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CURRENT ECONOMIC COMMENT BY DISTRICT

Prepared for the
Federal Open Market Committee
by the Staff

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SUMMARY*

The overall impression that emerges from the Districts Red Book reports is that the economic outlook has taken distinct, albeit moderate, turn for the better over the past month. Among the most encouraging developments is the evidence emanating from most parts of the country that the long awaited rise in consumer spending may finally be getting underway, even though an underlying note of caution characterizes most discussion of consumer attitudes. Several Districts reports also point to strong residential construction activity. On the other hand, while businessmen may be more optimistic than a month ago, business confidence has not as yet grown to the point where firms are rushing to build up inventories, nor is there much, if any, evidence of an upward revision in planned outlays for plant and equipment. Moreover, apart from a few scattered signs of improvement, the unemployment picture remains rather bleak. Finally, continued concern over inflation was expressed by a number of respondents in several of the Districts.

Turning to consumer spending, all Districts report some improvement over the past month. In most instances, however, the increases in retail sales are characterized as "slight" or "moderate", and the consumer is usually described as still cautious, and cost conscious. The Boston Bank, for example, reports that retail sales in New England seem to have picked up somewhat, but that the consumer has by no means "broken out". Reports on retail trade in the Chicago District were more favorable than earlier in the year, but the improvement is characterized as modest. Similarly, the San Francisco Bank reports that retail sales are rising at a moderate pace but that in general retailers expect no major jump in consumer spending at this time. Some of the reports, however, are more

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optimistic. The Philadelphia Bank states that retailers report a noticeable pickup in sales, even though consumers remain bargain conscious. The St. Louis Bank reports that retail sales picked up considerably in the week before Easter and have remained at the higher level since then, with clothing and appliances moving well and with a strong demand for automobiles. All respondents in the Minneapolis and New York Districts expressing an opinion on this topic felt that the retail sales picture had improved as compared to earlier in the year, and a special survey of leading department stores in the Atlanta District reveal that sales have been exceeding expectations.

Residential construction also continues to be a bright spot in the economic outlook--indeed perhaps a brighter one than earlier in the year. The Richmond Bank thus reports that the majority of banking respondents throughout the District feel a sustained surge in residential construction, as well as a revival in nonresidential construction, is underway, while Chicago reports that prospects for residential construction appear even stronger than in earlier months. Similarly optimistic assessments appear in several other District reports.

Along with the pick up in retail sales and the sustained strength in the construction industry, there are reports of an increase in manufacturers sales and orders in a number of areas throughout the country. The Philadelphia Bank, for example, reports that a recent poll of area industrialists shows that for April almost four times as many firms registered increases in sales and new orders than showing decreases, while the Cleveland Bank's latest survey of Fourth District manufacturers points to further improvement in March, particularly in new orders, shipments, and backlogs. That Bank's report, however, cautions that some tapering off in the rate of gain may have occurred in April.

A more rapid expansion of industrial production, however, has been inhibited by the fact that business confidence, although stronger than earlier in the year, has not as yet risen to the point where manufacturers and retailers are willing to aggressively build up inventories, but prefer to maintain stocks at current levels. Thus, the San Francisco Bank reports that, apart from stock piling of steel, and some rise in building materials inventories, there is little evidence that businesses are rebuilding inventories. The Richmond Bank reports an actual decline on balance, in both manufacturers and retailers inventories, while the St. Louis Bank reports that retail inventories have not been increased.

Opinions are mixed among the Banks that discuss the unemployment picture in their District. The Kansas City Bank feels that the employment situation is still soft and that only a modest improvement is expected in the coming months. Similarly most respondents in the Dallas Bank District thought that unemployment in that area would not decline much, if at all, over the balance of the year. Unemployment is apparently continuing to rise in the Chicago area, while the Cleveland Bank characterizes the demand for labor as sluggish. On the other hand, signs of some, if only tentative, improvement can be found in the reports of the Philadelphia, Richmond and St. Louis Banks.

Most Districts reported a firming of demand for bank loans, especially consumer and mortgage loans, but in several instances business loans as well. In general, loans continue to be readily available.

FIRST DISTRICT--BOSTON

April redbook calls to First District directors produced the first hard evidence of improved business conditions. Such reports were scattered, however, and the majority of our respondents continue to report the moderate pace of retail and industrial activity which has predominated since last winter.

Area financial institutions present an essentially unchanged picture from a month ago. Savings and time deposit flows continue at high levels. Further cuts on passbook savings have appeared in some localities but, with the exception of Providence, R. I., major regional commercial and mutual savings banks have not yet moved on deposit rates. The flurry or mortgage rate cuts observed during March seems to have slowed considerably in the last month. Mortgage demand is reported as running at brisk levels.

Retail sales activity in New England seems to have picked up some over the last month. The consumer has by no means "broken out", however, and the continued impression is given of extreme consumer cost consciousness. Autos constitute an important exception to this situation, with respondents in several areas reporting dealer satisfaction with April sales levels.

One of our directors who heads a large and highly diversified conglomerate was able to report a substantial improvement in sales and order levels in virtually every division during April. Most of his corporate divisions, including producers of aircraft, recreational boats, heavy engines, and capital goods equipment, are now running above 1971 projections for the year to date. Our other directors cognizant of industrial and manufacturing activity could report no such hard evidence of improving demand conditions, however, and reported April results as only marginally better than the February-March period.

