labor market show signs of weakening. Eckstein argued that it is not the Fed's job to solve a structural inflation.

Samuelson feels that continuation of the 8.5 percent rate of monetary growth recorded so far this year would result in overshooting the optimal output path. On the other hand, he doubted that a 5 to 6 percent rate of monetary growth would be sufficient to finance the anticipated expansion since the income velocity of money has been increasing at a decreasing rate.

SECOND DISTRICT - NEW YORK

According to the directors of this Bank and of the Buffalo branch, the recent business inventory picture on balance has become moderately brighter, and there have been scattered signs of a further strengthening in business plant and equipment spending plans. The directors, however, saw little recent change in the unemployment situation, except for a sharp improvement in those areas of the District where repairs of the extensive damage caused by Hurricane Agnes were underway. Most expressed concern over the wage-price outlook, particularly if the controls are allowed to expire.

Regarding business inventory policies, the respondents felt that the long-awaited rise in business inventory accumulation appeared to have gathered some, if limited, momentum over the past month. While in the view of some of the directors, business inventory policies have remained on the cautious side, others reported some rise in both manufacturing and trade inventories. The president of a large metal-producing firm characterized the rate of accumulation among metal users as "moderate." He said most manufacturers in this field felt that the current level of unused capacity in the metal-producing industry would make it possible to meet any rise in demand through increased production. Other directors, while reporting some increase in inventories, felt that the buildup was not commensurate with the rise in economic activity. They attributed this to improved inventory control spurred, in part, by the relatively high level of interest rates, and to the fact that business had "learned to live" with lower inventories. Thus, the vice president of the largest upstate New York firm stated that both trade and manufacturing inventories were on the rise, although not rapidly enough to keep ahead of sales. Similar views were expressed by the chairman of a sizeable New Jersey bank.

Although most of the respondents saw no dramatic change in the recent past in business plant and equipment plans, the overall assessment of developments in this sector apparently continued to brighten on the whole. Among the Buffalo branch directors, a banker referred to the announcement of a major steel corporation that it was planning fairly large capital spending at its upstate facilities, while another banker pointed to relatively large expansion programs in his area by two corporations. The senior official of the largest upstate firm was the most optimistic, indicating that his firm's capital budget might rise substantially in 1973.

Responses regarding the unemployment situation were mixed. The head office directors, in general, saw little improvement in a generally "soft" job market, particularly with respect to the availability of summer jobs for students. However, a director did point to one exception -- the coal industry -- where he felt the employment outlook for experienced workers was very good. An upstate banker saw some firmness in the employment situation in his area, while some of the Buffalo branch directors reported a pronounced improvement in the employment picture in those areas where extensive repairs of damages resulting from Hurricane Agnes were underway.

Most directors expressed concern over the price and wage outlook, based, among other things, on the pending increase in social security benefits, the impact of the proposed rise in the legal minimum wage, the heavy 1973 calendar of union negotiations, and even on the upcoming union election in the coal industry which a director -- the president of a large metal producing corporation -- felt would result in "wholly unrealistic" wage increase demands. The Branch directors did feel that under Phase II, price and wage increases were at a lower rate than previously. However , they expressed concern over what would happen when the control expired, unless some other "ground rules" to curb labor demands were adopted.

THIRD DISTRICT - PHILADELPHIA

Directors and other area businessmen remain optimistic about the Third District economy. While most of the key business indicators displayed no large changes in July from their June levels, signs still point to an accelerating economy. New orders and shipments are expected to rise, causing further gains in employment. Planned increases in business investment have about levelled off. Residential construction and mortgage loan demand are strong. However, consumer and business loan demand is mixed. On the darker side, prices continue to remain a source of worry to many area businessmen.

Over 90 percent of the respondents to the Bank's Business Outlook Survey expect new orders and shipments to hold steady or increase during the next few months. Although the majority of these respondents see no change in sight, the number which anticipate orders and shipments to increase is up slightly from a month ago. There is also a small but noticeable upward trend for unfilled orders and delivery times.

As a result of the increased business activity, employment prospects continue to improve. About three out of ten of the firms responding to our Business Outlook Survey plan to add to their payrolls in the coming month. This represents a small improvement in the local employment situation compared to recent months.

Capital spending plans seem to be holding steady. Area firms are divided about evenly on whether to increase their capital spending or hold it constant. Less than five percent of the surveyed manufacturers expect to reduce their investment outlays during the next six months.

