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# CURRENT ECONOMIC COMMENT BY DISTRICT

Prepared for the
Federal Open Market Committee
by the Staff

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SUMMARY*

Continuing attenuation of the economic recovery is evidenced in the past month's reports. Despite some recent increases in soft goods sales, merchants generally expect holiday gains no greater than a normal seasonal advance. There is some feeling that the recent boost may be the result of abnormally cold weather in combination with price reductions rather than an upsurge of demand. Sales of appliances and furniture differ in strength between regions, but auto sales are generally good. Production declines have occurred in several key industries, as efforts to realign inventories have reduced demand. Some strengthening is discernible in capital expenditures. Single-family housing continues to dominate construction activity. Price reductions are occurring in those industries seeking to reduce inventories, but other firms are hedging against wage and price controls by raising prices. Credit demand is generally flat, with certain exceptions reflecting special conditions. The agricultural sector presents a picture of marked contrasts in prosperity.

The degree of optimism concerning consumer spending has diminished somewhat. Most areas expect a normal seasonal gain during the holiday season. Soft goods sales, which have been weak, were helped by the arrival of colder weather and recent price markdowns. Philadelphia notes that outerwear sales have risen in advance of their normal seasonal upswing due to the cold weather. Dallas notes some price resistance in men's clothing lines. Major appliance and furniture sales are weak in the Cleveland, Chicago, and St. Louis Districts but have strengthened in the Richmond, Atlanta, and Kansas City regions. Merchants remain hopeful but uncertain about further strengthening. Auto sales

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*Prepared by the Federal Reserve Bank of Atlanta appear to be fairly strong, except for smaller models; San Francisco and Cleveland note some signs of weakness. Chicago views strongly increased consumer borrowing as a confirmation of growing consumer confidence; similar trends are noted by New York, Philadelphia, and Richmond. Dallas reports lackluster consumer loan demand and, like San Francisco, interprets high savings inflows as an indicator of consumer caution.

Production declines have taken place in several industries. Steel output has been reduced to limit an inventory build-up; but increasing orders for some types of steel are found by Chicago and Richmond. Appliance production has been sharply reduced in the Chicago, St. Louis, and Cleveland Districts. Declines are also noted in output of paper and board, plastics, and aluminum. Orders are down for lumber, apparel, chemicals, and furniture. Copper, lead, and zinc output has risen in the western states. Lift truck inventories have stabilized, and orders recently have been increasing.

Increasing strength is detectable in capital expenditures. Boston, Cleveland, Chicago, and St. Louis note increased orders for machine tools. New York cites an increase in new orders for capital goods at a number of firms, but Philadelphia finds a decrease in the proportion of firms planning further increases in capital outlays. New York mentions environmental and other government regulations, as well as the threat of wage and price controls as deterrents to capacity expansion. Atlanta and San Francisco report that capital expenditures by paper companies will be very limited in the foreseeable future.

Construction activity continues to be strongest in the single-family home category. Housing starts are at a high level in Texas, and construction employment has expanded rapidly during the past year. Home building in the

St. Louis area is strong, but a decline has occurred in Memphis, other parts of Tennessee, and Mississippi. In the Los Angeles area, home construction is very strong, but average monthly price increases of nearly 3 percent are now generating buyer resistance.

Price reductions are occurring in sectors where inventory accumulations are excessive. In both steel and apparel, price concessions are being made to stimulate demand. Lumber prices have softened in the past two months. St. Louis states that chemical prices should remain stable as a result of new capacity coming on-stream. Atlanta finds evidence that businesses are raising list prices as a hedge against possible imposition of wage and price controls. Shortages and bottlenecks are of little concern, partly as a result of the economic slowdown. Some concern continues to be expressed about natural gas shortages.

Demand for credit remains generally weak, with interesting regional exceptions. Consumer loans provide an element of strength in several areas. In the Southwest, lending for petroleum drilling is the sole area of growth in loans. Dallas, Kansas City, and Minneapolis report that the demand for agricultural loans is rapidly increasing. Higher costs and lower prices are forcing farmers and ranchers to seek extensions of present loans. In wheat growing areas, many farmers are withholding grain from the market to await higher prices. Dallas notes that marginal farmers will find it difficult to obtain operating capital unless Farmers' Home Administration or Small Business Administration loan guarantees are granted. In contrast to the general flatness reported in commercial and industrial loans, San Francisco finds a modest increase in loan demand from small- and medium-sized companies, and Richmond notes an increasing demand in wholesale and retail trade.

