

CONFIDENTIAL (FR)

CURRENT ECONOMIC CONDITIONS BY DISTRICT

Prepared for the
Federal Open Market Committee
by the Staff

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SUMMARY*

Most Districts report expansion of economic activity in recent weeks. Characterizations of this expansion range from very strong activity in the Boston District, to expansion at a moderate pace in New York and Philadelphia, to a rebounding from adverse weather or strikes in other areas. Atlanta, on the other hand, describes its reports as downbeat and Chicago and St. Louis perceive a slowing of activity already taking place. Nationwide, strength appears to be concentrated in manufacturing with producers goods providing much of the impetus. Those Districts commenting on construction generally cite strength here also. On balance this month's comments suggest less than buoyant retail activity but continue to reveal strength in some lines and general strength in some areas, California and the Pacific Northwest being notable examples. Inventory levels do not appear to be of particular concern among either retailers or manufacturers. Gasoline shortages, real or potential, have had little effect on economic activity other than in some closely related product lines: recreational vehicles, power boats, and light trucks, especially the four wheel drive varieties. Severe winter weather in the Northern Plains and recent flooding in the Southeast may affect crop production adversely, but increased plantings in several areas may offset much of the potential loss of output.

Reports on manufacturing activity are generally favorable, almost ebullient in the case of capital goods. Chicago sees the demand for most capital goods and their components continuing to tax capacity. New York reports manufacturing at near full employment with inventories low and backlogs extending into

*Prepared by the Federal Reserve Bank of Richmond.

1980. Minneapolis finds commercial and industrial activity expanding rapidly as does San Francisco. In the Dallas District industrial output is expanding at a moderate rate from already high levels, and capacity utilization remains high. Reports from other Districts also indicate strength in steel related industries, transportation equipment, machine tools, electronic equipment and computers, cement, and aircraft. Consumer goods industries are less buoyant. St. Louis and Richmond detect softening in production of apparel and furniture while St. Louis and New York see more broadly based weakness in consumer durables.

There is little agreement among Districts as to the state of retail sales, and even within some Districts sales are depicted as mixed. St. Louis, Kansas City, Atlanta, and Chicago all see sales as flat or declining, at least in real terms. In several Districts sales of furniture, appliances, and gasoline consuming lines are sluggish. New York terms the softening in sales of recreational vehicles remarkable. Automobile sales, while generally weak, are being hampered in several Districts by low inventories of small cars. On the other hand, retail sales are described as healthy by Boston, strong by Dallas, and booming by San Francisco.

Construction activity was mentioned by only a few Districts but those reports are basically consistent. Residential construction is down from last year, but only Chicago reports a significant decline. Strength in nonresidential activity seems to be more than offsetting weakness in residential building. Kansas City finds housing starts down from 1978 but still good. Atlanta reports thin inventories of housing and existing home sales holding up well.

Loan demand, particularly of businesses, appears to be strong throughout most of the nation. Boston terms commercial loans exceptionally strong across all segments of the economy. New York reports a surge in business loan demand at NYC banks due in part to growth in plant and equipment expenditures and inventory

investment. Philadelphia, Richmond, and Minneapolis also note strength in total loan demand. Atlanta perceives some easing in business loan demand but brisk consumer and real estate lending. The overall picture concerning deposit inflows is less clear. Demand for money market certificates continues firm at commercial banks, but in some Districts bankers are reported to be seeking nondeposit sources of funds. Savings and loan associations have apparently experienced reduced deposit inflows, or even net outflows, since March. Several Districts are concerned that State usury laws are or will soon inhibit real estate lending. There are reports, however, that several States have revised or intend to revise those laws so as to keep funds in real estate loan markets.

The outlook for agricultural output is mixed. St. Louis and Minneapolis anticipate reduced yields of winter wheat, corn, and cotton due to adverse weather conditions. Atlanta now expects a significant shift from cotton to soybeans, also weather related. Kansas City, on the other hand, reports generally favorable conditions in the Southern Plains. All in all, the severe winter and the cold, wet spring will hold output below its potential, but the extent of the damage is, at this point, undetermined.

FIRST DISTRICT - BOSTON

Business activity in the First District continues to be very strong although there are scattered signs of the beginning of a slowdown. Many manufacturers report that they are operating at close to capacity; loan demand is very high across the district with some northern New England banks rationing credit. Although some retailers report a softening, sales continue to be healthy overall. In general, there is no problem with shortages although lead times for electronic components continue to stretch out.

A Vermont director reports that the machine tool industry in that state has the highest backlogs ever. The chairman of the board of an optical goods manufacturer indicates that sales of safety eyeglasses, which he considers a leading indicator, are very strong. The region's electronics and mini-computer industries are operating at high levels of capacity and many have substantial backlogs. A large tire manufacturer indicates that sales have snapped back sharply in May after a very slow April. Production at this company is at very high levels in order to produce inventory in anticipation of the rubber workers strike.

The chairman of a large commercial bank reports that commercial loan demand is exceptionally strong across all segments of the economy; deposit inflows are only moderate with little growth in time and savings deposits. While large banks seem to have no liquidity problems, smaller northern New England banks indicate shortages of funds and the necessity to ration credit. The chief executive officer of a large Connecticut insurance company expects poorer cash flow in the property and casualty insurance industry later this year, associated with a deteriorating underwriting experience, this will result in diminished

availability of funds for lending.

The Boston outlet of a large national department store chain reports that, although sales are still relatively healthy, they have not increased as much as expected thus far this year. However, soft goods sales have been very strong in the last few weeks, with the slowdown occurring in durables. A New England chain of discount stores reports some softness across all lines; similarly, food store sales have been somewhat less than expected. In general inventories are not considered a problem.

While there is no general problem with the availability of materials or labor there are some spot shortages. A survey of New England purchasing managers indicates that lead times on electronic components in particular continue to stretch out. In order to protect themselves from unintended inventory buildups, some purchasing agents are negotiating more long-term contracts with provisions for rescheduling deliveries in case of a recession. In general, materials prices are increasing at a 10 to 11 percent rate.

Professors Houthakker, Eckstein, Solow, and Tobin were available for comment this month. Houthakker believes that real growth will decline by summer and that there is a 40 or 50 percent chance of a recession this year. He also believes that the inflation rate will decline modestly during the remainder of 1979. A recession would do little to depress the inflation rate more rapidly, because more investment and a more rapid growth of potential output is needed. Recessions alone are not "cost effective." The Fed should "aim for a modest, positive growth rate of M1 at this time," and the funds rate should move freely to attain this goal.