Retail sales have been brisk recently. However, it's too soon to tell if this is only the result of pent-up demand which accumulated during the heavy rains of Hurricane Agnes or whether it is a result of a real upturn in consumer optimism. One director reports, however, that recreation spending will be down about 10 percent this year along the Jersey shore. He attributes this mostly to Hurricane Agnes which has caused many people from flooded areas in Pennsylvania to cancel vacation plans.

Residential construction in this area continues at a high rate. As a result, even the least aggressive area banks appear to be experiencing strong demand for mortgage credit. However, the reports about consumer and business loans are somewhat more checkered. Banks which have well-developed consumer loan departments are seeing large increases in these loans. And one large bank which aggressively seeks business loans reports it is able to obtain all the loans it wants. But, few banks seem to be doing well in both the consumer and business loan departments.

Inflationary expectations are still present. Over 10 percent of the executives polled expect their firms to pay and to receive higher prices within one month. Within six months about one-third of the firms expect increases in the prices they pay and the prices they charge. And as a result of crop destruction associated with the heavy rains and floods in the Third District, some farm prices are up. In the industrial sector, however, a director sees indications that profit margin controls will have an increased effect on dampening price hikes in coming months.

FOURTH DISTRICT - CLEVELAND

Reports from businessmen, directors, and economists indicate that recovery is continuing in the District, but remains short of BOOM proportions. Construction continues to lend support to overall activity, and the manufacturing sector now appears to have entered a clear-cut phase of inventory accumulation. Steel industry economists expect greater inventory building by their customers during the second half and a strengthening in new orders stemming from the capital goods sector. Business loan demand at District banks has been good.

Among the principal economic indicators for the District, residential construction contracts remained at near-record level in June, following a temporary setback earlier in the year: nonresidential construction contracts are still at a relatively low level, but are recovering. Insured unemployment remained unchanged in July, following a slight reduction in June (the first monthly decline of the year). Preliminary results of our monthly survey of District manufacturers indicate that new orders, shipments, and backlogs continued to rise in July. Manufacturers reported inventory accumulation for the third consecutive month. Gains in employment and hours showed signs of tapering off. Thus far this year, our survey has detected no easing in the percent of firms reporting higher prices paid. For the month of August, survey participants expect gains in most key series, but little change in employment and hours.

Several of our industrial directors mentioned improvement in labor utilization. One director noted a lot of overtime at his office machinery company and that they are now hiring people after having had a labor surplus.

Another director in the machine tool business stated they are beginning to rehire, but nothing major yet. An appliance firm in Dayton, whose union recently agreed to forego wage increases in order to keep the company competitive, has started to recall laid-off workers. Elsewhere, continuing efforts are being made to end an 18-week-old strike at the Chevrolet assembly plant in Cincinnati. Several directors commented on the growing toughness of the Price Commission, and they felt it would have an adverse impact on business sentiment.

There was some discussion at a recent meeting of our branch directors that businessmen have made great efforts to reduce inventories and they have better management tools today to keep inventories low. Therefore, we should not expect to see a return to previous normal inventory-sales ratios.

Economists from three major steel companies in the District report a seasonal pickup in new orders, although there is little sign of an upturn in orders for heavy construction. (One economist noted that if heavy construction had been normal, 1972 would have been a record year for steel shipments.) The steel companies are beginning to see increased buying of plates and structurals from the capital goods industry, and further impetus from that sector is expected during the second half. Recent high levels of steel consumption have concentrated in farm machinery, appliances, and motor vehicles. These manufacturers will probably have to increase their inventories this fall to maintain their high consumption rate. As the steel mills become busier and delivery time is extended, customers tend to carry higher inventories. The economists believe that if a steel price increase is announced for January 1, there may be additional inventory building during the fourth quarter.

Net imports of steel are likely to be higher in the second half than in the first half. Because of dock strikes, Japanese steel exports to the U.S. during the first half were 700,000 tons below the year-earlier level, but their quota for the full year calls for a reduction of only 400,000 tons from 1971. Japan is expected to make up the 300,000 ton differential during the second half. Steel imports from the EEC and UK were off 1.1 million tons in the first half compared with the year-ago level. Their quota calls for a 500,000 ton reduction for the entire year. (Steel price increases in the European countries have contributed to the decline of imports.) The economists generally did not expect the EEC and UK to make up all of the quota differential during the second half.

