

CONFIDENTIAL (FR)

CURRENT ECONOMIC CONDITIONS BY DISTRICT

Prepared for the
Federal Open Market Committee
by the Staff

March 15, 1978

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SUMMARY*

The overall impression that emerges from this month's district comments is that while the severe weather in many parts of the country and, to a more limited extent, the spreading effects of the coal strike, have somewhat weakened the economy's momentum, the interruption is likely to be only temporary. The retail sale outlook remains good, with merchants generally expecting a strong spring season. The underlying demand for housing continues at a high level, although some concern was voiced over an actual or potential rise in mortgage rates. Business inventories generally are still in line with sale expectations, and there were signs of a strengthening in the business capital spending sector. Concern over inflation continues, reinforced by the implications of the coal negotiations. The demand for business loans seems to have strengthened, on balance.

The impact of the coal strike on production and employment appears to be limited so far. Cleveland thus reports that electric power shortages have affected employment in its district only "minimally" and far less than indicated in widely publicized estimates, and notes that its economic respondents were "unconcerned" about the long-range effect of the strike. Richmond reports further curtailment of energy supplies to commercial and industrial users, but expects losses in terms of employment and production to be small if coal shipments are resumed shortly. Atlanta notes that so far only from Tennessee and Alabama have reports of strike-related "significant" disruption of production emerged, although it feels further curtailments might induce

* Prepared by the Federal Reserve Bank of New York

massive layoffs if coal shipments are not forthcoming quickly. According to Chicago, the coal strike began to adversely impact output in late February, but the effect so far has been "relatively minor", largely confined to Indiana, and is expected to be quickly reversed after the strike is settled. St. Louis also reports only "relatively minor" effect from the strike, and, indeed, sees modest gains in manufacturing activity in recent weeks. Minneapolis feels the strike is not affecting industrial activity in its area, as do New York and Boston, although concern was expressed in those two districts over the potential adverse impact should the strike be prolonged much longer. That for the present underlying manufacturing conditions remain firm, however, is suggested by the number of reports of increases or continued strength in manufacturers' shipments, new orders, and the growing backlog of orders, emanating from, among others, Boston, Philadelphia, Richmond, Dallas and St. Louis.

Consumer spending continued to be depressed by inclement weather over large parts of the country, with more than half of the districts mentioning this as a factor. Retailers, however, generally remain relatively optimistic about the near-term outlook. Boston thus reports that retail sales in New England have weakened, but that bad weather was "undoubtedly" a contributing factor, while New York notes that consumer spending in that District appears to be shaking off its "winter doldrums" with retailers throughout the District looking to a strong spring season. Similar sentiments are expressed by several other banks, including Philadelphia, Cleveland, St. Louis and Kansas City. Richmond sees continued improvement in total sales, with retailers remaining optimistic. Atlanta reports year-to-year sales gains of 10 to 15 percent

in most areas of that District, and a rise in late February in retail sales is reported by Dallas. Minneapolis characterizes consumer spending as "good to normal", except in rural areas particularly hard hit by cold weather, and while San Francisco reports that unusually heavy rains have dampened sales in Southern California, consumer spending remains strong in the northern part of the state.

While bad weather also hampered construction activity in a number of areas, underlying demand in that industry appears to remain strong according to those banks that comment on this subject. Atlanta thus reports that recent high rates of residential construction have not been able to keep pace with demand, while St. Louis reports that demand for new homes continues at a high level. Cleveland notes that while bad weather has depressed housing activity in its District, demand for mortgage money continues strong, as do Minneapolis and Dallas. Some concern was expressed in several districts, however, that rising mortgage interest rates associated with a weakening of deposit inflows at thrift institutions might eventually reduce mortgage demand.

Business inventories by and large remain in balance. Retail inventories thus are characterized as "well under control" by Boston, and at or near desired levels by Richmond, Dallas, Kansas City and St. Louis. Some respondents in the Chicago, San Francisco and Cleveland districts felt inventories to be too high, but others too low. Retailers' inventories in the New York district were regarded as a bit on the high side. At the manufacturing level, inventories in general appeared to be in line with expected sales, although Chicago reports a buildup in farm equipment inventories and there remains a widespread feeling among Richmond manufacturers that current stocks exceed desired levels.

There were indications of some improvements in business spending

on plant and equipment. Boston thus reports increases in machine tool orders, while Atlanta notes that tool and diemakers are enjoying excellent business. A steel economist in the Cleveland district sees signs of "accelerating" orders from capital good producers. Chicago reports an expected rise this year in business capital outlays, both for equipment and structures, while Philadelphia characterizes the capital spending plans of its respondents as remaining strong.

Concern continued to be expressed over actual and prospective increases in prices and wages. More specifically, Chicago expects the "very large increase" in compensation which the eventual coal settlement will entail to stimulate wage demands in other industries. Minneapolis reports that the coal negotiations have already affected wage demands in that district, while respondents in the Cleveland district expect a sharp rise in coal prices this year.

The demand for business loans is reported as strong or on the upswing by several banks, including St. Louis, Dallas, Chicago and Philadelphia, but as flat or below expectations by San Francisco and New York. Reports on the demand for consumer and other types of loans were mixed.

FIRST DISTRICT - BOSTON

First District respondents remain encouraged about the performance of the New England economy. There is, however, significant concern about the national situation. Retail sales have weakened, but this is attributed to poor weather. Inventories are well under control. Manufacturers appear to be doing well. Loan demand is moderately good and expected to improve.

Retail sales in New England have weakened but bad weather was undoubtedly a contributing factor; so it is difficult to determine the underlying trend in consumer spending. A representative of a large department store chain believes he sees the beginning of more long lived slowing in retail sales. However, in northern New England the tourist industry and all the retail outlets associated with it are faring very well. Also, New England telephone companies report a very active installation business, a phenomenon which they feel is indicative of general economic health. Retail inventories are low and no problems are expected in this area.

In the manufacturing sector, most reports are favorable. In northern New England the electronics and plastics industries are enjoying healthy demand; backlogs for machine tools continue to grow. Large employers in the high technology fields in Massachusetts are also reported to be doing well. One large producer of instruments has a nine month order backlog. Another reports that they are still below capacity but that order backlogs are significantly above this time a year ago. The region continues to benefit from large defense purchases. The one negative note, a mild one, came from a supplier to the tire industry; sales of a key ingredient in tires are down 10 percent from a year ago. Other chemicals made by the same company are also off slightly.

As yet, New England has not seen any effects of the coal strike, although there is some concern about what will happen next month.