Professor Otto Eckstein's updated DRI forecast places 1971 GNP at $1,048 billion, edging as high as $1,052 billion should consumer spending attitudes change. The basic point which Eckstein wished to stress in this month's commentary is that the current economic outlook is virtually unchanged from December. Recent developments, including the first quarter GNP figures, are right on track with the forecasts made as early as November, and nothing materially different has yet emerged to warrant increased optimism from year-end levels. Eckstein also noted that the last 1972 employment outlook is extremely bearish, when one considers the normal growth of the labor force over the intervening period plus the need to re-employ those who have lost work in the last eighteen months. Added to this will be the influx of returning servicemen from Vietnam. All told, nearly 4 1/2 million jobs would be needed in the next eighteen months to approach 5 percent unemployment by the end of 1972. Given this situation, Eckstein suggests that there is little potential for harm if monetary policy errs on the side of too much stimulus in the coming months.

Professor Tobin expressed no surprise at the first quarter GNP figures, nor does he find much comfort in them. He took strong issue with the notion that we're currently in a liquidity trap, stating that a liquidity excess in conjunction with a 5 1/2 percent prime rate would certainly be an historical oddity. Tobin stressed again his view that further monetary ease would likely produce both consumption and residential construction benefits later this year, as well as a stimulus to plant and equipment spending during 1972.

Professors Shapiro and Wallich share a very similar outlook currently. Both noted their conviction that a broad-based consumer resurgence has begun, and that personal savings rates will continue to fall over the rest of the year, adding strength to the economy. They also expressed continued optimism over the prospects for long-term rate declines over the summer, although Shapiro noted that the recent rise in the prime rate will probably postpone this development by a month or six weeks. Both Wallich and Shapiro share the general view that first-quarter monetary stimulus appears to have been excessive, and that adjustments should now be made toward limiting M1 growth for the year to 6 percent.

Professor Samuelson was unavailable for comment this month.

SECOND DISTRICT--NEW YORK

A distinctly rosier picture of consumer spending than that painted a month ago emerged from the views expressed by the Directors of this Bank and of the Buffalo Branch, and other business leaders. With some exceptions, however, business confidence outside of the retail area was less than strong. Nevertheless, the implementation at this time of fiscal measures to stimulate the economy were generally opposed, reflecting concern over the continued presence of inflation pressures. The President's program to curb the rise in cost in the construction industry was given little or no chance of success.

With respect to consumer spending, the Chairman of the Board of a large retail chain that includes a number of sizable department stores, and a large diversified apparel manufacturing business, was very optimistic. He reported a sharp increase in his firm's sales in recent weeks both through its own outlets as well as to other major retailers, and felt that the consumer had finally "turned loose". The vice president of another large retail chain reported that his firm's business had picked up somewhat in the past month, and that he looked for a good increase in the months ahead. Similar sentiments were expressed by the president of a relatively high priced New York City department store with branches in the suburbs, while the president of a large medium priced store felt there had been a definite improvement in recent weeks, and assessed retail sales prospects with "restrained optimism". Several presidents of upstate banks saw an upsurge in consumer confidence, while the president of a textile firm stated that his retail store customers were building up inventories of his firm's products. Indeed, with varying degrees of enthusiasm, all the Directors and other business leaders that expressed an opinion on the subject felt either that sales had picked up in the past weeks or shortly would do so.

Views expressed regarding business confidence were somewhat more guarded. The chairman and president of a diversified electronic concern did not look for a "roaring upswing" in business in the immediate future. The president of an upstate bank saw businessmen as hopeful, but waiting to see more sign of an upturn. Some of the respondents, however, expressed the opinion that the rise in consumer spending and the concomitant increase in reorders should soon be reflected in a strengthening of general business confidence.

The president of one of the largest construction companies in the country stated that he was very optimistic "over the immediate future". He did express concern, however, over the labor costs in the construction industry. He looked for continued high wage increases, with little or no improvement in productivity. He felt that the President's voluntary program for wage and price restraint had "no real teeth" and probably would have little effect. Indeed, the respondents that expressed an opinion on this subject showed an almost total lack of confidence in the effectiveness of this program. This attitude was perhaps best summed up in the remarks of the vice president of Rochester's largest firm, a Director, who stated that he saw no chance for success in the program, and who indicated that his contacts with the organized construction industry "show no influence from the program".

Continued concern over the danger of refueling inflationary pressures was also reflected in the fact that even though business confidence still seemed to be lacking real strength, all but one of the respondents who commented on the topic felt that it would be unwise at this time to attempt to speed economic recovery through additional fiscal stimulus through the tax cut speedups that have recently been proposed. Most agreed, however, that if fiscal stimulus is desired, the implementation of these proposals would be the best way to proceed.

With respect to bank lending policies, most bankers reported that their banks were seeking to make new loans, in some cases aggressively. The Chairman of the Board of an upstate bank, however, noted that the easing of credit terms seen in commercial centers had not spread to country areas, and that his bank was not aggressively seeking new business loans.

THIRD DISTRICT -- PHILADELPHIA

The economic outlook is brighter than a month ago, but caution remains the watchword of businessmen, bankers, and directors in the Third District. Manufacturers are optimistic about sales and new orders. On balance, they plan no further layoffs and hope to add to their payrolls during the second half of the years. However, they plan to hold the line on outlays for plant and equipment. Retailers report a noticeable pickup in sales. Most indicate, though, that the consumer remains bargain conscious. Bankers report a modest firming in loan demand, but say funds remain plentiful.