Even though Eckstein expects a "slow-down/recession" to commence in the second half of 1979, he welcomes the recent increase in the Federal Funds

rate. Unless "continuing and convincing signs of a slow-down emerge," the funds rate may have to rise still higher. Because Eckstein expects only a mild "slow-down/recession" the Fed should "avoid following the historical pattern of dramatically increasing or reducing interest rates" in the coming year, however.

Solow believes that the odds still favor a slow-down or mild recession commencing this year. He would be surprised if real GNP increased more than 1 or 2 percent from 1978:IV to 1979:IV. Because interpretations of recent money growth rates are speculative at best, monetary policy must rely on the funds rate for the time being. Solow is content with a Federal Funds rate near 10 percent, but he believes the Fed has prudently exercised its independent judgment in resisting apparent pressures to raise the rate much faster or much higher.

Tobin also thinks it was a good idea to increase the funds rate. He believes the economy is stronger than most forecasts suggest. The high unemployment rate is a cause for concern, but the Fed has done a commendable job, not attempting to attain unrealistically low unemployment or inflation rates. While future increases in the funds may be required, Tobin feels the Fed has done well to avoid overreacting as it did in the summer of 1974.

SECOND DISTRICT - NEW YORK

Second District business activity continued to expand at a modest pace in April and early May, according to recent comments of directors and other business leaders. Although department store sales have been mixed, automobile sales have remained brisk. In general, manufacturers appear to be operating near or at full employment, inventories are below desired levels, and some firms report that order backlogs extend well into 1980. For the most part, however, labor and materials are generally in adequate supply, although some scattered shortages have cropped up. On the financial front, business loan demand surged at major New York City banks.

According to reports from throughout the Second District, retail sales have been mixed in recent weeks. While virtually all of the large merchandisers enjoyed an acceptable Easter selling season, several have been experiencing sluggish sales of late. In general, for all of April and early May, sales volumes have exceeded retailers' expectations with exceptionally strong sales at New York City stores outperforming weaker suburban branches. Correspondingly, most merchants report that their inventory stocks are in fine shape. Retail respondents were generally reticent about their outlook for consumers spending, but one major chain store did confirm that its outlook for retailing activity in New York City was optimistic enough that it was planning to increase its investment in its Manhattan flagship store.

Sales of new cars have continued to be brisk, especially for the smaller, more fuel efficient models. Indeed, dealers report that sales

would be even greater if they had had sufficient numbers of small cars in inventory. Nevertheless, some signs of an industrywide slowdown are emerging. One auto analyst reports that the burst in small-car buying has not been sufficient to offset the large-car sales decline. Truck purchases, in particular, have fallen more than anticipated; and there has been a "remarkable softening" in the recreational vehicles sector. Moreover, while small car production is expected to remain strong, automotive manufacturers will probably soon begin to shut down their large car assembly plants in order to retool them. As a result, the regional economy will be affected by some large-car plant closings and the accompanying layoffs of assembly workers. But both industry analysts and auto dealers feel that the current gas-crisis psychology is temporary and thus, will not have a permanent debilitating impact upon the auto industry. Nonetheless, there is a feeling that there is an emerging shift in buyer preferences for smaller, more fuel efficient automobiles.

Outside of retailing, business activity remains robust. The cement, paper, steel and computer industries are all at full capacity and in some instances, have order backlogs that extend well into 1980. While no serious bottleneck has yet developed for any raw material, respondents from the steel and chemical industries each reported lengthening delivery times by their suppliers. Capital spending plans among District respondents remain strong, but are little changed from recent months. There is, however, incipient weakness in the orders being booked by manufacturers of durable consumer goods such as cameras and kitchen ware. In any event, overall inventories are running on the lean side, according to the consensus of businessmen contacted in the District. Looking ahead, the majority

of Second District respondents anticipate a recession, albeit a mild one, in the second half of the year as a consequence of continuing inflation, increasing oil prices, and the high level of consumer debt. At the same time, while the respondents concede that the Administration's anti-inflation program has had some effect, they are skeptical that it will succeed in reducing the rate of inflation to the range of 6 to 6 1/2 percent.

On the financial scene, business loan demand surged at New York City banks. The senior lending officers who were contacted attributed part of advance in business lending to the growth in plant and equipment expenditures and inventory investment. Other factors mentioned were a reduced level of corporate cash flow, increased acquisitions, and aggressive loan pricing. While predicting continued growth in commercial and industrial loans through 1979, most respondents failed to foresee a boom in demand comparable to that experienced in 1973-74.

THIRD DISTRICT-PHILADELPHIA

Third District economic activity is expanding overall this month. Manufacturing appears to be holding its own, and retail sales have generally picked up from the April lull. Bank loan demand remains very strong. The six-month outlook is mixed, however. Executives in the industrial sector continue to forecast an imminent downturn, and are joined by some merchants. There is some sentiment in the retail sector though that if a recession is coming, it won't start until the fourth quarter. Bankers forecast continuing strength in loan demand between now and November.

Respondents to this month's Business Outlook Survey report no change in manufacturing activity relative to April levels. New orders remain stable while shipments have been stepped up. Consequently, inventories have shrunk, continuing a seven month trend. Industrial employment growth has apparently slowed also, as manufacturers report little change in either the size of their payrolls or the length of the workweek.

As for the future, survey respondents continue to forecast a downturn in industrial activity within six months, with the bears outnumbering the bulls by nearly two to one. New orders are expected to remain unchanged between now and November, and a further increase in shipments is expected. No change in inventories is forecast, leaving stock levels about where they were at the beginning of 1979. Despite the bleak outlook, however, Third District manufacturers plan to add to their work forces over the summer and fall, as well as boost spending on plant and equipment.

Inflation continues in the Third District industrial sector. In the current survey, about five out of eight of the executives polled report paying higher prices for inputs in May, while three out of eight are charging more for their finished

products. More of the same is anticipated through the balance of the year. Five out of six respondents foresee higher raw material costs by November, and two out of three plan to raise the prices of the goods they sell.

Area retail activity has picked up in May. Reports of current dollar sales range from five to twenty percent over May '78 volume. Sales are generally reported to be as planned. There are some signs of unanticipated inventory accumulation, but this is not the rule.

