

CONFIDENTIAL (FR)

CURRENT ECONOMIC COMMENT BY DISTRICT

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by the Staff

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TABLE OF CONTENTS

SUMMARY i

First District - Boston 1

Second District - New York 5

Third District - Philadelphia 8

Fourth District - Cleveland 11

Fifth District - Richmond 16

Sixth District - Atlanta 19

Seventh District - Chicago 23

Eighth District - St. Louis 26

Ninth District - Minneapolis 29

Tenth District - Kansas City 32

Eleventh District - Dallas 35

Twelfth District - San Francisco 38

SUMMARY*

Reports from the Twelve District Banks this month indicate continued strength in the economy as many parts of the nation recover from a severe winter. The only exception is Atlanta which reports mixed activity in the Southeast. Strong loan demand and overall expansion in manufacturing continue to be major sources of strength to the economy. And, although residential construction is suffering in some states, nonresidential construction is generally doing well. Retail sales appear to be expanding with a few exceptions. Crop prospects are reported to be favorable with the exception of Southern California.

March retail sales volume is reported to be growing in all Districts except Philadelphia, Richmond, and Atlanta. Minneapolis reports some weather-related constraint in consumer spending. Sales of big-ticket items are reported to be spotty in some areas, but lower-priced goods such as apparel and fabrics have been big sellers. Retail inventories are reported to be in good shape, except in Kansas City where merchants are expressing concern over some unplanned stock accumulation. One notable exception to the sluggishness of big-ticket items is auto sales. Cars, especially small, fuel efficient models are reported to be in great demand. In fact, in one area of the Twelfth District, Ford Pintos are completely sold out. Looking ahead, retailers have varied expectations, and are cautious.

Manufacturing activity is said to be strong and expanding in virtually all Districts this month. Capacity utilization is high, and in Cleveland and Chicago, 100 percent utilization is being approached. Electrical components and appliances, auto

*Prepared by the Federal Reserve Bank of Philadelphia.

products, and a broad spectrum of producer components are mentioned as some of the strongest industries. Supplies of most inputs, with the exception of labor, appear to be adequate at this time. San Francisco and Boston mention a shortage of skilled labor, particularly engineers. For the longer term, there is much less agreement about the industrial sector. Manufacturers in some Districts are fairly bullish, but Philadelphia and Richmond report a bleak outlook for industry through the balance of 1979.

Expansion in nonresidential construction is generally the rule, but residential investment seems to be suffering. One possible cause of the home building slowdown is the mortgage funds situation. As market interest rates creep up, mortgage money in states which have usury ceilings is becoming scarce. Some states are reacting to this by eliminating or altering those ceilings. March 15th changes in regulations governing interest paid on money market certificates (MMCs) also have mortgage lenders worried. They fear that without their advantage in attracting funds, the flow of funds into the mortgage market will dry up.

Economic conditions in the agricultural sector are generally favorable. Although some sluggishness is reported by Minneapolis, this is weather-related and should clear up when the snow melts. Atlanta reports favorable weather conditions and strong farm prices. Chicago paints a similar picture, and Kansas City indicates good strength in cattle. The only trouble spot is California, where a farm labor strike is disrupting the harvest of lettuce and several other crops. A freeze in Southern California has also caused considerable damage to the grapefruit crops. The agricultural outlook is, again, mixed.

In the banking sector, loan demand is reported to be good overall, but deposit growth is not strong, as consumers increasingly become aware of interest rate differentials. The demand for auto loans is quite healthy. The prime rate is

at 11 3/4 percent over most of the nation currently. Although tight money conditions do not prevail everywhere at this time, there seems to be a general fear that slack deposit growth will cause funds to dry up in the near future. The residential construction industry is particularly worried about such a possibility, because mortgage credit, as noted above, is already difficult to find in some areas.

FIRST DISTRICT - BOSTON

Business conditions are very strong, according to directors and other respondents in the First District. There are no signs of a slowdown. A few businessmen are concerned that the present situation looks ominously "boomy"; however, most have been pleasantly surprised by the economy's strength. Manufacturers report that new orders remain strong; there has been no slackening in the order rate. Capacity utilization is high. Lead times for materials have lengthened markedly in the past couple of months. Retailers seem generally content; inventories have been reduced to more satisfactory levels. In the banking sector, loan demand is quite strong for this time of year. Borrowers do not appear to be deterred by current high interest rates.

New orders are still coming in strongly for New England manufacturers. Capacity utilization is high. The prosperity appears to be widespread: among the products said to be doing well are electrical appliances, electronic components, automotive products, machine tools, aircraft parts, and ski apparel. A large producer of non-electrical machinery reports that all divisions of the company are doing well and there are enough orders for heavy capital equipment to last through 1979. A tire manufacturer says that they are operating flat out, although this is at least partly in expectation of a strike by the United Rubber Workers in late April. The major change from previous months' reports is a substantial increase in the number of firms mentioning longer delivery times for materials and components. Most companies have observed some lengthening in lead times and several claim that the change over the last couple of months has been very marked. Electronic components, aluminum and steel were identified as particular problem areas. Several companies mentioned unusually sharp increases

in the prices of petrochemical and glass products and one firm was very concerned about recent increases in trucking rates. Labor shortages seem to be becoming both more widespread and more critical. Difficulties in obtaining engineers, especially electrical engineers, were mentioned by most large firms. There is also a severe shortage of computer software people and, in some areas, skilled assembly workers. The head of one large firm stated that the wage guidelines, with which they must comply because of large defense contracts, are seriously hindering their ability to recruit needed workers. The representative of the tire manufacturer pointed out that, while his company has accepted the guidelines in principle, the URW with whom the firm is negotiating, has said that they are not even considering them.

Retailers seem generally content. In northern New England those associated with the resort industry are doing particularly well. The head of a large department store chain thinks that there has been a slight easing; however, he also believes that the retail inventory situation has improved substantially from what it was in the fall.

In the banking sector, loan demand is healthy, although there has been a seasonal slackening in demand in northern New England. This easing has occurred primarily in the consumer area; commercial demand has held up well. Despite the season, northern New England banks are almost completely loaned up. One respondent is planning on borrowing in the secondary market; because of the cost of these funds he will be charging 11 percent or more for mortgages. In Vermont the usury ceiling, which has been at 9-3/4 percent, is going to be lifted. In southern New England, the head of one large bank reports that loan demand in all categories is good and the outlook for the rest of 1979 is promising. Banking directors do not think that today's high interest rates

are a serious deterrent to borrowing. Bankers in northern New England expect mortgage demand to pick up as soon as the weather turns warm. A survey by one bank of small businesses in New England reveals that in February most such firms did not think that high interest rates had seriously affected either their profit position or cash flow. None had been deterred from seeking funds by high interest rates and very few had encountered difficulty in acquiring financing.

