CONFIDENTIAL (FR)

CURRENT ECONOMIC COMMENT BY DISTRICT

Prepared for the
Federal Open Market Committee
by the Staff

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SUMMARY*

District reports describe a generally weakening economy, punctuated by booming conditions in agriculture and the capital goods industries. Shortages of materials are hampering production and leading to some hoarding of supplies. The impact of the truckers' strike in most Districts appears to have been mainly limited to a temporary disruption of livestock marketing and food processing operations.

Economic conditions varied both among and within Districts. Only Richmond concluded that business activity remains "strong." Dallas noted a decline in industrial production led by falling refinery runs, while New York, Philadelphia and Atlanta reported their economies as weakening. Chicago described communities dependent on manufacturing of full-sized cars and recreational vehicles as "economic disaster areas," and Atlanta called the motels around Disney World "ghost towns." Yet, Atlanta reported brisk announcements of new plants, and Chicago noted that equipment manufacturers are experiencing an "unparalleled boom" and that the steel industry was operating at capacity. The general feeling, as noted by the San Francisco District, was that some sectors and regions continue to exhibit considerable strength, but the overall outlook was cautious.

Retail sales in January were described as good and better than anticipated (Philadelpha, Dallas, Richmond and St. Louis), but retailers were reported as still maintaining their conservative sales forecasts for 1974. Only Atlanta reported some weakening in January sales.

*Prepared by the Federal Reserve Bank of Boston.

The truckers' strike may have led to some panic buying (St. Louis, Cleveland), but its major impact in most Districts appears to have been limited to a temporary disruption of livestock marketing and food processing operations (Richmond, Minneapolis, St. Louis and Kansas City). A survey of retail food chains by the Philadelphia Bank found most stores' inventories holding up well as retailers utilized alternate sources and rail transport. Only Cleveland reported that economic activity had been seriously affected, with major disruptions in shipments of steel and other products, leading to sharp increases in unemployment and declines in output. St. Louis also experienced some output losses and layoffs as a result of the strike in the steel and motor vehicle industries.

Residential construction activity was described as weak by most Districts with the major factors being high building costs, confusion over the energy situation and high interest costs. A number of Districts, however, reported increased savings inflows. As a result, several Districts expected a pickup in activity in the second half of 1974 (Kansas City, New York, Dallas).

The industrial sectors showing the greatest strength were machinery and equipment and basic materials. Capital goods, chemicals, paper and steel industries were described as operating at capacity levels with sizeable order backlogs (St. Louis, Cleveland, Chicago, Boston). Chicago reported that equipment producers were experiencing an "unparalleled boom." Only Philadelphia and Minneapolis were aware of a "softening" of investment plans.

Shortages of materials and semi-manufactured goods were of paramount concern, according to all the District reports. New York referred to the "steady breakdown effect" on the economy of the energy crisis and growing shortages of materials. Several Districts reported that attempts to stockpile materials were boosting loan demand (Kansas City, Chicago, Boston, St. Louis and Minneapolis). Directors in Boston expressed the belief that shortages have been created by price controls and that producers are shipping goods abroad or are diverting supplies into the most profitable channels.

FIRST DISTRICT - BOSTON

According to our directors, business conditions vary widely from continuing strength to considerable weakness. Materials shortages are widespread and are creating production bottlenecks. Concern that materials will be unavailable when needed has led to inventory accumulation, according to bank directors.

New orders are reported as very strong in machinery and equipment manufacturing, especially items dealing with oil exploration. Shipbuilding orders are also heavy because of the need to build new types of tankers to transport liquified natural gas. One director commented that "business is better than the headlines."

Material shortages were mentioned by all the directors. One director commented that "anything you want takes extra time and effort to get." This director reports that purchasing agents have to look all over the world for even minor items in order to keep production going. Steel products - tubular pipes for oil drilling and sheet plates for ships - were among the many items cited as in short supply. Aluminum, metals, castings, plastics and semi-manufactured parts were also reported as being part of the "amazing conglomeration of shortages." As a result of the shortages, several directors reported that firms are building larger than needed inventories to keep a hedge on needed materials. Hoarding of raw materials is especially evident in imported goods.

One director noted that when price controls are lifted, the shortages disappear. He cited that resins had been unavailable from domestic sources at the controlled price (and were being bought previously in Mexico with their Ohio labeling still on them), but in the one week since resins have been decontrolled, they have become readily available - at twice their previous price. Other directors also expressed the belief that materials shortages have been created by producers who are either shipping goods abroad in order to import them at decontrolled prices or are diverting supplies to get them into the most expensive channels. The oil industry was mentioned as an example of the latter machinations.

Small business firms were particularly singled out as being hurt by these shortages. One director expects unemployment rates to rise to well over 10 percent in those areas of Connecticut where small manufacturing firms predominate. Gasoline shortages, he noted, will make labor mobility more difficult from the high unemployment areas. Unemployment rates rose in December in all the New England states, climbing to 7.3 percent (seasonally adjusted) in Massachusetts. A director from a Connecticut telephone company mentioned that due to the low level of residential and commercial construction in Connecticut, the company is considering going on a shorter workweek at the end of March, for the first time since the 1930s.

Another area of weakness is the recreational area. Ski areas have been hurt by lack of snow and the scare over gasoline shortages, although gasoline is reported as available in ski country. Manufacturers of recreational vehicles have also been hurt. Camper business is reported as "limping" by one director and the motor boat business is also slow, although sailboat sales are reported as "fantastic." General aviation aircraft backlogs were being reduced, one director noted.