The modest expansion of Third District business activity is expected to continue, according to area manufacturers. A recent poll of area industrialists shows that for April almost four times as many firms are registering increases in sales and new orders than are realizing decreases. Regional executives are also optimistic about the outlook for May.

The sustained increase in business activity apparently is having an expansionary impact on hiring plans of area firms. Throughout the past twelve months, more area manufacturers were laying off workers than were hiring them. The latest check of area manufacturers indicates, however, that for the first time in a year the number of firms actually adding to their payrolls equals the number cutting back.

District manufacturers are optimistic also about the longer term outlook. More than 80 percent of them foresee the economy expanding half a year ahead. As a result of this anticipated expansion, over 40 percent of the industrialists plan to add to their payrolls by the end of the summer--triple the number hiring now. However, this optimism apparently is having little effect on spending plans for new plant and equipment. While 20 percent plan to increase investment outlays during the next six months, 25 percent plan decreases. The remainder expects no change.

Retailers in the area are "cautiously optimistic" about the consumer. One large department store reports that home furnishings have begun to pick up after months of sluggishness, but the consumer remains price conscious. For example, bedroom suites in the $400 category are moving while those in the $500 to $600 range are not. Small televisions and radios, rather than the larger and more expensive models, are selling well. Clothing items with substantial markdowns sell easily, while higher price items move slowly. Consequently, one larger retailer from a "quality store" indicates sales promotion will be bargain oriented. He won't drop higher price lines, but he'll emphasize sale-price items.

Businessmen in general are still uneasy about stock building. Retailers especially seem reluctant to build inventories. One director, who is a manufacturer, says that this cautious attitude also applies to wholesalers as well as manufacturers.

Most of the banks report some modest firming in loan demand, but they do not know how much of it relates to a pickup in economic activity and how much is explained by the midmonth tax date. All banks, however, still report overly plentiful supplies of funds. Their major problem remains knowing what to do with them. There is a growing division of opinion among local banks about the trend of long-term rates for the rest of the year. One group thinks that modest progress on the inflation front and a pickup in the economy spells higher rates toward the end of the year. The other group counts on the need for an adjustment from present rate spreads and a lessening of inflationary expectations to bring some further reductions in long-term rates. As far as the prime rate, one or two bankers thought that even though there was a modest pickup in loan demand, the recent increase was premature.

Bankers still are concerned about the quality of credit and the possibility for substantial loan write-offs, but they are increasingly hopeful that a reviving economy will bail some of these loans out.

FOURTH DISTRICT--CLEVELAND

Recent evidence indicates there is some expansion in economic activity in the Fourth District, but the underlying trends remain difficult to assess. The recent increase in the pace of business activity in most areas of the District was largely the result of the post-strike auto rebound and the steel inventory buildup, although recovery in residential construction continues to be strong. There are signs that the rebound in manufacturing that began last year, after settlement of the auto strike, may be losing momentum. Demand for labor remains sluggish, and there has been no improvement in unemployment in recent weeks. Our directors report signs of improvement in certain phases of business and, in general, have become cautiously optimistic about the near-term business outlook.

Our latest survey of District manufacturers indicated further improvement in business conditions during March, with strength most pronounced in new orders, shipments, and backlogs. (Indexes of manufacturing output also showed continued gains in most metropolitan areas in March.) Firms in our survey, however, reported no increase in employment in March, and they do not anticipate any pickup in employment during April. Overall anticipations for April suggest some tapering in the rate of gain in other key series such as new orders, shipments, and the workweek.

Nonfarm payroll employment in the District decline in February and March after recording increases for two months. Manufacturing employment declined for the second consecutive month in March, while non-manufacturing employment has been virtually unchanged for the past five months. The insured unemployment rate continued to move horizontally during the first three weeks of April.

Economists in the steel industry informed us that steel shipments are roughly in line with orders at the present time. Orders will fall below shipments from May through July, as the backlog of orders is cleaned up, however. During the second quarter, steel production is expected to make about the same contribution to industrial production as it did in the first quarter, even though the rate of increase is expected to taper after April. The industry economists also reported that manufacturers should have sufficient steel inventories by the end of July to continue production for about two months in the event of a steel strike.

Our directors are somewhat more optimistic about the business outlook than they were a few months ago. On balance, however, their optimism is tempered with caution, because they are not sure how much of the recent improvement in business is "temporary" and how much reflects a sustained improvement in overall economic conditions. Directors whose firms are suppliers to the automotive and residential construction industries report that buisness activity remains at a high level. One director associated with a large paint, glass, and chemical manufacturing firm reported that sales of fiberglass materials used in tires and general glass products used in residential construction were especially strong in recent weeks. Another director, who is associated with a large tire, chemical, and industrial products firm, noted that he considered the recent acceleration of the firm's sales--especially chemical raw materials and rubber and plastic parts, and accessories--as a sign that other industries are buying in anticipation of increased production and that he is "a little more optimistic". Another director from a sizable building and defense products firm noted that orders for new captial equipment from utilities have been stronger than expected and that the firm now has a sizable backlog of orders in this area. Other capital goods markets (including machine tools) are still soft, according to the comments of other directors. Directors representing banks in the District mentioned that deposits, principally time deposits, continue to grow at a rapid pace. Loan demand, especially business loan demand, has remained sluggish. One banker-director from a large bank did note some pickup in loan demand in the last three weeks, but this seemed to be an exception to the general trend.