Professors Eckstein and Houthakker were available for comment this month. Both are reluctant to attach great significance to the recent marked decline in the rate of growth of the monetary aggregates, independently citing the tremendous growth of money market mutual funds as an offsetting influence. Both agree that the real economy is currently quite strong, although Houthakker is reluctant to follow Eckstein in labeling this a "boom" period. For these reasons, neither is prepared to advocate an easing of Federal Reserve policy at the present time.

Professor Eckstein is concerned about the effect of the strong economy on the short-term expectations of businessmen. His impression is that the January data revealing a sharp deterioration in vendor performance and large increases in durable goods orders and manufacturing inventories have been interpreted by the business community as signs that the economy is now in a full-fledged boom. Fearing that business will react to this by attempting to build inventories, Eckstein feels that the situation is becoming uncomfortably similar to that which prevailed at the end of 1973. In his view, if a big inventory correction next year is to be avoided, the Fed must act now to convince businessmen that it does not intend to permit the boom to continue. While he would prefer to see this done without a general increase in interest rates, for

example by rhetoric or a discount rate hike, Eckstein is not averse to raising market rates if milder steps fail.

Professor Houthakker is concerned about the implications of the strong economy for the inflation outlook. Although he feels that the current low savings rate provides evidence that some of the recent acceleration in inflation is due to excess demand, he expects this to become a less important source of difficulty in the future as high real interest rates induce a return to normal saving behavior. Potentially more important in Houthakker's view is the dramatic increase in commodity prices. Since this price series has in the past been a good "leading indicator" of the wholesale price index, Houthakker expects continued high inflation from this source for the next few months at least. On the positive side, Houthakker thinks that spot oil prices will drift down as Iranian production increases, and that the stable dollar should lead to a slowdown in the upward trend of import prices.

SECOND DISTRICT - NEW YORK

Business activity in the Second District continued to expand moderately in February and early March, according to recent comments of Directors and other business leaders. Consumer spending remained fairly strong; inventory levels appear to be well balanced, or even a bit low, relative to sales; and capital spending continued to advance. While supplies of most intermediate and basic materials appear ample, there are growing reports of minor shortages in certain product lines. In the face of these shortages and higher energy prices, there is widespread apprehension over the worsening price outlook. On the financial front, there is evidence that liquidity pressures are building for some small- and medium-sized firms.

Retail sales in the Second District are continuing to grow, although many retailers noted that the rate of growth is difficult to interpret since the year-over-year comparisons of retail sales have been distorted by unusual weather in the past two years. On balance, sales gains were characterized as "generally good," although results varied with individual retailers. Merchants are optimistic about the near-term outlook, expecting consumption spending to hold up and the New York region to outperform the rest of the east. For most firms, inventories appear to be well aligned with sales. Several large retail chain stores, however, reported that their inventories were higher than they had intended. As a result of the fairly strong performance of retail sales during the first week of March, these merchants feel confident that they will have no trouble in running down any excessive stocks. Consumer spending on automobiles in the last month or so remained strong with new car dealers reporting a marked pickup in their sales. One dealer noted heightened interest by buyers in fuel-efficient models.

Outside of retailing, business activity is continuing to move along at a strong pace. New orders are brisk, capital spending is healthy, and inventories are reportedly well under control or indeed low relative to shipment levels. One Director of the Buffalo branch reported business has been so strong for paper products that it was not feasible to build inventory stocks. Prospects for the Buffalo area appear to be brightening, with a general step-up in planned capital spending. The start of construction of a light rail rapid transit in Buffalo is expected to further bolster local business activity.

Although no critical bottlenecks have surfaced, reports of shortages of various kinds appear to be multiplying. The recent runups in the prices of some raw and intermediate materials and minor delivery delays suggest to some observers that certain industries are nearing capacity. The Buffalo Directors reported minor shortages of certain office equipment and auto parts. Several of the head office Directors noted there were some minor delays in procuring supplies and materials. One Director noted that brass is now being allocated and that shipments are eight weeks behind schedule. Among the shortages of building materials that were noted were sheet rock, cement and lumber. Another Director indicated difficulties in obtaining replacement parts for heavy equipment and special orders.

On the price front, respondents were concerned over the worsening inflation outlook. Several respondents noted that shortages of some products had led to rather marked price increases in these items. At the same time, there was skepticism over the usefulness of the price guidelines. Some respondents felt that the controls had boosted the inflation rate as businesses anticipated the imposition of mandatory controls in the future. Several

respondents noted some manufacturers appear to be passing along increases in their costs as fast as possible, probably in part due to their fears of future controls. Some firms are also reportedly imposing "surcharges" to cover the rapid increases in the cost of certain scarce materials such as molybdenum and chrome. Thus, after a producer sets an average unit price within the guidelines, further price increases are added on parts to cover higher costs. Most of the Directors who were contacted reported that industrial material price increases had either taken place or were in the process of accelerating. In their view, many of these increases were energy-cost related. While there was little anxiety over shortages of fuel oil, several respondents were very concerned about possible fuel cost increases.

With respect to financial conditions, the Buffalo Directors noted that liquidity appears to be a growing problem for small- and medium-sized firms. It is apparently becoming increasingly difficult for these smaller businesses to collect their accounts receivable. Bankers reported that loan demand remains robust.

THIRD DISTRICT-PHILADELPHIA

Reports from the Third District indicate that economic activity is expanding overall. The manufacturing sector has resumed growth after a four month lull and has given factory employment a boost in the process. The pickup is not expected to last, however, as executives in the industrial sector look for a downturn within the next six months. In the retail sector, sales are mixed as the best performers only break even in real terms. Spokesmen in this industry also look for sluggish conditions through the summer. Local bankers report strong loan volume in March and foresee little change in the near future. Interest rate forecasts are varied.

Expansion has resumed in the Third District's manufacturing sector in March, ending a four month old slowdown. Executives responding to this month's Business Outlook Survey say both new orders and shipments are up from their February levels, while inventories have dropped for the fifth consecutive month. At the same time, the pickup has given a boost to the area's industrial employment. Survey respondents report larger factory payrolls in March, as well as a longer workweek.