There was a sharp split in the policy advice of the academic correspondents this month. To Dr. Shapiro, the main danger is that the Fed be "drawn off course [of 5 to 6 percent growth in money narrowly defined or 8 to 9 percent growth in money broadly defined] by political forces." He cited with approval the Chairman's statement that an oil shortage cannot be overcome by an excess of liquidity. He likened the present situation to the 1940 and 1945 experiences when supply constraints were binding in face of large increases in demand. To Professors Eckstein, Samuelson, and Tobin, the primary danger lies in an insufficiently expansionary policy. Eckstein was optimistic about a recovery by the fourth quarter but based his optimism on a 7 percent rate of monetary growth this year. A 5 percent growth rate would produce a substantial rise in interest rates in the second half of the year which the projected "tender" recovery could not survive. Pointing to the weakness of nonagricultural final sales last quarter, Samuelson expected negative growth in both the first and second quarters. He has become less confident about the end of the oil boycott and feels the damage to auto sales will be irreversible. Restating his view that the Fed should not seek to roll back energy-related inflation, he advocated, between now and April or May, an 8 percent rate of growth of money narrowly defined and a 10 percent rate for the broad definition. The risk of error, he argued, lies on the downside. Neither Samuelson nor Tobin found the decline in short rates too rapid. Tobin felt the Fed should not be afraid to accommodate the increase in liquidity demand which has occurred and should lower the Federal funds rate to the 7 1/2 to 8 percent range in the next policy period.

SECOND DISTRICT - NEW YORK

Second District directors and other business leaders who were contacted recently continued to express concern over the potential impact on the economy of the energy crisis, the mounting shortages of materials, and the persisting strong inflationary pressures. The rise in the cost of living was widely expected to result in increasing militancy on the part of labor, with little hope for continued moderation in wage settlements. The respondents in general felt that the expected decline in economic activity would not have a serious impact on the liquidity or solvency of large firms, but that many smaller businesses might be badly hurt. Responses of officials at mortgage lending institutions suggested that current District construction activity remains in the doldrums, but that a significant improvement can be looked for in the second half of the year.

Opinions varied as to whether the underlying energy situation had changed during the past month or so. A number of respondents saw no significant change in its adverse implications for the economy, foreseeing a continual gradual deterioration in economic activity. Among others, the president of a nationwide drug manufacturer and a senior official of another leading medical products firm both pointed to difficulties faced by their firms as a result of petrochemical shortages, while the chairman of a large New York City bank referred to the "steady breakdown effect" on the economy of the energy crisis as well as of growing shortages of materials. Another New York City banker felt that, on the basis of talks with his contacts in the oil industry, current estimates of the potential increase in U.S. oil production were probably overly optimistic. On the other hand, the chairman of yet another large New York City bank felt that the oil shortage resulting from the Arab embargo would be somewhat less severe than originally anticipated, a view shared by several other respondents,

Concerning the wage outlook, the Buffalo branch directors did not report concrete indications of increased militancy on the part of labor in western New York, but felt that continued inflation would lead to an increasingly militant stance. Except for scattered areas and small industries where labor is aware of the threat of unemployment, the directors expressed little or no hope for continued moderation in future wage negotiations. Similar views were expressed by a number of head office directors and senior officials of major nationwide and multinational firms. In the same vein, the chief economist for a large apparel labor union warned that union leaders "could contain union members only so far."

Expectations were mixed regarding the impact of the anticipated slowdown in economic activity on the liquidity or solvency of business firms. The most representative view was that such a decline would not severely affect most large companies, particularly those that enjoyed substantial profits in 1973, but that many small and medium-sized businesses were already experiencing cash flow difficulties, and that others would be similarly affected in the near term.

Current conditions in Second District residential construction generally remained weak, according to an informal survey of District mortgage lending institutions. The respondents all expected relative softness to persist over the near term, but most anticipated a gradual pickup as the year progressed, and looked to significant strengthening over the last two quarters. Among the reasons most frequently mentioned for the current softness were uncertainties regarding the economic outlook on the part of potential home buyers, the high cost of homes, high interest rates and, perhaps more important, relatively large downpayment requirements. Overall, conditions appear particularly tight in the New York City metropolitan area. An official of a large New York City savings bank that operates in the city as well as its suburbs thus noted that while a strong underlying demand for housing was still there, in the light of subnormal net inflow of savings deposits, his bank has been eliminating many potential borrowers by requiring a 20 percent downpayment on residential housing. The shortage of gasoline in the New York area reportedly has discouraged some potential buyers from purchasing homes in the suburbs. However, some respondents away from the immediate New York metropolitan area painted a somewhat brighter picture with savings banks in Fairfield County, Connecticut; Long Island; and upstate New York reporting a slight improvement in recent weeks in net inflows of funds and a concomitant slight increase in their mortgage lending.

THIRD DISTRICT - PHILADELPHIA

Business activity in the Third District continues to slow and the six-month outlook reflects a continued cooling in the regional economy. One in three of the firms contacted report a decrease in the general level of current business activity and half expect decreases by August. Employment levels continue to hold up in area manufacturing firms, but executives see this changing by next summer. Investment in inventories is decreasing in one in five firms, and expectations for spending on plant and equipment are softening. In contrast, area retailers report good sales volume in January but have reservations regarding the coming months. The truckers' strike could seriously affect food supplies if it continues through the next several weeks. Prices are continuing to spiral with little relief forecast for the next six months at least. Area bankers report loan demand easing and a decline in demand deposit flows.