The agricultural sector presents a mixed impression. Farm cash receipts in the Richmond region have benefited from sharp price increases for flue-cured tobacco. Minneapolis reports that price declines for corn, wheat, hogs, and cattle, as well as the effects of drought on crop production, present a bleak prospect of lower income, reduced spending, and increased borrowing. St. Louis and Kansas City note that cattle ranchers and feeders remain in a loss position, despite recent price increases. Land in the Southeast is likely to be shifted from cattle production into other crops, with the potential for an eventual beef shortage. San Francisco reports a bountiful harvest; supplies of fruit, wheat, beans, and potatoes are large, storage facilities are bulging, and prices have declined.

FIRST DISTRICT - BOSTON

The New England Directors are confident that the recovery will continue well into 1977, but they have reported a recent loss of momentum in business activity, indicating slower growth. Loan demand remains weak; manufacturing capacity is generally excessive in the First District; and retail sales have improved in recent weeks.

Banking directors report that businessmen, on balance, are attempting to reduce their reliance on bank loans. Firms are still issuing medium and long-term debt to improve the structure of their balance sheets. Bankers are particularly disappointed by the lack of demand for inventory financing. However, competition for loan customers has not led to discounts on the effective interest rate for loans. In fact, bankers are concerned about yields on business loans dropping too low: work-outs have reduced earnings, while writeoffs have been and continue to be heavy.

The pace of retail sales is not uniform throughout the district. While some retailers were especially pleased with the strength of October's sales, others have noted only moderate improvement recently. Overall, retailers are exercising caution: "although it is human nature to respond to increased sales, it is important to closely control stock and liquidity." The holiday season is expected to be good, but not a lot better than last year.

In previous reports, lumber suppliers were operating at full capacity; however, new orders have fallen for many firms in the past month. Since lumber demand lags housing starts by several months, business is expected to improve next year.

New orders for machine tools have increased for selected suppliers in New England. Overall, business remains weak, nevertheless.

The Boston Bank's survey of New England manufacturers indicated an almost total lack of concern about bottlenecks and no sign of capacity constraints. A major company in the abrasives industry, which acts as a supplier to a cross spectrum of American manufacturers, indicated it is operating at about 77 percent of capacity or ten points less than its desired rate. A large conglomerate producing defense-related aircraft assemblies reported that it was operating at about 60 percent of capacity, except in a division which supplies automobile wiring harnesses and related items where it is operating close to capacity. Availability of materials was not seen as a problem for local companies except in specialized cases. For example, an optical products company indicated that some plastic eyeglass frames were difficult to get. No lengthening of delivery times for raw materials was reported. All of the manufacturers contacted reported no problems hiring labor as production expanded; some indicated they have not hired back all of the people they let go last year. Energy supplies were perceived as adequate although some apprehension was expressed about natural gas.

Professors Eckstein, Samuelson, and Solow were available for comment this month. Solow finds nothing in the current statistics to suggest the pause will end soon. While Eckstein considers a "spontaneous reacceleration" as the most likely possibility, he has raised the probability of the "continued slow growth" alternative. He feels the mortgage rate has been kept too high by the Treasury's debt management operations, i.e., offering competitive securities yielding 8 percent. Because of the enhanced prospects of increased fiscal stimulus, Samuelson and Solow feel an easier monetary policy is needed to insure an adequate degree of capital formation.

Samuelson specifically rejects as empirically weak the "can't push on a string" argument against an easier monetary policy. That argument applies, if at all, only at the bottom of a depression when either the demand for money is perfectly elastic or the marginal efficiency of capital is totally inelastic. Neither of these conditions holds now. The "can't push on a string" argument is simply a justification for doing nothing when the economy is weak--exactly the time when additional stimulus is needed. A more appropriate analogy is "squeezing a tube of toothpaste" which requires more effort when there is slack than when the system is full (as in a boom).

Samuelson urges a stimulative policy designed to achieve a 6 percent real rate of growth. Solow feels the time has come to take advantage of the alleged flexibility of monetary policy with "a definite move toward ease." Eckstein favors a reduction in the Federal funds rate of 25 to 50 basis points.