Despite this sudden burst of activity, manufacturers still see bleak prospects for the next six months. Of the executives polled, nearly one-half look for a deterioration of business conditions between now and September, while another one-fourth foresee no change from the current situation. In terms of specific indicators, new orders are projected to fall fractionally while a slight pickup in shipments is anticipated. Minimal inventory building is forecast, along with a mild increase in plant and equipment expenditures. As for the employment outlook, responding manufacturers expect to increase the size of their work forces, but at the same time, trim the length of the workweek.

Inflation continues in the industrial sector in March, with 3 out of 5 survey participants reporting higher prices for inputs this month and 2 out of 5 getting more for their finished products. As for the future, over 80 percent of the manufacturers anticipate higher raw materials costs by the end of summer, and 70 percent expect to be charging more for the goods they sell.

Retail sales in the area are mixed this month. Reports of current dollar sales range from zero to 6 percent over year-ago levels. This means that in real terms even the best performers have only matched March '78 sales. Executives contacted cite several possible causes of the general sluggishness including an unexpected increase in consumer outlays for energy stemming from unusually bad weather this year, and recent hikes in state income taxes and local property taxes in the District. A Director of this Bank in the retailing business adds that sales were hurt badly when heavy snow forced store closings last month on Washington's Birthday, traditionally a high volume day for retailers.

Looking ahead to the next six months, most merchants are taking an "ultra-conservative" stance. Strong early summer sales last year will make big gains in 1979 difficult. Moreover, the distinct possibility of a public transit strike in the Philadelphia area this month could keep the lid on sales in an absolute sense. Consequently, retailers are generally looking for summer sales to top '78 volume by, at most, 2 percent. Inventories have already been brought into line with these expectations, and contacts foresee no further adjustment.

Local bankers say the demand for both business and consumer loans is strong this month. Current C&I loan volume is reported to be as much as 12 percent over March '78 volume and generally on target or a little over budget. Bankers see little change in this situation through September, barring any adverse international developments.

The prime rate at all of the banks contacted this month is 11 3/4 percent. Forecasts for the next two quarters vary from a move to 12 percent shortly, followed by a six month plateau, to a climb through the summer with a cyclical peak of 14 percent in August.

Deposit flows at area banks appear to be "adequate" currently. Commercial banks are still selling money market certificates, but the proportion of new money attracted by them is estimated to be as low as 50 percent at some institutions.

FOURTH DISTRICT - CLEVELAND

Manufacturing activity in the fourth district has risen to effective capacity in a number of industries with no signs of impending letup. Primary metal producers report order books are full through the first half of 1979 and capital goods producers are generally more bullish now than late last fall. Economists who attended the March 9 meeting on the economic outlook held at this bank, expect a recession to begin in the second half of 1979 and have also scaled up their expectations for inflation this year. S&Ls expect sharply reduced deposit flows as a result of March 15 changes in money market certificates. Financial problems in the City of Cleveland remain unresolved despite the voter passage of an income tax increase.

Manufacturing in the district is virtually at effective capacity in a number of key industries, especially primary metals, capital goods, fabricated metals, and rubber and plastic products. References to parallels with 1973-1974 are becoming more frequent, and some concerns have begun to surface that a typical inventory cycle may be developing. Capital goods producers have been stepping up inventory building in response to strengthened orders and backlogs.

Fourth district economists who attended a meeting on the outlook at this bank on March 9, lowered their expectations for output in 1979 from estimates last November. The median forecast of a group of 29 economists shows a gain in real GNP at a 1.8 percent annual rate in the first half of 1979, followed by a 1.3 percent rate of decline in the second half, and a 1 percent rate of increase in the first quarter of 1980. Only four of the group expect a recession to begin in the second quarter of 1979, but 15 of

29 indicate a decline in real GNP in the third quarter and 20 of 29 expect a decline again in the fourth quarter. The projected recession is expected to be mild and brief because of a lack of major excesses or imbalances, a less-than-typical decline in housing, gradual improvement in net exports, and continued strength in fixed investment. They expect the rate of inflation to be 8.5 percent, 7.9 percent, 7.0 percent, and 6.8 percent from the first quarter of 1979 through the fourth quarter, respectively, and the unemployment rate to edge up to 6.8 percent in the fourth quarter of 1979. Several expressed a view that public policy makers should take additional risks now to bring the rate of inflation under control, which includes holding down growth of monetary aggregates, should a sharp rebound occur.

Economists scaled down their expectations for consumer spending from last fall. They now expect nominal consumer spending to slow to nearly an 8 percent annual rate of increase in the second half of 1979 following an expected 10 percent increase in the first half. A group of seven automotive producers and suppliers now expect domestic new car sales will amount to nearly 8.8 million units in 1979 plus 1.8 million imports. An automotive economist discounts the runup in consumer installment debt unless a sustained decline in real income occurs. He indicated that recent increases in gas prices have already contributed to a further shift from middle-sized to compact cars and believes that unlike the experience following the oil embargo in 1974, higher gas prices may have a positive effect on car sales because cars on the road are less fuel efficient. Some other economists, however, note that the high rate of inflation has substantially changed consumer spending patterns, especially for nondurable goods, and are skeptical that spending for these types of goods will be insulated from a recession.

One notes that consumers have resisted higher relative prices for nondurable goods while buying goods that represent a hedge against inflation. An economist with a major department store chain expects a drop in real GAF sales this quarter, which is likely to continue into the summer because of double-digit inflation and slower employment and income gains. He believes a peak in GAF sales occurred last October, and since then, sales have been relatively flat, contrary to the surge reported last quarter in nondurable goods sales in national product accounts.

Economists are considerably more optimistic than they were last fall that business fixed investment will show stronger gains in 1979 than indicated in recent surveys. They now expect a nominal 13.8 percent increase in 1979 on the strength of accelerated rates of increases in orders and backlogs in the last six months. Machine tool orders in the first two months of 1979 rose significantly from the comparable period of 1978, which leads one economist to assert that the present phase is similar to early 1956 and 1973, and may tend to prolong the expansion although at a slow rate of growth. Another economist concluded that the economy has moved into a typical advanced stage of an expansion in which fixed investment replaces consumer spending as a prime source of thrust to economic activity. Nevertheless, there are still some weaknesses or expected weaknesses among segments of capital goods industries. Demand from utilities for electrical generators remains weak, and heavy-duty truck production is expected to fall sharply by next fall in response to slowing sales and record inventories.