Manufacturers in the Third District responding to this month's business outlook survey report a continued downtrend in the general level of business activity. More than half the firms anticipate no change in their new orders, shipments, unfilled orders, and delivery times. But one in five firms see declines rather than advances in these key indicators, an increase from last month's survey. And, area manufacturers remain cautious about the six-month outlook. Three out of four executives anticipate no change or decreases in new orders, shipments, and unfilled orders in the next six months.

Most area manufacturers continue to maintain stable employment levels. Four out of five executives see no change in the size of their work force in February. However, more firms are continuing to cut back the work week. And by next summer, one-third expect a shorter work week and fewer employees on the payroll. More executives report decreasing their inventories this month than last month, and relatively few expect to increase them over the next six months. Area manufacturers will continue to be cautious in their planning, with two-thirds forecasting no change or a decrease in investment in plant and equipment by August.

Contrary to expectations, most area retailers report a favorable January sales volume. Many stores were disappointed with initial Christmas sales and expected a similar downtrend in January. But, sales held strong or even increased last month. However, retailers remain cautious in their outlook for the next two quarters.

The Third District could be greatly affected by the recent independent truckers' strike. A survey of retail food chains, however, did find most stores' inventories holding up well. Retailers have been able to utilize alternative sources and rail transportation. However, most executives surveyed forecast they can hold out only one more week before large shortages of produce and meat develop.

Prices continue to escalate in the Third District. Almost nine out of ten businessmen are paying higher prices for raw materials in February than they paid in January. Even more respondents expect this trend to continue six months out.

Area bankers report a slackening in loan demand and expect the trend to continue through the first quarter. Demand deposits are also down for this time of year, but time deposits are holding steady.

With the drop in rates, most banks are decreasing their demand for CD's and increasing their demand for the shorter term Federal funds. Surprisingly, however, one bank's demand for CD's is still strong.

FOURTH DISTRICT - CLEVELAND

The view of about 30 economists (primarily from major industrial firms and commercial banks in the District) who attended the Fourth District Economists Roundtable meeting on February 8 shows the following projections for 1974: real GNP up 0.7 percent, the price deflator up 7 percent, and the unemployment rate averaging 5.7 percent. Economic activity in the District has been seriously affected by the truckers' strike in recent weeks. Total output may have declined during the past month or so, and layoffs due to the strike rose sharply early this month. The strike has caused severe dislocations among many manufacturers and wholesalers and has affected retail trade (resulting in some scare-buying and aggravating tight gasoline supplies in certain areas). Residential construction continues to decline; both auto producers and suppliers to the automotive industry have cut back operations sharply.

The business economists who attended the roundtable project a 1.5 percent decline in real GNP during the first quarter, a leveling in the second quarter, and resumption of growth at rates of 1.3 percent and 3.2 percent in the third and fourth quarters, respectively. There was general agreement that economic recovery would occur even if the oil embargo is not fully lifted, although many economists expect some softening in the embargo by spring or summer. Economic recovery in the second half largely reflects a projected pickup in consumer spending and a moderate turnaround in residential construction.

The rate of increase in the GNP deflator is projected to slow to 5.5 percent by the fourth quarter, while the unemployment rate is expected to rise throughout the year -- reaching 6.0 percent by yearend.

Business fixed investment and government spending, particularly transfer payments, are expected to be the major supports to the economy this year. Some economists, however, questioned whether the Federal government would be able to spend money fast enough to prevent a recession in the first half of 1974. Demand from the capital goods markets remains strong, according to economists from the steel and machinery industries. The backlog of a major machine tool producer in Cleveland has more than doubled in the past year, and the firm is quoting 80 weeks delivery on most types of equipment. Long lead times on many components have adversely affected the firm's ability to increase shipments. Thus far, there has been no letup in demand for machinery and equipment by the automakers or their suppliers.

An auto industry economist believes the worst of the decline in new car sales is over, and he expects the sales rate to improve during the remainder of the year (with a large makeup in the fall). The median forecast of nine economists whose firms depend heavily on the auto market shows total new car sales down 1.4 million units in 1974, with imports holding at or slightly below last year's level.

Steel industry economists report that the auto companies have been slow in adjusting their orders for lower steel requirements; reductions in steel purchases by auto firms are expected into the second quarter. The cutbacks by the auto firms are having little impact on the overall demand for steel -- an unprecedented situation. Steel mills are operating at capacity and are having no trouble in reallocating steel to other users.

The truckers' strike, however, has caused serious disruption in shipments of finished steel products in many areas, particularly in Pittsburgh, Youngstown, and Cleveland. Many other firms, large and small, have been unable to receive materials or ship products. Layoffs and reduced hours have been widespread. During the first week of February, layoffs attributable to the truckers' strike amounted to an estimated 29,000 in Ohio alone.

At the roundtable meeting, there was much concern expressed over current and prospective distortions stemming from inflation. A representative from one of the major banks in the District reported an increasing tendency of corporations to seek the bank's advice in using escalator clauses in their contracts. Several economists mentioned the inability of government institutions (such as the ICC and state utility commissions) to cope fast enough with inflation by granting rate increases. Among other concerns noted were potential dislocations in savings outlets if inflation is unchecked, and the possibility of a sharp increase in the cost of labor settlements this year and next. (A steel industry economist said that the provisions of the recent aluminum agreement, if applied to the steel industry, would result in a 35 to 40 percent increase in labor cost over a three-year period.) There was also concern over the worldwide rise in petroleum prices, with the possibility of serious strains in international financial markets over the near term.

