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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 Redbook reports describe a very strong economy with widespread shortages of manpower and materials and substantial upward pressures on prices. Disintermediation at S&Ls, usury rates, and generally tight money have drastically reduced the availability of mortgage funds, with the result that residential building activity is shrinking rapidly throughout the nation. Virtually all other major sectors, including nonresidential construction, remain vigorous with rising backlogs and stretching lead times on deliveries. Inventories of goods, especially raw materials, are lower than desired in most sectors. A wide range of materials and components are in critically short supply. As a result, expansion of output has been dampened and, in some cases, output has been curtailed. Investments in plant and equipment in virtually all industries are rising, and this trend is expected to continue well into 1974. Prospects for crops are generally very favorable. Reports on retail trade were mixed and inconclusive. Reports on credit demands also were mixed, but it is apparent that lenders have no difficulty finding profitable outlets for available funds.

Selected highlights of reports from each of the districts follows. Comments on the universally bleak residential construction picture are omitted.

Boston: Sales and orders of capital goods continue to rise at a rapid pace, but orders for consumer goods are "a little slower." Unemployment remains relatively high. Domestic capital goods orders are particularly vigorous for chemical processing equipment, machine tools,

*Prepared at Federal Reserve Bank of Chicago.

and aerospace. Foreign orders for capital goods are large. Views of four academic correspondents are presented.

New York: Demand for materials and goods remains strong, but slower growth in overall activity is expected. Phase IV is termed a "disaster." Higher prices abroad are drawing away U. S. resources. Labor's wage demands are viewed as under "restraint." Scarcities have hampered attempts to build inventories of raw materials.

Philadelphia: Plant and equipment investment plans have been raised. Employment is rising slowly and workweeks are lengthening. Delivery lead times have stretched out.

Cleveland: Shortages are "constraining" growth in output, and are judged to be the main cause of the recent slowing in the rise in general activity. Moreover, shortages have become more severe in recent weeks. Glass production lines have been shut down for lack of soda ash and increased supplies are a year or more away. Shortages of plastic materials are cutting production of various products. Foreign prices for plastic materials and for steel are well above U. S. prices. Most steel order books have been closed for the year. Inventories are low generally. Some retailers report slower sales. Labor turnover is high. Some firms are hoarding fuel.

Richmond: Business activity continues to expand despite shortages of labor and materials. Paper, synthetic fibers, and chemicals are especially strong. Electrical components are in short supply. Phase IV is criticized. Retail sales remain strong. Nonresidential construction has been maintained. Volvo will locate a plant in Virginia.

Atlanta: Only residential construction is down. Shortages have delayed construction projects. Commercial construction plans announced for the Atlanta area "dazzle the imagination." Industrial projects are being pushed in various parts of the South, and Japanese and European manufacturers are evaluating sites for new plants in the region. Shipyards are being expanded to handle the boom in tankers and bulk cargo carriers. Labor shortages are limiting phosphate mining. Shortages of shrimp and oysters are reported.

Chicago: Supplies of a broad range of basic materials are very tight with no improvement expected in the foreseeable future. Motor vehicle output has been limited by strikes and availability of components. Labor supplies are inadequate, both for skilled and trainable workers. Nonresidential construction has been delayed by shortages of materials. Shortages of steel, nonferrous metals, paper, fuels, chemicals, and plastics are holding down production of finished goods. New labor contracts may be more generous than suggested by announced increases in basic wages. Record crops of corn and soybeans are anticipated.

St. Louis: Widespread shortages of raw materials are hampering output. Plants producing garments, appliances, and hardware are at capacity. Many firms report labor shortages, and unemployment is low. Crop conditions are "good to excellent."

Minneapolis: Retail sales have "not yet let up" and further gains are expected. The outlook is for record crops. Shortages of materials, e.g., steel and plastics, are holding down output. The fertilizer shortage is "critical." Shortages of general laborers as well as skilled workers are reported, and labor turnover has increased.

Kansas City: Recent floods have damaged property and delayed planting of winter wheat, but the overall impact probably will be "rather insignificant." Propane supplies needed to dry crops may not be adequate. Auto sales are very good, especially sales of compacts. Department store sales are stong. Lead times on consumer goods orders are long, but retail inventories are "as budgeted."

Dallas: Employment reached a new high in August. Department store sales increased "rapidly" in September. The CLC's "two-tier" system has allowed prices of "new" crude to rise substantially above prices of "old" crude. Imported crude is high-priced. Fertilizer supplies are limited. Crops are generally "good to excellent" except for a large decline in rice yields.

San Francisco: Housing is the only sector showing a decline. Both business and consumer spending remain strong. Investments by electronics, fertilizer, and chemicals firms are at high levels. Boeing has received additional orders. Farmers are spending freely. Power shortages have caused cutbacks in usage in Oregon. The housing decline has reduced demand for lumber and cement. Drought cut wheat output in the Northwest.

FIRST DISTRICT--BOSTON

Our directors, representing national companies, report that business remains good and that sales and orders are continuing to rise at a rapid pace in most lines. Orders for capital equipment are especially heavy, while orders for consumer goods are a little slower than last spring. The aerospace industry is now reported as doing very well. New England's economy is not as exuberant as the picture they present. The seasonally adjusted unemployment rate rose in August to 6.5 percent in Boston and to 7.3 percent in all of Massachusetts.

Orders for capital equipment are reported as very vigorous. One director, with a division in chemicals, reports that expansion for chemical plants is very strong, stimulated by the fact that the industry has a lot of catching up to do. Another director reports large foreign orders for capital goods. This director has just returned from Poland with a large order for brass rolling mills. The machine tool industry has completely recovered from the depressed 1970-71 levels and now has very high backlogs which could carry it through 1974 at a good pace even if no further orders were received.