Loan demand at commercial banks is fairly good and is expected to get better. According to one of the region's largest banks, domestic loan demand is not as strong as desired, but there is substantial optimism about 1978. A medium-size bank in northern New England reports that commercial loan demand is very strong, although there has been some seasonal weakening in construction loans. Installment loan business after a brief slump has picked up.

Conversations with consultants following national industries indicate that, aside from the coal strike, shortages are not going to be an issue in 1978. There are some shortages of fine coated papers but these can easily be dealt with by turning to imports or heavier grades. One manufacturer reports difficulties getting electronics components, particularly those from California. In the steel industry, cutbacks in capacity combined with continued recovery could produce shortages of certain products after 1980; however, at present only oil and gas drilling equipment is in short supply. In addition, despite its dependence on coal, the steel industry is not any more likely to be affected by the coal strike than are other industries in the mid-west. Coke stockpiles are substantial and electric power cutbacks will limit production before coke availability becomes a constraint. In petrochemicals and most of the paper industry the problem is overcapacity. Among these consultants there is considerable concern about the impact of higher interest rates on the housing industry. One lumber specialist claims that when rates on Treasury bills reach 6 percent, there is a marked effect on housing and consequently on the lumber industry. In the energy sector, the natural gas situation has improved. Production last year was better than expected and this experience combined with price

increases has led at least one energy expert to increase his production forecasts for 1978.

Professors Houthakker, Eckstein and Solow were available for comment this month. All respondents agree that the dollar cannot be successfully "defended" on foreign exchange markets unless the imbalance in our trade and capital accounts is corrected. Moreover, the recent decline in the dollar's exchange rate represent a normal market response to our foreign deficit. In time, the declining dollar will encourage foreign demand for our exports and discourage our demand for imported goods; in this manner the recent depreciation of the dollar will bring our accounts back into balance. According to Eckstein, many businessmen fear that the defense of unrealistic dollar exchange rates will ultimately lead to exchange controls and further import restrictions. Although Houthakker recognizes the need to temporarily settle disorderly conditions which may arise occasionally on exchange markets, he recommends selling gold rather than accumulating large debts in foreign currencies.

Due to the coal strike and the winter weather, Eckstein expects 2.4 percent real growth during the first quarter of this year. Much of the lost activity will then be regained in the second quarter when growth will exceed 6 percent. Despite this acceleration, Eckstein expects that real GNP will average only 4 percent growth during 1978, and there is a 45 percent chance that weak demands or a credit crunch in the second half of the year could push the year's expansion close to 3.5 percent. He believes it is important for the Fed not to be misled by the "snap-back" in activity during the coming months, the problem for 1978 is to avoid losing too much momentum.

Solow is surprised by the sharp decline in the reported unemployment rate since the end of 1977. The slow economic growth suggests that policy

should not become tighter; with low rates of capacity utilization and the modest growth forecasts for 1978, the Fed should still be concerned about maintaining the recovery and regaining full production.

Neither Houthakker or Solow believe that the recent behavior of the wholesale price index and the consumer price index warrant reaction from the Fed. It is inappropriate to address problems of food shortages with aggregate monetary policy. Recognizing that food prices are highly volatile, especially during periods of adverse weather, Houthakker has not changed his forecast of inflation, 6 to 7 percent for 1978.

SECOND DISTRICT--NEW YORK

Business activity in the Second District has still not fully recovered the momentum it lost earlier in the year when the harsh winter weather beset the region, according to recent accounts of directors and other business leaders. Retailers reported that, while their sales had picked up in February and early March, adverse weather continued to act as an impediment. Retail inventory stocks are regarded as being a bit on the high side, but merchants foresee a strong spring season and plan to run down their excess stocks then. Meanwhile, the coal strike does not seem to have had much effect on production in the district. But businessmen doubt that this immunity will continue if the strike lasts very much longer. On the financial side, although business loan demand has remained sluggish at large banks in the district, some see a modest strengthening in the coming months.

Consumer spending in the district appears to be shaking off its winter doldrums. Downstate merchants reported a pickup in their sales in February and early March, following the abrupt downturn in January. They generally felt, moreover, that the gains would have been even bigger if there had been more of a let-up in the weather. Elsewhere in the district, retail sales appear to have been fairly flat, though signs of an increase in consumer durable purchases were reported in the Buffalo area. Throughout the district, however, retailers remain confident and look forward to a strong spring season.

Inventory stocks at retail establishments are reportedly running on the high side. A director of this Bank suggested that the high inventories were due in part to the prevailing optimism regarding the sales outlook.

Indeed, many retailers did mention that they are expecting strong retail sales in the spring and that this turnover will bring their inventory stocks into balance with sales. Furthermore, among the merchants who were queried, none expressed concern about excess inventories. Outside of the retailing sector, inventories were viewed as in line with sales.

Among those people who were contacted, few felt that their business operations had been hampered thus far by the coal strike. One business economist, who monitors the national economy, thought that the strike was having harmful effects nationwide. But neither he nor anybody else mentioned specific harmful effects that the strike had had on businesses located in the Second District. At the same time, it was generally agreed that a prolongation of the coal strike would soon begin to constrict business activity in the region.

Responses to the mid-February Quarterly Survey of Bank Lending Practices suggest that business loan demand in the Second District was weaker than anticipated in the mid-November Survey. Although nine of the 16 reporting large banks had expected moderate strengthening, only five respondents indicated such gains while one reported much stronger demand. The remaining ten banks reported the strength of loan demand as unchanged since mid-November. Data for large weekly reporting banks in the Second District generally indicate a flat picture of loan demand with seasonally unadjusted commercial and industrial loans (excluding bankers' acceptances) rising by \$14 million to \$37,248 million from November 16, 1977 to February 15, 1978. At New York City large weekly reporters, the comparable change was a decline of \$171 million to \$32,048

million. Seasonally adjusted data for these New York City banks show an increase of \$54 million to \$32,177 million in commercial and industrial loans between November 16 and February 15.

In spite of weaker than anticipated loan demand reported in mid-February, half of the surveyed banks expected moderately stronger loan demand in the three months ending in mid-May. However, six of the respondents anticipated no change in loan demand, while the remaining two expected demand to be moderately weaker.

THIRD DISTRICT - PHILADELPHIA

Indications from the Third District are that economic activity is generally sluggish. Manufacturers report only a weak increase in business activity, and continued inclement weather has taken the steam out of retail sales. Over the next two quarters, manufacturers look for renewed expansion in their sector, but retailers say unresolved tax policies and inflation raise unanswered questions about the next six months. Area bankers report stronger business loan demand in March, but they too are uncertain about future conditions. They foresee an increase in interest rates, along with the possibility of disintermediation.