Looking ahead to the next two quarters, retail merchants have diverse expectations. Sales forecasts for November range from just slightly under year-earlier levels to ten percent above those levels. Merchants at the lower end of the scale foresee a stagflation scenario starting at the end of the current quarter. Others expect consumers to continue buying to beat expected price hikes, with no sign of a slowdown evident until October or November at the earliest. Retailers do not expect any major inventory problems over the next six months.

Both business and consumer loan demand continues strong according to area bankers contacted in May. C&I loans are up as much as sixteen percent over May 1978 levels and consumer loans, although not showing quite as large a year-over-year increase, are higher than many bankers had anticipated. Bankers foresee little change in the business loan demand situation through November, but are allowing for the possibility of slower consumer borrowing as the public faces higher food and energy bills in the coming months.

The prime rate is holding at 11 3/4 percent in the Third District but a move to twelve percent seems imminent. Bankers' interest rate forecasts vary beyond the next few weeks. Some see a flattening after a move to twelve percent, but others anticipate successive increases with a late summer peak 75 to 100 basis points above current levels.

Deposit flows at local banks still look to be adequate. There have been moves to downgrade the importance of CDs and rely on nondeposit sources of funds to some extent, but this practice does not appear to be widespread. Money market certificates are still in heavy demand.

One area bank recently introduced a new innovation aimed at attracting new deposit funds and concurrently serving as a hedge against future interest rate hikes. The institution was issuing \$1000 repurchase agreements with a one-year maturity and carrying an effective interest rate of nine percent. According to a spokesman for the bank, response to the instrument was strong and a remarkably high percentage of the funds attracted was "new money." Nevertheless, sales of the "repos" are scheduled to end on May eighteenth. A recent news release by the bank indicates that the principal reason for withdrawing the instrument is that its success and emulation by other financial institutions might hinder progress in the gradual elimination of Regulation Q.

FOURTH DISTRICT - CLEVELAND

Manufacturing activity in the Fourth District is rebounding from effects of the teamsters strike last month, and major industries are producing at or near effective capacity. Consumer spending has been sluggish except for autos, but business spending has been sustained by further increases in orders and backlogs. Officials claim little sign of speculation or excessive inventory buildup. They uniformly see little sign of price relief for industrial products. Gasoline supplies are tight but have not disrupted business activity. Deposit inflows into S & Ls fell sharply in April. The city of Cleveland remains in default.

Employment, production and shipments in the automotive and steel industries, the main industries affected by the teamsters strike, are recovering. However, some production losses of large cars will not be recouped because of poor sales. Also, steel haulers in the Youngstown Steel Producing Center are still not back to work. As much as 10 percent of steel production schedules in April were curtailed, in addition to cutbacks in steel shipments. Presently, steel is operating at practical capacity, which is expected to continue through the balance of this quarter because of strong demand from the construction and capital goods industries. Steel economist expect some easing next quarter, partly from lower demand from the auto and appliance industries, and also because some facilities will be shut down for repairs during the summer months. Aluminum is operating at about 94 percent of capacity and an even higher operating rate is expected next quarter.

District officials continue to report a widening dichotomy between the consumer and business sectors. Some retailers and producers of consumer goods believe a cyclical turning point is near unless consumer spending shows

a pickup in real terms. Remarks about consumer resistance to higher prices, increased consumer substitution, especially of food products, lack of strength in most department store type-goods, and moderation in credit card usage, are increasingly common. Although one retail economist expects retail sales in May will show a larger increase than in April, most of the expected gain would be absorbed by higher prices. In his opinion, retail sales are on a plateau similar to 1974. He expects deceleration in income gains this quarter, which along with continued double-digit rates of inflation, would further reduce real spending. Because of uncertainty over sales prospects, retailers have been cutting their fall orders by at least 15 percent in real terms, according to a producer of men's apparel.

Capital goods producers are still bullish over sales prospects, and some have pushed back their expectations for a decline in orders to the second half of this year or early next year. Their comments emphasize continued increases in orders and backlogs, but they generally report no sign of double-orders because shortages are not prevalent as they were in 1974. Aerospace and machine tool builders report backlogs at the end of last quarter were at least 50 percent higher than a year earlier. Strength in machine tool orders has been widespread because of growing need for modernization and for additional capacity, according to one builder.

With few exceptions, district officials assert there is little sign of speculative building of inventories, although most acknowledge some buildup in stocks in line with higher production and backlogs. A ball bearing producer notes some speculative buying that has been triggered by his firm's allocation of production. Limited supplies of domestic steel, coupled with a curtailed volume of steel imports in recent months, have held the buildup in steel inventories to normal levels relative to current usage, although one economist

believes that some steel users must hedge in order to protect production schedules. Similarly, an economist asserted that the low volume of imports and strong domestic demand have prevented a buildup of aluminum inventories. Tire inventories held by retailers are believed to be consistent with industry targets, especially in view of the strike against one tire producer.

Officials uniformly report little sign of relief from recent intense price pressures for industrial products. Some complain about COLA cost pressures. However, a steel economist notes that guidelines will limit future steel price increases this year to about 4 percent, although the market can absorb a much larger increase. Also, a machine tool builder indicated price increases are being held down to some extent by wage-price guidelines. A scheduled increase in aluminum prices was recently scaled downward because of guidelines, although domestic prices are said to be far below world prices.

Gasoline supplies in the District are tight but apparently not as serious as some other regions of the country. While business activity has not yet been hampered by spot shortages, some economists believe short supplies of diesel fuels may disrupt industrial activity later this year. Production and sales of recreational vehicles and light trucks for personal use have been curtailed rather sharply in response to higher prices and reduced availability of gasoline.

S & Ls report a sharp drop in deposits since the change in money market certificates last March. However, they acknowledge that April is typically a poor month for deposits and that some rebound has occurred in early May, even in passbook accounts. Apparently, a large part of the decline in April was the result of depositors failing to roll-over maturing certificates and placing funds into passbook accounts for temporary liquidity. Mortgage loan demand is reported to be rising seasonally but is not as strong as a year-ago.

Some association officials expect a further increase in mortgage lending rates because of reduced availability of mortgage funds.

As Cleveland enters its sixth month in default, local banks that hold \$14.5 million in notes are becoming increasingly critical of the city's inability to present an acceptable repayment plan. One local bank, which has not received information about the city's budget revenues and expenditures during 1979, has threatened to seek a court ruling on the city's obligation to begin repaying the notes. The mayor has responded to the bank's concern by stating that, if state aid is not obtained soon, the city would begin repayment in July and would repay the total amount by the end of the year. Whether such a repayment schedule could be attained without further cutbacks in operating expenses is uncertain. Indeed, it is unclear whether the city is currently able to meet operating expenses other than payrolls and debt service.