On the financial side, large banks report that growth in loan demand during July was slightly stronger in the District than in the U.S. Business loans grew substantially at District banks, with the increase concentrated in the trade and services industries; loans to manufacturers were weak.

## FIFTH DISTRICT - RICHMOND

The recent uptrend in economic activity in the Fifth Federal Reserve District continues. Manufacturers report a slight decline in backlogs of orders and no change in shipments and in volume of new orders. Retail sales continue strong. Employment and hours worked per week have changed little since the last survey. Activity in the construction sector remains strong, and bankers generally report increases in loan demand. Bankers and businessmen in the District continue to be optimistic about the outlook for District business activity.

Reports from manufacturers in the District indicate a further slight decline in backlogs of orders and no change in shipments or in the volume of new orders. Inventories remain virtually unchanged, but there was an increase in the number of manufacturers who regard inventory levels as too high in relation to sales prospects. In general, current plant and equipment capacity is reported to be adequate.

General retail sales continue the upward trend evident in recent months. On balance, banking respondents report increases in both general retail sales and automobile sales, although the proportion reporting increases is not as great as in the previous survey. Automobile sales continue stronger than general retail sales. Approximately 50 percent of the banking respondents indicated that automobile sales in their area were up.

Slight declines in employment and hours worked per week were reported by manufacturing, trade, and service respondents. The fire in a West Virginia coal mine which resulted in several deaths led to a strike idling some 3,000 workers in West Virginia. Increases in wages paid were reported by about 35 percent of survey respondents, but most respondents reported no change in prices received. About two-thirds of the manufacturers reported inadequate supplies of skilled labor, and about a third reported that supplies of unskilled labor were less than adequate.

Activity in residential and nonresidential construction remains very strong in the District. More than 50 percent of the bankers reported increases in construction activity in their areas. Nonresidential construction seems to have strengthened sharply in recent weeks.

All banking respondents reported that demand for all types of loans had either remained at recent high levels or increased. More than half reported increases in the demand for business and mortgage loans and about two-thirds reported increases in the demand for consumer loans.

The District's January-May cash receipts from farm marketings were 5 percent above a year ago, with gains in crop and livestock receipts about equal. Strong demand and the best quality tobacco in years have resulted in history-making prices in Border Belt flue-cured tobacco markets during the first two weeks of the 1972 season.

The level of optimism concerning business activity in the District remains high. Most banking respondents believe that business activity in their area will increase in the immediate future.

SIXTH DISTRICT - ATLANTA

There have been no important changes in current and prospective conditions in the Sixth District from those reported a month ago. However, a special survey of a cross-section of prominent businessmen located in the Atlanta, Nashville, and New Orleans areas yielded the following conclusions: support for the NEP remains strong, but has diminished somewhat over the past year; the NEP has been effective in checking at least some price increases; wage inflation has been effectively checked by the NEP, inequities have not been so great as to jeopardize the program; some form of controls should be continued beyond April 1973; inflationary expectations have diminished slightly; and the only economic resource that is in short supply is competent labor.

General economic activity remains very strong in most areas of the District. Construction is mixed. Residential construction activity has stabilized or diminished slightly, although it still remains at high levels. The pace of new plant and plant expansions has been stable.

Most survey respondents thought that the NEP has been effective in reducing the pace of inflation. Several respondents mentioned that prices of their products and prices of some of their suppliers have been held down. The NEP was claimed to be responsible for holding down price increases on the following goods and services: construction, raw materials, autos and appliances, services supplied by Stevedore companies, steel, telecommunication products, and plastics.

The respondents were nearly unanimous in their opinion that wage controls have been effective in scaling down the rate of wage inflation. This has evidently been particularly true in the case of office and service workers.

Respondents did not complain seriously of inequities in the NEP, although many were cited, and one respondent said that the longer the program is continued, the greater the inequities will become. Several respondents thought that office workers and executives were bearing the brunt of the program, while union workers were gaining. One soft drink bottler and one retailer complained about not being able to pass on increased costs of glass bottles and merchandise. Another respondent complained that there were so many interpretations, exceptions, changes, and reports that the program was incomprehensible and burdensome. One respondent said that profit restrictions were inequitable and that they were discouraging efficiency.

Only one respondent felt that the controls should be abolished immediately. Most felt controls were a necessary evil that should continue as long as necessary. The Federal deficit and the forthcoming period of heavy labor contract negotiations were mentioned as reasons for continuing controls beyond April 1973. Several thought that controls should be put on a standby basis after April 1973.