Manufacturers responding to the latest Business Outlook Survey indicate some improvement in business conditions in March. In terms of specific indicators, new orders and shipments are both reported to be higher in March, while inventories are stable. On the job scene, factory work forces are essentially unchanged for the fifth straight month, but the average workweek is reported to be slightly longer.

Comments by Directors of this Bank are consistent with these reports. They indicate that despite bad weather and the nationwide coal strike, business volume is holding up well. One director, representing the energy industry, attributes the negligible effects of the coal strike to several factors, including the flow of non-union coal into the area. Moreover, as we move into a low power usage season, the demand for coal tapers off, making shortages less serious.

For the longer term, Business Outlook Survey respondents still look for gains, but the proportion of respondents expecting improvement continues to diminish,

as it has done since the beginning of 1977. In the current Survey, less than half of those polled forecast a pickup in business activity over the next two quarters, compared to almost 90 percent a year ago. New orders and shipments are projected to increase, but again by a shrinking percentage of respondents. Moreover, there is less optimism among manufacturers about the employment situation than there has been since September. The size of factory payrolls is expected to increase only fractionally over the next six months, with virtually no change in average weekly hours worked. Capital spending plans, however, are still strong. Over 40 percent of the respondents to the Survey report plans to increase expenditures on plant and equipment between now and September.

Price increases in the industrial sector are becoming more prevalent. In this month's Survey, half of the respondents report paying higher prices for inputs, while over one-third say they are charging more for their finished products. As for the future, manufacturers look for continued price hikes. About 75 percent of those surveyed say they expect to pay more for raw materials by the end of the summer, and about 70 percent plan to increase the prices of the goods they sell.

Current retail sales are reported to be flat or slightly ahead of last year, according to merchants contacted this month. These levels are generally at or marginally below planned sales volume for this period. Retailers point to weather as the major cause of depressed sales throughout the first quarter. They say, however, that lost sales should be made up, at least in part, in the spring buying season.

Retailers are unsure about the level of future sales. They say that unresolved tax policy and the uncertain course of future inflation disallow

any definite position. Should a tax cut be instituted and inflation not worsen, merchants look for some gains in real sales over the next six months.

Commercial bankers in the area say that consumer loan demand is weaker than it has been recently. Business borrowing is stronger, but about as expected. Bankers attributed the departure from the recent sluggish trend in business loan demand to several factors. They believe that executives generally expect higher interest rates in the future and are attempting to take advantage of current rates. Moreover, at least one bank in the region is offering fixed-rate, short-term loans. Contacts at that bank say the recent increase in borrowing there is, in large part, the result of that program.

For the longer term, contacts were uncertain about the future course of business loan demand. Current projections over the next two quarters range from "no change" to "moderate expansion."

Area bankers say that higher short-term interest rates have had only a negligible effect on deposit flow at this time. They do, however, anticipate significant disintermediation should short-term rates rise another 50 basis points--and bankers expect that they will. Inflationary pressures, offset somewhat by slower economic growth, are expected to push interest rates up over the next six months, with a prime rate (currently 8 percent at all of the banks contacted) at 8 1/2 percent by September. Despite the possibility of deposit outflows though, a credit crunch similar to that of 1974 is not foreseen, because banks are generally more liquid now than they were at that time.

FOURTH DISTRICT - CLEVELAND

The coal strike and unseasonably cold weather have continued to hamper production, sales, income, and distribution in the Fourth District. Indirect effects of the coal strike on employment have been minimal. Economists who attended this Bank's recent meeting on the economic outlook still expect growth in output at about a 3.8 percent annual rate and a 6 percent rate of inflation from the fourth quarter 1977 to the fourth quarter 1978. Retailers have experienced spotty sales for the past several weeks but remain relatively optimistic that sales will pick up from recent low levels. Savings and loan associations have not cut back commitments or loans despite continued softening in deposit flows.

Electric power shortages have affected employment in the District minimally and far less than indicated in widely publicized estimates. Some manufacturers, as in the case of steel, have had to stretch out production to protect energy supplies. More typically, they have cut back on hours, lighting, and heating. In some cases, they are diverting production to other plants not affected by the power shortage. Moreover, many manufacturers have resorted to alternate power sources, especially their own power generators. Estimates indicate that industrial layoffs have affected perhaps 3,500 to 5,000 of the 1,650,000 manufacturing workers in the District. Utilities in Ohio still have coal stocks that range from 35 to 55 days' supply, not much less than a month ago, and the only utility that has a mandatory curtailment is the smallest one in the state that serves portions of southern Ohio. Utilities in the Pittsburgh area have the lowest coal supplies and are operating with mandatory curtailment, ranging from 10 percent to 25 percent. Other utilities are

reluctant to estimate when mandatory controls might be imposed, given the highly fluid supply situation and flexibilities of large industrial users. Manufacturers generally claim they can continue to operate without major layoffs even if 25 percent power cutbacks are mandated, and some assert they can adjust to as much as a 50 percent cutback because of backup power and conservation measures.

Economists who attended this Bank's quarterly meeting on the District's economy earlier this month were unconcerned about the long-range effects of the weather and coal strike. The median forecast of 29 economists shows continued expansion throughout the year, with a 4.3 percent annual rate of gain in real GNP during the first half of 1978, followed by a 3.4 percent rate in the second half. Although the economists do not expect a credit crunch in 1978 despite increased demand, some viewed the probability of a crunch and recession in 1979 as very high. Several also expect continued upward pressure on interest rates in 1978, with the Federal funds rate rising to 8 percent in the fourth quarter of 1978.

Retailers still anticipate some spring rebound that would boost sales from weakened first-quarter levels, although expected gains are not likely to be as strong as in the final quarter of last year. Strengthening from lows in January has been spotty partly because of frigid weather in February. Some retailers also point out that a letup in sales was expected after last quarter's surge in sales. Inventories have been raised to unacceptable levels because of unexpectedly slow apparel sales, according to an economist with a major department store chain.

Eight automotive producers and suppliers forecast that domestic new car sales in 1978 would range from 8.3 million to 9.0 million units, with imports

amounting to 1.7-1.9 million. Another economist placed total new car sales this year at 10.9 million units. He acknowledges that sales have been running somewhat below that projection because of bad weather, the coal strike, and low public response to GMC styling of intermediate cars. Still, he is reluctant to revise his expectations downward at this time. For the longer term, he expressed concern that imports from Japan may seriously threaten domestic producers and sees little prospect for relief from a high level of auto imports from Japan over the next few years. According to his estimates, Japan has a large capacity to build cars especially for the export market and has a sizable cost advantage estimated at \$650 per car over United States auto producers. This year, for example, Japanese motor vehicle production is expected to be stepped up to about 9.3 million, an increase of 800,000 from 1977. Virtually all this increase can be exported.