FIFTH DISTRICT - RICHMOND

Most indications are that Fifth District business activity continued to expand through April. Manufacturers surveyed report further increases in new orders, order backlogs, and shipments. Loan demand of businesses and households is strong and survey respondents generally characterize business as "good." They express concern, however, that recent heavy consumer spending may have been largely anticipatory in nature and that this, coupled with a growing burden of consumer debt, will dampen retail sales in the near term future. Most of our directors view the recent strength in the economy as a rebound from the seasonally depressed first quarter and expect a slowing of activity to begin shortly. Expectations among our manufacturing respondents have also become more negative in recent weeks.

More than one-third of the manufacturers responding to our latest survey experienced gains in new orders and increased shipments and order backlogs over the past month. Manufacturers' inventories have grown only very slowly in recent months and there is little concern about their current level. Manufacturing employment apparently continues to expand but the average workweek has remained unchanged for several months now. Most respondents in the goods producing sector are comfortable with both current capacity and expansion plans. Recent strength in manufacturing does not seem to have been evenly distributed among industries. Textiles producers have apparently encountered substantially firmer demand for their output in recent weeks, but curiously, apparel producers report flagging demand for their products. Respondents in the furniture industry also report weakening demand.

Our directors and a number of our survey respondents seem increasingly concerned that the recent heavy buying of consumers durables has been speculative

and will act as a drag on future sales activity. Current debt positions of many households are also cited as a source of concern for the near term future of consumer spending. Most of our directors expect activity to slow or decline in the near future. Expectations of our survey respondents also deteriorated in April. Over half the manufacturers surveyed now expect the level of business activity nationally to decline over the next six months and well over one-third expect a worsening in their respective market areas. Most expect little or no change in the level of production in their own firms.

Recent reports from district financial institutions confirm that aggregate credit demand is strong and that both businesses and households are borrowing actively. Only the residential mortgage loan market shows any signs of weakness, but even here there appears to be significant strength in some states. Credit demands of manufacturers have increased strongly in recent weeks. These demands are apparently not associated with unwanted inventory accumulation but rather reflect working capital requirements that have risen along with the pace of business activity. There are also indications of exceptionally strong latent credit demands, as reflected in healthy increases in requests for lines of credit. Large retailers, on the other hand, paid down their credit lines after an active Easter sales period and apparently do not expect to increase their borrowings until the third quarter of 1979 at the earliest.

With the sharp rise in farm prices during the first quarter of 1979, the improvement in Fifth District farmers' financial position that began last year has continued. This Bank's first quarter survey of farm credit conditions indicated continued improvement over a year earlier in loan repayment rates and in the number of request for renewals. While farm loan demand at banks was down significantly from a year ago, it was up sharply at production credit associations and Federal land banks. Bank supplies of loanable funds continued

at the reduced levels of the three immediately preceding quarters. Loan-to-deposit ratios of reporting banks rose moderately, however. Moreover, there was a modest increase in the proportion of banks actively seeking new farm loan accounts and a reduction in the share indicating they had been forced to refuse or reduce a farm loan because of a shortage of funds.

SIXTH DISTRICT - ATLANTA

The latest reports from Red Book contacts have been more downbeat than any in the last two years. The deep South has been troubled by extensive flood damage in addition to the nationwide problems of rapid inflation and dubious energy supplies. Retail sales, which has shown little strength since Christmas, now appears to be declining in real terms. Housing markets continue to weaken, except in Florida, where thin inventories, high prices, and increasing speculation pose potential problems. While banks have enjoyed strong deposit growth and some pick-up in lending, thrifts have realized little or no net inflows since the regulatory changes vis-a-vis money market certificates. The short-term outlook for industrial production, capital spending, and jobs is largely positive despite some weak spots. Inventories seem well in hand with the exception of autos, where stocks are far out of line with demands. The Southeast is weathering the gas cutbacks with a minimum of problems.

Heavy rains and flooding have caused severe damage in several large sections of the District. Estimates are not yet available for many affected areas, but early estimates indicate damages of well over \$1 billion in Mississippi, roughly \$30 million in Louisiana, at least \$60 million in the Nashville area, and several million more in southwest Alabama and south Florida. Federal disaster relief has been made available to most locales, some \$600 million thus far in Mississippi alone.

The floods' agricultural impact included damage to farm structures, severe soil erosion in limited areas, some loss of cattle and vegetable crops, deterioration of pastures, and delays in planting. Agricultural

experts estimate that pastures will be restored by mid-June and that soybeans will be planted in time to produce normal yields. The delay, however, mandates a shift from cotton to soybeans that may involve as much as 50,000 acres.

Districtwide, consumer spending has been noticeably weaker since March, with year-over-year retail sales gains lagging or barely keeping pace with inflation in most areas. Directors and their contacts in retail trade characterize consumers as increasingly cautious, angry about inflation and beginning to resist price hikes, and worried by the energy outlook. Undoubtedly, however, the bad weather and early Easter have restrained spending in the latest few weeks. Softness has been particularly noted in sales of nondurable goods and automobiles, although demand for small cars (both domestic and imported) continues to boom. While general merchandise stocks remain under control, inventories of large cars are uncomfortably high but short supplies of fuel-efficient models threaten to dampen sales. In the Atlanta area, Ford has added another idle week to its alternate-week schedule at its full-sized model production facility, while area Volkswagen dealers have stopped taking orders for the rest of the model year.

In most parts of the District, residential construction has continued its shallow decline with nearly all work pre-sold. Inventories are universally reported as thin; existing-home sales have held up well. The growing popularity of converting apartments to condos is aggravating a shortage of rental housing. Observers attribute the slowdown to a variety of causes--poor supplies, high home prices, "availability of money," buyers' difficulty in qualifying for loans, a negative economic outlook--but none believe that high interest rates per se are deterring prospective buyers.

In flood-stricken areas, contractors are looking to restoration work to help keep up their business volume.