In discussing the energy situation, the business economists indicated that production in their firms was not being curtailed as a result of fuel shortages. (Shortages of other materials and supplies, however, continue to be a problem.) Several said their plants had been able to achieve huge savings (up to 25 percent) on electric power and distillate fuels without affecting output. An economist with a major electric utility in the District said his firm intends to proceed with its capital spending plans for the next five years, even with the possibility of continued energy conservation measures in the years ahead. Management believes the investment will be a good hedge against inflation if their demand projections for electric power usage are on the low side.

An economist with the Agricultural Department reported at the roundtable meeting that a tight supply situation in crops and livestock will persist through the first half of the year (followed by relief in the second half); farm prices are expected to average 10 percent above last year, and retail prices of food at home to average 12 to 14 percent over last year.

FIFTH DISTRICT - RICHMOND

Results of our most recent survey of businessmen suggest that business activity in the Fifth District generally remains strong. In the manufacturing sector, shipments, new orders, and backlogs were reported unchanged. Employment appears to have changed little during the past month, although the truckers' strike has resulted in some temporary layoffs within the past few days. Despite consumer cautiousness, major retailers report that sales increased during January.

The business situation in the District manufacturing sector remains essentially the same as reported in the last survey. Shipments, new orders and backlogs were reported unchanged from the previous month. Material shortages and uncertainty over the energy situation remain the major problems facing manufacturers. Numerous respondents commented on the difficulty of planning for the future in the face of recession fears, rapidly advancing prices and an uncertain energy picture. Shortages mentioned by participants run the gamut from parts for assembling trucks to wood pulp. Several respondents commented that they were experiencing unfavorable credit conditions and increasing difficulty in the collection of accounts receivable. Inventories of both materials and finished goods increased during the past month. Nearly 40 percent of the manufacturers believe the current plant and equipment capacity is inadequate. However, most feel that current expansion plans are about right.

Results of our survey indicate that the District employment situation is mixed. Manufacturing respondents reported a very slight increase in the the number of employees and a slight decrease in hours worked per week. Several major retailers reported that the number of employees declined in recent weeks.

A continuation of price increases was reported by both retail and manufacturing respondents. More than 80 percent of the manufacturers reported higher prices paid and 40 percent reported higher prices received. All of the retailers reported an increase in prices paid and three-fourths reported an increase in prices received.

The diffusion of retailers' responses indicates that retail sales increased during the past month. Retailers report, however, that consumers are more price conscious and more insistent about value than they have been in the past.

Judging from the experience of large commercial banks in the District, demand for consumer and real estate loans changed little during the past month while business loan demand increased.

The trucking strike has caused some disruptions in the food sector of the District economy. According to newspaper reports, a large hog slaughtering operation in North Carolina temporarily closed eight of its ten operating centers. A large poultry producer and processor closed five processing plants in North Carolina and Virginia for several days. News stories indicate that production from the plants, which employ more than 4,000 workers, is normally distributed to about 4,000 eastern seaboard stores.

District farmers reaped a bountiful harvest in 1973. Production gains over 1972 ranged from slight to spectacular for most major crops, with output of soybeans, corn, and peanuts at record levels. Value of production for all principal crops totaled $2,797 million --

more than 40 percent above 1972. Farm real estate values jumped 22 percent during the year ended November 1973, recording the largest annual increase on record.

While the planted acreage of 1974-crop wheat is up 36 percent over 1973, as of January 1 farmers were being cautious in their plans to expand planted acreages of other crops. Planting intentions indicate only a 7 percent gain in feed grain acreage and about a 2 percent increase in soybean plantings. Cotton acreage will be down slightly.

Sentiments of survey respondents changed little during the past month. Two-thirds believe that the level of business activity nationally will worsen during the next six months, while nearly 40 percent believe that local business activity will decline.

SIXTH DISTRICT - ATLANTA

Reports from around the District indicate a slowing in the pace of the region's economy. Layoffs continue to occur in scattered industries partly because of fuel and energy problems. Construction activity grows weaker particularly in south Florida. Tourist activity is also off in this area. Retail sales reports, as expected, indicate some weakening in January. Tennessee directors noted some improvement in car sales, particularly for medium-size models and for used cars. Shortages of basic materials continue to restrain production, but these shortages appear to be easing in some cases. As usual, plant announcements were brisk with major utilities accounting for the lion's share.

State labor departments report filings for unemployment insurance have increased because of the energy situation. In Georgia, at least 13,000 workers have lost their jobs because of the energy crisis. This figure does not include several thousand auto assembly workers who were temporarily laid off their jobs in Atlanta. An announced 600 employees will be laid off at Ford Motor Company's Atlanta assembly plant beginning in March. In Nashville, 130 Ford glass plant workers were furloughed indefinitely because of the slump in big car sales. A Louisiana director expects that State's economy to be more severely affected by oil and gas allocations because nearly 20 percent of the State's employment is related to the petroleum industry. Two Tennessee manufacturers, one of gas ranges and the other of heavy equipment, reported layoffs. However, the Aluminum Company of America plant in Tennessee is adding 400 workers to its work force.

Although several residential and commercial construction projects have recently been announced, the level of activity is below that of a year ago. South Florida appears to be most severely affected. One Florida director indicates that the 1974 residential building outlook appears optimistic for only a few north Florida cities. Most developers are experiencing disappointing sales which they attribute to the gas shortage. He reports that plans for continued development of present projects are being temporarily abandoned.