FIFTH DISTRICT--RICHMOND

Diffusion indexes obtained from recent surveys of businessmen and bankers in the Fifth District indicate general agreement on the following points: (1) increased shipments and backlog of orders in manufacturing, but no change in new orders; (2) further slight improvement in retail sales including automobiles; (3) very slight improvement in the District employment situation; (4) further advances of prices in the manufacturing sector; (5) sharp improvement in both residential and nonresidential building activity; (6) increasing strength in loan demand at District banks; and (7) a substantially improved outlook regarding future business conditions.

District manufacturers report that their activities are continuing the improvement which began in February. They report on balance that shipments increased in April, while no significant change occurred in the volume of new orders. Backlogs of orders increased according to important producers in such industries as coal, building materials, containers, fabricated metal products, nonferrous metals, and chemicals.

Retail sales of goods and services improved further during the past four weeks, according to most reports from District bankers and retailers. Bankers' reports also indicate that automobile sales continued to advance in the District during April. Most manufacturers and retailers in the survey report some recent decline in their inventory levels.

Suggestions of an improving employment situation continue to be made by District manufacturing respondents. Although few reports of increasing employment have been received from manufacturing industries, the number which indicate further declines continues to drop. The number of District bankers who report improvement in the employment situation in their respective areas has increased in the past two months, by comparison with the last half of 1970 and the first two months of 1971. Supplies of available labor apparently continue to be adequate, however, in most parts of the District, except for certain types of skilled labor.

According to many manufacturing respondents, the backup of manufacturers' prices noted last month is continuing. Recent price advances are reported by manufacturers in textiles, synthetic fibers, chemicals, furniture, fabricated metal products, and nonferrous metals. Upward pressure on wages in manufacturing industries is reportedly continuing; most retailers and respondents in the services industries also report prices continuing to climb.

Residential construction apparently continues to advance in the District at a rapid pace. The majority of banking respondents in the major cities of all District states indicate a continuing surge of residential building. Bankers also report on balance that nonresidential construction, which had tapered off since the first of the year, began to recover in April.

The number of banking respondents indicating increased loan demand rose sharply in April. On balance, bankers report that demand for consumer loans and mortgage loans has grown during the past four weeks. Business loan demand, which had been considerably weaker, is also increasing, according to a considerable majority of banking respondents.

The recent District survey showed the highest level of respondent optimism in several months. Comments received from reporters indicate that the recent round of relatively favorable business and economic news is confirmed in the outlook of respondents in the Fifth District. Comments from manufacturing respondents indicate some anticipation of increased production levels in the months ahead, and suggest the possibility that current plans for the expansion of plant and equipment might be too low. An attitude of cautiousness continues to characterize many District respondents, but a quickening undercurrent of optimism is evident.

SIXTH DISTRICT--ATLANTA

While the outlook of businessmen and bankers is still mixed, confidence appears to be increasing. A definite upswing in optimism is reported from various sections of the District, although from some areas we still get reports that the future pace of recovery is in doubt or recovery is not widely based. Reports of employment increases and plant announcements are becoming more numberous, whereas weakness continues in such important regional industries as textiles, aluminum, mobile homes, and phosphate production. A special survey of leading department stores throughout the District indicates that sales have been exceeding expectations and that respondents are more optimistic than at any time in the past year and one-half. Because of recent wage settlements and possible strikes by steel and aluminum workers and longshoremen, inflation fears persist.

Plant announcements include a major urethane plant in Lake Charles; plants to manufacture water heaters, microwave ovens, gloves, and fire extinguishers in Alabama; a sewing plant in Alabama; a small appliance manufacturing plant in Mississippi; a household paper products plant in south Georgia; and a natural-gas-processing facility in north Florida. In addition, a Gulf Coast shipyard has received an order for 246 Seabee barges. A power company executive reports renewed interest in industrial and other projects that were postponed earlier.

The trucking industry which transports poultry from Alabama and Georgia and returns produce is reported to be expanding. For example, one carrier with a fleet of thirty refrigerated diesels is buying sixteen additional trucks and anticipates "all the business he can handle". In

Florida, port facilities are handling record tonnage, and frozen orange juice shipments are running 30 percent above a year earlier. Also, some increase in operations is occurring at selected military installations; for instance, Alabama air bases are benefiting from the resumption of full operations at an air force school and the transferring of a helicopter school from Texas to Alabama. The Mississippi test facility is adding 250 employees because of tests of the space shuttle craft engines; an increase in sales of nylon and dacron polyester products is responsible for a 200-man employment rise at a Chattanooga chemical plant.

Housing construction is reported strong in several areas of the District. A large residential development--covering 1,000 acres and planned for a community of 7,000--has been announced in Orlando. A huge complex, including office buildings, a hotel, and retail shops, is being planned for downtown Atlanta. The project, which will not be under construction for eighteen months, will eventually cost more than $100 million. However, construction of a domed stadium in New Orleans may be delayed. Stadium bonds failed to attract any bidders, because some groups are opposing the stadium in the courts. The legal issues cannot be settled until the state legislature meets, and by that time market conditions may not permit the sale of these bonds within the 6 percent limitation.