The only shortage that has resulted from the economic expansion so far is competent labor. Almost half the respondents specifically mentioned difficulty in finding competent clerical and skilled labor. One respondent mentioned a shortage of plastic materials, and another expected credit to tighten up in supply next year. However, the respondents evidently foresee no critical supply bottlenecks in the near future.

Although there was no strong consensus, it was judged that the inflationary expectations of those surveyed have diminished slightly. Several thought that inflation would diminish in the remainder of 1972 and in 1973.

One thought that built-in wage increases would cause prices to rise more next year. Another respondent said his price outlook would depend on the size of the federal budget deficit.

SEVENTH DISTRICT - CHICAGO

In the past month the Seventh District has witnessed a further strengthening of confidence in the vigor and duration of the economic uptrend. In part, improved sentiment reflects the substantial increases in profits reported for the second quarter by many firms. In addition, order backlogs have been rising for most firms since early spring, and delivery times have gradually stretched out. In a growing number of cases inventories are increasing, or are expected to increase, to support the sustained growth in activity. Employment is rising in most centers and unemployment is declining -- but these trends are gradual. Demand for business loans and most other types of credit is strong, and interest rates, especially short-term rates, are expected to increase moderately from now until year-end.

For the past six months groups of purchasing agents in major centers have reported increasing orders and order backlogs, higher production, and slower deliveries. In the past three months more firms have been reporting higher employment and larger inventories. More than half of these firms have been paying higher prices and reports of lower prices are rare. These reports suggest that price inflation is about as serious as last year, but not as bad as in 1970 or 1969.

Air conditioners apparently provide the only example of merchandise in excess supply. Inventories of other appliances are well above last year, but are about in line with sales. Auto inventories are relatively low. Producers of some capital goods and capital goods components are beginning to plan inventory increases as delivery times have lengthened.

Various types of lumber are in short supply. Some builders have substituted gypsum and fiber board for plywood because of high prices, but these products are on allocation.

It is clear that auto producers are very pleased with the situation of their industry, including the slide in sales of imports. Output of 1973 models will rise rapidly, because stocks of 1972's will be low relative to sales when new models are introduced.

The truck market continues to exceed expectations, and sales of 2.6 million trucks are now believed to be a certainty for 1972. There is no sign of any slackening in demand.

Some producers of heavy construction equipment maintain that this market remains slow, but there are contradictory reports that sales of these products are very strong and that output and employment will have to rise.

Producers of capital goods components -- bearings, drives, and controls -- report the continuance of a rapid expansion that began, in some cases, a year ago. The upward trend in machine tool orders in the past six months has been dramatic, but experience of individual companies has shown marked differences.

Some industries -- notably residential building materials and petroleum -- have been reluctant to increase outlays for plant expansion despite high operating rates. Incidentally, complaints about price controls are most vigorous in the case of the petroleum industry. In most other industries the effect of controls on profit positions appears to be neutral overall.

Steel order trends are favorable, including demand for "light structurals." New heavy construction work is slow, and demand from producers of railroad equipment has not increased. The agreement to restrict imports apparently is working well in the case of nations that are included in the agreement, but imports from nations not covered have increased.

Sales of consumer goods of most types are strong. Customers are using credit freely, but delinquency experience has improved. Most retail trade analysts in this area have become increasingly disillusioned with consumer surveys as aids to predicting consumer behavior.

Residential construction activity has continued at a high level in the Chicago area, but permits for apartment buildings have fallen below last year's very high level. In some areas, notably Detroit, home building has been hurt by adverse experience with subsidized mortgages.

Crop conditions in this region, for both corn and soybeans, are good to excellent. Cattle feeders, despite higher profits, are displeased with the proposed restrictions on hide exports, and the proposed ban on the use of DES, a growth hormone. Prices of "good" farm land were 3 percent higher than a year ago in July, according to reports of rural bankers.

Some banks found that savings inflows were significantly lower in recent months as compared to the early months of the year. In the case of S&Ls, however, savings inflows rose again in May and June after slowing in April. About two-fifths of the new money obtained by S&Ls is in the form of 6 percent certificates. Their loan commitments are heavy.