Tourist traffic continues depressed. A road check two days after Christmas showed that the influx of northern cars to south Florida was 30 percent under the same day in 1972. In south Florida, occupancy at the large elegant hotels is running near capacity, but the smaller motels and less expensive restaurants and lounges are reporting declines. As reported earlier, the sharpest drop in tourist traffic is in central Florida. In the words of one director, the motels around Disney World are beginning to look like ghost towns. As a result of the drop in tourism, State revenue is expected to fall by about 25 percent, according to Florida's State Comptroller. Tourist activity accounts for about one-third of Florida's sales tax revenue.

Retail sales, including auto sales, were weak according to the most recent reports. Department stores in the Nashville area did not meet their sales expectations for the month of January. Alabama furniture manufacturers report that demand for their products continues strong and that they are unable to supply all new orders. A Tennessee director, however, expects a 15 percent decline in sales of premium-priced furniture during the first half of this year. Reports from auto dealers confirm the shift to small cars with a resultant softness in the big car market. However, reports from three different areas in Tennessee indicate that the rush to small cars may be slowing with sales of medium-size cars improving. Large car sales are still depressed. The used car market is beginning to pick up considerably, according to a Nashville area dealer. As reported last month, this market has been extremely depressed.

Materials shortages, particularly petrochemical materials, continue to restrict production of plastic products manufacturers. One Alabama plastic company found that it could not get the needed resins to begin operations. The plant is now being converted to a different type of operation. Steel and fertilizer, particularly ammonia, are two materials which continue in very short supply. The truckers' strike has worsened some of these shortages; others appear to be easing. Furniture manufacturers report that for the first time in many months they can obtain the supply of lumber they need. Printers in the Nashville area indicate that paper and ink supplies are now easier to obtain.

A number of plant announcements were recorded. The largest announcement was a mammoth $2.9 billion nuclear electric generating plant to be built by Alabama Power Company. Exxon Nuclear Company announced plans to build a $250 million reprocessing plant in Tennessee, using "spent" nuclear fuel from Oak Ridge atomic facilities. Central Louisiana Electric Company has committed $56 million for 1974 construction. Kaiser Aluminum and Chemical Corporation will construct a multimillion dollar plant at Mobile, Alabama to fabricate, assemble, and install huge liquefied natural gas tanks on ocean-going tankers.

SEVENTH DISTRICT - CHICAGO

Generalizations of the current economic situation in the Seventh District have never been so difficult since the Red Book was launched almost four years ago. The growing ramifications of the energy crisis, continued rapid price inflation in the face of cutbacks in output and employment, widespread shortages, and dissatisfaction with government at all levels have created an unprecedented atmosphere of uncertainty among consumers and businessmen. This mood has been deepened by the independent truckers' strike which began at the end of January and is not yet fully resolved. Communities dependent on the manufacture of full-sized cars and recreational vehicles are economic disaster areas. In contrast, equipment producers generally are experiencing an unparalleled boom, with many firms unable to meet production schedules. While shortages of materials and components seem worse than ever, there are reports of firms doing precautionary advance buying (hoarding) of fuel and supplies of other scarce materials. Most businessmen, apparently, would favor the complete abandonment of price and wage controls.

Although the independent truckers' strike may be ending, the stoppages could be resumed at any time. Consumers and businessmen have an added incentive to add to inventories of required supplies. The strikes have curtailed output and caused layoffs principally in steel, motor vehicles, and meat and poultry processing. Many operations have been conducted "off-the-tailgate" of trucks even before the strike because of short supplies. Lower speed limits and more frequent stops for fuel already had hampered production and had increased inventories in transit.

Since late January, the Chicago area has witnessed long lines of cars at filling stations. Many stations have been closed and others have sharply reduced their hours of operation. Most smaller centers of the District, however, are reported to have plenty of gasoline. (One reason suggested for the disparity is that Chicago area motorists are taking fewer trips out of town.) Gas shortages have substantially reduced receipts at many restaurants and other establishments dependent on auto traffic. Insurance salesmen, and other businessmen dependent on mobility, also have been hurt. Perhaps those affected by fuel shortages can take comfort in the recent words of the District's best know economist: "I don't believe the energy problem changes the economic outlook very much."

In contrast to the gasoline and diesel fuel situations, heating oil problems seem to have faded away -- even in Michigan where the problem had appeared most serious. Reductions in output of autos doubtless have released fuel for other uses.

Some major District gas utilities have been telling interruptible customers to plan on switching to electricity or to other fuels. They see no possibility of substantially increasing gas supplies in the next several years. Expansion plans of electric utitlies are being expanded in all states, partly because of shortages of natural gas.

Full-sized cars and recreational vehicles continue to be the main casualties of the energy shortages. The largest producer of motor homes has said that the company is virtually "out of business" for the present, although a revival in demand is expected, or hoped for, later in the year. In Flint (home base of Chevrolet and Buick), the local employment service estimates area unemployment at 15 percent in February, compared to 5 percent last year, and as bad as in 1958. A producer of frames for full-sized cars reports output off 60 percent. Layoffs at this firm have affected men with 25 years' seniority.

The steel industry continues to operate at capacity, but is afflicted by inadequate truck and rail transport and shortages, especially of fuel and scrap. Scrap prices have hit a record $120 per ton in the Chicago area recently, more than double the level of a year ago.

Producers of railroad equipment are booked through 1974 and expect to do well next year. Most producers of machine tools, farm equipment, and construction equipment are in the same situation. The market for trucks also continues very strong except for lighter "consumer-type" vehicles. Many producers of capital goods tell of pieces of equipment almost completed but not ready for shipment because of the lack of one or more parts -- wheels, axles, castings, and electrical and mechanical components. One reason for strength in capital goods is that in many cases new equipment can do more work per unit of fuel consumed.