Some petroleum refineries in the district have announced allocation of gas supplies this month that are generally based on 100 percent of year-ago volume in order to stretch out gasoline supplies. In some cases,

district-based refineries were picking up additional business from refineries that earlier announced cutbacks in supplies to local retailers.

S&Ls in the district expect that March 15 restrictions on money market certificates will sharply curtail growth of deposit flows and mortgage credit and probably lead to further near-term tightening in mortgage terms. Some feel the certificates were threatening the liquidity and profitability of some associations. An official with a major Ohio association, for example, stated that if growth of certificates continued at the rate of the past six months, by the end of 1979, 25 percent of their deposits would be in certificates and profitability would have been cut by more than one-half. Some others feel profitability has not been that much of a problem, but may worsen because deposit outflows will accelerate as certificates mature. Loan commitments have not been as strong as last year because some lenders have been unwilling to make 90 percent mortgage loans and some have been unwilling to make 80 percent loans except to their customers. The feeling at some S&Ls seems to be that competition for funds, once the cap is effective, will be fierce, as associations set up promotional activity to retain funds and attract new deposits.

Voters in Cleveland approved a 50 percent income tax hike and rejected the sale of the Municipal Light Plant, but financial problems appear to be far from over. While generating an estimated \$25 million this year in new tax revenues to deal with an accumulated \$100 million debt, the city still must confront two obstacles in order to return to the bond market. First, without cash from the sale of Muny Light, the city is unlikely to be able to repurchase either the defaulted notes worth \$15 million or the \$26 million in

notes that mature by September. Second, the new tax is not sufficient to reestablish investor confidence in the financial integrity of the city. The State Legislature is currently debating the form that state aid might take. Legislative action is expected to be slow despite the fear of unmet payrolls in Cleveland and of the spillover of financial problems into the school system and the suburbs.

FIFTH DISTRICT - RICHMOND

Manufacturing activity in the Fifth District seems to have resumed its expansionary course during the past month. Responses to our monthly survey suggest recent gains in shipments, new orders, and backlogs of orders. Inventories were reported up slightly but still manageable. Retailers apparently experienced little change in either total sales or relative sales of big ticket items over the month. Widespread price increases continue to be reported in all sectors surveyed, although respondents appear to be somewhat less pessimistic about the future than they were earlier in the winter. Recent indications are that credit demand in the District has weakened over the past several weeks. Business loan demand continues sluggish, but in addition there has been a moderation in mortgage loan demand and a weaker pattern of demand for consumer credit.

Responses from manufacturers suggest a widespread pickup in activity since the last survey period. One-third of the manufacturers surveyed report increased shipments over the past month and nearly as many report gains in new orders and in order backlogs. There was also some further inventory accumulation among responding firms, but little change in stocks relative to desired levels. Manufacturing employment was unchanged over the month as was the average workweek. Respondents generally feel that current plant and equipment capacity and current expansion plans are adequate, but there is some scattered sentiment for enlarging existing capacity.

Activity in the retail sector was essentially flat over the past month as retailers reported little or no change in total sales or in relative sales of big ticket items. Inventories were also little changed and remain basically

in line with desired levels. Employment among retailers appears to have declined in February.

Among both manufacturers and retailers price increases have continued widespread in recent weeks. In fact, the incidence of increases, particularly of prices paid, has itself increased recently. The problem of inflation remains very much in mind among our survey respondents and directors. In fact, each of our directors surveyed expects the CPI to rise by more than the Administration's forecast of 7.4% during 1979. Otherwise, however, business sentiment appears to have improved since early winter. Manufacturers surveyed are, on balance, much less pessimistic now than at that time. Nonetheless, nearly half of them expect the level of business activity nationally to worsen over the next six months. But only about one-third expect similar results in their respective market areas and only about one in five expects output in his own firm to decline over that time period. Retailers generally expect no change or perhaps a slight improvement in conditions in their firms and market areas, but they too anticipate some weakening at the national level.

Area financial institutions have the liquidity to accommodate more loan demand than has materialized. Commercial and industrial lending continues to follow the pattern of weakness that bankers unexpectedly began to face early in the year. Half of the respondents to our recent survey of bank lending practices report weaker business loan demand over the past few months, and little change is expected in the near term. Some District banks have responded to this soft demand by easing the nonprice terms of lending on commercial loans. There is greater willingness to make fixed rate loans, both short- and long-term. In addition, there is some evidence of moderate concessions being made on compensating balance requirements to stimulate usage of commitments and lines of credit.

Real estate mortgage lending has been somewhat weak, although it is difficult to determine the extent of the influence of bad weather on this development. A number of area mortgage lenders recently lowered interest rates charged on home mortgages in an effort to stimulate demand, but this appears to have been a very temporary response. Rates have come up again, at least partly because the cost of funds does not permit sustained reductions. Money market certificates have, on net, helped District financial institutions meet the demand for mortgage funds, in the opinion of the region's lenders. One consequence is that home building activity in local markets will not suffer sharp declines in 1979, according to our bank directors. In several localities 1979 is expected to be as good a year as 1978 in terms of residential construction. Consumer lending has been flat for several weeks, a development that is in line with the thinking of a number of bankers who expect moderating growth in such credit.

SIXTH DISTRICT - ATLANTA

Recent business reports present a mixed picture. Car sales have been strong, but consumer spending for other goods lacks momentum. While housing continues to boom in Florida, residential markets are softening elsewhere. Deposit inflows have been sluggish and loan growth, moderate. Nonresidential construction and real estate are increasingly active, tourist traffic has been at or near record levels, and the agricultural situation is healthy. Tight oil supplies have caused some relatively minor problems in the most vulnerable industries. Other troubles have restrained production in some sectors but look to be temporary, and, in general, manufacturing output and employment are advancing. Inventories appear to be well in hand at all marketing stages.

Retail sales have been steady but unspectacular--slightly above the year-earlier pace in physical volume--and stocks of general merchandise are reported to be near desired levels. Several directors noted that consumers have grown more cautious in the past few weeks, particularly with regard to big-ticket purchases. However, new car sales have improved substantially after a stagnant January. Renewed interest in smaller, fuel-efficient models has brought record business to many import dealers. Except for shortages of some diesel models, auto inventories appear adequate and well-balanced.

Reports on housing markets have been widely mixed. The Florida boom continues virtually without let-up. Sales have been amazingly strong in 1979 to date, breaking records with extravagant gains from the year-earlier rate. Inventories are thin, acutely so for apartments. Condominium projects are sold before completion and command long waiting lists, encouraging speculation.