SECOND DISTRICT--NEW YORK

Conditions in the Second District continue to improve moderately, according to District directors and other business leaders. Department store sales in New York City have been strong for the past two months, and consumer spending elsewhere in the District also appears to have gained momentum. At the same time, there are also signs that capital goods production in the District may now be picking up. On the outlook for the national economy, the business leaders contacted have not altered in the face of the recent economic slowdown their view of a moderate but steady expansion over the next year. With only a few exceptions, inventories were judged in good balance with sales. Less encouragingly, many business leaders voiced concern that the Ford Motor Company settlement would tend to strengthen somewhat labor demands in future negotiations.

Consumer spending in New York, both in the City and upstate, appears to have strengthened and merchants expect a strong Christmas season. According to leading City retailers, since sales turned up around Labor Day they subsequently continued to post sizable gains. While the turnaround coincided with the movement toward Sunday openings, most retailers feel it is still too early to estimate the impact of such openings. Several department store executives attributed part of the October strength to unseasonably cold weather, which sparked purchases of outer wear. The vice president of an association of retailers agreed that soft goods were now selling better. Reports from upstate New York also indicate that consumer spending has gained considerably. The head of a leading department store in Buffalo said results for October were the best so far this year. A banker director noted a considerable pickup in consumer borrowing which he attributed to automobile purchases. In this strengthening environment, most retailers are expecting a healthy Christmas buying season that would carry over into the first half of 1977.

Concerning the general outlook for the national economy, the consensus view was that the recent slowdown in growth would not adversely affect the pace of economic activity over the next several quarters. Indeed, one director pointed out that the rate of growth in final sales had not slowed down at all. He predicted moderately faster growth over the winter and spring, followed by some slowing in the second half of 1977. Directors, business leaders, and economists alike felt that despite the recent slowdown the near-term outlook remained one of moderate but steady expansion.

The recent slowdown had not created any substantial inventory imbalances and, overall, inventories were in good shape in the unanimous view of respondents. One isolated sector where inventory imbalances were thought to exist was in the metals industries, especially steel and copper, which were frequently mentioned as being top-heavy. One director, however, did feel that the situation in steel had largely been corrected. The chief economist for a diversified company thought that chemical inventories were high while an executive of a chemical concern considered them to be comfortable.

One effect of the economic slowdown has been to allay fears of near-term shortages and capacity constraints. In July a senior official in the paper industry predicted that the industry would face capacity problems by mid-1977; but in view of current developments, this forecast has been revised so that capacity constraints are not expected to develop before 1978. A chemicals executive labelled the capacity situation in his industry as good, stating that through careful planning bottlenecks had been eliminated. A senior economist of a textile company spoke of considerable excess capacity while a metals executive predicted that shortages would not occur for a year or two. Few business leaders reported changes in planned capital spending, but many complained that the effects of environmental and governmental regulation had severely constrained the growth of capacity. Uncertainties over proposed environmental legislation and concern over the possible imposition of price controls were cited by several respondents as retarding investment spending.

Capital goods production in the District continues to lag, but there is some evidence of a turnaround. New orders for capital goods have apparently picked up for a number of companies. One officer reported a tremendous upswing in new orders, primarily in new bookings from the plastics industry. The production manager at another plant commented that new orders for sophisticated machinery had been good for some time and now orders for less sophisticated machinery are picking up. According to the vice president of an electrical machinery company, new orders have been somewhat stronger in recent months and moderate growth is expected in the near future. The vice president of a forge company reported that, while current capital spending is slow, activity is expected to strengthen in early 1977.

A majority of directors and business leaders seemed to feel that the Ford settlement would lead workers to strengthen their demands, but few expected the impact to be substantial. Most directors thought the settlement would lead to demands for higher wages, reduced hours, or a guaranteed annual wage. A number of business leaders agreed that the settlement was likely to encourage other workers to make more expensive demands, with one businessman stating that his company's upcoming negotiations would probably be affected. On the other hand, few thought that the impact economy-wide would be substantial because few other workers have the same bargaining strength as the automobile workers. In one director's view, the Ford settlement was tailored to the interests of a particular union and would not, therefore, cause other workers to alter their demands. An analyst in a brokerage house agreed that other workers were unlikely to accelerate their demands as a result of the settlement because in large measure the Ford contract was in line with others negotiated this year. Despite this general consensus, the directors of the Buffalo branch cautioned that the current United Parcel Service strike could signal a general strengthening of union demands over the next year.