The aerospace industry has also recovered from its depressed state and is now described as doing very well, with one director reporting record-high backlogs for superalloys. The resurgence is based on domestic defense orders, commercial orders (noise and smoke pollution requirements, replacements for 747 engines, helicopters for energy exploration), and foreign orders. Heavy foreign orders for helicopters have created capacity problems for one major producer.

Despite some supply problems, inventories are rising due to both work in process and an increased level of desired inventories as a result of continuing high sales. In most lines, our directors report work, but not capacity, is at high levels.

A major importer of liquified natural gas (LNG) expects no fuel oil shortages this winter, although supply will be tight and prices are "really going up." This company is providing LNG to utilities in Boston as supplementary stand-by supplies. Despite the high price of LNG compared to domestic natural gas, the amount it can sell is limited only by its supply of tankers to transport LNG from Algeria.

Four of our academic correspondents, Professors Eckstein, Tobin, Samuelson, and Wallich, were available for comment. Professor Wallich anticipates a "real but slight" recession in the second half of 1974. The important elements in his forecast are an inventory buildup and run-down, plus a profit squeeze due to the combination of continued controls, declining productivity, and a declining inventory valuation adjustment.

Eckstein continues to project a growth recession in which production gains persist, despite slackening final demand, as a result of inventory restocking. Eckstein expects strong credit demand next year because growth in corporate cash flow will be down to about 2 percent as opposed to the 18 percent rate of growth over the last three years.

Noting a "slight but perceptible improvement in optimism," Samuelson concluded, "the American economy is not doing badly." The surprisingly swift decline in short-term interest rates, Samuelson felt, was primarily due to the declines in commodity prices but also to the economy's slower growth since the end of the first quarter. Eckstein also did not attribute the recent easing to the monetary policy.

Instead, he believed the market had previously been "frightened" of a credit crunch, and expectations carried short rates far above their fundamental equilibrium levels. Recently, the market discovered the Fed was not going to continue tightening indefinitely. According to Eckstein, the Fed "created unnecessary fear and worry by previous tightening and [the consequent] disintermediation." Wallich offered two alternative interpretations of the recent behavior of the financial markets. First, the combination of no money growth and falling interest rates may, as in 1960, be the harbinger of a recession in early 1974. Secondly, the money growth figures may be an aberration due to the conversion of money into large CDs. With no Regulation Q ceiling on large CDs, Wallich feels CDs must be counted in the definition of M_2. Wallich seemed to favor the latter interpretation which suggests policy has allowed rates to fall even before the economy has entered a growth recession.

Both Eckstein and Wallich urged strongly that the Fed issue a statement or a speech making explicit both its intentions and the logic of the policy it has pursued. Amplification of the considerations which went into its policy would help dispel market uncertainty.

Professor Tobin, noting "things have been easing," tied the resurgence of the stock market to interest rate declines. Partly because "the stock market should not go down any more," the Fed should "avoid reestablishing a new higher peak in short rates." His policy prescription was a "gradual easing to confirm the present level" of short-term rates. He, along with the others, rejected an expansionary policy of aggressively reinforcing the recent rate declines. To Samuelson, the appropriate current policy target would be a 2 to 3 percent rate of monetary growth. While he would not yet go to a 4 to 5 percent target, Samuelson would tolerate further falls in rates if money growth came in below 2-3 percent. Eckstein recommended starting a gradual easing by moving the federal funds rate to between 10 and 10 1/2 percent within the next inter-meeting period. Wallich, on the other hand, would view easing now with alarm. To ease now would be far ahead of schedule in terms of past practice. Even the more severe "gradualism" of 1969-70 "failed in every sense" particularly with regard to its anti-inflationary impact. Wallich favors keeping interest rates up even if it leads to low growth in the money aggregates.

SECOND DISTRICT--NEW YORK

Most of the Second District directors and other business leaders who were contacted recently saw continued strong business demands for materials and goods, but looked for some moderating in the pace of overall economic activity in the coming months. Respondents generally expressed skepticism as to the effectiveness of Phase IV in bringing price stability, but a number of them were relatively optimistic regarding continued restraint on the part of labor. The business inventory picture was mixed, with materials generally in tight supply but stocks of finished goods adequate. On balance, bank respondents felt that the demand for business loans was slackening.

Most of the respondents were gloomy regarding the outlook for prices under Phase IV. A senior official of a large nationwide chemical corporation characterized Phase IV as an "unqualified economic disaster." He felt that the controls might hold some prices down now, but at the expense of future increases sharper than would have taken place without such controls. The controls--notably the delays involved in obtaining approval for price increases--would, by limiting profit margins, have an adverse effect on business expansion programs, aggravating an already serious scarcity situation that exists in a number of areas of the economy. Moreover, in his view--and as a number of respondents had reported in the last few months--higher prices in the world market than in the domestic market were causing a diversion of sales abroad rather than in this country. Similar sentiments were expressed by several other industrialists. Among others, the president of a large nationwide fabricator of copper and other metals felt that the situation under Phase IV was even worse than under Phase II.

A number of respondents, however, felt that, with some qualifications, restraint would continue to be shown in labor wage demands. A senior official of a nationwide conglomerate thus reported that recent wage settlements reached with the organization's 50,000 workers had involved amounts less than expected, and commented on the "fine spirit" of his workers. A director, however, observed that expectations for moderation in demands for wage increases might be somewhat optimistic because an assumed inflation factor will ultimately be built into wage settlements. A number of other respondents also mentioned the rising cost of living, notably food prices, as a likely factor in forthcoming wage negotiations.

None of the respondents felt that there has been any significant slowing in business demands for materials or manufactured goods. In general, officials of concerns requiring raw materials stated that their firms were attempting to build up their stocks but were having acute difficulties owing to growing scarcities. Several of the directors, on the other hand, saw no evidence of efforts to build up inventories of finished goods. An official of a nationwide retail firm reported that his firm was maintaining a cautious inventory policy, reflecting expectations of a tapering off of consumer demand over the coming months.