EIGHTH DISTRICT - ST. LOUIS

The trend in business activity in the Eighth District continues moderately up, according to a selected group of businessmen. Factory output has expanded further in recent weeks. Construction activity remains unchanged at a relatively high plateau. Retail sales have tended to level off in the past two months following sharp gains during the first five months of the year. Unemployment remains relatively high in some parts of the District, but firms are less reluctant to add employees than they were in late 1971 and early this year. Savings flows into financial firms and demand for longer-term credit continues to grow at a rapid pace, and little change has occurred in interest rates on mortgages. The farm sector remains optimistic as to both price and production expectations.

Output from the District's factories continues to expand on a wide front. Reports indicate that output of steel, appliances, machine tools, chemicals, and a number of soft goods is on the upswing. A major appliance manufacturer reported that business was up considerably from a year ago, largely reflecting sales for new residential building. The outlook for steel is reported to be the most promising in recent years. Machine tool orders have been on the upswing for several months, and output of industrial chemicals has in recent weeks resumed an uptrend.

Construction in the District continues at a relatively high plateau which was reached in late 1971. Residential construction activity is at a high level throughout the District. Most of the commercial and industrial expansion, however, has taken place outside the St. Louis metropolitan area. Retail sales have apparently levelled off somewhat in the summer months, although they rose rapidly throughout the District with the exception of the St. Louis area in the early part of the year. Major department stores in St. Louis report that sales have changed little in recent months and are only slightly above last year's levels.

Profits are up somewhat at most District firms, and the outlook toward investment is improving. Nevertheless, most managers still feel that costs are excessive and they are hopeful of widening the profit margin before initiating major expansion programs.

With the improvement in profits, a number of firms reported a moderate increase in their work force. The chemical, electrical, and textile industries report some small employment gains. Some metal fabricating firms report that their employees are working overtime. Numerous new manufacturing plants in the smaller centers in Arkansas, Mississippi, and Tennessee have added to the District's total payroll employment. Unemployment, however, still remains relatively high in part of southern Indiana and in St. Louis.

While short-term interest rates have been edging up, little change in the mortgage rates has been observed. Representatives of financial firms believe that short-term rates will rise further before the end of the year. Savings, however, continue to flow into financial institutions at a fast pace. PME Savings and Loan Association reported a record gain in savings in July. Rates on mortgage loans, however, remain unchanged reflecting the high demand for such funds.

The agricultural outlook remains optimistic throughout most of the District. Crop conditions are good with the exception of small pockets that have suffered from lack of rainfall. Prices are sufficiently high to provide profitable returns to efficient producers of most farm products.

NINTH DISTRICT - MINNEAPOLIS

Although some improvement in economic activity was noted by bank directors, they do not expect any significant reductions in unemployment in their areas. Cool and rainy weather disrupted District tourist activity in June and July, but District tourist spending can still be said to be good this year. District crop development appears to be ahead of normal, despite late weather-delayed crop plantings. In addition, according to the results of our latest agricultural credit conditions survey, District farm earnings improved in the second quarter, while farmers' willingness to spend declined. Several bank directors, however, reported some increase in general capital spending in their areas.

The District's unemployment rate averaged 6 percent during the second quarter, as compared to 5.6 percent a year ago, and bank directors generally foresee no sizable reduction in their areas' rates of joblessness. A Wisconsin director revealed that his area's unemployment rate was above the state's rate and no significant reduction is expected. Favorable developments in construction, manufacturing, agricultural, and trade employment were reported by one South Dakota director, but accompanied by a sharp curtailment of jobs in the beef packing industry. The effects of recent administration measures to curb meat price increases were partly responsible along with structural changes in the industry. A bank director associated with the District's construction industry anticipates no job expansion in that industrial sector. In Montana, a branch director foresees little improvement in that state's rate of unemployment because of cutbacks by the Anaconda Company and a cessation of work on the ABM site. However, the construction of a large power plant is expected to ease that state's unemployment problem. In addition, a director from Billings revealed improved employment conditions in that region. Unemployment in the upper peninsula of Michigan was reportedly improved due to the construction of a large mining facility.

According to both bank directors and resort and motel managers, District tourist spending so far this summer can be characterized as good, although not as good as expected. Despite cool and rainy weather in June and July, directors from the upper peninsula of Michigan, Minnesota, and South Dakota anticipate good tourist seasons. Tourist traffic was said to be ahead of a year earlier in Montana, but a branch director noted that both Glacier and Yellowstone National Parks were experiencing generally slower-than-expected concession activity as well as motel vacancies in both areas. A telephone survey of 22 resort and motel managers throughout the District confirmed these observations on tourist spending. When asked to describe business so far this summer, 5 managers replied "excellent," 2 responded "good," and 6 said "fair." According to 9 respondents, however, business has not been up to expectations. With regard to their outlook for the remainder of the tourist season--through August and September--6 respondents anticipated business to be "excellent," 13 termed their expectations "good," and 3 foresaw "fair" tourist business.