THIRD DISTRICT - PHILADELPHIA

Economic activity in the Third District is mixed. Retail sales are improving somewhat, but the manufacturing sector is at a standstill. New orders and shipments are unchanged from last month, and inventories and employment are lower. Nevertheless, the longer-term outlook both in retailing and manufacturing remains optimistic. Reports of cost increases in manufacturing are less widespread than in October, and prices for finished products are only marginally higher. Bankers continue to report weak business loan demand and foresee no substantial pickup over the next twelve months.

Manufacturers responding to this month's Business Outlook Survey report that overall business conditions are about the same as last month. This is the first time since January that these businessmen have not reported some improvement in general business activity. New orders and shipments are unchanged this month while inventories and employment are lower. Factory work forces have declined for the second month in a row and the average workweek is shorter for the first time since last December. The bulk of the work force reductions is in the durable goods sector--especially primary metals. Manufacturers in this industry report weakening demand for their products as a result of excess capacity in capital goods industries and the possibility that some of their customers are running down inventories.

Despite this widespread pause, area manufacturers see brighter business skies down the road. With the exception of inventories, which are projected to be at current levels six months from now, all major indicators are expected to increase. Specific gains are anticipated in new orders, shipments, unfilled orders, and work forces, along with an expanding workweek as well. At the same time, plant and equipment expenditures are expected to climb over the period. However, projections of gains six months out in manufacturing employment and capital spending are not as widespread as last month. In the current survey, 36 percent of the respondents plan to add to their payrolls over the next six months and 41 percent anticipate higher levels of capital spending. Last month, 46 percent expected to hire additional employees and 50 percent were planning hikes in spending for plant and equipment.

Reports of price increases for supplies are less widespread than in October, and prices for finished products in manufacturing are only fractionally higher. One-fourth of the executives in the current survey report paying more for their inputs compared to one-half reporting increases last month. At the same time, 15 percent of the businessmen surveyed report charging higher prices for the products they sell while 10 percent report lower prices. This "net increase" of 5 percentage points is down substantially from last month when 23 percent were charging more for their outputs and 5 percent were charging less. Half of the respondents who report receiving lower prices are in primary metals where some firms are attempting to bolster sagging demand by lowering prices. Over the next half year, 9 out of 10 businessmen expect to be paying more for their supplies and 7 out of 10 anticipate higher prices for their finished products.

Retailers in the area report that current sales are "substantially better" than they were over the past few months. The majority of merchants contacted put current sales levels at about 10 percent above the same period last year. The one exception indicates gains of only a "few percentage points" over year-ago levels. Despite this reported improvement, however, most retailers feel that the recent lull in retail activity has not come to an end. Several mention that consumers are still somewhat cautious and they note that unusually cold weather may have pushed sales of winter outerwear ahead by 4-6 weeks. Merchants are hoping that the next few months will show healthy sales activity, but they are less than certain in their projections. As one executive puts it, "Shoppers have the means to step up their buying, and we expect them to begin loosening their purse strings soon. Unfortunately, we haven't seen any signs of this yet."

Bankers in the region report that consumer loan volume is trending upward, but business borrowing remains flat. At the same time, bankers feel that this situation will probably not change significantly over the next year. One reports that some of his corporate customers are telling him they see little need for new bank loans arising in 1977. Another banker feels that business loan demand should pick up sometime, but he sees no indications as to when this might happen. There is general agreement that the conditions on loans will ease somewhat, but there is no active policy of price-cutting reported now.

For the longer-term, bankers feel that loan volume will expand moderately in 1977 with only a gradual increase in interest rates. Most of the bankers contacted look for a prime rate of 7 3/4 by year-end '77. Consumer loans are expected to be fairly strong next year, and projections for business loan volume range from 6 to 12 percent over average 1976 levels. The executive at the upper end of this scale notes, however, that to realize this, "we'll definitely have to hustle."