The outlook for residential construction overall still appears dismal. Credit has become more available, but customers are said to be reluctant to make deals until present uncertainties are resolved. The mobile home industry has been affected as seriously as on-site housing in many sectors. Some mobile home plants have been closed or sold.

EIGHTH DISTRICT - ST. LOUIS

Business activity in the Eighth Federal Reserve District generally continues strong, although selected areas have shown weakness in recent weeks. Shortages of materials remain a major problem. Many capital goods firms still report large backlogs of orders. Retail sales, except for automobiles, remain firm. Farmers are responding to higher commodity prices by planting larger crop acreages for a number of key crops, despite increased cost and difficulty in obtaining key inputs such as fuel and fertilizers.

Manufacturing activity in the District generally continues at a high level, with the notable exception of the automobile industry. Most of the firms interviewed, including representatives of the capital goods, chemicals, paper, and steel industries, report operations at capacity levels and sizable backlogs of unfilled orders. Hence, there is great demand for new capacity in most industries, and the large expansion plans of major firms remain generally unchanged, despite the slowdown in the automobile sector and the numerous forecasts of a recession this year.

"Shortages" of raw materials and semi-finished goods remain a major concern of many businessmen. Contributing to the "shortages" have been some stockpiling and panic buying, and more recently the problem has been aggravated by the truckers' strike. During the last few days, however, trucking activity appears to be returning to normal.

Retail sales are reported as generally good, except for automobiles which have been down substantially in recent months. Department store sales are reported to be quite strong with sizable percentage increases this January compared with a year ago. A few car dealers have announced plans to close their dealerships while others feel that the worst is over. Those selling small cars were generally back on the profit side of the ledger in January, after experiencing losses in December.

A review of employment growth rates in the Central Mississippi Valley (CMV) reveals a somewhat different growth pattern for the large SMSA's as compared to the CMV states. In all five of the CMV states, both total and payroll employment growth slowed in 1973, after experiencing rapid growth in 1972. On the other hand, employment in several of the SMSA's in the CMV increased at more rapid rates in 1973 than in the previous year. Apparently the rural and smaller population centers approached full employment in 1972 resulting in a deceleration of growth in 1973, while in many of the metropolitan areas full employment was not approached until late 1973.

Savings deposit growth at commercial banks and savings and loan associations was reported at a rather slow pace in recent weeks. Savings and loan associations offering 7 1/2 percent rates on CD's generally reported sizable net inflows of savings, while those not offering these higher rates were experiencing no change or net outflows. These latter institutions felt that 7 1/2 percent money was unprofitable at rates they could obtain on loans. For example, in Missouri the usury law restricts interest rates to 8 percent (with points, the effective rate is now in the 8 1/4 to 8 3/4 percent range). In the past year, with the high rate of interest obtainable in the Federal funds market and the constraints of usury laws, many associations have been placing sizable amounts of funds into the Federal funds market and the national mortgage market. This has further contributed to the decline in construction activity in some parts of the District.

Farmers in the District are expected to increase their acreage of cotton, corn, and rice this year in response to sharply higher prices. Of concern to some farmers, however, is their ability to obtain scarce farm inputs such as fuel and fertilizer at "reasonable" price levels.

NINTH DISTRICT - MINNEAPOLIS

According to bank directors' responses, the energy crisis has not yet significantly slowed District economic activity. Many District businessmen, aware of the favorable agricultural outlook, are actually optimistic about their prospects in 1974. Nevertheless, directors expressed concern over rising fuel costs, materials shortages and the outlook for the District tourist industry. Also, recent economic developments have caused some District businessmen to alter their plant and equipment spending plans. In general, anticipated high farm incomes this year may well cushion the District from the expected slowdown in national consumer spending. District agricultural banks report softening in the demand for short-term farm credit, while the demand for farm real estate credit remains fairly strong.

Although fuel supplies have been adequate, the energy crisis has begun to influence the District's economy. In the Minneapolis/St. Paul metropolitan area, airlines have laid off workers, some small manufacturers have had difficulties obtaining petrochemicals, and the District's major auto assembly plant has reduced operations. One director, who is a college president, indicates that although fuel has been available, higher fuel prices are straining his school's budget. Another director faces a similar dilemma; his firm's hauling and delivery costs are up 50 percent from a year ago. A western South Dakota director says that his area's motel operators are seriously concerned about their summer business. According to a Montana director, a national campground franchiser in his area reports franchise revenues so far this year are unchanged from a year ago, compared to gains of around 30 percent in previous years. This firm has reduced its payroll 30 percent. Other businessmen in his area, however, are generally quite optimistic about business in 1974. Another Montana director reports adequate gasoline supplies in his area; several dealers have actually reduced prices to attract business. The trucking strike has disrupted District livestock marketing and food processing operations, but this is expected to be only temporary.

Directors also voiced their views on materials shortages. One director believes his firm will be able to obtain necessary supplies but thinks that marginal businesses who have been delinquent in paying bills may be in for trouble. He figures many firms have built up larger than normal inventories of materials to avoid shortages. A Twin Cities area banker agrees; he adds that by stockpiling raw materials, manufacturers have added to inflationary pressures. Another director reports no recent improvement in efforts to obtain steel and plastic resins.