Florida remains the exception in the housing picture; in south Florida especially, market activity continues at record levels. Supply strains are acute there; large companies are complaining that inadequate inventories and dramatic price increases are thwarting relocation efforts and personnel transfers; realtors are knocking on doors and encouraging owners to consider selling. Several Florida directors expressed concern about speculation; besides builders, local "non-realtors" (doctors, lawyers) have gotten into the act. Mortgage credit supplies appear adequate but not plentiful, evidenced by a trend toward larger downpayment requirements and rising mortgage interest rates (now, atypically, above those of other District states).

Deposit inflows to thrifts were quite weak in April, while banks enjoyed strong gains, particularly in demand deposits and money market certificates. Despite an easing of business loan demand at the "large" banks, bank lending has picked up, with brisk increases in real estate and consumer loans. The May 1 raising of Tennessee's usury ceiling from 10 percent to an effective 14.5 percent brought the first of a series of planned gradual interest rate adjustments at most banks; however, the state's largest bank holding company has "frozen" its rates to "small borrowers" at 10.5 percent. So far, Tennessee banks have noticed little change in lending volume or borrower reaction to the higher rates. The state's S&Ls are back in the mortgage lending business after several dormant months, but many refuse to set rates until closing.

Industrial activity remains healthy, for the most part, and quite profitable, by the latest reckoning. Directors report minor deterioration in

sales and order backlogs for home-building materials and some types of equipment, but steel-related industries, suppliers to the paper industry, and railcar producers have taken a rash of new orders. Persistent weakness in the coal market has added to Alabama's unemployment rate and created surplus inventories for some of the industry's suppliers. The textile situation remains a mixed bag, with some mills prospering and expanding and others closing. Generally, capital spending and nonresidential construction show steady growth, although many contacts sense some hesitation with regard to projects still in the planning stages. Inventories continue to be held tightly in rein despite isolated incidents of advance buying. Employment prospects are positive in most industries; the shortage of technicians and engineers appears to have worsened.

The gasoline shortage seems to have created more fear than real problems as yet, although most people expect it to get worse. May allocations to distributors and industrial users range from 70 to 95 percent of May 1978 sales (usage), with the mode at 80 percent. Gas stations throughout the District have cut back their hours; weekend closings are troublesome only in central Florida; purchase limits are relatively rare. Atlanta's Hartsfield airport has and expects to maintain ample supplies of aviation fuel. The State of Tennessee has implemented a contingency plan to help make up for shortfalls of supply to farms, businesses, and school systems.

Given the usual seasonal slowdown, tourism appears to have suffered no ill effects from limited gasoline availability in spite of the industry's grave concern. Huge increases in air passenger traffic and faltering recreational vehicle sales may reflect a substitution effect, but hotel occupancy rates, advance bookings at hotels, travel agencies, and cruiselines, attendance at major attractions, and pleasure boat sales continue strong.

SEVENTH DISTRICT - CHICAGO

Most observers in the Seventh District believe a slowing in total activity has already occurred. They believe that the second half will see at best a level trend in real GNP. One observer expects a decline in the fourth quarter at a 6 percent rate. Tight supplies of oil products casts a pall over the future, both near and longer term. Many business managers who accept this prognosis for the general economy expect their own industries to continue to operate at very high levels. Demand for most capital goods and their components continues to tax capacity, but there are a few signs of softness. Good workers are in short supply. Consumer buying appears to have leveled off with sales of low-mileage vehicles down sharply. The farm sector is prosperous, with credit demands substantial. Residential activity, both in new construction and transactions, is off sharply.

As far as we can determine, vehicle traffic in our district has not been significantly affected by gasoline allocations. Doubtless some auto trips have been deferred voluntarily. For May, the largest marketer in the district is allowing dealers 80 percent of their supply in May 1978. For a number of detailed reasons this is not nearly so severe as it seems. However, dealers have shortened hours, and some have limited purchases. A real test of the situation may not occur until the Memorial Day week end. Diesel fuel also is allocated for highway vehicles. Inventories of both motor fuel and heating oil are uncomfortably low. The basic problem is reduced crude oil imports with US firms refusing to bid the highest prices, partly because of federal pressure.

Lead times on manufacturers' new orders continued to lengthen in April. For some companies the main reason is inadequate transportation, both rail and

highway. Equipment of the right type often is not available, on time and in sufficient quantity. Demand for heavy trucks, trailers, freight cars, and locomotives remains intense. A producer of heavy trucks placed a penalty on order cancellations after a certain date and was surprised that only 5 percent of affected orders were canceled. Freight car component capacity is being expanded, apparently on the belief that demand will remain high in the 1980s. The truck strike of early April and the more extended steel haulers' strike did not seriously affect activity in the district, although temporary disruptions occurred.

Demand for equipment for metalworking, materials handling, construction, agriculture, and logging has held up well. Longer lead times on certain equipment have caused customers to look abroad. Castings and forgings are bottlenecks for various producers. Foreign sourcing for such components has proved unsatisfactory in some cases. Heat treating and welding capacity is fully utilized.

Overall, capital equipment producers continue to report vigorous growth with rising backlogs. However, a producer of small drives and other components sold "off the shelf" says demand for these items, which led the expansion, has softened. Sales of oil exploration equipment have declined significantly. Producers of some types of coal mining equipment are operating well below capacity.

Some steel companies are booked through the third quarter. Orders for virtually all types are strong. Estimates of shipments for the year have been raised. Competition from foreign steel has dropped off as markets have strengthened abroad.

Although intermittent layoffs were associated with the truck strikes

causing claims for unemployment compensation to rise, demand for experienced and trainable workers continues to exceed supply. As in 1973-74, foundries are ready to hire "warm bodies" for this rather disagreeable work. Through early May, help-wanted ads in Chicago papers have been running about 20 percent above the advanced level of a year earlier.

Retail sales have varied substantially by line and establishment. Credit use may have slowed somewhat, but large retailers report that delinquencies remain at a low level. A very large retailer has been reporting large declines in dollar volume from year ago with inventories on the high side. Increased promotions and price cuts are planned to boost sales. But other chains report sales to be at budgeted levels with inventories under close control. Prices of general merchandise, which had been rising at a rate of only 4 percent, are expected to accelerate to about 7 percent because of increases for petrochemicals, natural fibers, rubber, and leather.

Among the lines that have weakened are appliances and furniture. Fuel stringencies have depressed sales of recreational vehicles, power boats, and light trucks. Sales of four-wheel drive trucks, in short supply until quite recently, have declined precipitously.