FOURTH DISTRICT - CLEVELAND

Overall economic activity in the Fourth District during the past month has not picked up much from last quarter. Retail sales, excluding automobiles, spurted in October, and some capital goods producers report further gains in orders, but recovery is not broadly based. The moderated activity was partly caused by an inventory correction in some key materials producing industries, including steel, chemicals, and paper, as well as in consumer goods, especially apparel and household goods. Consequently, operating rates in these industries have eased, and expected spot shortages and bottlenecks have not developed this year and are not anticipated for most of next year.

Retail sales remain mixed, and retailers are still not certain if consumer spending will strengthen without larger gains in real income. A financial officer with a large discount chain noted a sales spurt in the past several weeks, mainly for outerware. An economist with a national retail chain in the District noted a surge in sales of apparel during October, the first monthly gain since early this year. He was not convinced that this pickup is a sign of strengthening in consumer spending, because sales of major appliances have been sagging and furniture sales have flattened recently. His explanation is that slow growth in real income during this expansion accounts for sluggishness in consumer spending, and he expects a tax cut of about $15 billion will be needed to trigger higher consumer spending in 1977. An economist with a major auto producer remarked that the slippage in domestic new car sales in October to an annual rate of 7.6 million units was partly due to effects of the auto strike but also to some softness in the market. He expects total new car sales to increase to about 10.8 million units in 1977. Another auto economist was satisfied with sales of 1977 models of larger size cars but noted that sales of small cars have not picked up as expected.

Recovery in capital goods continues but is not broadly based. Machine tool builders in the District are increasingly optimistic about 1977 prospects for shipments and profits because of the sharp rebound in orders, especially from the auto industry, and the growth in backlogs since late last summer. Several major producers of heavy duty trucks and truck components expect recovery in output of about 10-15% this year from 1975, and another 20-25% gain in 1977 from this year. A financial officer with a communication and information handling equipment firm reports that their net orders in the last 4 months averaged about 30% higher than shipments, and that orders have been strong for printing presses and satellite communication equipment. The firm is operating at about 85-90% of capacity, against a desired rate of 92-95%, and will more than double its capital spending for 1977 for semi-conductors, offset presses and other types of communication equipment. In contrast, some other capital goods producers report recovery has been weak, especially for certain types of construction machinery, such as excavators and shovel loaders, medium-size trucks used for local delivery, and industrial lift trucks. Although recovery in shipments of lift trucks so far in this expansion has been negligible, one producer notes an acceleration in orders last quarter.

Two economists associated with major banks in the District still expect capital spending in 1977 to rise about 15% from this year. One attributes the lagging recovery to low operating rates, and low real rates of return on investment of about 9% compared with an average of 15% during the 1950's and 1960's.

A theme that surfaces in contacts with materials producers as well as some consumer goods producers is that inventories were built too rapidly early this year and are being adjusted downward. Inventories of steel, plastics, appliances and apparel are being cut, which accounts for some of the slide in output in recent months. Steel operations have fallen somewhat below 75% of effective capacity in recent weeks, compared with nearly 90% in May and June; and economists associated with major producers in the District expect production this quarter will be the lowest for any quarter this year. Steel producers, who were concerned over possible shortages of natural gas and coking coal this winter, if operations were maintained at rates as high as late last spring, now view supplies as adequate. A large plastics producer also noted a recent drop in output because of inventory correction. Orders bulged earlier this year in anticipation of shortages that did not surface.

Some producers of consumer goods and retailers report inventories were rebuilt too rapidly, partly involuntarily, which have forced cutbacks in production and orders. One producer described the market for all but small appliances as weakening. Output for major appliances has been slashed, although this producer expects stocks will be brought into balance by yearend. Two retailers noted that slow sales of apparel since last spring necessitated large markdowns to cut inventories, and both agreed that apparel inventories are now at desired levels, although stocks of household goods are high. One retailer expects excess stocks of furniture and appliances can be liquidated in about one quarter.