Views were mixed regarding the intensity of the demand for business loans, but it was generally agreed that less buoyancy is in prospect. Most of the directors representing banks and several other officials of large banks who were contacted felt that the demand for business loans was leveling off.

A few New York City bankers reported that the demand for business loans has continued to exceed expectations, but these, too, anticipate some slackening of demand in the near future. To a considerable extent, the moderation of demand for bank loans was seen as reflecting a shift of borrowers to the commercial paper market, as market rates of interest declined. Several respondents also felt that a slowing of economic growth in coming months is likely to dampen business loan demands. The president of a large upstate bank expressed concern, however, that declining interest rates might stimulate a resurgence of excessive credit demands.

THIRD DISTRICT—PHILADELPHIA

The ongoing business advance is continuing at a slower rate in the Third District this month. Current production activity is up. Shipments, delivery times, and employment rise. But new and unfilled orders are not increasing. Inventory investment is reported to be unchanged. But plant and equipment investment spending plans are up. Retail sales also continue to be strong. However, on the darker side, price increases are widespread, and bankers are complaining that interest rate ceilings are frustrating their growth.

Respondents to this month's business outlook survey of manufacturers in the Third District report that their businesses continue to improve. Shipments of finished products and delivery times are up again from the past month. The number of new orders and unfilled orders are essentially unchanged, however. Looking ahead six months, area executives expect decreases in their new orders, unfilled orders, and delivery times. But shipments of finished goods are expected to increase slightly.

Employment in the Third District is rising slowly. Over 80 percent of the firms contacted report no change in the number of people they employ or the length of their average workweek. But the number of firms adding to their work forces and increasing the length of their average workweek is several times larger than those reporting decreasing employment opportunities. By springtime, roughly 20 percent of the area manufacturers contacted expect to have expanded their employment while only 10 percent to cut back.

Business investment in inventories is holding about level with last month in the Third District, as the number of firms reporting increases approximately equaled the number of firms reporting decreases in inventories. Six months from now, inventory investment is expected to be down slightly. However, district businessmen anticipate still more investment in plant and equipment in the months ahead. More than twice as many firms report plans to increase these outlays as report plans for decreases.

Area retail executives report that sales are holding about level with last month. Sales of some durables, such as refrigerators, are down a bit, but clothing is selling well.

Higher prices for purchased goods are being reported by three-fourths of the responding firms, while none report decreases. And over one-third of the firms report charging higher prices in the last month. By spring, over three-fourths of the firms expect to be paying and receiving higher prices. Area bankers report that demand for business, mortgage, and consumer loans continues to exceed the supply of funds they are willing to commit at current interest rates. Checking deposits are unchanged, and savings deposits are decreasing slightly as disintermediation continues. All the bankers contacted complained about interest rate ceilings in one form or another.

FOURTH DISTRICT—CLEVELAND

Supply shortages appear to be constraining output in the district. Retail sales are leveling off. Reports from purchasing agents and the machine tool industry indicate that capital spending will be strong next year. S&Ls continue to experience deposit outflows, and housing is declining. Business loan demand is still strong, and commercial banks have sharply reduced rates on large CDs.

Several of our directors along with economists and financial officers representing steel, machine tools, chemicals, and ceramic industries regard supply constraints as the main source of the recent moderation in economic activity, especially within their own industries. Two of our industrial directors, who have been indicating that shortages were hampering production, noted that the problem has become more severe in recent weeks. One director reported that his firm has shut down numerous glass production lines as a result of a severe shortage of soda ash. Suppliers of this critical material for the glass industry are apparently telling customers that the supply will not increase until new production facilities are put in place, which could be a year or longer. A second director reported that supply limitations in a broad range of plastic materials have caused a cutback in production. He noted that the firm is importing some of its raw materials, but at prices considerably above those paid to domestic suppliers. He also reported that supply problems have caused the firm to reexamine its capital spending plans for 1974, but at present, they are going ahead with an important expansion of production facilities.

Steel industry economists say the industry is still rationing steel. The order books for most steel products are full and have been closed for the balance of the year according to one large steel producer. Another major firm is not yet accepting orders for 1974 delivery, although it is assuring customers they will get their share of steel next year. The tight domestic supply situation is forcing steel consumers to purchase foreign steel at premium prices. Consequently, steel imports are not declining as much as the industry had expected earlier this year.

Purchasing agents in the Cleveland area report that shortages of parts and materials have held down output during September. The Canadian newsprint and rail strikes adversely affected some manufacturing operations in the area. Buyers are complaining about failures of vendors to maintain delivery schedules. With the list of shortages, one of the longest in the past two decades, firms are experiencing difficulties in building inventories. According to the purchasing agents, the forward commitment position for capital expenditures is the longest it has been in years. In recent months, almost half the firms surveyed have reported buying lead times of one year or more for capital goods.

The president of a major department store in Cleveland and the economist with a large retail chain in the district both report a progressive slowing in their sales since last spring. Furniture sales, in particular, have not regained previous highs of late spring. Trade sources expressed the view that retail sales are softening because of inflation, especially in food and gasoline, as well as consumers' fears of poorer business conditions in prospect.

Machine tool firms in the area are still inundated with new orders. With the workweek at the limit, firms are taking on more workers as they become available. One large machine tool firm in Cleveland reports the attrition rate is very high because things are so good. They may hire 20 workers and net ten after a month. Even though the peak in new orders appears to have been passed, the order backlog in machine tools is high enough to sustain full-capacity operations well into 1974 according to one economist.