Although seasonal problems are still difficult to sort out, both new residential construction and transactions in the resale market appear to be significantly lower than year ago. Only half as many residential building permits were issued in the Chicago area in the first quarter as in the same period of last year, with single-family homes down 58 percent. Total permits were slightly less than in the very depressed period of 1975. These comparisons may be somewhat improved in the second quarter because the January-February experience was "dismal."

Single-family homes are staying on the market much longer than last year, partly because more offerings are available. Desirable condos are selling well at steadily rising prices. The going mortgage rate in the Chicago area has increased to a record 10.5 percent, plus two points for fees. Loans are said to be "available" at going rates, unlike the situation in earlier periods of tight money. Usury ceilings are not an immediate problem anywhere in the district, reflecting more flexible rules in certain states.

Sales of residential building materials, such as gypsum board and insulation, are still setting new records, partly because of nonresidential requirements. Ready-mix concrete companies are working full blast to make up for a long period of weather-enforced idleness during the winter. Order backlogs, in tonnage, are at record levels. Ready-mix companies are choosing jobs carefully, partly with an eye to the cost and availability of diesel fuel. Structural steel demand is strong, but is not at record levels.

Our survey of rural bankers indicates that District farmland values averaged 2.4 percent higher in the first quarter, and now exceed year-earlier level by 16 percent. The first quarter increase was one of the smallest increases since 1972.

Liquidity pressures are still very evident among rural banks, despite robust farm earnings in recent months. Demand for farm loans has been very strong. The first quarter rise in loan-to-deposit ratios was unusually large.

Interest rates charged on farm loans by rural banks have risen 1 percentage point in the last six months and 1.5 percentage points in the past year. Seasoned bankers say they cannot recall a period when rates on farm loans have risen so rapidly.

EIGHTH DISTRICT — ST. LOUIS

The rate of growth in the Eighth District economy appears to have slowed in recent weeks. Although activity in many sectors such as commercial building and industrial goods continues strong, a slowing in consumer demand was reported. Retailers reported a slowing in sales and some undesired buildup in inventories. Some manufacturers of consumer products, such as apparel and furniture, also reported a noticeable slowing in sales. Nevertheless, overall industrial activity appears to have gained modestly in April from the high March level, spurred by continued gains in the capital goods and chemical industries. Construction activity also continues quite strong in the District, led by advances in nonresidential construction which have apparently more than offset the decline in home construction. In the financial sector, savings and loan associations experienced a net outflow of funds in April, and mortgage lending requirements have become more restrictive, particularly in Arkansas, Mississippi, and Missouri where low usury ceilings still exist.

According to several area retailers, growth in consumer spending has begun to slow noticeably in recent weeks. Some retailers noted the recent slower growth in consumer incomes and felt that the "buy-now" attitude is apparently coming to an end. Department store retailers reported that inventories have become greater than desired as the slowdown in sales exceeded expectations. An apparel manufacturing representative noted that sales in rural areas have also softened in the past month and that retailers in these areas are cutting back on fall orders.

Industrial activity generally continued to expand in April, although

the increases were more modest than those in March, when some activity was partially induced by anticipation of the truckers' strike. The capital goods industry continues to be the strongest sector. Firms manufacturing railroad cars, commercial airplanes, welding and cutting equipment, lubrication equipment, and metals reported that sales growth has continued to increase. A representative of a chemical firm noted continued strong sales, partially attributable to higher export demand. Some decline in production, however, was reported by a number of consumer goods firms, such as apparel, furniture, appliance, and recreational vehicle manufacturers. A representative of a paper manufacturing firm reported that April sales were not as large as in March, but believes that no significant downturn was indicated.

Construction activity in the District continues to grow, although the type of construction is changing. Residential construction has declined from a year ago in a number of areas in the District. Housing permits issued in the St. Louis area are down about 20 percent from last year, and home construction has declined somewhat. Nonresidential construction, however, has taken up the slack, and overall construction employment is up relative to a year ago. Large contractors report that they are turning away new business, and that difficulties in obtaining materials and supplies is prompting them to place orders far in advance of the start of new projects.

Savings and loan associations in the St. Louis area reported a net outflow of funds in April with only 4 of the 27 associations in the area reporting positive net inflows. They attribute the decline to the recent changes in regulations concerning money market certificates. These officials also noted increasing competition from banks, credit unions, and money market funds. Loan qualification standards and down payments continue to be raised

on mortgage loans, particularly in states where usury laws constrain mortgage rates. S and L officials in Missouri have warned the state legislators that substantial amounts of funds will leave the state if the 10 percent usury law is not changed. In Tennessee the usury ceiling was recently changed. Effective May 1, the usury ceiling on mortgage loans began to float at 2 percentage points above the FNMA auction rate on conventional mortgages.

Substantial rainfall over much of the District has delayed the planting of corn and cotton. Plantings of these crops, however, are likely to be only minimally affected unless these unfavorable weather conditions persist. Floods along rivers in the District have caused considerable property damage, but spring-planted crops in most cases were not damaged because of the late planting season. However, some damage to the wheat crop was reported, and in some flooded areas, plantings of corn and cotton may be prevented.

NINTH DISTRICT - MINNEAPOLIS

The Ninth District economy is currently very strong, but this Bank's directors see signs of weakening ahead. Poor weather might cut crop production and produce excess inventories at retail stores. Government regulations could disrupt economic activity. And larger loan requests combined with lackluster deposit growth point toward rising interest rates.

Directors report recent sizeable gains in district business activity. In the region's large urban areas, commercial and industrial activity is expanding vigorously. The northeastern part of the district is enjoying a strong demand for iron ore and forest products. High livestock prices are propelling farm income above last year's high level in central and western areas. And throughout the district, auto and consumer hard goods are selling well.

Prosperity Threatened by Bad Weather . . .

Directors say, however, that recent developments in three areas are threatening this prosperity.

One is bad weather, which they think could hurt farm production especially. A dry fall and a severe winter have destroyed half of the winter wheat crop in South Dakota and up to 70 percent of it in parts of Montana. The wet and unseasonably cold spring is preventing farmers from reseeding this acreage or planting their spring crops. In Minnesota by early May, just 6 percent of the spring wheat, 15 percent of the oats, and 1 percent of the barley and corn were planted; the 1974-78 averages range from 30 to 60 percent. This planting delay has substantially shortened the growing season, which increases the likelihood of reduced yields.

The colder-than-normal weather has already reduced sales at the district's retailers. Last month directors reported that retailers were hoping better weather would boost their soft goods sales. But the weather did not improve, and merchants are still reporting poor soft good sales. Unless these sales pick up soon, unwanted inventories will start accumulating.