## FIFTH DISTRICT - RICHMOND

Responses to our November survey of Fifth District business conditions indicate continued slack in manufacturing, but some recent improvement at the retail level. The diffusion of manufacturing responses suggests some further softening of new orders and a broad decline in order backlogs. Shipments were apparently up slightly and inventories were essentially unchanged, remaining somewhat above desired levels. Responses indicate little change in manufacturing employment but some decline in weekly hours worked. One-third of the manufacturing respondents continued to view plant and equipment capacity as excessive. Retailers report a relative gain in sales of big ticket items as well as general improvement in sales. Inventories at retail grew during the latest survey period, but are now apparently in line with desired levels. Manufacturers and retailers alike have become more optimistic concerning the outlook for the level of business activity nationally and in their respective market areas, but fewer than half of the manufacturing respondents expect the level of production in their own firms to improve during the next six months. Fifth District banking conditions reflect a moderate increase in demand for credit that is balanced by unusually strong time deposit inflows. In the agricultural sector, wet weather has delayed the harvest of peanuts, soybeans, and corn.

Manufacturing respondents, on balance, continued to report increased shipments in October, although the individual increases were less widespread than in September. The diffusion of survey responses suggests a decline in new orders for the fifth consecutive month. With regard to the pattern of industry involvement in this area, apparel, lumber, furniture, and chemicals producers appear to have accounted for much of the overall weakness, while primary metals and machinery and equipment manufacturers have made some recent gains. Backlogs of orders also declined across a broad front, as nearly half of the respondents report reductions during October. Inventories at the manufacturing level showed little change in the aggregate. One-third of the manufacturers report increases in stocks of finished goods, but nearly as many experienced declines. Manufacturers reporting reductions in the number of employees slightly outnumbered those reporting increases, but one-fourth of all respondents indicate shorter workweeks during the past month.

Nearly one-half of the retailers responding to our survey experienced improved sales in October and almost as many report an increase in sales of big ticket items relative to total sales. Responses also suggest an increase in inventories at the retail level, but every retail respondent views current levels as about right based on current and prospective sales rates. Retailers were also unanimous in calling the current number and size of outlets about right.

Concerning the outlook for the next six months, 50 percent of the manufacturers surveyed and over 40 percent of retailers expect the level of general business activity nationally to improve. Much the same view is held with regard to the level of business activity in the respondents' respective market areas and by the retailers concerning the level of sales in their own firms. Among the manufacturers surveyed, however, expectations of improvements in the level of production in their own firms are slightly less common than a month ago.

Survey respondents, both retail and manufacturing, report widespread increases in prices paid, but relatively few such increases in the prices received. Nearly 50 percent of all respondents report paying higher prices during the latest survey period, while fewer than 20 percent report increases in prices received and over 12 percent report receiving lower prices.

In the banking sector, there appears to be a moderate upward trend developing in the demand for business loans, which recently has drawn strength from the wholesale and retail trade sectors. Business loan demand is certainly not at desired levels, however, and investment in bankers' acceptances continues. Both consumer installment and real estate loans show continued strength.

The District's farm income situation improved during August, largely because marketing of the flue-cured crop was well underway and prices were up sharply from last year. With this improvement, total cash farm income for the January-August period registered a 5 percent gain over a year earlier compared with 1 percent at the end of July. Average flue-cured tobacco prices have trended downward in recent weeks in response to lower grade prices and poorer quality of offerings. Season average prices continue to run about 11 percent above a year ago, however. Excessive moisture has reduced the quality of peanuts and damaged soybean pods. Moreover, the recent freezing temperatures have resulted in moderate peanut harvest losses.

SIXTH DISTRICT - ATLANTA

A mixed pattern of recovery persists in the Southeast. Production in the textile and apparel industry is weak while paper output is high. Fears of wage and price controls have fostered price hikes; but some leveling of prices is reported following earlier increases. A shortage of coking coal exists, while a future shortage of beef appears likely to occur. Capital investment remains weak in the Southeast. Business has improved for hotels and motels. Strength in consumption is chiefly confined to autos and hard goods, although colder weather has stimulated apparel sales to some degree. Some recent evidence suggests that spending growth may be occurring primarily among relatively affluent consumers, while less well-heeled customers remain cautious.

Production in the textile and apparel industries is flat, except for denim. Weak demand is attributed to higher prices in the absence of any major style changes. Stores in several areas report reluctance to build inventories in the face of recent slackness in demand. Some price reductions have been made by manufacturers to reduce inventories. Synthetic yarn prices are expected to remain stable, but cotton yarn will rise in price. Constant restyling has maintained strong demand for denim fashion jeans. Manufacturers are forced to import fabric to meet demand. Labor is short in some parts of the industry; plants located in smaller towns enjoy a more abundant supply of labor.