Bad weather depressed housing activity in the District again in February, but demand for mortgage money continues to be strong. Although savings and loan associations are increasingly concerned over further slowing in deposits last month, they are not cutting back on commitments. Liquidity continues to shrink, and a few associations indicate that they are virtually at the ceiling of reserve requirements. They will be required to step up their borrowing and to increase their use of the secondary mortgage market to support mortgage loan activity. Some lenders are less apprehensive about commitments and lending prospects because they hold a higher volume of certificates than they did in 1973. An economist with a Federal Home Loan Bank in this District believes that certificates are providing some protection against rising interest rates. His estimates show that, if savings and loan associations had the same deposit mix as prevailed at the beginning of 1973, the slowdown in savings

deposits would be at least \$3.5 billion larger than otherwise. He expects 1.8-1.9 million new housing starts this year.

Several District officials and economists consider inflation of greater concern than the power shortage. Despite some potential benefit to domestic steel producers, reference pricing of steel will raise prices, according to some producers of steel fasteners and metal products. Higher priced steel would cause users to raise prices for finished products, which already are at a competitive price disadvantage with foreign supplies.

Coal prices are expected to rise sharply this year. An economist with a large coal producer estimates that a 37 percent contract settlement for the coal industry would raise the price of utility and industrial steam coal about 9.4 percent in 1978 and another 4.6 percent next year. In addition, environmental regulations will boost coal cost by \$2 per ton. On the other hand, prices of crude oil, according to an oil economist, can be expected to increase less than the assumed 6 percent underlying rate of inflation this year because of ample capacity and slow growth of demand.

Steel economists are still relatively optimistic that production and shipments of steel products will be about 10 percent stronger than last year. Because production at some mills is being stretched out to protect coke supplies, orders for this quarter are running ahead of production and shipments. While uncertain about the effects of reference pricing of steel, economists expect steel imports to fall from 19 million tons last year to about 14-18 million tons this year. One economist, who sees signs of accelerating orders from capital producers, believes the industry may be operating close to capacity by the year-end.

FIFTH DISTRICT - RICHMOND

Despite some continuing disruptions from weather and strike related energy curtailments Fifth District business activity made some further advances over the past month. Responses to our survey of District manufacturers suggest continued improvement in the volume of new orders and further increases in backlogs of orders as well as a minor rebound of shipments. On a less favorable note, however, expanding inventories and rising prices were increasingly widespread. In addition, retailers apparently experienced another good month in terms of total sales. In spite of these improvements, however, the expectations of manufacturers deteriorated further in February. Judging from our survey responses, the general outlook is now weaker than at any time since last October. A major factor here seems to be the continued uncertainty regarding coal and other energy supplies over the short-term.

Of manufacturers responding to our survey nearly 40% report increased volumes of new orders in the past month and nearly as many report larger backlogs of orders than a month earlier. In addition, almost one-third report a higher level of shipments last month. Nonetheless, inventories of materials and finished goods generally expanded over the month and there remains a widespread feeling that current stocks exceed desired levels. Employment among manufacturers surveyed apparently declined slightly during the latest survey period and the average work week was essentially unchanged.

In the retail sector, survey responses suggest continued improvement in total sales and in the relative sales of big ticket items. Inventories at retail were unchanged over the past month and are now generally in line with desired levels.

Among respondents from both the manufacturing and retail sectors reports of rising prices continue widespread. Over half of the manufacturers surveyed report increases in prices paid over the past month. With respect to the outlook for business activity over the next six months, retailers remain basically optimistic. Manufacturers show considerable disagreement. But approximately one-half of the manufacturers surveyed anticipate little or no change in activity over the next six months while the rest are about evenly divided between expecting worsening and improving conditions. Much of the uncertainty among manufacturers appears to be linked to growing concern about energy availability. Resolution of the coal strike could result in a significant improvement in attitudes among manufacturers, although some respondents believe that business currently being lost because of energy curtailments will be difficult to make up later.

In the past week several utility companies in the District moved into the second phase of emergency plans in an effort to cope with dwindling coal stocks. In general, this meant further curtailments of energy supplies to commercial and industrial users. It is not clear at this point what these curtailments will involve in terms of employment and production, but it appears likely that losses will be small if coal shipments are resumed in fairly short order.

Bank credit activity in the Fifth District over the past several weeks, after accounting for seasonal influences, appears moderate. Real estate lending continues to be depressed as a result of a weather related slow down, while consumer lending has essentially leveled off. Regional businesses, however, have increased their borrowings from District banks. At weekly reporting banks, lending to regional firms is concentrated in the intermediate and short-term categories. Demand for credit by large national firms is soft.

In the agricultural sector, estimated total cash receipts from farm marketings in 1977 show the District figure about 5 percent below the 1976 level as against a gain of about 1 percent nationally. This comparison would seem to suggest that the proportion of farmers with cash-flow problems may be somewhat larger in the District than in the nation as a whole. A 3 percent increase in District livestock receipts only partially offset an 11 percent decline in cash income from crop marketings.

SIXTH DISTRICT - ATLANTA

With the return of milder weather, business activity generally resumed a moderately strong pace. Used car sales have spurted rather suddenly as new auto purchases have risen falteringly. Fervent housing demand has thinned inventories, aroused speculation (notably by foreign investors), and broadened the rise in mortgage interest rates. Several sluggish industries show signs of reviving. Weather-related supply disruptions and overburdened transport systems may yet result in lost sales, however. If coal shipments are not forthcoming quickly, TVA curtailments will induce massive layoffs in a large portion of the District.

Only from Tennessee and Alabama have we heard reports of significant disruptions of production because of the coal strike. These include shortening of work hours, the closing of a mobile home production plant, and the idling of barges and tow boats. TVA seems to be in the most dire position, holding 1.7 million tons. At one million tons, it will impose mandatory industrial curtailments of 30 percent. Though its recent award of contracts for one million tons of western coal gave cause for hope last week, the drain on its supplies has accelerated and rail transport problems have dimmed prospects for timely deliveries. The 30-percent cutback would result in estimated layoffs of 75,000 workers in 1,200 industries, spreading to 136,000 if it lasts longer than a month. Alabama Power, with a 40-day supply, will curtail service by 10 percent if stocks dip to 35 days by imposing a 20-percent reduction in the operating hours of schools, businesses, institutions, and plants. Voluntary curtailments requested by both TVA and Alabama Power several weeks ago have been rather ineffective. No other District utilities have asked for even voluntary cutbacks in consumption.