There is considerable concern among firms in the area that energy shortages could hamper production during the winter. Representatives from a large steel and large chemical firm report they are stockpiling fuel in the event of shortages in the coming months.

A Federal Home Loan Bank economist says that S&Ls in this district very likely experienced further deposit losses in September. Most S&Ls in large metropolitan areas have issued wildcard certificates, but purchases of these CDs largely represented transfers from existing savings accounts rather than new money. S&Ls in the area generally are fulfilling past mortgage commitments, but only a few are making new ones. District residential construction contracts are declining; the dollar volume in August was down considerably from the peak in January.

In recent weeks, business loans by major banks in Cleveland rose sharply, partly because of a tax settlement date. One of the largest banks reported its business loans were nearly as large as its peak volume in May. The banks also reported that mortgage loans were at a high for the month of September. Major banks in the district cut their rates on large CDs dramatically in the past three weeks. Rates on all maturities are now lower than at the beginning of August, with the largest declines (as much as 225 basis points) in the longer-term maturities.

Some of the smaller banks that offered wildcard certificates with guaranteed rates between 8 percent and 9 percent have reached their limits. Some of the larger banks, which were issuing certificates at around 7 percent, have not been soliciting funds in recent weeks as actively as they were in August.

FIFTH DISTRICT--RICHMOND

Results of our most recent survey of businessmen and bankers suggest that business activity in the district continued to expand during the past month, despite the fact that numerous producers were troubled by such factors as labor and raw material shortages, unusually long delays in obtaining component parts, and Phase IV controls. The level of activity in the manufacturing sector was little changed from the previous month. Retail sales increased, although automobile sales, especially of 1974 models, were somewhat below expectations. The rate of increase in the demand for business and consumer loans slowed considerably during the past month, while mortgage loan demand and residential construction declined substantially. In general, the majority of businessmen and bankers surveyed expect business conditions to stabilize at present levels.

Survey responses indicated that business activity in the district manufacturing sector continued at recent high levels during the past month. Slight increases were registered in shipments and backlogs, while new orders remained essentially unchanged. Increases in shipments and backlogs were reported by producers in such important district industries as paper, synthetic fibers, and chemicals. Production of synthetic fibers in some plants reportedly is running below capacity because of raw material shortages. Manufacturers in the electrical equipment and supply industry are experiencing problems obtaining components. Lead times for standard items are reported to be as long as 26 to 40 weeks. Textile producers are concerned about the adverse effect of rising cotton prices and Phase IV controls on the outlook for profits in that industry. Several respondents noted a sharp decline in the ladies hosiery business in recent weeks. More than 40 percent of the manufacturing respondents reported a decline in inventories and nearly 30 percent indicated that inventory levels were below desired levels.

Survey responses suggest little change in district employment in recent weeks. More than three-fourths of the manufacturing respondents reported no change in employment and hours worked per week, and all but two banking respondents indicated that employment in their areas remained unchanged since the last survey. Availability of labor continues to pose a problem for many employers in the district, especially textile and furniture manufacturers. Many textile producers are considering the elimination of the third shift because of labor shortages. Some departments in some firms already are working two ten-hour shifts with the equipment being idle for the remaining four hours.

A strong retail sales picture continues to exist in the district. All but one of the banking respondents indicated that retail sales in their areas had increased since the last survey, and, on balance, major retailers reported increases in sales. Automobile sales appear to be little changed from last month, and in some areas of the district sales of 1974 models are reported to be below expectations.

In general, the demand for business and consumer loans reportedly increased during the past month. The number of banks reporting increases in the demand for these types of loans declined significantly from the previous month, however. Mortgage loan demand apparently declined further, with 40 percent of the banking respondents reporting a decrease in the demand for this type of loan. Several respondents mentioned the adverse effect of usury laws on mortgage fund availability.

The shortage of funds continues to be reflected in residential construction activity. More than three-fourths of the banking respondents indicated that residential construction in their areas had declined. Survey responses indicate that nonresidential construction activity has changed little since the last survey. Announcements of significant new plant locations in the district continue to occur. Volvo recently announced plans to locate a $100 million manufacturing facility in Chesapeake, Virginia.

Businessmen's and bankers' expectations for the future remain essentially unchanged from last month. Nearly three-fourths of the banking respondents expect business conditions in the district to stabilize at present levels.

SIXTH DISTRICT—ATLANTA

The long-term outlook of the district's economy remains strong, as witnessed by the large number of announced plans for commercial and industrial construction. Only residential construction seems to be off, particularly in Florida; but even there, several new announcements have been noted. Shortages continue to plague the region, with dual effects noted. In some cases, they have caused delays in the completion of projects, while in other cases new plant announcements and a boom in demand have resulted.

While residential construction spending may be slowing, new projects continue to be announced. Several new major residential developments are just now reaching completion in the Atlanta area. A new planned community in the Jacksonville, Florida area, which will cover 5.2 thousand acres and have an eventual population of 34,000, has been announced. A $35 million condominium complex has also been announced for the area. Plans for two new residential complexes near Huntsville, Alabama have been reported, and construction has begun on a $30 million condominium project in Panama City, Florida. Atlanta area building permits through August, however, are down over the same period last year. Mortgage rates in this area are the highest in the nation. In the Miami area, developers with projects in the planning stages are finding it difficult to raise funds. Some bankers and businessmen have reported an oversupply of condominiums in central Florida. In Tennessee, residential construction has slowed only slightly; the biggest problem noted there has been a shortage of materials which now take three to six months for delivery. In the Knoxville area, however, the tight money market has caused a 75 percent cutback in home loans at several lending institutions.