Pilots have been on strike against Northwest Airlines since late June, and this has hurt both tourist and business travel in the District. North Dakota and Montana have been left without adequate air service and, according to a newspaper article, North Dakota's travel industry has lost more than $1 million worth of business. The strike has also curbed air travel into and out of the Minneapolis-St. Paul metropolitan area.

The weather this spring delayed District crop plantings, but more favorable conditions in late June and early July advanced crop development ahead of normal. Most crops in Minnesota progressed faster than usual, and their outlook for this year was termed "excellent." In addition, a South Dakota director indicated that yields from his state's corn crop should also be "excellent," but those from the small grain crops he termed only "good," for the wet weather reduced crop quality. The late plantings may still result in problems near the end of the growing season, however, and in some isolated areas, fields are still wet enough to retard crop growth.

According to the results of our latest agricultural credit conditions survey, Ninth District farm income continued to strengthen during the second quarter, but farmers' general willingness to spend declined. Spending on investment items slumped, as respondents reported that farmers were more cautious and inclined to use less intermediate-term credit. The demand for long-term loans also softened in the second quarter while short-term borrowing remained unchanged. This combination of increased farm earnings and decreased spending resulted in greater fund availability at District agricultural banks during the second quarter.

Several bank directors reported some pickup in general investment spending in their areas. In the upper peninsula of Michigan, small construction projects increased somewhat and residential building expanded because of a large mining construction project. Another director reported increased business confidence and a modest pickup in capital spending in his area. Businessmen's attitudes had improved in another director's region, and he expected increases in capital spending. Construction activity in Billings was reportedly very strong, but a Twin Cities area director reported no recent increase in requests for loans to finance capital expenditures.

## TENTH DISTRICT - KANSAS CITY

The vigor in the economic recovery reflected nationally in the most recent GNP figures appears to be mirrored in the sales reports of a number of Tenth District manufacturing firms as well as in comments elicited from bank directors. Increased sales were reported quite generally, and although little evidence of stockpiling is evident, inventory spending is keeping pace with recent sales improvements. Some firms reported longer delivery times to their customers, and there were scattered reports of lengthening lead times for inventory purchases from their suppliers. Despite sales increases, however, few of the firms contacted have added net to their work forces, and, as a consequence, there were a number of firms which reported noticeable productivity gains. Tenth District farm income rose more sharply than for the nation as a whole in the first six months of 1972, and income prospects for all of 1972 appear to be quite strong vis-a-vis last year. Strong loan demand continues at Tenth District banks, and, with few exceptions, District banks have experienced large increases in total deposits.

A near-consensus emerged as to improved business sales among those manufacturing firms and directors queried. Comments such as "best year on record," "up substantially," and, "business sales are beyond targets," characterized the kinds of responses received. Although several firms indicated that delivery times to their customers had lengthened as sales continued to improve, it was interesting to note that most respondents felt that they were maintaining their normal delivery times. In a few cases, firms cited improved delivery times over last year, even in the face of increased sales.

The inventory picture presented somewhat of a paradox. Most firms continue to pursue relatively conservative inventory investment behavior.

Few outright attempts at stockpiling were reported; rather, inventory outlays were geared to keeping pace with the current sales picture. Although firms generally reported that stocks were readily available, some lengthening in the lead time from their suppliers was noted, particularly for such items as heavy equipment for handling materials. Presumably when lead times become further extended, and as business sales' strength gathers added momentum -- an expectation held by most respondents -- inventory spending may become more expansive. For the time being, however, those pressures have not yet become sufficiently persuasive to cause District firms to abandon their cautious inventory approach.

The "close-to-the-vest" inventory behavior of Tenth District firms extends to hiring behavior as well. Despite the sales increases reported, few firms have added net to their work forces. Apparently, this has not had any appreciable effect on their ability to accommodate their customers, although a sizeable minority of firms reported an increase in scheduled delivery times to their customers.