Consumer spending has improved with the weather, with most areas recording year-to-year sales gains of 10-15 percent or better. Several directors report that big-ticket sales are outpacing soft goods, but at least one notes strong sales of soft goods, particularly women's apparel, and some weakness in home fashions and appliances. A food chain owner (director) comments on the lack of consumer resistance to higher priced food items. Weather-related production losses have put deliveries of spring and summer apparel behind schedule and could result in lost sales with Easter so early this year.

The new car sales picture is still unclear. Florida directors complain of sluggishness, blaming high prices and downsizing. But demand has revived modestly in areas that were afflicted by harsh weather, and two regional distributors of domestic makes realized rather strong year-over-year advances in February. Except in Tennessee, where usury restrictions have hampered financing, used car sales have been universally described as very good.

Reductions in savings inflows to thrifts are still relatively moderate in the District, but the advance in mortgage rates has spread; many lagging S&Ls have moved to 9 1/4 plus two points. Shrinking demand deposits have accounted for all of a recent slowing of bank deposit inflows. In a constitutional referendum, Tennessee voters elected to turn over the fixing of interest rate ceilings to the legislature. More flexible statutory limits should permit finance companies, who have virtually ceased lending in the past six months, to operate profitably in the state.

Recent rapid rates of housing construction have not been able to keep pace with demand. Home inventories are generally thin throughout the

District. In Broward County, Florida, a scarcity of rental housing may force prospective renters to buy and thus deplete stocks of midpriced condominiums to shortage levels by midyear. Speculative buying of land and homes has accelerated sharply in South Florida. Foreign buyers, largely Canadian and Latin American (characterized by one director as "desperate to buy"), have provided a sizable portion of speculative funds.

Business leaders report signs of strengthening in several slow industries. A large steel producer sees a revival of demand this year, with the impetus to come from the oil industry and manufacturers of home appliances. Phosphate shipments should be heavy this spring, as backlogged deliveries to the North augment rising orders, if the rail car shortage permits. Tool and diemakers are enjoying excellent business. Truck sales have been buoyed by a surge in foreign purchases. Three large companies badly in need of work (Offshore Power Systems, McDonnell Douglas Astronautics, Ingalls Shipyards) have been awarded contracts of late. Florida hotels and tourist attractions have been unusually hectic as result of northern storms and ad campaigns.

Job growth continues to be substantial. Complaints of shortages of skilled labor are becoming more common and widespread. However, recently announced layoffs unrelated to either the weather or the coal strike will displace at least 1,500 workers in the region.

Further increases in citrus prices have slowed sales; the Florida Department of Citrus estimates that consumer demand is off from last year by at least one-third. Still, carryover for next year's season will probably be inadequate. The current crop is in very good shape, but harvests are proceeding quite slowly (perhaps deliberately). Strong cotton demand from

the Far East has been taking up some of the domestic slack; Mississippi growers are likely to expand acreage by more than the USDA's January planting intentions survey indicated. A director expects demand to support the rising level of egg production despite sharply higher prices.

SEVENTH DISTRICT - CHICAGO

Business activity in the Seventh District was depressed by severe weather conditions in both January and February. The coal strike began to register an adverse impact on output in late February, but this influence is still relatively minor, and largely confined to Indiana. Some retailers are very pleased with recent sales, but others are not. There is evidence that consumers are holding back on purchases of autos and other big ticket items. Business capital outlays are expected to rise this year, both for equipment and structures. Demand for farm equipment is conspicuously weak. The long severe winter has hampered construction activity to an abnormal degree. Demand for credit appears to be strengthening, especially for bank loans to larger businesses. Interest rates are expected to move at least moderately higher as demand for credit increases while savings inflows to thrift institutions remain slow.

Knowledgeable business managers in the district believe that the coal strike negotiations have been "bungled." The pact presented to the miners for ratification took away some benefits won earlier, and attempted to place unacceptable penalties on wildcat strikes. (These views come from management observers.) Nevertheless, a settlement is expected soon with various key sections rewritten.

All affected activities are expected to rebound after the coal strike is settled. However, the experience adds to inflationary pressures. Premium prices have been paid for substitute fuels, mostly imported. Costly adjustments in production processes have been necessary. The eventual settlement will entail a very large increase in compensation, which will stimulate

demands in other industries.

Utilities in Illinois, Iowa, Michigan, and Wisconsin have not requested users to cut power usage. (Some companies have taken voluntary steps, however.) This favorable situation reflects extensive use of nuclear facilities, western coal, deliveries of non-union coal, and, in the case of Michigan, extensive purchases of power from Ontario. A utility serving 70 percent of Illinois' population reports that 46 percent of its sendout since January 1 has been from its nuclear plants. This company has activated some oil-fired peaking units in order to sell power to the East. Larger units used during the summer are out of service for heavy maintenance.

The electric utility serving Lake and Porter Counties in Indiana asked for a 15 percent voluntary cutback by the big steel plants and oil refineries located there. This request was accommodated by increasing self-generation, which normally supplies about 50 percent of the needs of these companies. Elsewhere in Indiana, industrial customers were cut back 25 percent, starting February 20. Commercial lighting was reduced drastically, and some schools closed. Industrial users have met the curtailment by added self-generation, stringent conservation, and, in some cases, by layoffs or 4-day weeks. It is believed that some companies are holding back on layoffs hoping that curtailments will soon be lifted. As of noon, March 13, further curtailments, perhaps to a drastic 50 percent, have not been ordered.

Layoffs directly related to the coal strike in this district, thus far, appear to be confined to Indiana. On Monday, March 13, the Indiana Labor Department counted 6,600 layoffs directly related to the coal strike, 5,400 indefinite and 1,200 for the day. The total is less than 1 percent of Indiana's manufacturing employment. A number of employers indicated that the

situation could soon become more critical. The Indiana layoff total included 600 steelworkers involved in coke oven operations. Abnormally large stocks of coking coal had been laid down before the strike, including imports from Europe, but even this has proved to be insufficient. If coking coal does not begin to move to the steel mills in the next few weeks, output of finished steel will begin to be affected significantly.

One very large retailer reports that sales rebounded rapidly in all regions after the recent blizzards. Another retailer reports a much less vigorous picture. The first company reports that inventories are low, while the second says they are high. Both companies report added strength in apparel sales recently. Both report a decline in the ratio of credit sales, reversing the trend of earlier months.