Announcements for commercial projects remain in high gear. The number of announcements in the Atlanta area continues to dazzle the imagination. The only question seems to be how many of the proposed projects will finally be built. Three new major multipurpose, multistructure complexes recently have been announced for the downtown area, ranging from $100 million to $200 million in estimated costs. In Birmingham, a new Merchandise Mart to be financed by $20 million in revenue bonds has been approved by the state legislature. In Tennessee, a new training center recently has been announced by TVA and will cost $14 million.

The energy shortage appears to be stimulating plant announcements in the district. A $200 million synthetic natural gas plant has been announced for the Jacksonville, Florida area. A $300 million petroleum refinery is on the drawing boards for the New Orleans area. Plans are under study for a $173 million clean fuels processing plant along Florida's west coast. In Pensacola, a multimillion dollar expansion of the Westinghouse Electric Corporation plant, which produces nuclear reactor components, will double its capacity. A $100 million chemical plant, which produces basic materials for the carpet and clothing industries, has been announced near Mobile, Alabama. But shortages have put a crimp in some previously announced projects. A large auto parts manufacturer was forced to delay construction of a plant near Jacksonville, Florida because of a shortage of structural steel.

Foreign investment continues heavy in the district. The Japanese announced a chemical plant to be built at Gulfport, Mississippi. Three different Japanese companies are considering the Mobile area as a site for mini-steel mills. German interests are investigating chemical plant sites in Alabama and Mississippi, while the Swiss are considering a machinery plant in these areas.

The worldwide shortages of basic materials are causing a boom in shipbuilding, the first peacetime boom in this century. The scramble for petroleum, grain, ore, and other commodities is reported as the reason for the increased building of supertankers and bulk cargo carriers. Shipyards have begun expanding their capacity to meet this new business. Both Jacksonville and Tampa shipyards are operating at capacity levels, and the Tampa yard is now planning a new dry dock.

Central Florida's phosphate mining area is booming as a result of a pickup in domestic and foreign demand for phosphate. Acute labor shortages, however, are limiting this boom. Tight labor markets exist throughout the district. Many factories are working overtime. Help-wanted advertising is up sharply in most large district cities over year-ago levels. The advance in farm prices is boosting sales in farm equipment, as farmers decide to replace older machinery. Reports from Tennessee indicate that farm machinery sales are at record levels.

There seems to be mounting concern over both economic and environmental effects of future oil drilling off Florida's Gulf Coast. One government report indicates that several air bases and a Navy base in Florida might be closed or operations curtailed if oil exploration is allowed in the Gulf of Mexico.

A large fish kill continues in the Pensacola, Florida area. Crews have been picking up 10 to 12 tons of dead fish a day. There are reports of shortages of shrimp and oysters along the Louisiana and Mississippi Gulf Coasts.

SEVENTH DISTRICT--CHICAGO

Continued net outflows of deposits from Seventh District S&Ls have sharply curtailed the volume of new mortgage loan commitments, but all other major sectors, including total construction activity, continue vigorous. The supply picture for lumber, gasoline, and beef has improved substantially, but supplies of a broad range of basic materials remain very tight with no significant improvement expected for two years or more. Prospects remain favorable for substantial gains in output of corn, soybeans, and other crops. Job opportunities exceed the supply of available workers in most district centers.

Most Seventh District professional forecasters, and those laymen who indulge in projections, endorse the widely-accepted view that 1974 will see real GNP up about 2 percent (but no recession), with prices rising only slightly less than in 1973. Most executives see little relevance for their own businesses in the standard GNP forecast, but there is an underlying fear that any general slowdown may lead to a recession.

The net outflow of funds from S&Ls apparently continued in September and early October, but may have abated somewhat. Two large Chicago S&Ls announced recently that they would make no new loans, but they are continuing to close a large volume of loans based on earlier commitments. New residential permits in the Chicago area are now running well below last year. Lumber prices have come down sharply, and lumber dealers report cancellations of orders. A manufacturer of gypsum board and other building materials, however, says products from all of its plants remain on allocation. A well-known housing expert recently told a Chicago audience that his forecast of 1.5 million starts in 1974 is propaganda to get action in Washington.

In contrast to residential building, prospects for nonresidential construction, especially manufacturing, are excellent. Many buildings have been delayed in 1973 because of shortages of various components, particularly structural steel. A building expert recently predicted that construction costs of new supermarkets will increase 8 to 10 percent annually for the next ten years.

Shortages and bottlenecks continue to play a major role in discussions of business trends. In September and August, strikes and shortages of parts and components kept output of cars and trucks well below schedules.

Steel output in recent weeks did not regain the level of last spring because of the need to rejuvenate facilities and because of some shortages of manpower and materials. Order backlogs of steel firms are determined by their policies on acceptance of orders. Aside from steel, supplies of aluminum, copper, zinc, fuel oil, natural gas, petrochemicals, plastics, nylon latex, paper products (especially containers), and fertilizer are all tight. For most of these products, no significant gains in total capacity are expected for two to three years, when announced facilities will come on stream. In some cases, notably steel, no expansion plans have been approved, and in others--petroleum, paper, and chemicals--plans are not being pressed as urgently as needs would seem to indicate.

A cold winter, experts say, could cause important shortages of distillates and fuel oil. Voltage cuts by some utilities six weeks ago reflected inability to get fuel for some "peaking" plants. Trucking industry observers are very concerned about the adequacy of diesel fuel.

A spokesman for the Penn Central told a Chicago audience that if liquidation is ordered, the company would start shutting down by October 31 and would finish the process by November 15. The steel and motor vehicle industries say they would have to shut down within a few days following a cessation of rail transport. Massive federal aid, or nationalization, may be necessary.

Most firms have unfilled requisitions for help--especially for skilled workers and less desirable work (such as dishwashing and night shifts), but also for trainable people in general. Employment in the Chicago and Detroit areas has not increased as much as elsewhere relative to 1969. In part, this reflects the deterioration of job opportunities in various areas of core cities, but also the problem of transporting people from older residential areas to jobs in rapidly growing outlying areas, and to the industrial complex at the base of Lake Michigan.