. . . Government Regulations . . .

Another threat to the district's prosperity comes from government regulations--one in force and one being considered.

The wage and price guidelines can disrupt businesses, as a current labor dispute illustrates. Early this month 2,700 workers walked off their jobs at a large district computer manufacturer. These strikers are demanding a 10 percent salary increase, but their employer is a large government contractor and claims the 7 percent wage guideline prohibits it from meeting the strikers' demand. If this company exceeded the guideline, it could be barred from obtaining government contracts.

If enacted, a federal gasoline rationing program could also disrupt the district's economy. So far, gasoline shortages have caused little trouble in this area, and supplies are available for farmers' spring planting. But directors fear that the market won't be allowed to ration available supplies this summer. A government-mandated rationing program could seriously cut back the district's tourist business.

. . . and Demand/Supply Problems at Financial Firms

The third disturbing development directors report is in the financial market, where further interest rate increases seem likely. Rapidly rising prices have inflated loan requests in the district. A Montana director says that at his bank a rancher borrowed \$25,000 last year and \$50,000 this year to

buy the same number of cattle. Other directors indicate that rising prices have boosted requests for business and consumer loans too. At the same time, deposit growth has been sluggish, especially at commercial banks. Interest rate ceilings are no doubt partly responsible for this, since money market certificates are the only accounts which have been growing. If loan growth continues to outpace deposit growth, district consumers and businesses can expect to be paying higher interest rates.

TENTH DISTRICT—KANSAS CITY

Savings and loan associations in the Tenth District report a sharp decline in net inflows as a result of the March changes in money market certificates. Housing starts and sales, however, remain relatively strong, though somewhat below 1978's level. Most major retailers report roughly flat real sales, but some expect a stronger second half. A lower-than-expected increase in winter wheat production could result in higher wheat prices ahead. Loan demand at Tenth District banks remains high, but deposit growth, with the exception of strong money market certificate inflows, is weak.

Tenth District savings and loan associations report large drops in net savings inflows and, in some cases, net outflows since the March 1979 money market certificate changes. Despite the current 10 to 11 per cent range in mortgage rates, loan demand is still reported as strong due to fears of even higher rates in the near future or of credit shortages in the states of Missouri, New Mexico, and Kansas which all have usury limits. Mortgage commitments are reported generally below the levels of a year ago and are expected to decrease over the rest of 1979 due to rising mortgage rates or mortgage fund shortages.

According to Tenth District builders' associations, housing starts have been good this year, though down from a very strong 1978. Where strength exists, it is primarily in single-family units with multi-family starts remaining about the same as this time last year. Some associations, especially in Missouri and New Mexico, express concern about the effect of usury laws in their states on the availability of funds to meet existing demand for housing. Sales of new homes are down slightly over this time last year and

the inventory of unsold homes is reported to be adequate to tight, largely the result of better planning and less speculative building. Prices of materials have not increased a great deal from last year and materials availability is adequate for current needs. Deliveries have been somewhat slow due to the harsh winter and there is some concern over the supply of concrete, but most District associations anticipate these situations to improve as the year progresses.

Most major retailers in the Tenth District, with the exception of Sears stores, report current dollar sales approximately 10 per cent above last year. Seasonal goods and summer fashions are rather strong sellers, while household furnishings, major appliances, and hardware items are soft. Some price rollbacks, reductions, and absorption of price increases were mentioned by a number of retailers. Most of the retailers said that they expect a 10 per cent inflation rate in 1979. Inventories are a little high, but "well within our budget" at most of the stores. No one mentioned any major change planned in inventory movements. The retailers expect a stronger second half, although some pessimism was noted. With predictions of a recession and with gas shortages, retailers feel they will be hit hard if both occur on a widespread basis.

U.S. winter wheat production for 1979 is currently estimated at 1.39 billion bushels by the U.S. Department of Agriculture, up 11 per cent from 1978. Slightly higher yields and increased acreage account for the larger production estimate. Nonetheless, the current production estimate was below grain trade expectations and could, consequently, add support to wheat prices. An Oklahoma Branch director indicates the Southern Plains winter wheat crop is outstanding and growing conditions are very favorable,

although crop maturity is 10-14 days behind normal. Wheat fields in Nebraska and in some parts of western Kansas, however, suffered substantially more winterkill than usual. Planting progress for spring crops has been delayed over much of the Northern Plains and Middle West due to wet weather. As yet, there is little indication that the delays will cause Tenth District farmers to significantly alter planting intentions. Nonetheless, grain industry concern about the progress of the late planted crop—especially in view of similar problems in Canada and in the USSR—means that market prices will be particularly sensitive to weather news this summer.

All but one of the banks contacted in this month's survey report strong loan demand among major loan categories. Agricultural loans, especially those to cattle ranchers, are up sharply in some areas. Banks are responding to this demand by offering loan participations, instituting programs to restrict the growth of certain types of loans, and in some cases, by increasing lending rates. Most Tenth District bankers report that both demand and savings deposits are stable or declining. Strong inflows to money market certificate accounts continue to furnish the only source of growth in small time deposits. Some of the larger banks in the District are relying increasingly on the issuance of large CD's. In addition, some banks are planning to seek alternative sources of funds—such as holding company commercial paper and borrowing at the discount window—to compensate for the expected reduction in funds from TT&L accounts and from purchases of nonmember bank Federal funds that may result from adoption of the recently proposed change in reserve requirements.

ELEVENTH DISTRICT—DALLAS

Directors and businessmen report economic activity in the Eleventh District continues to grow at a moderate and steady pace. Retail sales in real terms are running slightly ahead of a year ago and are expected to remain fairly strong through summer. Loan demand at banks appears to have dipped slightly in recent weeks from the strong level of earlier months, and some bankers anticipate somewhat slower growth in loan volume in coming months. Net deposit inflows to banks and savings and loan associations are up from April but have not recovered to the moderate growth rates that had prevailed in the first quarter. Conventional mortgage lending activity remains depressed mainly by usury ceilings. The Texas legislature is expected to raise the usury ceiling rate following FNMA's reluctance to purchase FHA/VA mortgages that exceeded the state's 10-percent usury ceiling. Manufacturing activity continues to grow steadily, and many industries are near full capacity utilization.