Purchasing agents report renewed upward pressures on prices. As of April 1, Chicago area truckers are expected to apply for, and obtain, a 15 percent boost in rates. Wage scales will rise over 10 percent on that date, and costs of fuel, maintenance, new equipment, workmen's compensation, unemployment insurance, and other insurance have increased substantially since the last rate increase.

Farm equipment inventories are mounting despite reduced production schedules. Tractor inventories are the highest in seven years. To stimulate sales one manufacturer now offers a two year warranty on large tractors. Some dealers guarantee replacement of new equipment if breakdowns occur during a critical period.

A producer of materials expects a substantial rise in nonresidential construction this year. New orders for structural steel support this view. Home builders expect shortages of insulation and wallboard again this year.

EIGHTH DISTRICT -- ST. LOUIS

Business managers in the Eighth District remain optimistic about further economic gains, despite some setbacks this winter as a result of unfavorable weather and the coal strike. Retail sales, in recent weeks reported to be at about year-ago levels, are expected to resume growth as normal weather returns. Inventories are considered to be satisfactory. Some losses in manufacturing production have occurred because of the weather and the coal strike, but orders in most industries indicate that demand remains relatively high. Construction activity in the District has also been hampered by the weather, but demand for new homes continues to be strong. In the financial sector, business loans at larger banks increased substantially in recent weeks, and moderate increases have occurred in most other loan categories.

Retail sales in recent weeks have been affected adversely by unusually cold and snowy weather. St. Louis department store representatives indicated that sales have about equaled year-ago levels. Some sales gains, however, were registered in areas, such as Little Rock, where weather conditions were not as severe as in St. Louis and Louisville, for example. Automobile dealers report sales were good on days with normal weather and that overall sales have been running near year-ago levels. Retailers were generally optimistic that the current slump in sales is temporary and that sales gains will occur when the weather improves and the coal strike is settled. Current inventories at the retail level are considered to be satisfactory given the expected increases in sales this spring. Retailers noted, however, that this assessment would change rapidly if the expected

sales gains are not forthcoming.

Major utility companies in the District report that coal stockpiles have tended to stabilize in the past few days. This reflects some voluntary cutbacks in electrical power usage, greater incoming coal shipments, and the burning of larger quantities of higher-priced oil and natural gas. Only voluntary reductions in electrical power usage have occurred so far. With the tendency of coal stocks to stabilize and the prospects for additional coal supplies as a result of the Taft-Hartley injunction, the "crisis" situation appears to have eased somewhat. None of the utilities contacted indicate mandatory curtailments are in prospect in the near future.

The effects of the coal strike on employment and production have been relatively minor in the District. A zinc processing plant in the St. Louis area, which had a special contract with the utility company, chose to shut down its operations rather than pay a higher rate for energy. Also, a local chemical firm closed a phosphate and a textile plant as a result of the coal strike. Earlier this month, a major automobile assembly plant was expected to shut down due to a lack of parts as a result of the strike. However, conditions have apparently improved in areas where the automobile parts are manufactured and the shutdown is not foreseen at present.

Despite the threat of power cutbacks and bad weather, manufacturing activity appears to have made modest gains in recent weeks. A representative from a major chemical firm noted strong sales for agricultural and industrial chemicals, textiles, and plastics. An appliance firm representative reported some production losses due to adverse weather, but that orders were strong, partially reflecting the strength in homebuilding. Other products showing strong sales include paper and boxboard, heating equipment, pharmaceuticals,

clothing, and recreational equipment.

The demand for new homes continues at a high level. Bad weather, however, has hampered construction work, and some lengthening in order backlogs for new homes has resulted. The backlog of new home orders is now estimated to be 60 to 90 days in the St. Louis area. Most home construction continues to be of the single-family type. In Memphis, the vacancy rates on apartments, which was very high in 1975 and 1976, are now reported to be falling rapidly, but rents have not adjusted upward sufficiently to encourage apartment construction.

The dollar volume of commercial and industrial loans at larger District banks has increased sharply in recent weeks. The volume of real estate, consumer, and agricultural loans has been growing rapidly for more than a year. Mortgage loan demand is reported to be excellent at savings and loan associations, reflecting the large amount of construction. Time and savings deposits registered sizable gains at commercial banks and savings and loan associations, but S and L's report gains are somewhat below those registered in 1977. Interest rates on most types of loans have remained generally unchanged from a month ago. Recently, a constitutional amendment was passed by the Tennessee voters which removed the 10 percent interest rate maximum from the state's constitution and placed the power to set usury ceilings with the legislature. This limit has been an important factor in reducing the availability of credit in the state and in the relatively low earnings of some Tennessee banks during years of relatively high market interest rates.

NINTH DISTRICT - MINNEAPOLIS

Despite the coal strike, economic activity in the Ninth District is fairly strong, and most of it will probably stay that way into the spring. The coal strike has not hurt this region because it relies little on eastern coal. Unless the strike produces secondary effects, district manufacturers should maintain their substantial first-quarter sales gains. Consumer spending has been good to normal except in western rural areas, and retailers expect strong sales this spring. Consumer demand for mortgages is still high too, but recent increases in mortgage terms caused by slowing deposit inflows could reduce housing somewhat.

Because little eastern coal is used in this region, the coal strike is not affecting output in the Ninth District. Most of this region's coal comes from western fields which have not been shut down during the United Mine Workers' strike. Consequently, this region's utilities and other coal users currently have not had to reduce operations.

But the coal negotiations have already affected wage demands here, and if the strike lasts much longer it could affect other economic activity. A large union currently negotiating with a major food processing firm cites the Carter-supported wage package in the coal talks as justification for demanding a very large wage increase this spring. Also, if the strike continues for several weeks, district manufacturers may have problems selling goods in eastern markets and getting inputs produced in strike-affected areas.

So far, though, with no unusual energy supply problems, district manufacturing sales seem to be up substantially from a year

ago. In mid-February manufacturers responding to our quarterly survey thought their first-quarter sales would be up about 11 percent from a year earlier. Sales of durable goods were expected to be up 13 percent and sales of nondurables up 9 percent.

If the coal strike ends soon, sales should remain well ahead of a year ago, and inventories should be adequate into the spring. In February, district manufacturers expected a 12 percent increase in the second quarter with durable goods sales up 15 percent and nondurable goods sales up 7 percent. In light of their present and anticipated sales, manufacturers were generally satisfied with their inventories.

Consumer spending so far this year is also quite good over much of the district. Auto dealers in the Minneapolis-St. Paul area indicate that sales are holding up fairly well, even though midwinter is usually a slow time of year. Retailers in the Twin Cities say nondurable goods are selling about as well as they usually do at this time of year. Directors from the Upper Peninsula of Michigan and northwestern Wisconsin report fairly good retail spending in their areas too.