A Research Department telephone survey of department stores indicates that Easter sales were better than expected in New Orleans, Jacksonville, and Nashville. One leading store reported a year-to-year 15 percent gain in sales in the January through mid-April period. Sales have been weak in Birmingham, perhaps because of the threat of a steel strike. The Atlanta sales picture was mixed, with one respondent reporting sales stronger than expected but the other reporting sales about as expected. The survey detected a noticeable increase in optimism among retailers, and most of the respondents thought that the consumers had "loosened up" and begun to spend.

There are some notable exceptions to generally more prosperous conditions in the District. The mobile-home industry continues to be in a slump, although some pickup has been reported in recent weeks. Several mobile-home plants are reported to have closed in south Georgia, and one Alabama producer has filed for bankruptcy. Yet, a site has reportedly been purchased for a fourth mobile-home plant near Ocala, Florida. One banker noted that he is reluctant to lend to mobile-home producers, because he believes the industry is "shaky", and he expects a consolidation of existing firms into three or four major producers.

The aluminum industry is also reported to be depressed, although strike-hedge buying is expected to lift production soon. Employment at the Cape Kennedy Space Center has been holding steady, but another sharp drop in employment is expected unless the center is to play a part in the space shuttle program. Textile manufacturing in Alabama is reported weak, which is evidenced by the recent closing of a long-time sportswear producer. Four hundred have recently been laid off by a maintenance firm that has a contract at an Alabama air base. Three hundred and fifty employees have been laid off at a phosphate fertilizer plant in Florida. Because of the increase in unemployment, a prominent Gulf Coast employer reports that he is able to get and keep better employees.

There has been some increase in consumer loan delinquencies, mainly associated with the start-up of bank credit cards.

Inflation remains worrisome. There is growing concern that the labor agreement in the can manufacturing industry may be the pattern for upcoming steel and aluminum industry negotiations. There is also the possibility of a longshoremen's strike in October. Prices of homes in Miami have risen 100 percent in the past five years, including a 20 percent rise from the first quarter of 1970 to the first quarter of 1971. TVA has hinted that there may be another increase in electric rates--on top of a 23 percent raise last October--when existing coal contracts expire and have to be replaced with new ones at high price levels. Another natural-gas utility has requested a rate increase.

SEVENTH DISTRICT--CHICAGO

A number of important industries have experienced a turn for the better in the past several weeks. Retail trade apparently has improved, and there is some concern for the adequacy of inventories if consumer demand accelerates. Prospects for residential construction appear even stronger than in earlier months, and there is a growing tendency to project the vigorous picture into 1972. Capital-expenditure prospects generally remain unfavorable, but petroleum firms have raised their sights on investment spending. Markets for goods are more competitive, and price increases have been less frequent in recent weeks. Demand for labor remains very slow, and unemployment apparently is continuing to rise in this region. Crop plantings are ahead of schedule, and larger acreage is being planted. Funds continue to pour into savings media, but demand for credit, other than for residential construction, remains at reduced levels.

Two recent meetings of business economists in Chicago sounded a more optimistic tone than at any time in the past year. Among the manufacturers reporting a firmer trend in orders or sales were producers of building materials, components for industrial equipment other than "heavy stuff", light and heavy motor trucks, petroleum production equipment, nonautomotive consumer durables, farm equipment, and meat products. Reports on retail trade were more favorable, but the improvements noted have been modest. Demand for airline services remains poor, and service is being curtailed. Steel shipments have been somewhat less than anticipated, and order backlogs "probably have peaked". Demand for most machinery and equipment, and industrial and commercial buildings, has not improved, and little hope exists that a significant upswing will occur in the next several months.

In the Chicago area, demand for virtually all types of workers--experienced, inexperienced, newly trained, and those with established skills--is said to be the weakest in "at least a decade". For some types of workers such as school teachers, and graduates of technical schools, the comparison must be pushed back further--perhaps to the late 1930's. One large university reports that only 25 percent of its seniors have firm offers of jobs, compared with 85 percent two years ago. The summer job prospect for students is said to be "hopeless". Construction unions are much more restrictive in issuing job permits to nonunion members, stating that many of their own members are out of work. Because of financial stringencies, many school districts have reduced, or will reduce, their hirings. Applications for teaching jobs are extremely numerous. Enrollment in many colleges and graduate schools is down this year, and further reductions are expected for the fall term. The effect of reduced college enrollment, of course, is twofold: fewer teachers are needed, and more potential students are in the labor force. Even banks have begun to limit hirings, and encourage early retirements. Voluntary quits are much less common than a year ago. As a result, fewer people are in job training programs. Available jobs are largely in low-paid service positions and in commission sales work.

Residential construction activity is picking up rapidly in most areas of the District. Nevertheless, ample supplies of workers are available in virtually all building trades. In the Chicago area, with a

31 percent rise in residential permits in the first quarter, 60 percent were for apartments, compared with more than 70 percent a year earlier. Available sites for new residential projects will become an increasing problem if the housing boom continues, mainly because of zoning and code restrictions. Recent municipal elections in Chicago suburban areas favored candidates opposed to multiple residences, especially low-income housing. Mortgage money is increasingly available at lower rates and easier terms. The "equity kicker" deals for financing apartment buildings, common in 1969 and 1970, have about disappeared.