One respondent indicated that they had actually managed to reduce delivery times over last year. With business improving and new hiring being held down, it was not surprising that a number of firms reported noticeable gains in productivity. In one case, it was reported that productivity gains were responsible for an actual decline in product cost this year versus last year.

For the first six months of the year, U.S. farm income was up approximately 10 percent over the comparable year's-earlier period. However, District cash receipts from farm marketings registered a much sharper gain than the national average because of the preponderance of the livestock sector and very favorable prices. With livestock sales -- principally cattle --

accounting for about 80 percent of the total, District farm income for the first half was an estimated 16 percent above the comparable 1971 level. In view of the likely continuation of strong livestock prices, as well as the recent spurt in wheat prices resulting from the new trade agreement with Russia, District farm income for the year is expected to show a sharp gain over last year since the volume of farm marketings will also be higher than in 1971.

Tenth District bankers report continued strong loan demand in recent weeks. Business loan demand, which gained strength in June, continued to increase during July. Most of the increased demand is from local and regional businesses, as national accounts are still not utilizing their lines of credit.

The nature of the borrowing needs range broadly from working capital to plant expansion. Real estate and consumer installment lending also continue to be sources of strength, but signs of a leveling off of the recent upward trend in these categories are appearing. Much of the real estate lending has been for commercial purposes and for multifamily dwellings. Auto loans have been a major component in installment lending. Some banks are experiencing especially heavy demands for agricultural loans.

With few exceptions, District banks have experienced large increases in total deposits. Although the distribution of the deposit inflow between time and demand varies from bank to bank, most banks possess adequate funds to meet loan request. Continuing a recent development, Tenth District banks have not aggressively pursued large CD money.

ELEVENTH DISTRICT - DALLAS

The economy of the Eleventh District continued to show strength in June, although indicators were generally mixed. Texas industrial production continued to rise, and retail sales and automobile registrations grew substantially. Construction activity in the five-state region eased slightly in spite of a sharp increase in Texas. While the unemployment rate for the five states continued to edge downward, the level of employment also declined.

The seasonally adjusted Texas Industrial Production Index continued to rise in June, pushing the index to a level nearly 10 percent higher than it was in December 1971. All three sectors of industrial production--manufacturing, mining, and utilities--contributed to the June advance, but mining provided the main impetus, as production of crude oil rose sharply. In manufacturing, output of durable goods increased moderately over the previous month, with the largest advances occurring in transportation equipment and stone, clay, and glass products.

Two related industries--primary metals and fabricated metal products--showed declines in June but were still ahead of their outputs a year before, as were all manufacturing industries. Manufacturing of nondurable goods also rose only moderately in June, in spite of substantial gains in two industries--textiles and paper and allied products.

Seasonally adjusted total employment in the five southwestern states fell slightly in June. As a result of a sharp decline in the number of people looking for jobs, however, the unemployment rate continued its gradual decline started last October, falling to 4.3 percent of the labor force in these states, compared with 4.7 percent in June 1971. Employment fell below month-earlier levels in most categories of both manufacturing and nonmanufacturing. Finance was the only major reporting industry group to show a rise in employment. All other industries showed declines, the largest being in construction, transportation, and public utilities. In spite of the June drop, however, all industries continued to show year-to-year gains with the exception of mining, which was down slightly from June 1971.

Registration of new passenger automobiles in Dallas, Fort Worth, Houston, and San Antonio rose substantially in June. Total registrations were 11 percent higher than in June 1971. Cumulative registrations through the first six months of the year were 12 percent higher than in the corresponding period last year. All four metropolitan centers showed substantial increases in cumulative registrations.

Department store sales in the Eleventh District increased substantially in the four weeks ended July 22 over the corresponding period last year. Cumulative sales through that date were also much higher than in the corresponding period a year before.

Total construction activity for the five southwestern states fell slightly in June after two months of record-breaking activity. A sharp decline in nonbuilding construction accounted for most of the June drop, as well as for the sharp rise in April and May. Residential building continued to play a major role as it increased in June for the fourth consecutive month. Nonresidential building declined slightly. The cumulative value of contracts awarded in the five-state area for the first six months was 37.1 percent higher than in the comparable period in 1971. Texas's construction increased its already dominant role among the five southwestern states, as it rose in June to a level over 38 percent higher than in June of last year. Both residential and nonresidential building in Texas rebounded sharply in June after declining in May.