The Chrysler labor contract is still not completely understood, but is said to be more generous than is generally appreciated. One section calls for the company to pay any taxes levied in connection with proposed federal health insurance. (Why not all social security taxes? Or income taxes?) The Chrysler pact probably will set the pattern for all auto and farm and construction machinery contracts. Most will probably provide "30 and out" at a minimum of $600 or more per month, more holidays, sabbaticals, dental insurance, and unlimited COLAs.

Wet weather is slowing harvests, but prospects for record crops remain excellent. Shortages of propane for drying grain are feared. Substantial declines in wholesale prices of meat have been reflected only to a limited extent at retail. Meat supplies have increased substantially since late August, but remain below last year's level.

EIGHTH DISTRICT--ST. LOUIS

Economic activity in the Eighth Federal Reserve District continued to rise in recent weeks, but the rate of increase has apparently slowed. Retail sales at major stores grew less rapidly in September than in earlier months. Residential construction is down throughout the district, but commercial construction continues at a relatively high level. Manufacturing plants continue to operate at capacity levels, and many shortages of raw materials are still reported. Unemployment remains relatively low, and labor shortages are still reported in most areas. The outlook is very good for agriculture. Net farm income may exceed the previous record level by 25 percent. Bankers report that loan demand may be slackening, but interest rates on loans at the major banks and savings and loan associations have not declined.

Although representatives of major retail stores reported that sales remain at a high level on a seasonally adjusted basis, the uptrend has slackened in recent weeks. Although the St. Louis daily newspapers are on strike, retail stores report that the strike has had very little effect on sales. Retail inventories remain at low levels, and shortages of some items are reported as a result of strikes in manufacturing plants.

Homebuilding throughout the district is proceeding at a slower rate than earlier in the year. A report from Memphis states that apartment starts have come to a halt. Single-family construction in St. Louis is reported to be down 50 percent from the level of a year ago, and sales since August have been very low. Commercial construction is still at a relatively high rate, and homebuilders are reported to be losing many of their craftsmen to firms in the commercial construction business.

Manufacturing activity continues at very high levels, with labor and material shortages reported in many lines of production. An industrial supply firm in St. Louis reported employing two shifts and producing all they can with the raw materials they can get. A St. Louis garment firm reported operations at 100 percent of capacity. A Louisville manufacturer of hardware and appliances reported operations at capacity and shortages in a number of items purchased from other manufacturers. There has been no improvement in the supply situation for paper and paperboard products, and no improvement is foreseen for another year or more. Some firms in this industry are reported to be turning down new business.

Unemployment in the district is very low relative to the average rates of most recent years, and the rate has remained stable for several months. Many firms still report labor shortages. A St. Louis textile manufacturer reported a shortage of workers with several types of skills. Production workers are reported to be in short supply in a number of Arkansas communities, and shortages are reported for lumber and timber-cutting activities throughout the district.

According to some private estimates, net farm income in the nation this year may total $25 billion, and exceed the previous record of last year by 25 percent. Prices of farm products are at record levels. Large acreages were planted in most crops, and the current crop condition is good to excellent. Only the harvesting remains. Nevertheless, the supply of most crops is not expected to be sufficient to reduce prices very much in view of the depletion of inventories last year and the continuing high demand for farm products in the United States and abroad.

Loan demand remains generally strong but there are indications that it may be slackening. A major St. Louis bank reported that commercial loan demand may have eased off slightly in the last two weeks. Credit stringency, however, is still reported in the residential mortgage market. Most of the savings and loan associations in St. Louis had a net outflow of savings last month which averaged about one-half of one percent of the savings in all of the associations in the area. In consequence, only a few associations in the area have funds to loan at the present time.

NINTH DISTRICT--MINNEAPOLIS

District economic activity remains strong, and despite difficulties obtaining materials and labor, businessmen are quite optimistic about the future. District retail sales have not yet let up, and consumer instalment credit has risen at a substantial rate. Furthermore, district retailers look for continued sales gains. Despite threats of drought and other growing season hazards, the outlook is for record crops in the district this fall.

Although district businessmen did not report any softening in district business activity, material shortages are restricting expansion. A director whose firm manufactures plastic pipe indicated, for example, that plastic resins are in very short supply; he expected the problem to be critical for the next several months. In addition, delivery times on steel products have stretched out considerably. Another director from the upper peninsula of Michigan disclosed that material shortages exist in his area and many businessmen are having to turn to substitute materials. A Minneapolis/St. Paul area director revealed that Twin Cities area manufacturers are having difficulty obtaining various raw materials--wood, steel, and fuel--and many manufacturers are encountering capacity problems. A large Twin Cities area retailer reported that merchandise is available, but delivery times are lengthening. A South Dakota director disclosed that farm implements remain difficult to obtain and a critical fertilizer shortage exists for the fall planting. A Montana director stated that his area's retail sales would be stronger if merchandise was available and reported that agricultural steel products, fertilizer, and farm machinery are in short supply.

Not only are materials difficult to obtain, but district labor markets were generally described by bank directors as tight. A shortage of construction workers was reported in the Billings area, and the hiring of employees for the service industries was considered more difficult than a year ago. A Minnesota director disclosed that general laborers are in short supply and reported that these workers are quiting jobs with increasing frequency. In addition, fewer skilled workers are looking for jobs in Minnesota. In the upper peninsula of Michigan, on the other hand, an ample supply of general laborers exists, but skilled workers are difficult to hire. One Twin Cities area director revealed that trained, experienced employees are not to be found, while another stated that the current labor conditions are tight but not unmanageable. A South Dakota director disclosed that labor market conditions are tight in his area, especially for farm and construction workers. Directors from Montana and North Dakota, however, indicated no shortage of agricultural workers in their areas.