Retail sales are strong with no letup expected through the summer months. Spring auto sales are increasing on the strength of small cars sales and are slightly above the level a year ago. Bad weather and low inventories of small cars are hampering sales at some dealers. A few dealers expressed the desire to keep lower inventory levels because of the rising cost of financing inventories. Department store sales are running slightly ahead of a year earlier in real terms. Retail store executives remain optimistic for the short term, but they anticipate a mild slowing of consumer spending later this year. Inventories are being managed closely and are generally near planned levels.

Gasoline prices continue to increase rapidly with the wholesale price of regular gasoline now selling for 84 cents a gallon in the Houston spot market, up from 70 cents a month ago. No major shortages have developed at the retail level, but many gas stations are closing early on weekdays and all day on Sundays. Most oil companies and refiners in the District do not expect the shortage to become so severe as to warrant rationing. A spokesman for a major oil company said that demand would have to decline 5 percent nationally this summer from a year ago if shortages are to be avoided. The tightest supplies of gasoline are expected in late summer when refiners shift more of their production runs to heating oils.

Some softening in loan demand is noted by bankers, and a generally slower rate of growth of loan demands is anticipated in coming months. Loans outstanding continue to advance briskly, and the strength is broad based. Bankers continue to report commercial and industrial and real estate loans as particularly strong. Deposit growth has resumed following April's poor showing, but growth rates do not appear to have returned to the levels that existed in the first quarter. Funds continue to be diverted into MMC's with banks apparently getting a small amount of funds from thrifts.

Net savings inflows at savings and loan associations are returning marginally to the black after many S&L's experienced losses in April. Personal income tax payments contributed significantly to the losses experienced in April, and the change in the terms offered on MMC's is keeping the expansion of savings below earlier levels. S&L's have increased substantially their holdings of non-mortgage investments as usury ceilings in Texas discourage lending activity. Mortgage lending is picking up seasonally but remains well below year-earlier levels. Home improvement loans are at historically high levels.

Most mortgage bankers in Texas temporarily halted origination of FHA/VA loans after FNMA expressed concern that the higher interest ceiling on these types of loans might conflict with the state's usury statutes. Although there are laws that exempt FHA/VA loans from the state's usury ceiling, they are untested and may prove to be unconstitutional if adjudicated. Some mortgage bankers have resumed lending at the 10-percent rate but are not charging a one-point origination fee to the borrower. With conventional mortgage lending severely limited by the usury statutes, the state legislature is expected to raise the usury ceiling to a maximum 12 percent on a floating basis tied to the 10-year Treasury bond rate.

Industrial output continues to expand at a moderate rate from an already high level. Capacity utilization generally remains high, and many industries report rising backlogs of unfilled orders. Recently, however, a major producer of drilling equipment announced plans to reduce output and lay off workers because of the industry-wide slowdown.

Manufacturing activity for firms producing consumer products appears to be improving after a sluggish first quarter. Apparel manufacturers report improving sales levels, although capacity utilization remains low for most firms. Much higher prices for synthetic yard goods and lengthening delivery times for material inputs are reported. Furniture manufacturers have a mixed outlook and are faced with higher lumber prices and, in some cases, difficulty in securing certain types of lumber. Manufacturers of home appliances report increased dealer orders, but sales to new home developments are down.

Consumers and businessmen express little optimism that inflation will soon ease. Although a few retailers report some inflation-induced sales, the large

majority of retailers see a reduction in sales volumes as consumers' real incomes decline. Inventory building by manufacturers as an inflation hedge appears minimal. Many manufacturers have implemented cost-cutting measures, but low productivity caused by declining labor quality and near full capacity utilization is offsetting cost-cutting efforts.

TWELFTH DISTRICT - SAN FRANCISCO

With few exceptions, the Western region has continued to enjoy strong economic growth during the first four months of the year. 'Bullish' consumers are definitely spending instead of saving. Retail sales continue very strong. Both national and regional chains are planning numerous new store additions this year--reflecting confidence in the region's further growth. Business demand for bank credit remains high. Retail inventories generally have been kept under control except in two categories--gas-guzzling large cars and recreational vehicles--which are the obvious victims of gasoline shortages. Demand for compact and subcompact autos continues to exceed supply. Residential construction is active in the Northwest, but the housing industry continues to slow elsewhere in the West. Commercial construction continues strong throughout the area. Sales remain strong for new and used business equipment. Employment is strong, unemployment low. Skilled workers are at a premium. The region's main concerns, according to several directors, are the gas shortage and inflation.

While California has suffered more than other Western states from inadequate fuel supplies, the entire 12th District may eventually be hurt. (However, the damage to date has been modest.) The shortage would first be felt in automobile, recreational vehicle and pleasure boat sales, in the retail trade, in the amusement park and hotel/motel business and in the planting, harvesting and delivery of agricultural products from the fields to the marketplace. In addition, the United Airlines strike is affecting the shipment of fresh produce. And railroad boxcar shortages are delaying deliveries of lumber. Concern over the energy situation will be an

additional risk factor causing firms to be more cautious than usual when placing orders for the remainder of 1979. But to repeat, the volume of sales at both the wholesale and retail levels remains strong, despite signs of trouble on the horizon.

The gasoline shortage has proved to be a mixed blessing for the Pacific Northwest, where the Boeing Company is located. Boeing's aircraft sales are very strong as airlines order more fuel-efficient aircraft, such as the 757 and 767 models.

Meanwhile, inventories remain low except in the petrochemical industry, where producers have built up stocks largely as a security measure for meeting existing commitments for delivery.

Booming retail sales are particularly evident in California and the Pacific Northwest. Preliminary data for the first quarter shows California had a gain of about 20 percent over the first quarter of 1978, with gains of 15 percent for nondurable goods and 29 percent for durables. These gains are at least 50 percent larger than the national gains for the same period. Partial data for April covering a sample of large Southern California retailers show an 18 percent gain over the April 1978 sales volume. Only Utah and Idaho report first-quarter retail sales weaker than anticipated.

When quizzed about the impact of the 1978 tax cut on the spending/savings habits of Western consumers, most directors report that the tax cut generally did not offset higher social-security taxes and the inflation-induced boost of individuals into higher tax brackets. The rampant rise in inflation more than offset first-quarter wage increases for most workers--so purchasing power actually declined, giving individuals less to spend than last year. The situation for California property owners has been somewhat more favorable,

due to the effect of lower property taxes as well as a reduction in state income taxes. And those who benefited by these tax cuts seem to be spending their newfound wealth rather than saving it.