Warm temperatures and relatively dry fields have permitted earlier than normal soil preparation and corn plantings in the Midwest. As a result, the increase in acreage planted may be even larger than the 4 percent rise expected earlier. Larger acreage may encourage purchases of farm equipment. Demand for farm equipment had been very weak earlier in the year, but sales are reported to have improved recently. Farmland values are reported to be rising moderately again, after leveling off last year. Agricultural banks are experiencing increased demand for farm loans. Because of rapid deposit growth, bankers hope to expand loans this year because loan rates (about 7 1/2 percent) are much more favorable than rates available on investment.

Business loan demand at large city banks remains very slow, and may have weakened further in the past month. Nevertheless, the recent rise in the prime rate was not considered a surprise, partly because earlier reductions were believed to have been excessive. Some city banks are expanding mortgage and construction loan activities. Savings inflows continue very heavy at banks and savings and loan associations. Rates paid on passbook savings and consumer-type certificates have been reduced by a growing number of commercial banks in the District, but the large Chicago loop banks have not reduced these rates and are not expected to do so in 1971. A significant volume of the inflow of funds to savings and time accounts represents money that had been invested in bills and similar instruments. Recent increases in rates paid on CD's by large banks, and some extension of maturities, indicate that banks are relying more heavily on this source of funds as a substitute for Euro-dollars.

EIGHTH DISTRICT -- ST. LOUIS

The upward trend of business in the Eighth District accelerated somewhat during the past month, according to reports from a group of leading businessmen. Retail sales picked up considerably in the week before Easter and have continued at the higher level. The construction industry shows more activity than a month ago on a seasonally adjusted basis and is well above levels of a year ago. Although cautious about additional hiring, employers are lengthening the workweek in many cases and are attaining increased efficiencies with the current number of employees. No further reductions in capital spending are mentioned, and some signs of recovery in such spending are beginning to appear. Despite some dry weather in portions of the District, the overall agricultural outlook is good.

Retail sales rose sharply just prior to Easter in a manner similar to the pre-Christmas gain. Clothing, appliances, and other lines appear to be moving well. Automobile demand is strong. Retail inventories have not been increased, but some respondents indicate that larger inventories will be required if demand continues at current high levels.

The construction outlook has likewise improved during the past month. Gains are now observable in all sectors of the industry, including public buildings, industrial construction, and all types of housing, especially lower cost homes which are financed in part through public assistance. The residential housing market is soft in St. Louis, where major wage gains were negotiated by the building trades. In most other areas of the District, however, home construction labor is nonunion, and home building has picked up substantially. One major industrial construction firm reports that actual work is still lagging behind expections, but contract closing, which involve future construction, are well ahead of year-ago levels. This firm is in the process of enlarging its staff to meet this increased demand. Orders for building supplies continue to improve along with the construction gains.

The process of investment retrenchment which began last year has been completed, and firms are beginning to seek new investment opportunities. One large, diversified firm reports renewed investment plans in all divisions except one of its minor franchised lines. Another respondent is putting additional machinery into use to meet increased demand. Some others are adopting a "wait-and-see" attitude until evidence of an upswing is more conclusive.

Excluding some gains in construction employment, most of the increase in activity to date has apparently been made with little change in the number of workers. A slightly longer workweek and greater productivity per worker are indicated. Even those firms reporting increased investment do not foresee additional hiring in the near future. The outlook for summer employment of students and other part-time workers is especially dim.

Labor costs are still a major complaint, especially in the construction industries. Suppliers of building materials in St. Louis indicate that competition from nonunion firms in other parts of the county is causing them to hold prices down, resulting in a profit squeeze.

The rise in business activity in the District is beginning to have an impact on credit demand. Loans at most District member banks have increased somewhat faster in recent weeks than heretofore. A few banks have increased their prime rates, although they generally remain highly liquid. Savings and loan associations report that liquidity is greater than desirable but that demand for mortgage money has risen substantially during the past month.

There are fewer complaints than usual about the current rate of inflation, but a number of respondents express concern that overly expansive public policies may again lead to excessive demand and an increased rate of inflation.

NINTH DISTRICT -- MINNEAPOLIS

The unanimous feeling among directors of this Bank is that retail sales in this District have improved over the last month, and retailers in general are more optimistic in their expectations regarding future sales. Contrary to expectations, credit collection problems among District bankers and retailers are not any worse than they were a year ago, but wholesalers, especially in the construction industry, are noticing some instances of slower debt repayments by contractors. Loan demand continues to be quite strong throughout the District, and the general feeling is that it will intensify. Commercial banks are not competing aggressively for longer term CD's.

Without exception, the directors of this Bank report that retail sales in their areas are above year-ago levels. A number of explanations for this fact were given, including such things as the late Easter this year, seasonable weather throughout the District, and even that last year was so bad that things had to get better. Underlying all their comments, however, was an optimism not expressed earlier this year. As one director said, "Retailers are more optimistic now than they have been for some time, and now they are not whistling in the dark."

There are, however, scattered indications that consumers are still hesitant about committing themselves to major purchases. One director stated that sales of used autos and machinery were very strong while sales of new autos and machinery were very weak. In addition, two others said that new auto sales were weak in their areas.