No significant letup in district consumer spending has yet to occur, and district retailers are optimistic about future sales. Major Ninth District department/discount stores surveyed by this bank reported summer sales exceeded year-earlier levels by as much as 10 percent, although a few stores noted some slackening toward the end of the summer. Several retailers also revealed that about half of their recent sales gains stemmed from price increases. Most major department/discount stores, particularly those outside the Twin Cities, expect to surpass last year's record sales this holiday season.

District motor vehicle sales rose strongly throughout the summer, departing from the usual seasonal pattern. Small cars and trucks were the biggest sellers. The gasoline shortage was generally credited with spurring smaller car sales, while the 20 to 50 percent increases in truck sales were attributed to sharply higher farm income. District car dealers are enthusiastic about their future sales prospects and do not feel that the exceptionally high 1973 sales have cut deeply into their 1974 sales potential.

Based on data provided by a selected panel of district member banks, consumer instalment credit extended by district banks this summer continued to rise at a rapid rate. A survey of nonbank consumer finance institutions indicated that business was unchanged to substantially higher compared to a year ago. Commercial banks and consumer finance companies reported raising consumer interest rates on new car loans by one-half to one percent recently, but otherwise terms for consumer instalment credit have remained relatively unchanged over the past year.

As the district enters the final phase of the harvest season, the outlook is for record crops in 1973, despite threats of drought and other growing season hazards. The wheat and other small grain harvest is completed. The district produced 491 million bushels of wheat this year, up 17 percent from 1972 and 19 percent from the most recent five-year average. The corn and soybean harvests are just under way, and record outputs are almost a sure thing. District corn production, estimated at 667 million bushels on September 1, is up 8 percent from a year ago, 24 percent from the five-year average, and is the largest amount ever produced. The anticipated gain in soybean production is even greater. Total output of beans is expected to reach 175 million bushels, up 28 percent from last year and 39 percent from the five-year average.

TENTH DISTRICT--KANSAS CITY

Most of our Redbook contacts report another month of generally expansionary activity, clouded by only a few signs of downturn and substantial damage by heavy rains and severe weather. Although some categories of loan demand remain strong, total loan growth is showing some weakness. An increase in large CDs has boosted deposits in recent weeks, with bankers saying that expectations of lower interest rates are figuring importantly in their management of CDs. Recent floods have heavily damaged property and put district agriculture off schedule. Fuel shortages have not yet hurt agriculture significantly, although concern continues. New car dealers are enjoying another successful autumn of new model introductions, with big cars selling better than expected, but not as well as compacts. Managers of department stores doubt that retail sales will grow much next year, but most of them are enjoying the way in which each month this year comes in better than last year.

A very mixed picture of loan demand continues to emerge from interviews with Tenth District bankers. Some report that their volume of business loans is constrained only by their ability to raise money, while others notice a slackening of demand in recent weeks. Inventory financing is an especially strong source of demand, as price and sales increases necessitate carrying greater nominal values of inventories as suppliers tighten their normal credit terms. High farm prices also have pushed up the demand for loans to cover agricultural inventories. Pressures on rural banks from this source are being transmitted to correspondent banks in urban centers through requests for loan participations. Consumer instalment borrowing is generally considered no stronger than seasonal, with loans for car purchases somewhat weaker than a year ago. Loans to financial intermediaries have increased, as savings and loans borrow to offset some disintermediation. Deposits have been growing rapidly over the last few weeks, with an increase in large CDs making up for a lackluster performance in consumer time deposits. Nearly all banks are attempting to shorten their CD maturities in anticipation of a decline in interest rates. Most say that the higher reserve requirements are having little or no effect on their CD management policies, but a few are increasing fed funds borrowings rather than locking in expensive CD money.

Heavy rains throughout much of the district have temporarily halted winter wheat planting and the fall harvest. Wheat planting is behind normal but few people seem overly concerned because, as one grain spokesman said, "Somehow farmers always get their wheat planted." In Kansas, considerable flooding over a wide area, accompanied by tornadoes, resulted in heavy losses of property, equipment, and crops. Soil erosion has been the major problem, with some fields losing most of the top soil that had been prepared for winter wheat. Much of the applied fertilizer was also washed away, and it may be impossible to replace because of the current shortage. While individual operators have suffered severe setbacks, the impact of the flood on total U. S. crop production--both now and next year--will be rather insigificant. This is reflected in the grain markets where very little nervousness exists. One comment was that if there is a fuel shortage, and if there is more wet weather, and if the wheat doesn't get planted and the fall crops harvested, then the "bulls" will take action and bid up market prices. But at the moment, the markets are relatively calm. Fears over a significant shortage of propane for agricultural purposes have been largely dispelled by the new mandatory allocation program. However, with allotments set equal to last year's supplies, some spot shortages are expected, as larger crops lead to larger propane requirements. There continues to be some concern over gasoline supplies, but the problem is not regarded to be as serious as the propane situation.

Rising gasoline prices and closed service stations do not seem to have hurt sales of new model autos. Even in Denver, where the gasoline shortage has been especially acute, new cars are selling as well as they did last year. Compacts are the hottest, but some dealers report that their full-sized models are being well received. Most dealers hope that this year will be as good as last year; few expect it to be better.

Department store managers throughout the district say that their sales are continuing strong. Dollar sales at all reporting stores rose this September over last September, and increases ranged up to 15 percent. Sales of durables as well as nondurables apparently are still increasing, although a couple of store managers expect this happy circumstance to end soon. Most managers expect a good fall and Christmas season. Looking ahead to next year, opinion is divided. Some store managers see sales rising at about the rate of inflation, while others expect slower growth. Inventories are being kept at last year's levels, or slightly above. While the lead times required by suppliers are still very long for some items, the store managers say that their inventories are "as budgeted."