The winter wheat crop in states of the Eleventh District is expected to be nearly a third higher this year than in the below average 1971 season. The projection, revised upward July 1, is based on yields that appear better than previously expected. Texas feedlots had a record 2.1 million head of cattle on feed at midyear--a fourth more than a year before. Higher prices for meat animals boosted the index of prices received by Texas farmers and ranchers in the month ended June 15, to a level 18 percent higher than a year earlier. The index of prices paid by U.S. farmers moved up slightly from a month earlier to a level 5 percent higher than a year before.

Although District oil allowables continue to permit maximum production, U.S. crude supplies are apparently in tight supply, causing Gulf area imports to surge. A special supplemental quota is now in effect for the second half of the year. Drilling in the District states is showing continuing strength and should be bolstered still further by lease sales of the Louisiana coast scheduled for December. The industry is, however, suspicious of tax reform that could significantly reduce incentives for exploration.

Total credit at weekly reporting banks in the Eleventh District declined slightly in the five weeks ended July 26, as a rapid expansion in loans was more than offset by an even sharper decline in bank holdings of government and municipal securities. Total deposits increased moderately, and banks reduced their net purchases of Federal funds. An abnormal rise in business loans paced the growth in total loans and probably reflected further improvements in District economic activity. Consumer loans D, the highly volatile loans to nonbank financial institutions also registered unusual strength. The expansions in total deposits resulted from larger inflows of both demand and time and savings deposits. The volume of large-denomination CD's outstanding rose moderately, and bank borrowing from nondeposit sources was virtually unchanged.

TWELFTH DISTRICT - SAN FRANCISCO

Our directors report that the regional economy is expanding rapidly and is generating a strong demand for bank loans. They also note several signs of weakness, such as the topping off of the construction boom and the tendency for many firms to restock inventories only on a replacement basis. Generally speaking, however, they agree that the strong pace of forward planning by business firms reflects both the favorable tone of the recovery to date and a rising level of confidence in the overall economy. All areas of the District report a continued high level of construction activity, but all express fears about the continuation of the housing boom, especially the apartment-building boom. Firms tied to the construction industry have encountered a noticeable decline in new orders over the past several months; one such firm, in builders' hardware, expects to reduce production and employment as its order backlog decreases.

Most forest-product facilities in the Pacific Northwest continue to operate at or near capacity. Although some producers foresee a falling-off in demand from the residential construction sector, they also expect overall demand to remain high because of the strength of the nonresidential sector.

Prospects for other manufacturing, meanwhile, continue to look favorable: Southern California, for example, expects at least a mild employment boost from the award of the space-shuttle contract. Alaska, on the other hand, continues to suffer from high unemployment because of the premature arrival of hopeful oil-pipeline workers.

Retail sales of consumer goods (especially autos) expanded rapidly in recent weeks -- except for the Los Angeles area, where a record-breaking heat wave cut into retail sales during July. Retail sales remained high in the Pacific Northwest, even in the face of the Puget Sound area's continuing unemployment problem.

Most farming areas of the District are in a reasonably profitable condition despite drought conditions in the Southwest and last Spring's freeze damage to fruit crops in the Mountain States. (In Utah, practically all fruit canning factories are now closed because of the loss of the fruit crop.) The Northwest in particular has better-than-average prospects, with steady-to-rising prices expected for wheat, potatoes, and cattle.

Almost all areas report strengthening demand for business loans, although some firms do not need to resort to the banks because of their strong liquidity position derived from internal cash flow or external bond financing. As for the banks, their currently available funds and the expected inflow of savings seem sufficient to accommodate a strong loan demand throughout the rest of the year. Loan-deposit ratios have been rising, however, originally because of consumer loan and mortgage demand, and more recently because of business loan demand.

During the remainder of the year, bankers expect that business firms will borrow increasing amounts for handling receivables, for expanding inventories throughout the manufacturing-distribution chain, and for activating plant equipment expansion plans that had been laid aside during the recession. Some large firms say that they have not borrowed short-term and that they do not intend to do so for the remainder of the year, but these firms, by and large, are exceptions to the general trend.

In the Northwest, encouraging crop prospects have led farmers to borrow for equipment replacement and expansion. In the Mountain States, a strong business expansion has created credit demands for financing motels, manufacturing plants, shopping centers, and resort-type homes. In Southern

California, further business-loan expansion is expected because of inventory investment and the rapid growth of capital spending. Most bankers expect that prime-rate increases will go along with this increase in loan activity, but they doubt that rate increases will dampen the underlying buoyant demand for credit.