Contrary to the expectation that the incidence of bad debts would rise following a prolonged period of contraction, debt repayment problems in this District are no more prevalent than they were a year ago. A number of directors even stated that collections and debt repayments had accelerated in their areas, primarily because consumers, in their uncertainty, are trying to clean up old bills instead of buying new merchandise. In addition, consumers in the copper-producing areas of the District, who are anticipating strikes this summer, are trying to minimize their fixed obligations for this period.

Loan demand, both throughout the District and in most kinds of loans, is relatively strong, and the general feeling is that it will strengthen over the coming few months. One director, who is also the president of a reserve city bank, stated that business loan demand is still very healthy and, contrary to his earlier feeling that loans at his bank will drop, he now expects them to continue rising. Consumer loan demand has also picked up along with the rise in retail sales, and mortgage loan demand is described as being brisk throughout the District. According to our latest agricultural credit conditions survey, the demand for agricultural loans is rising more than seasonally for several reasons, among which are the poor agricultural income situation, increased intended acreage this year, and a shift into higher cost crops such as corn this year.

Time deposit growth at District member banks is continuing very strong and has been running at a 20 percent seasonally adjusted annual rate since the turn of the year. The recent growth in total time deposits has been evident throughout the District and reflects the exceptionally heavy inflow of consumer-type time and savings deposits. Large CD's, at least those at reserve city banks, have remained essentially flat since the latter part of 1970.

Most District banks are no longer offering 5 3/4 percent on longer term CD's, and those banks that will still accept them are not advertising or actively pursuing them. For the most part, passbook savings rates have not changed over the past month, although one director was aware of a bank that had dropped its passbook rate to 4 percent.

TENTH DISTRICT--KANSAS CITY

Economic conditions in the District apparently are continuing to improve. Businessmen that were surveyed expressed reserved optimism about future prospects. Although sales at retail stores and auto dealers are somewhat higher than a year ago, much of this optimism is based on reports of a turnaround in the national economic situation and on surveys which suggest that consumer attitudes have become more favorable to buying. Construction activity continues to pace the area economy. Dry weather has severely damaged crops in the southern part of the District, but production prospects remain favorable in most other areas. The employment situation is still soft and only modest improvement is expected in coming months. Loan demand continues to display a slight firming trend at District banks, and deposit inflows continue strong. The prime rate increase was generally followed throughout the District, although some banks delayed their announcements.

A survey of large retail stores in the District indicates that retail sales so far this year are slightly ahead of the same period a year ago. With Easter late this year, April sales have been quite good and many retailers said that they were better than expected. It appears from the responses that consumers have not begun to increase their buying of big ticket items significantly. A couple of stores did indicate that their furniture sales were very good. Also, there have been reports that color TV sets have sold well this year. Retail sales in Wichita are still poor, due to the high unemployment in the local aircraft industry. Stores in

Colorado say that their sales have been very good. In Oklahoma, despite reports of increased consumer caution in some areas, due to drought conditions, retail sales in Oklahoma City and Tulsa were said to be increasing. Optimism among merchants in the District was widespread. Many cited the improved April figures as support for this optimism. But as noted earlier, many drew their optimism from developments on the national level. Some said that they were heartened by recent consumer surveys. One retailer said that the improved foreign political climate would probably affect consumer buying attitudes favorably. No one seemed to expect that there would be any great surge of buying, but, instead, a gradual increase throughout the rest of the year.

Auto sales have improved in recent months throughout the District. Reports on sales in recent weeks are mixed, although several dealers did report a pickup in momentum. The happiest dealers are those handling imports. Buyers still seem to be interested in smaller and cheaper models. One dealer reported that a significantly large proportion of cars sold are cheaper models with less equipment. Generally, dealers were optimistic about auto sales in future months. One dealer said that lower bank rates on auto loans were starting to help sales. Again, the expectation is for a gradual, rather than a rapid, increase in sales.

The drought conditions prevailing in the central part of the United States have had an effect on District agriculture. In Oklahoma, 99 per cent of the winter wheat crop is reported to be in poor to fair condition. In the hardest hit southwestern part of the state many fields have been abandoned and grazed out with cattle. Native pastures are in very poor condition. It is also reported that 80 per cent of the dryland wheat in New Mexico has been lost. Although some rain fell in these areas during the past week, the outlook remains bleak unless additional precipitation is received soon. Dry soil conditions have also affected parts of Colorado, Kansas, and Missouri, but losses have not been nearly as great as farther south. Wyoming and Nebraska have good moisture conditions.

The slight firming in loan demand reported in March appears to have held at Tenth District banks. Construction loan demand remains the major area of strength. Auto loan demand is also continuing to show strength, although not as much as would be indicated by auto sales. Buyers are apparently making unusually large down payments. Some pickup was reported in other consumer instalment loans, but not much.

Business loan demand for national concerns remains sluggish. Some bankers report that some national accounts have requested larger credit lines, but have not used them as yet. Demand from local borrowers continues to show moderate strength. The increase in the prime rate was welcomed by bankers interviewed; it was justified more by deposit rate levels than by strengthening loan demand.

Deposit inflows continue strong at District banks, considering seasonal factors. In March, some banks were anticipating a decline in rates paid on consumer time deposits and some scattered declines had occurred. This picture has changed somewhat. In some cases, those declines that occurred earlier have been reversed, and rates have firmed. There is less talk of declines in rates paid on consumer time deposits; however, such talk has not disappeared. In general, bankers continue to expect a gradual strengthening in loan demand as a result of increased economic activity, and are reluctant to discourage deposit growth at this time.