Realtors continue to comment on the heavy volume of foreign money, particularly Latin American and Canadian, that is flowing into new residential ventures in the state. Permanent financing is readily available to qualified Florida borrowers; since the recent exemption of thrift institutions from a 10-percent usury cap, mortgage interest rates have risen rapidly.

Elsewhere in the District, observers note varying degrees of weakening in housing markets. Demand is holding up well in the Atlanta area, but the gradual decline in mortgage loan commitments is likely to continue until the legislature acts on the proposed liberalization of the interest rate ceiling. In Alabama, Mississippi, and Louisiana, markets have softened somewhat, with slight increases in inventories and continued tightening of financing terms. The availability of funds is more a problem to builders than to buyers, however. Tennessee has seen a rather sharp slowdown in home sales and starts. While its legislature continues to debate the raising of the usury ceiling, which is strictly binding only on savings and loan associations at the present, mortgage money has become rather scarce.

Deposit inflows have been rather weak at both banks and thrifts, with only the most competitive instruments (CDs and money market certificates) showing gains. Loan growth has been moderate, with business credit requests steady and consumer demand for auto loans particularly strong.

Nonresidential construction activity is vigorous, and the list of recent announcements and contract awards is quite long. Demand for commercial properties, particularly retail outlets, has been brisk. All of the District's ports are presently undertaking major improvements, and expansion of tourist facilities is generating substantial construction revenues.

Another record winter tourist season appears to be in the making. All parts of Florida report no vacancies, heavy advance bookings, and saturation of tourist attractions. Vacation spots in Louisiana and Tennessee are enjoying substantial increases in numbers of guests. The industry's outlook, however, has been clouded by uncertain fuel supplies. To date, the cancellation of a few air flights and spot outages of gasoline at stations affiliated with major oil companies have had little discernible impact on tourist traffic. Industry spokesmen feel that while a gas price increase would not take a serious toll, rationing or gas "holidays" would.

An owner of a regional chain of independent gasoline stations complains that the present tight supply situation is the worst of all worlds, blaming the allocation and price control system. The disruption of Iranian supplies has cut his already low margins to half of last year's average or less. A real shortage, on the other hand, would be extremely profitable. A director reports that distributors in his area are filling their tanks to capacity when possible, a divergence from their usual practice of carrying a minimum and relying on dealers to deliver on short order. Some industrial buyers have been placed on allocation.

Production levels have been well below capacity in a few operations. Alabama's coal industries have been on a short shift since its largest buyer, Alabama Power, met resistance from its regulators and pared its operations. Slow sales and a parts shortage have temporarily closed Ford's Hapeville, Georgia, LTD plant, idling 3,400. A smattering of small plants in a variety of industries have been permanently shut down in recent weeks. However, the opening of new plants and strong orders has kept the industrial sector busy

and hiring overall. Inventories are described as relatively low. Prices of raw materials, especially those derived from petrochemicals, have escalated alarmingly since the beginning of the year.

The farm sector is possibly the brightest spot in the current picture. Weather conditions have been mostly favorable and prices strong. Farmers' borrowings have risen sharply, pointing to plans to expand acreage. Agribusinesses have large supplies which they fully expect to move.

Businessmen's attitudes seem more divergent since the last report. The strong fourth-quarter 1978 performance has encouraged some optimism, especially among retailers. The oil supply question has been equally discouraging to others, adding to their continuing anxiety over inflation, high interest rates, and government regulations.

SEVENTH DISTRICT - CHICAGO

Except for housing, the economic activity in the Seventh District remains surprisingly vigorous. Sectors affected by heavy snows and low temperatures in January and February are recovering rapidly, but flooding in Illinois is a new problem. Job markets are strong. Consumers are spending freely. Price inflation has accelerated. Most capital goods producers report rising order backlogs. Inventories remain at moderate levels, but manufacturers are moving to increase inventories, especially materials such as steel and nonferrous metals. Order lead times have lengthened further. Actual shortages of materials or components are rare, but output is pressing close to capacity. Barring some new oil crisis, fuel supplies are expected to be adequate but with prices rising substantially more than had been expected a few months ago. Housing permits and transactions are down substantially, but nonresidential activity is moving at a good pace. The farm sector is much healthier financially than a year ago. Soil moisture is more than adequate.

In recent months about 80 percent of purchasing managers in the district have been paying higher prices with virtually none paying lower prices--the worst picture since the fall of 1974. Most companies say that they intend to comply with the Administration's wage-price guidelines, but lack of compliance will be difficult to detect in the case of a firm with widely varied lines. Accountants, lawyers, and consulting firms are telling their clients that mandatory controls are a virtual certainty, perhaps as early as September. Prices are being raised frequently, at least list prices, so as to place firms in as favorable and flexible a position as possible.

Business firms in both manufacturing and retailing insist that their

inventories have been low relative to requirements, uncomfortably so in some cases. Forecasts, frequently reiterated in the past 6 to 9 months, that a recession was imminent may have induced excessive caution. It appears now that restraints on inventory investments have been relaxed. A careful analyst of the metals markets believes that a "scramble for materials" is underway unequalled since mid-1974. Most companies burning oil had laid in extra reserve supplies earlier this winter, as much as 3-month requirements.

Backlogs of orders for a broad spectrum of producer equipment have continued to rise. Included are construction equipment, farm equipment, heavy trucks and trailers, freight cars and locomotives, machine tools, diesel engines and other components, electrical and nonelectrical. Some of these producers fear that cancellations could be sudden and substantial, but there are no signs yet. A Chicago based conglomerate with diversified products for both consumers and producers recently reported "no sign of a recession in any of our divisions."

In February 57 percent of Chicago purchasing managers, a highly diversified group, reported slower deliveries, compared with 44 percent in January and 33 percent a year earlier, and the highest proportion since the summer of 1974. The situation is similar for Milwaukee where capital equipment predominates.

Demand for steel has been surprisingly strong with increases for structurals and plates as well as for light products. Order books are filling to midyear. One factor is the narrowing of the price differential favoring foreign steel. A leading Chicago area steel producer has taken the unusual step of asking customers to scale down or defer deliveries, but without success. Customer inventories are believed to be low, and deliveries are needed to maintain output. Steel shipments had been slowed by transport problems in January

and early February. Other sectors with tight inventory situations include virtually all nonferrous metals, building materials, and paper. Large and special castings and forgings are the main bottlenecks for equipment producers.