But in rural areas of the district's western states, retail sales are down more than seasonally. Directors from Montana, North Dakota, and South Dakota report that severe winter weather has been holding back retail sales gains in their areas. The weather has affected sales of both durable and nondurable goods.

Despite these weather-related problems, retailers throughout the district are optimistic about the second quarter. In Minneapolis-St. Paul, retailers expect the usual good spring sales. Besides the

normal seasonal pickup, retailers in western areas think they will make up some of the durable goods sales put off by bad first-quarter weather.

Consumer demand for housing has remained strong, but because of tighter mortgage terms it may weaken soon. District S&Ls still report a high level of mortgage loan commitments, indicating a sustained demand for housing. However, slower savings inflows reduced the supply of mortgage funds recently. To help offset that slowing, some S&Ls increased their borrowings from the Federal Home Loan Bank Board. And, because of the tighter supply of funds and the sustained mortgage demand, most S&Ls raised mortgage interest rates and tightened other mortgage loan terms. If this tightening continues, district homebuilding may slacken soon.

TENTH DISTRICT--KANSAS CITY

Tenth District retailers report that a second winter of bad weather has reduced sales to about the level of 1977's first quarter. While a rebound in demand is predicted for spring, slow deliveries due to continued bad weather or the coal strike might result in the loss of sales. Auto dealers, too, report sales about equal to last year--a surprising result considering the national decline in auto sales. On the agricultural front, both near-term and futures prices for grain crops have been advancing, but the likelihood of ample supplies may point to lower prices later on. Loan demand in the Tenth District has been mixed, with large city bankers reporting weak demand, but bankers in outlying areas reporting strong demand, especially for cattle feeder loans.

Due to the repeat this year of the severe winter weather, dollar retail sales in the Tenth District have about equaled the levels reached in the same period in 1977. Though the timing varied across metropolitan areas, sales in either January or February were generally worse than last year, with the other month offsetting this decline. While the Denver area has not experienced bad weather, reports from retailers there were mixed. Most District retailers feel that, while March sales have been unsatisfactory to date, a strong month is possible if the weather improves. Looking ahead, spring sales are projected to increase 6 to 20 per cent over last year. However, fears of a fall slowdown in the economy were expressed by some respondents.

Inventories at District retailers appear to be at desired levels despite the effects of the weather-induced sales slowdown. Nevertheless, several retailers reported problems in obtaining supplies from the East and certain hard-hit areas of the Midwest. One respondent also noted a

problem in obtaining shoes from Ohio and Indiana due to coal strike-related energy cutbacks. Though not yet serious, a much longer delay in receipt of spring fashions could cause a loss of sales. One respondent also expressed concern about the negative impact on retail hiring that the rising minimum wage has had and will have on his industry.

Tenth District auto dealers report that, on balance, unit sales are averaging about the same as last year. Those who report a decline in sales point to the bad winter weather as the major factor. One dealer also mentioned that the weather has tied up rail cars and, thereby, has reduced sales by delaying delivery from manufacturers. However, most dealers expect that, with spring, sales will "take off." Additionally, some dealers mentioned that tax refunds will soon start increasing the purchases of new cars.

As to auto size and features, it appears that small and intermediate cars are the best sellers, with extensive options included. It also seems that imports are facing stiffer competition through heavier advertising of domestic small cars and more small cars being offered for sale. Although there is some short-term pessimism, dealers are all extremely optimistic about sales expectations for the rest of the year.

Futures market prices for major Tenth District grain crops advanced during the past month. However, near-term price advances exceeded those of the more distant contracts for soybeans and hard winter wheat. March soybean futures advanced sharply (94 cents per bushel) while advances of 7 cents per bushel were recorded for hard winter wheat and for corn. A number of factors accounted for these price increases. Among them are increased livestock feed consumption in the United States, CCC loan participation by wheat and corn producers, grain transportation problems associated with severe winter weather,

and decreases in production estimates for southern hemisphere crops. However, grain stocks data, winter wheat condition reports, and planting intentions for these grain crops all point to the likelihood of very ample supplies for 1978. Thus, recent price gains may give way to lower prices later on. On the subject of the farm strike, one Bank Director noted that the strike was having very little effect in his area and that he expects "...all of the farmers to be back at work come spring." According to this Director, the cold, wet winter has resulted in very good prospects for the wheat crop but, simultaneously, has caused ranchers to lose up to 30 per cent of this spring's calf crop.

Most large city bankers contacted in the Tenth District report weak loan demand. This contrasts with strong loan demand in outlying areas. Demands for cattle feeder loans have been heavy at both small and large banks, with large banks also reporting continued strong demand for natural resource and energy development loans. However, unusually severe weather conditions have had an adverse impact on consumer, real estate, construction, and other business loans at the larger banks. Credit conditions at Nebraska banks, which were extremely tight last fall, have eased considerably, as small banks continue to pay down correspondent loans that were used to finance agriculture. Deposit growth is strong at most banks contacted. Demand deposits are up sharply, but time and savings deposit trends are mixed. Small banks report strong time and savings deposit gains, but most large banks report only moderate increases or declines. One large bank reports extremely rapid savings growth, due to the offering of small denomination bearer CD's. Large negotiable CD's were reduced at large banks in response to their weak loan demand.

ELEVENTH DISTRICT--DALLAS

Directors and businessmen report that economic activity remains strong in the Eleventh District. Consumer spending has picked up with department stores and auto dealers reporting large sales increases. Manufacturing activity has moderated slightly although durable goods industries continue to post strong performances. A further slowing in net savings inflows to banks and savings and loan associations was recorded in February. Despite higher mortgage rates, residential builders are optimistic that activity will continue near last year's pace. With the planting season approaching, a lessening of farm strike activity is anticipated by agribusinessmen.

Sales at department stores and auto dealerships rose rapidly late in February. Some of the gains were apparently the recovery of sales lost during recent periods of bad weather. Department store executives say that sales in coming months will show large gains over recent months and will be approximately 10 to 15 percent above year-earlier levels. Auto dealers report that customer acceptance of the 1978 models is good and that there is no more than the usual price resistance. Recent weakness in auto sales is attributed to the effects of bad weather. The outlook for new car sales is described as "favorable" with some dealers adding that sales will be as "good as ever." Inventories at most retail establishments are near desired levels.