The paper business appears to be lagging behind changes in the general economy. Newsprint sales have increased slightly because of increased use of advertising inserts. Plants in the South and the rest of the U. S. are running near full capacity, but Canadian mills have excess capacity. A price increase of about 10 percent is anticipated in response to higher energy costs. Demand for supermarket bags is strong, but sales of textile industry packing material are weak. Converters who use paper to make finished goods, such as envelopes, tablets, and cigarette packages, are operating at about 70 percent of capacity. They are experiencing a cost-price squeeze. In contrast, a manufacturer of flexible packaging material for the food industry has experienced strong sales increases but reports cost pressures for raw materials such as cellophane.

Several reports of price increases mention fear of wage and price controls as a precipitating factor. One manufacturer's transaction price is 16 percent below his list price because he wants to avoid being tied to a low price. He also notes that many of his suppliers are selling below quoted list prices. A steel manufacturer also remarks that the threat of price controls is increasing prices. His company is experiencing weak demand and is operating at 85 percent of capacity. Yet he anticipates a 10-percent increase in prices in early 1977.

A major producer of synthetic fiber reports that dacron is still being sold below cost. High profits attracted new entrants, and overcapacity has prevented recovery of increased raw material costs. This plant now operates at two-thirds of maximum capacity, but inventories have been reduced and price increases are anticipated. Timber prices, which had risen above the highs reached in 1972-1973, have softened in recent weeks.

A producer of coking coal for steel manufacturing notes a shortage of its product. Prices for coking coal, unlike other coal prices, have not been depressed but are being forced up because safety regulations have reduced productivity and have entailed substantial compliance costs.

Producers of beef and sugar cane remain faced with such an adverse cost-price squeeze that they are likely to shift into production of other crops. Future shortages of beef appear likely.

Capital investment in southeastern industries remains weak. In the paper industry, investment for expansion is considered unprofitable at present price levels. Most of its spending is for pollution abatement. Some textile manufacturers are replacing inefficient equipment in addition to making necessary pollution control outlays. A pipe manufacturer notes that "the capital goods sector is dead," although he expects his business to increase as housing and capital investment expand. Coal producers in Alabama require substantial additional capital investment to meet an expanding demand for coal, but question whether the return is adequate to compensate investors for their risks. A manufacturer of boilers reports the lowest sales, nationally, since the depression. Utilities and manufacturing firms are reluctant to purchase boilers for existing plants because they are uncertain about the type of fuel they will be using.

Business has grown for hotels and motels, as business travel, corporate meetings, and conventions have picked up. Rate resistance is limited, the more luxurious rooms are in demand, and higher-priced meals are being ordered. Still, higher costs are creating difficulties in restoring profitable operations. Increased minimum wages and energy costs are primary factors. Overcapacity in various areas has limited the opportunity for price increases. Despite these problems, certain areas remain attractive for hotel investments. In New Orleans, one large chain is building a new hotel while another is adding a second tower to its present facilities. In addition, a new $.5-billion development combining office, hotel, condominium, and retail space will be built in New Orleans.

In the consumption sector, apparel sales remain weak, but sales of autos and hard goods are strong. The onset of colder weather has begun to boost retail clothing sales. Reports that better quality merchandise is in greatest demand echo recent evidence that buying of homes and boats is concentrated in the higher-priced lines, while sales of less expensive lines remain weak. They suggest that much of the strength in consumption spending may be confined to a relatively affluent upper stratum. These fragments are also consistent with the hotel industry trends noted above.

SEVENTH DISTRICT - CHICAGO

In the past month there has been a tendency to moderate forecasts for various industries and for the economy as a whole. Capital expenditures are probably heading up, but the picture varies substantially by industry. Inventories are being held under very close rein. Some firms are cutting inventories, notably of steel, counting on short lead times. Large retailers are pleased with recent sales of seasonal merchandise. Redesigned cars are selling very well. Appliance sales are far below expectations. Agricultural harvests are ahead of normal schedules. Lenders of all types have ample funds. Many firms experienced losses as a result of the devaluation of the Mexican peso.