Consumer buying appears to be reviving from the slump induced by severe weather. Restaurants and recreation spots were hard hit. Total auto and truck sales appear to be matching last year's fast pace. Four-year car loans are increasingly common, with no rise in delinquencies. The more popular small cars are selling very well, reminiscent of early 1974, at full list price or even at premiums. Demand for small four-wheel drive trucks far exceeds supply, obviously a consumer fad. Producers are taking steps to expand capacity substantially. On the other hand, some auto plants have cut output to control inventories.

A well-informed analyst believes that significant general shortages of petroleum products can be avoided this year without rationing. This assumes that Iran will ship at the indicated 3 million barrel per day rate and that other sources are not cut back. Spot shortages of no-lead gas are probable, but could be avoided by easing EPA standards on regular gas. Oil companies are not planning to boost refining capacity which currently is barely adequate.

The jet fuel "shortage" is not of great importance. The problem partly reflects unbalanced supplies regionally, and heavy use of "arctic diesel" in colder areas. There would have been no problem if the airlines had not been adding flights rapidly. The largest airline has dropped about 4 percent of its flights but departures are still 8 percent above a year ago. Capacity is still up 12 percent because of larger aircraft. Traffic was up 30 percent in the most recent week. Burgeoning free rides for kids are included in "revenue" passenger miles.

EIGHTH DISTRICT -- ST. LOUIS

According to a number of Eighth District businessmen, overall economic activity in the District continued to expand at a moderate pace in recent weeks, although some sectors are expected to weaken as the year progresses. Retailers report that sales have held up well, and inventories are not a problem. Several manufacturing sectors continue to register sales gains, particularly capital goods and chemicals, but sales have leveled off in the appliance industry. Home building has recuperated somewhat in recent weeks from the very low January level, but is expected to remain below last year's level throughout the year. Total deposits at large banks have leveled off in recent weeks but loan volume has continued to advance.

Department store representatives report that sales in recent weeks have been above a year ago, and that inventories are at satisfactory levels. Overall, retailers continue to be optimistic about prospective sales over the next few months. Despite relatively strong sales since mid-February, automobile dealers report a desire to reduce inventories. High overhead expenses, caused by high interest charges on borrowed funds, is a major factor in the inventory reduction move.

Sales, production, and employment continue to advance in the manufacturing sector. A representative of a major capital goods manufacturer reported that orders have continued to climb in recent weeks, and that sizable gains on a year-to-year basis are expected in 1979. Chemical sales are quite brisk, partly as a result of climbing export sales. Part of these sales gains may reflect stockpiling of petroleum-derived products in view of the Middle East situation. Representatives of the paper industry report that

sales have continued to gain at a "vigorous" rate. Appliance manufacturing activity has leveled off and representatives of two major appliance manufacturing firms expect orders to fall off by mid-year, and that production for the year will decline 3 to 5 percent from 1978. Appliance inventories are noted to be somewhat "heavy" on an industry-wide basis.

Sales of homes have picked up significantly in recent weeks as weather conditions have improved. Builders report that recent home sales have been encouraging, and some have backlogs to keep them busy through the early summer. As a whole, however, builders expect unit sales to decline about 15 to 20 percent this year, about in line with national forecasts.

Nonresidential construction activity in the District is apparently quite strong. Seven of eight major construction firms note that current backlogs are significantly above last year's level and that additional projects are in the discussion stage. Some firms reported difficulty in obtaining qualified engineers and supervisory personnel.

Total deposits at large commercial banks have leveled off in recent weeks, although net savings inflows at savings and loan associations apparently have continued to increase. S and L officials report that an increased volume of money market certificates has accounted for nearly all the increases in their deposits. In Missouri, where a 10 percent usury law is in effect on home mortgages, some S and Ls are placing money market funds in large CDs at commercial banks. Interest rates on bank loans to consumers and corporations are not limited to 10 percent in Missouri. Other Missouri S and Ls report they are actively seeking mortgage loans on the expectation that rates have reached their peak and these loans can be sold later at a premium when rates decline.

Loan volume at large commercial banks has continued up in recent weeks on a seasonally adjusted basis; however, real estate loans have increased very little, possibly reflecting the influence of usury ceilings in some District states. The usury laws are reported to be most restrictive in Arkansas where a 10 percent ceiling applies to almost all loans. Large commercial banks in Arkansas report declines in both loans and deposits.

Relatively high prices for farm products may be changing farmers' crop planting intentions from a few months ago. The U.S. Department of Agriculture survey near the first of the year indicated that plantings of feed grains would be down this year. However, results of a major chemical firm's survey indicate that plantings of feed grains and soybeans may be substantially higher than a year ago.

NINTH DISTRICT - MINNEAPOLIS

Aside from some weather-related slowdowns, business is good throughout most of the Ninth District; and except for the housing sector, the outlook is good too. Winter weather has been tough on railroads, and movement of farm commodities has slowed as a result. Consumers have been somewhat put off by the harsh weather as well. But manufacturers, commercial builders, and bankers have been quite busy. The local outlook is marred only by an expected slowdown in homebuilding during 1979.

Bank directors report a severe scarcity of rail cars and point to the weather as the principal culprit. Heavy snow has interrupted the movement of trains within the district at times this winter. A bigger problem, though, is the havoc being caused by a continuing weather-related bottleneck in the Chicago switching yards. One of our Bank's directors reports that the premium on freight car availability for grain shippers is about \$.25 per bushel. That's on the order of \$675 per freight car.

Railroads aren't alone in being affected by the bad weather. Several, but not all, directors observed that the inhospitality of the out-of-doors was restraining retail activity. Business for retailers in the Upper Peninsula of Michigan, northwest Wisconsin, and Montana was reportedly slowed by the snows, while retailers in a few large Minnesota communities did a brisk business in spite of poor weather. A similar contrast was noted in the winter tourism industry. Heavy snows dampened the Upper Peninsula's skiing activity, but Montana's ski shops and resorts were busy.

District manufacturers were busy too. Our Bank's February Quarterly Industrial Expectations Survey reveals broad based gains in manufacturing sales. And directors confirm that industrial activity across the district is

brisk. Symptomatic of this situation is the extremely active competition among manufacturers for the services of skilled laborers.

Construction workers are also in high demand throughout most of the district. In contrast to the current slowdown in residential construction (it's hard to tell how much of it is seasonal and how much isn't), commercial construction is active. This is especially true in Minnesota's larger communities.