ELEVENTH DISTRICT—DALLAS

Most economic indicators continue to show strength for the Eleventh District. Total employment for district states reached a new high in August, while industrial production in Texas advanced strongly. District department store sales increased rapidly in September, and bank deposits experienced a sizable gain. Livestock prices began to decline in September; but at the same time, prices of crude oil from new production have increased rapidly. The unemployment rate for the five district states moved up substantially in August.

Seasonally adjusted total employment in the five district states rose 0.3 percent in August, reaching a new high. But the labor force advanced even more rapidly, raising the unemployment rate from 3.8 percent in July to 4.1 percent in August. Nonagricultural employment was up 0.2 percent in August. This was primarily the result of an increase in nonmanufacturing employment, with strong gains in construction and mining. On the other hand, manufacturing employment changed little, with an increase in durable goods manufacturing being offset by a decline in the nondurable section.

The seasonally adjusted Texas industrial production index rose 1.1 percent in August, 7.3 percent above a year ago. The monthly advance resulted mainly from increased production by manufacturing and mining firms, as utilities output declined.

Department store sales in the Eleventh District were 15 percent higher in the four weeks ending September 22, 1973 than in the comparable period a year earlier. Registrations of new automobiles in Dallas, Fort Worth, Houston, and San Antonio increased slightly in August after having declined for two straight months. Cumulative new car registrations through August were 17 percent higher than in the same period of 1972.

Under the Cost of Living Council's two-tier price system for crude oil, prices for production from existing sources, i.e., "old" oil, have been rolled back slightly, while prices for new crude are allowed to reach free market levels. Because of short supplies of domestic crude and high prices for imports, the price of some new crude reached levels as high as $6 per barrel in September. This compares to an average price of $3.47 per barrel last April--before the two-tier system was initiated. With prospective shortages of heating oil this winter, prices could go even higher.

Agricultural conditions in the Southwest remain generally good to excellent. The cotton crop is progressing well, and the bumper crop in grain sorghum is more than 50 percent harvested. But the rice harvest, which is essentially completed, shows a heavy loss in yield due to severe wind and rain. In addition, fertilizer supplies are reported to be limited, and there is some concern that the shortage will result in lower crop yields next year. Average farm prices declined during September, with the most noticeable reduction coming in fed cattle prices. Some reflection of this in retail beef prices is anticipated.

Total credit at Eleventh District banks declined slightly during September. Bank loans were essentially unchanged as increases in business, consumer, and real estate loans were offset by declines in loans to nonbank financial institutions and to security dealers. Despite an increase in bank deposits and little change in bank loans, district banks reduced their security portfolios during September.

TWELFTH DISTRICT—SAN FRANCISCO

General economic conditions are unchanged from those of last month. Spending by businesses and consumers remains strong, and the agricultural sector expects excellent crops with high prices. Housing construction is the only major sector which is experiencing a decline. Although there is some variation in their views, our directors expect a slowing of growth later this year.

Business investment is being maintained at high levels in such industries as electronics, fertilizers, and chemicals. In Washington, Boeing has received increased orders which may boost employment still higher. One limitation on the part of greater output has been slow deliveries, particularly in metals and some lines of chemicals. In the Pacific Northwest, unusually low rainfalls may result in power shortages which could force rationing and cause manufacturing layoffs. In Oregon, the governor has ordered that all outdoor commercial display lighting be turned off to save power.

Consumer spending is being maintained in most areas of the district. Household durable goods sales are continuing to hold up despite previous forecasts of a decline. There are, however, exceptions. A major department store in Salt Lake City reported a 10 percent decline in soft goods sales over the same period a year ago. Several directors felt that inflation was causing consumers to be more cautious in their buying. On the other hand, buying in agricultural areas, reflecting high farm incomes, has been very strong.

Although automobile sales have been satisfactory for lower-priced cars, sales of the larger cars are weaker. Orders for both pickup and heavy trucks are heavy.

Housing construction continues to fall off. High interest rates and, in some areas, a shortage of mortgage finance have been a major element in the decline. This decline in residential construction has affected the lumber industry, and in the future it will affect suppliers of other builders' goods once current orders are worked off. Commercial construction, which has not fallen as yet, has risen only slightly. The cement industry already is feeling the reduction of new foundations being poured.

Lumber prices, which have declined, have strengthened somewhat as increased exports have helped offset the decline in domestic demand. Pulp and paper production continues at near-capacity levels.

Farmers in the district are benefiting from high prices and, in most cases, excellent crops. One serious problem is a shortage of freight cars, described by an Idaho director as the worst in a half century. Drought has cut wheat production in eastern Washington and Oregon, and this area is a major exception from the overall picture. Producers of potatoes in Washington and Idaho, and grapes and cotton in California, have had record prices for their production. Slightly lower prices are reported for beef, sheep, and cereal crops. High farm income has stimulated heavy buying of new equipment and has driven up land prices. One director thinks that speculation based on 1973 experience may lead to future overproduction and losses if caution is not exercised.

The general consensus of our directors is that some slowing of the economy is likely by the end of the year. Some think the slowing has begun, and although few think a recession may develop in 1974, most expect only a lower rate of growth. The major policy concern of our directors remains control of inflation. Stronger price controls and a more restrictive fiscal policy are advocated by some directors.

Commercial banks continue to face strong loan demand both by businesses and consumers. Some banks are losing savings and time deposits to various other market securities, but they have avoided serious losses. Savings and loan associations, in contrast, are continuing to lose funds, but apparently at a reduced rate. The recent declines on short-term rates are interpreted by some district bankers as reflecting an easing of Federal Reserve policy, but others think that most bank lending rates will only level off and not decline until later in the fourth quarter.