A Montana director indicates that farm machinery continues to be almost impossible to obtain. Part of the problem stems from a lack of foundry capacity and reduced foundry operations. Adequate fertilizer supplies remain a concern of District farmers. Southern Minnesota farmers are purchasing fertilizer now to ensure sufficient supplies this spring. A Montana director reports that recent fertilizer price increases have raised current fertilizer prices above prices contracted earlier, and many companies are not honoring these contracts.

Reports are mixed about the impact of recent economic developments on plant and equipment spending. A southern Minnesota director says that the recent oscillation in prices has made some of his area's agricultural producers cautious about their capital spending plans. Although the construction outlook in general is quite favorable, the anticipated slowdown in tourist business has caused motel operators in western South Dakota to forego expansion plans. A director who heads a large food processing firm reports no change in his firm's capital spending plans. A Twin Cities area banker states that although major firms have not reduced their capital spending, two Twin Cities firms using petrochemicals have cut back. A Montana director indicates that uncertainties over government policies have caused one of his area's firms to reduce its capital spending.

Anticipated high farm incomes are expected to cushion the District's retailers from the expected slowdown in consumer spending this year. A Montana director, for example, finds his area's retailers very optimistic about this year's business, and a southern Minnesota director reports no dropoff in automobile sales in his area. Nevertheless, several reports indicate that District consumers are becoming cautious. A western South Dakota director reports that his bank's consumer installment loan business has recently been off. An Upper Peninsula of Michigan director has noticed that the energy crisis has made his area's businessmen and consumers hesitant to spend.

According to our latest agricultural credit conditions survey, Ninth District farmers are enjoying a record level of prosperity, which is expected to lessen their first quarter demand for short-term loans. More banks report that they are actively seeking new farm loan accounts now than at any time in the survey's recent history. The demand for farm real estate, on the other hand, remains fairly strong.

TENTH DISTRICT - KANSAS CITY

Total loan demand at most Tenth District banks remains strong. Savings inflows to Tenth District savings institutions improved in January, and demand for mortgage money has increased somewhat. However, residential construction activity is expected to remain weak during the first half of this year. The Colorado ski industry is booming in spite of the national energy shortage. Relatively small inventories of grains and of cattle are contributing to further strengthening in the prices of farm products.

Interviews with larger Tenth District banks reveal deposit and loan activity about in line with seasonal expectations, although a few banks noted a greater than seasonal decline in commercial demand deposits in the last few weeks. Consumer demand and time deposits have shown very little change. An undesired buildup in the volume of large CD's at some District banks is being countered by a progressive lowering of CD offering rates. Loan demand continues strong at most banks. The total volume of real estate loans has remained stable as declines in residential lending are being offset by increases in commercial real estate loans. Business loan demands for normal inventory and capital expansion needs are being augmented by attempts to stockpile materials that might soon be in short supply. Among the special situations noted were a nearly insatiable desire for oil drilling equipment and the money needed to finance its purchase in Tulsa, and strong loan demand from ski resorts in Colorado. Consumer demand for auto loans is declining, but only gradually, and is being partly replaced by increases in charge card and other personal borrowing.

January savings inflows to savings and loan institutions in the Tenth District exceeded the industry's expectations. Inflows were also greater than mortgage demand, permitting some needed buildup of liquidity. Demand for residential mortgage money has begun to increase somewhat. Savings and loan officers seem to expect a slight improvement in their business, although the energy shortage and other elements of uncertainty are combining to make the future even less clear than usual. Rates of 8 1/2 percent on 80 percent loans and 8 3/4 percent on 90 percent loans are fairly general across the District.

According to executives of home builders associations in major District cities, residential construction is not expected to improve much in the first half of 1974 over a bad second half last year. However, a "substantial" pickup is anticipated by July -- possibly before, in some areas. Nearly all associations are jumping on the "buy now" campaign bandwagon, emphasizing inflationary expectations in the housing market. Building materials prices continue to rise rapidly, and some things are reported as hard-to-get in certain areas -- e.g., window glass, steel reinforcing bars and I-beams, plastics, insulating materials, and plumbing fixtures. Limitations on utility hookups to new houses do not appear to be a major concern yet (except in Colorado), although there is some speculation about possible future effects. Housing contractors in the Kansas City area are more concerned with the possible negative impact on suburban building of a continued gasoline shortage.

The national energy shortage has apparently had little negative impact on the Colorado ski industry. Business at major ski areas is reported to be "very good," and "operating at capacity and booked up for the year." Most respondents reported that, compared to past years, more people are arriving by bus and air transportation, including special tours, rather than by private automobile. One local air carrier that serves Colorado ski areas reported a 50 percent increase in revenue passengers during the Christmas holidays, compared with a year earlier. However, New Mexico ski areas, which are more dependent on auto transportation, have had a significant decline in their business.

Farm prices spurted sharply last month, rising 9 percent from mid-December to a level nearly 40 percent above a year ago. Contributing most to the increase were higher prices for cattle, hogs, and most grains, and cotton. Recent reports from the USDA suggest, moreover, that farm prices will remain quite strong for several months. With the exception of soybeans, January 1 grain stocks were not only below year-earlier levels but were even tighter than expected.

Cattle on feed numbers were 6 percent below a year ago, and the all-cattle inventory, while larger, was smaller than anticipated. Therefore, another round of strong farm prices seems likely in the months ahead. One factor looming large in this scenario, however, is the current truckers' strike. Reports on the effect of the strike are still sketchy, but the livestock industry has grave concerns about a protracted shutdown. A survey of markets in the District shows that livestock shipments have slackened considerably, but that prices are holding up fairly well thus far. However, some price weakness is expected for slaughter animals if the strike continues because the packing plants are rapidly cutting back on their operations. With the number of animals in the heavier weight groups being up 40 percent from a year ago, a lengthy truck strike will ultimately result in a backlog of fleshy animals which, when finally slaughtered, likely will break prices in a manner similar to the post-freeze pattern last September.