ELEVENTH DISTRICT -- DALLAS

Economic activity in the Eleventh Federal Reserve District is expected to improve moderately between now and the year-end. This was the view expressed by a sample of university economists who periodically write analyses of economic conditions in the region. Most anticipated that the pace of overall economic activity would pick up somewhat but that no dramatic recovery was likely to take place. They felt that consumer sentiment would improve, leading to increased consumer expenditures--particularly for durable goods and housing. A majority of the respondents also expected that the increased purchases of housing would be stimulated by further declines in mortgage rates. However, most felt that bank lending rates and unemployment in the District would not decline much, if any, over the balance of the year. Moreover, nearly all anticipated that inflation would persist through the year-end.

A slim majority of the respondents felt that conditions in the District had improved somewhat as compared with a year ago. Those who described economic conditions as being weaker cited the local drought as a major factor. However, nearly everyone anticipated that the District would show some improvement by the end of the year, but very few thought this improvement would be marked.

All respondents felt that the consumer would play an important role in the recovery. Consumer confidence and, consequently, consumer spending are expected to pick up. As a result, many anticipated that retail sales, particularly of durable goods, would increase substantially.

Moreover, consumer demand for housing was viewed as being strong through the year-end. Consequently, most felt that construction activity in the District would continue to rise and be a major source of stimulus to the economic recovery. Some thought that a further downward movement in mortgage rates would bolster activity in the housing market, but these respondents anticipated that further declines in mortgage rates probably would be slight (about 1/2 percentage point), bottoming out in the fall. A few felt this year's low has already been reached.

The outlook for bank lending rates, unemployment, and prices was less optimistic. Most felt that bank lending rates would remain unchanged, or possibly increase somewhat, over the balance of the year. Similarly, a majority expected that the unemployment rate was likely to continue at the present level or rise slightly. And nearly everyone anticipated that inflation would remain a problem through the year-end. A few thought there would be no further decline in the rate of inflation by the end of the year.

At present, indicators suggest little improvement in District economic activity recently. For March, the Texas industrial production index and nonagricultural employment data for the Eleventh District states showed virtually no change from February. The component for durable goods in the production index continued at a level 10 percent below that for the corresponding month a year ago, due primarily to cutbacks in defense industries. Oil production in Texas is expected to fall by 1.4 percent in May, as the Texas Railroad Commission reduced oil allowables because of a seasonal slackening in demand and an improvement in international petroleum availability. But other District states kept their allowables at the high levels prevailing for the last several months. Drought conditions continue to have a major impact on the agricultural economy of the western areas of the Eleventh District. The Texas range condition was the lowest ever reported for April 1 since records were begun in 1923. As a result, farmers and ranchers have begun culling their livestock herds. Weekly department store sales for major metropolitan areas in the District continued to rise thus far in April.

TWELFTH DISTRICT -- SAN FRANCISCO

There has been no major change in the pace of economic activity in the view of businessmen and bankers in the Twelfth District. The economy is in a period of gradual expansion, but the general outlook is one of caution. This caution is reflected in reports that no pronounced rebuilding of inventories is under way. Businessmen seem to be awaiting a stronger rate of expansion before committing themselves to carrying heavier inventories.

Housing and related forest product industries are showing the most consistent expansion. Housing construction, especially residential, is to increase, and there also are reports of a more active market in sales of existing homes. Part of this activity is due to lower mortgage rates. On the other hand, vacancies are high in some areas for some industrial property. One banker in southern California notes a significant vacancy factor in industrial and commercial properties.

There is little evidence that businesses are rebuilding their inventories to any degree. This is the general feeling of our Head Office and Branch directors who were asked to comment on this question. There are exceptions but, overall, their impression is that businesses are continuing to hold inventories at present levels. The one major exception is in steel and related production, where the possibility of a strike is generating heavier orders. Inventories of building materials and some kinds of lumber also are being increased in expectation of a higher rate of construction. Retailers seem to be increasing inventories only moderately, and auto dealers have completed their post-strike restocking. In summary, optimism about the general economy is not appearing in attitudes about inventories.

Retail sales are rising at a moderate pace. Major chain stores, in particular, are doing quite well in most areas through heavy promotional efforts. In Arizona and eastern Washington, average increases of 12 to 20 percent over the same period of last year are reported. Despite these exceptions, consumers are cautious in their buying and retailers expect no major jump in consumer spending.

Reports from agricultural sections of the District indicate a satisfactory level of prices. Cold storage facilitates for local fruits and vegetables are being expanded in eastern Washington. Good wheat crops are expected in Idaho and Washington. Similarly, prospects for agriculture in the central valley of California have improved, as prices have risen for most crops and dairy products. Idaho agriculture does have a problem, however, in the large carry-over from last year's potato crops. Much of this is still in storage, and potato prices are expected to be lower.

Bankers continue to devote efforts to expanding their loans, especially commercial and industrial loans, as their deposits have continued to rise. Rates paid on time and saving deposits show considerable variation from bank to bank. Some banks have kept the 4 1/2 percent rate on passbook accounts. Usually, these have been smaller banks, although some quite large banks have maintained their rates. Some banks report a shift from time CD's into consumer-type savings instruments, and they have increased slightly their CD rates. Demand deposits are higher for most banks. Savings and loan associations are also gaining funds and, in consequence, mortgage money is readily available in most parts of the District.