These real sector developments coincide with heavy credit demands and flat deposit growth at district banks and thrifts. Several directors reported "tight" money markets. One director noted that this was proving to be a boon for PCAs, as many rural bankers have been unable to meet the strong credit demands of their farmer customers. For the most part banks and thrifts are meeting the credit requirements of their customers though, and they're relying more and more on the 26-week money market certificates (MMCs) in order to get the funds to do it. But funds inflows from MMCs may slow with the recent change in regulations governing the interest terms on those certificates.

And that isn't good news for the housing industry. Worsening the terms on MMCs at banks and especially at thrifts is likely to put substantial pressure on mortgage markets. That is particularly distressing, since directors looked for a homebuilding slowdown in 1979 even before this regulation change was announced.

Aside from the housing sector, though, the outlook is pretty good. The many builders engaged in large commercial construction projects across the district have several months, and in some cases years, of work lined up. Large order backlogs are assuring district manufacturers of several months work too. According to our February Industrial Expectations Survey, district manufacturers expect double-digit year-over-year sales increases through the third

quarter of 1979. The agricultural sector can look forward to an improved rail transport situation and continued high livestock prices. And a few directors would be unsurprised by a surge in consumer spending when the snow melts.

TENTH DISTRICT - KANSAS CITY

Strength in business activity and continued inflation still exist in the Tenth District. Retail sales are strong, but concerns about inventory accumulation are beginning to be expressed. Both retail prices and manufacturers' input prices are rising rapidly. Most inputs are in adequate supply. While cattle ranchers and feeders are doing well, some nervousness about the future also exists. Loan demand at commercial banks is strong, while deposit growth is at best sluggish.

Directors contacted report very little unemployment in their areas, along with continued strength in housing and in retail sales. One Director noted the presence in people's minds of a "deep seated distress about inflation" and a perception of failure to do anything about it.

Most Tenth District retailers contacted report strong sales gains for January and February, following an exceptionally strong December. Apparel, jewelry, fabrics, and sporting goods have been strong sellers recently, while major appliance and furniture sales have varied from store to store. Inventories are now high and bothersome to many retailers, a change from the last several surveys. About half of the stores have already had early clearance sales due to high inventory levels. More sale promotions and a cutback in purchases are planned to bring inventories into line.

Retail prices are up as a result of higher prices from manufacturers and higher labor costs, the latter partly attributable to minimum wage increases and higher social security taxes. Most respondents noted increasing use of credit in order to purchase "non-essential items" and suggested that in the

near future consumers won't be able to afford those items at all. The future is expected to be "tough," "lean," and worrisome. However, most respondents see sales for 1979 up about 10-15% with prices up 7-10%.

Tenth District purchasing agents report most input prices to be 6-15% above last year's levels, with prices of paper products, steel, and lumber rising especially rapidly. Substantial input price increases occurred during the first quarter of 1979, and prices are expected to rise even more rapidly for the rest of 1979.

Most purchasing agents report adequate supplies of most major inputs, and only moderate increases in materials lead times for the first three months of 1979. Although input inventory levels are generally regarded as satisfactory, some respondents plan to expand inventories of items such as steel, due to fear of strikes.

Plant capacity was reported as only a mild production constraint for most industries, although occasional single firms did report more severe problems with limited capacity. Shortages of skilled labor, especially machinists, are present in the furniture, nonfarm transportation equipment, and machinery industries.

The index of prices received by farmers has increased in each of the last four months, with a 3 percent increase in February following a 5 percent increase in January. Rising cattle prices have been an important source of strength for farm prices in recent months. Strong consumer demand for beef has resulted in surprisingly high fed cattle prices and intense competition for feeder cattle--from a reduced supply--to refill feedlots. Continued strong consumer demand for meat has also added substantial strength to pork and poultry prices.

Fed cattle price movements to the mid-\$70 range would not be surprising for short periods this spring and summer. Moreover, slaughter cattle prices in 1979 are unlikely to weaken much from present levels. The full impact of the present dressed beef prices at \$1.06 per pound--up 22 percent thus far in 1979 and 43 percent in the past year--has not yet been felt at the retail counter. Thus consumers can be assured of additional increases in retail beef prices in the coming months even if fed cattle prices should stabilize.

One Director noted that although the cattle industry is booming, there is a nervousness present, based on past experience and a fear of consumer resistance to higher beef prices. Feeders especially are jittery about a possible downturn catching them with feedlots full of high-priced feeder cattle.

Most bankers contacted in the Tenth District report strong loan demand, with agricultural and consumer loans particularly strong. The prime rate is 11 3/4 percent in all larger District banks contacted, while smaller banks report prime rates somewhat below that level. Further prime rate increases are expected in the near future. Only one-half the banks surveyed report a tightening of their lending terms, but virtually all banks are being more selective in their loan activities.

Deposit growth is generally stable or declining. Many banks believe this sluggishness to be primarily seasonal. Bank customers are becoming increasingly sensitive to interest rate differentials, which may explain the strength in CD growth and the weakness in demand deposit growth. Savings deposits are reported to be generally flat, while time deposits and automatic transfers generally are growing moderately.

ELEVENTH DISTRICT--DALLAS

Moderate economic gains are noted by Directors and businessmen in the Eleventh District. Retail sales improved with the weather, and several manufacturing industries continue to post strong gains. Drilling activity, however, continues its seasonal decline. There is little change in bank lending or deposit growth. Residential construction is expected to fall off sharply after midyear although home sales have held up well so far.

Warmer weather in recent weeks has helped boost sales at District department stores. Consumer spending is running ahead of expectations, according to retail executives. Much of the strength is in soft goods, as sales of hard goods have weakened. Inventories at most stores are near desired levels, but a few stores continue to trim stocks with price mark-downs and sales promotions.

Auto sales also got a lift from improved weather. Most dealers report sales volumes are running at least as high as a year ago. Both domestic and foreign car dealers are sharing in the gains. Economy cars are once again in strong demand with renewed concern over the availability of gasoline supplies and higher fuel prices. Inventories of domestic cars are generally heavy.

The growth of manufacturing output is slowing, but some industries continue to make strong gains. Two major aluminum producers in the District recently announced plans to reopen previously idle pot lines and smelters because of improved demand and higher product prices. New orders for metal buildings and metal castings also appear to have increased recently following

a period of slack. Metal fabricators say that the recent sharp rise in scrap metal prices may make it difficult to meet the President's guidelines on finished goods prices.