ELEVENTH DISTRICT - DALLAS

The petroleum industry remains primarily responsible for the reduced industrial output in Texas, as measured by the industrial production index for the State. However, the most recent drop in industrial activity was not confined to petroleum related industries. After growing at progressively slower rates, manufacturing of durable goods, the most sensitive cyclical component of the index, has also begun to fall.

Recent declines in industrial production in Texas have been more prolonged and more severe than in the Nation as a whole. For example, the December decrease in the State index was nearly four times as great as that in the national index. The difference reflects the greater importance of petroleum related industries in the State index.

However, the slowdown in overall economic activity, as indicated by total employment growth, has been less severe in Texas than in the Nation. Total employment in the Nation has declined for the past two months as compared to a leveling off in the growth of Texas employment. The greater stability of the State economy is largely due to the smaller reliance on manufacturing activity.

Seasonally adjusted department store sales in the Eleventh District increased 4.5 percent from mid-December to mid-January, the third consecutive four-week gain. The rate of increase represented the largest monthly advance since department store sales turned up in mid-October. Representatives of several of the leading department stores in the State have indicated that the recent strength was unexpected, and they still remain committed to conservative sales forecasts and inventory management for 1974.

Savings deposit inflows at mortgage lending institutions in Texas have been increasing since August and should continue to grow through mid-1974, according to representatives of two of the largest savings and loan associations in Texas. They pointed out that the decline in mortgage commitments has stopped and cited this as evidence that mortgage lending has begun to turn around.

However, any resurgence in residential construction is expected to face continued high mortgage rates and rising building costs, two of the key problems which depressed the Texas housing market last year. Even with increased availability of mortgage funds, a vice president of Dallas' largest savings and loan association doubts that mortgage rates will decline substantially. In addition, local homebuilders anticipate that widespread increases in building costs will continue through 1974.

Record crop yields and advanced agricultural prices have contributed to sharply increased inflows of deposits in recent months at rural banks in the Eleventh District. However, by summer these banks expect their liquidity positions to tighten considerably. Farmers are increasing their demand for funds to meet expanding operating expenses and purchases of capital equipment. A heavier than usual drain on deposits at these banks is also anticipated due to larger income tax payments by farmers. And the cancellation of Agricultural Stabilization and Conservation Service payments will eliminate the inflow of funds to banks from this source that usually takes place in July and August.

TWELFTH DISTRICT - SAN FRANCISCO

Our directors continue to expect a slower rate of growth in the economy in 1974. Some sectors and regions continue to exhibit considerable strength, but the overall view is one that is cautious about prospects. The energy crisis is a major element contributing to uncertainty, but at the moment the effects in this District are minor. Consumers appear to be spending somewhat less on durables; automobile sales are much lower. Overall, consumer spending is being maintained. Agricultural forecasts remain good, and capital expenditures continue at high levels. The consensus is that 1974 will exhibit little growth and the inflationary pressures will persist.

Automobile sales are slow and dealers are reducing staffs. Standard-sized cars are not selling well and inventories are larger. In contrast, sales of compact cars are excellent and would be even larger except for difficulties in getting deliveries. Recreational vehicles and boat sales are also low. Consumers are apparently spending less on durables, but the declines are not substantial. There are reports that consumers are economizing, and demand is shifting, as one director described it, to staples and away from frills. Items such as sewing machines and, in a few areas, refrigerators and furniture are selling well. Retailers are not revising their inventory policy to any extent. Some are cutting back, but others are actually increasing orders in expectation of higher prices and shortages.

Residential housing shows no sign of recovery. High prices and interest rates are continuing to discourage buyers. The price and wage increases of the past year have forced large increases in the selling prices of new houses. In southern California, one developer is reported to have had to increase the price of one model by $17,000 over a year ago (from $42,000 to $59,000). The high price of houses has strengthened the demand for mobile homes, and production is increasing. Commercial building activity reflects the strength of business investment expenditures, and it is holding up well. In Tacoma, activity connected with the World's Exposition being held in May to October this year has supported up the local construction industry.

The agricultural outlook is very good. Fertilizer may be in short supply and result in higher costs, but directors in agricultural areas of this District think that net farm income will equal or exceed the record levels of 1973. Weather conditions are good, and excellent crops are expected.

Capital expenditures by business show no sign of slowing. In Utah, the local power company announced $94 million in new construction in 1974, and Kennecott Copper has started a $150 million refinery. In Washington, Pacific Car has received a large order for railroad cars, and Weyerhauser has announced major expenditures for new plants. Boeing Aircraft still has a large backlog of orders, and it expects no decline in output. Banks in California forecast that strength in electronics, instrumentation and machinery will maintain the State's level of activity above the national average.

The energy crisis has had limited impact in this District. Gasoline supplies are in short supply only in a few areas, but concern about shortages has adversely affected tourism. Electric power supplies are in surplus in the Pacific Northwest and in Idaho-Utah. The most important power shortages are in southern California.

Bankers report that business demand for loans is strong but that declines have been occurring in consumer and mortgage lending. Short-term rates have been declining and a moderate decline is expected to continue. One large bank, which had expected a trough in short rates in midyear, now expects a moderate decline, but with the low point being reached at yearend. Some banks are also becoming concerned with the quality of credit to automobile dealers, recreational vehicle manufacturers and housing developers.