Manufacturing activity remains strong, although the pace has slowed since the fourth quarter of last year. Many respondents complain of declining productivity as marginal workers are hired to fill skilled positions. To

ease the effect of rising labor costs, some manufacturers are installing more automated equipment. Output in such durable goods industries as fabricated metals, lumber and wood, and machinery is up substantially as their products remain in strong demand. Heavy backlogs of orders exist in many industries. However some metal fabricators report that recent new orders have been erratic or weak. Primary metal producers report only modest growth. Copper and zinc smelters describe their situations as "very bleak." Current operations are only marginally profitable, and the only investments being made are pollution control equipment required by law.

Drilling activity and drilling equipment manufacturers are still operating at capacity and near record paces. Supplies of tubular goods are expected to remain tight well into the second quarter and spot shortages of some sizes are possible. Additions to manufacturing capacity are being planned that will be sufficient to meet the expected growth in demand and should ease the supply situation somewhat. Nondurable goods manufacturing activity remains sluggish. The apparel industry, squeezed by rapidly rising production costs and by stiff competition from imports, is in an unstable position with some firms closing plants. Some jobs are being "exported" as more American apparel manufacturers start up plants in other countries. The sales outlook for chemicals is good for the first half of the year. Capacity utilization is generally in the 85-90-percent range for most chemical producers.

Deposit growth at banks continues to slow, and some switching from savings accounts into CD's is reported. Bankers expect deposit growth to remain slow for the next several months, but report they do not expect disintermediation to become a problem. Loan demand remains strong although some slowing of consumer loan growth occurred in February. Since the second

quarter of 1977, business and consumer loans have shown exceptional strength, outpacing historical rates during comparable periods of time.

The 9 1/2 percent rate set last month at most savings and loan associations on conventional mortgage loans appears to have slowed the pace of mortgage lending, however, some S&L's report turning down more loan requests last month than in previous months. S&L's are reluctant to commit funds until their liquidity position is improved. Net savings inflows slowed substantially in February from January and remain below year-earlier levels. S&L's are finding that nondeposit sources of funds continue to tighten as well. Borrowing from the Federal Home Loan Bank is becoming more expensive, and the secondary market has become an unprofitable source of funds as yields there have risen above 9 1/2 percent.

Residential construction firms expect activity to remain near last year's level despite higher mortgage rates. Construction of multi-family units is expected to pick up as vacancy rates continue to fall. Many major home builders have two to three months of business on their books.

Texas currently appears to be a focal point of the American Agricultural Movement. Although the farm-strike movement has gained much publicity recently, agribankers and agribusinessmen anticipate a slowdown in future protest activities. Many farmers have already begun planting crops in South Texas. And with planting dates approaching over the rest of the District, most protesters are expected to return to the fields to prepare their cropland for plantings. However, the exact impact of the farm-strike movement on planted acreage at this time remains uncertain. There is some concern that striking farmers may make reprisals on non-strikers, but no specific cases have been reported.

TWELFTH DISTRICT--SAN FRANCISCO

Retail sales are reported strong in most parts of the District, though the coal strike in Utah and heavy rains in Southern California have weakened sales somewhat. The inventory picture is mixed with some excess inventories reported in Southern California due to rain-depressed sales and thin inventories in the Pacific Northwest due to slow shipments of goods from the Northeast. Western industry continues to grow, with aluminum and aerospace doing particularly well. While consumer and real estate loan demand remains strong, business loan demand is still flat.

While retail sales in Northern California appear to be running up to 12 percent above year-ago levels, sales in Southern California have been dampened by unusually heavy and frequent rains. Grocery stores in that area report sales to be both less than last year and less than planned. Retail sales of non-durables in the Los Angeles area are very slow due to bad weather, and year-to-year declines of 10 percent in weekly volumes are not unusual. However, in dry weeks sales activity shoots ahead. This start-stop pattern has made inventory management rather difficult and there are some reports of excess inventories.

In the Portland area, retail sales remain strong. One large chain reports January and February sales to be above year-ago levels by 16 and 12 percent respectively. One large department store complained that delays in the shipment of goods from the weather-ravaged Northeast were keeping its inventories a bit thinner than desired. While domestic auto sales in Oregon remain slow, sales of foreign autos is beginning to pick up. A large food distributor reports retail food sales in Seattle to be disappointing in January and February, and is rather puzzled by it.

In Idaho, a depressed farm sector has held back retail sales of both non-durables and autos. Several shopping centers in Utah report retail sales to be running about 8 percent above year-earlier levels and auto sales are also reported to be very strong. The coal strike does appear to be holding down retail sales in a few parts of the state.

The Western industrial picture is one of continued growth. Production in the aluminum industry continues to grow and the near-term outlook both in the West and nationally is excellent (assuming a quick end to the coal strike). Both the primary aluminum industry as well as many aluminum fabricating plants are reported to be operating at wall-to-wall full capacity. Boeing reports both a large backlog of aircraft production commitments as well as a very high rate of new orders. It is increasing its rate of production through a reduction in unused capacity, though it does anticipate some difficulty in finding an adequate number of technical, skilled production workers. The two largest employers in Utah, Kennecott Copper and United States Steel, report that production continues at a high level, though there is some concern about a prolonged coal strike. Oil drilling is very active in Utah and some very successful finds have been made in eastern Idaho and western Montana and Wyoming. Standard Oil of Indiana is putting a \$5 million well in the middle of the Great Salt Lake.

A strong note of concern was expressed by a large builder that production costs in housing were rising at a rate of 2 percent per month and since these costs make up roughly half of the final price, that housing prices were rising at a minimum of 1 percent per month. It is becoming almost impossible to build moderately-priced housing.

Loan demand in the West appears to be stronger than in the nation as a whole. Since the beginning of the year, while lending by large banks fell off by 0.5 percent nationally, it rose by 1.5 percent in the West. Most of the western strength was in real estate and installment lending--business lending was virtually flat. The president of a large bank holding company expects this 6-week trend (of both the West outperforming the rest of the country and the flatness of business loan demand) to continue throughout the year. The president of another large bank reports loan demand to be strong in all areas except large corporate accounts. He also reported, with some concern, a 1 percent (seasonally adjusted) decline in personal savings between January and February.

One Southern California bank reports that while auto loans are down 1.5 percent, real estate loans are up 4.8 percent and master-charge loans up 11.5 percent, since January 1. While most areas report strong real estate and consumer loan demand, a few reports of weak consumer demand attribute this to slow auto sales. Loans to small and mid-size businesses appear to be growing modestly in some areas, but the only report of strong business loan demand comes from a bank in Alaska. Some concern was expressed in Idaho regarding a lower quality of loans due to the depressed agricultural situation.