Most of the current decline in the number of active drilling rigs in the past month is seasonal. Drillers remain concerned, however, about the restrictions placed upon natural gas pricing by the Natural Gas Policy Act. Drillers cite penalties for noncompliance, the ambiguity of some of its provisions, and the lack of profit incentive to produce as factors contributing to the decline in the rig count.

Concern over a possible gasoline shortage has sparked large increases in the wholesale prices for gasoline. Spot market prices of regular gasoline on the Gulf Coast, for example, have risen 7.5 cents since January to 62 cents a gallon.

Bank lending remains little changed from January's strong level. Some lessening of loan volume to correspondent banks and to energy-related borrowers is noted. Loan demand is expected to soften in coming months with defaults increasing slowly. Liquidity remains adequate, and deposit growth is flat.

Savings and loan associations report improved savings inflows in recent weeks. Money market certificates account for nearly 75 percent of all new savings and make up 25 percent of total savings capital at some large associations. S&L's are placing much of this money into short-term investments or construction loans. Local S&L officials were quoted to the effect that the recent revision in Regulation Q ceilings will reduce the supply of mortgage credit.

Higher interest rates and usury ceilings have reduced the available supply of mortgage credit in Texas, Louisiana, and New Mexico. Exemptions from the laws in Louisiana and New Mexico have eased the situations in those states somewhat. Lenders in Louisiana are allowed to charge points to the borrower, raising the effective rate above the 10-percent usury ceiling. Mortgages which are eligible for resale in the FNMA and FHLMC markets are exempt from New Mexico's 10-percent usury ceiling, helping to keep conventional mortgage lending going in that state. The New Mexico Housing Authority is also supporting the mortgage market through the sale of its bonds.

Mortgage commitments made last year and not yet taken down are providing for much of the credit needs of home buyers now, and home sales continue strong. Builders, however, are having difficulty securing mortgage commitments for later this year and are beginning to reduce their labor forces through attrition in anticipation of a slowdown in home sales.

TWELFTH DISTRICT - SAN FRANCISCO

The Western economy continues generally strong with a few signs of weakening. With a few exceptions, retail sales remain brisk throughout the West. The energy situation is said to be sparking sales of small cars. Residential construction and sales have slowed throughout the District, though non-residential construction continues strong in several areas. In District industries, lumber prices remain firm, strikes and freezes push up food prices and the skilled labor market remains tight. Only a handful of firms have reacted to the potential oil shortage by increasing their stockpiling capability. The consumer debt situation appears mixed, with continued strength reported by some banks and moderate weakening reported by others. Generally strong loan demand is said to account for the West Coast's adherence to an 11 3/4 percent prime and several banks expect their Eastern brethren to come back up to 11 3/4 very shortly.

Although patches of weakness are beginning to emerge, retail sales remain generally strong in the West. Consumer spending in California remains brisk and our directors explain this by large employment gains, the growing importance of the two-income family, Proposition 13 tax savings, large increases in home equity values and the associated availability of consumer credit. According to one director in Southern California, the opening of a new Neiman Marcus store has stimulated "the biggest buying spree in history all over Beverly Hills." Oregon's largest department store also indicates that sales remain strong, and reports from Washington point to continued briskness in all types of sales. In Idaho, a major grocery chain reported some weakening in retail sales and small business failures in shopping centers

are reported on the increase. While sales are also weak in Utah, one observer expects an improvement once the severe winter weather breaks.

Auto sales, though reported slow in two areas (Salt Lake City and central California), appear to be strong in the rest of the District. Small cars are the star sellers and this is being attributed to the expectation of fuel shortages and price rises. In one area, the Ford Pinto is said to be sold out. A five-state distributor of foreign cars reports January sales up 89 percent and February sales up 20 percent over year-earlier levels.

Real estate activity has weakened throughout the District. In San Diego, both construction and sales of homes are down and the inventory of unsold homes is up from year-ago levels. In Salt Lake City, the January dollar value of residential construction is reported down 32% and non-residential construction down 18 percent from year-earlier levels. There is, however, still some strength in non-residential construction in California, Oregon and Washington. Both San Francisco and Seattle are in the midst of a downtown building boom, and Seattle's hotel capacity is expected to double in the next 3 years.

Developments in District industries generally suggest inflationary pressures. A combination of strong export demand and supply shortages (induced by government timber policy and a rail car shortage) have kept lumber prices up, despite the slowdown in housing. A farm worker strike in southern California has disrupted the harvest of lettuce and several other crops, and the strike is expected to soon move into the Salinas Valley, another major vegetable producing area. A freeze in Southern California caused considerable damage to the grapefruit crops. Reports of skilled labor shortages come in from Seattle and Salt Lake City. In the latter city, a new electronics firm

was said to be using large bonuses to lure workers away from a competing firm.

Most of our directors appear not to have altered any investment or energy plans in light of recent changes in the world energy situation. The exceptions are: (1) a food distributor who, in order to insure an uninterrupted supply of diesel fuel, has leased additional storage capacity and begun stockpiling, (2) a dairy products distributor who is studying the potential for stockpiling, (3) Boeing which has adopted a vigorous conservation program and is shifting its plant's heating from oil to natural gas, and (4) a group of building contractors who report a three-fold increase in the number of calls concerning alternative sources of heating.

The consumer debt situation appears mixed with reports of continued growth, softening, and a shift in composition. A large California bank reported that consumer loans (both direct and indirect) and credit card debt rose during January and February, contrary to the normal seasonal downturn in these months. A smaller California bank reported consumer debt up 3 percent in January and 2 percent in February, in contrast to declines last year at this time. Reports from Seattle, Portland and San Diego also suggest continued growth in consumer debt. On the other hand, smaller banks in Washington, Oregon and Utah report some weakening in consumer lending. One Oregon bank noted a substantial change in the composition of its consumer loans. During the first 3 quarters of 1978, home equity loans accounted for 35 percent of this Bank's new consumer installment loans, but this share jumped to 95 percent in the fourth quarter and appears to have continued at a high level into 1979.

Loan demand is reported generally strong and is given as the major reason why West Coast banks have kept their prime rate at 11 3/4 percent.

Most feel that the move to 11 1/2 percent by some large Eastern banks was premature and not supported by fundamentals. One large California bank expects these Eastern banks to be back up to 11 3/4 by late March, and that this will be followed later by a move to 12 percent across the country. A few banks also mentioned the high cost of funds as a major reason for not lowering either their prime rate or mortgage rate.