Although forecasts of the rate of expansion are more subdued and cautious, there seems to be no expectation that a recession is imminent. In fact, more analysts now anticipate that the upswing will continue into 1978. The recent slowdown suggests to them that satisfaction of various demands is being pushed into the future.

Sales of heavy trucks and trailers are well above last year and further gains are expected for 1977, but the size of the expected increase in sales has been reduced. Orders for large outdoor cranes and some other types of construction equipment have picked up recently from depressed levels. Orders for mining equipment are sharply lower than last year, but inquiries have been at a high rate. Builders of large machine tools have experienced an improved rate of orders, especially from the auto industry for use in production lines to produce new engines and other components. Some small or medium-sized industrial and commercial building projects, postponed during the recession, have been reactivated.

There are many comments concerning lower inventory/sales ratios. Most companies hope to hold inventories at these reduced ratios. Fears that lead times would stretch out have been replaced with a conviction that there is no need to stock ahead. There are a few exceptions, such as components for repairing used equipment, special types of castings, and certain electrical components.

Demand for steel has picked up recently after a period when orders were well below shipments. Instead of increasing steel inventories as expected earlier this year, steel users have been reducing inventories. In addition, steel mills have begun to reduce their own inventories. End usage, however, is not much below expectations. Orders for plates used in heavy equipment, and, especially, structural steel continue quite weak.

Retailers, like manufacturers, report inventories in good balance. Major chains were quite pleased with sales in October and early November. Sales of apparel, which had been depressed, rose with cooler weather. Apparel manufacturers have been cutting prices on winter clothing and retailers are offering special promotions. Appliance sales--especially washers, dryers, freezers, and refrigerators--have been poor and manufacturers have scheduled additional downtime.

General Motors' newly-designed cars have been selling very well in the Chicago area. Many dealers say they could sell significantly more cars if they had them. Inventories of most Ford vehicles are low because of the recent strike. Most Ford assembly plants did not achieve full production until late October, because of various local problems. Heavy overtime is scheduled by Ford through year-end. Demand for vans continues to outrun supply, and light trucks, generally, are selling at record rates. In contrast, the smallest car producer has been forced to close its assembly plants (temporarily), because of poor sales and heavy inventories.

Various surveys of consumer sentiment have been yielding sharply different results, which confuse analysts. Consumer use of instalment credit has been at a relatively high rate and this is taken as evidence that confidence is relatively firm, despite verbal responses to the contrary. Delinquency experience on consumer debts has been favorable.

UAW negotiations with producers of motor vehicles, and also farm and construction equipment, apparently are following the lead of the agreement with Ford. Although most published reports indicate that the Ford contract will increase compensation by 10 percent per year for three years, Ford executives say the cost will be 13 percent in the first year. They had assumed an 8.8 percent increase when prices of 1977 models were determined.

Harvests of corn and soybeans are ahead of schedule. No unusual problems have been encountered in storage or transportation, despite some news stories concerning slower movements of barge traffic as a result of low water levels on the Mississippi.

District farmland values increased substantially again in the third quarter, in contrast to a slowing in increases in many areas of the country. On average, district farmland values rose 8 percent during the third quarter.

EIGHTH DISTRICT - ST. LOUIS

Eighth District businessmen remain generally optimistic about prospects for economic activity in the coming year even though manufacturing activity has continued to slow in recent weeks. There is some pickup in machine tool sales, but no plans were reported for additional fixed capital investment. Retailers continue to report sizable gains in sales over last year; however, few reports indicate any marked increase in manufacturing activity and several indicate weakness in factory sales and orders. Employment has declined somewhat. Home building, one of the stronger areas of economic activity, has also slowed in parts of the District. Banks and savings and loan associations continue to search for loan opportunities. Loans have increased somewhat in most categories, but liquidity of financial institutions remains relatively high.

Prospects for gains in retail sales are good according to area retailers. One large St. Louis retailer reports October sales are up about 8 percent from a year ago. In some other cities in the District department store sales have registered gains of 15 percent above a year ago. An appliance retailer noted that sales have been sluggish in recent months among major home appliances, though audio equipment sales are doing well. Also appliance sales are expected to improve during the Thanksgiving-Christmas period and most retailers are optimistic as to prospects for the coming year. The volume of automobile and truck sales is quite large at the beginning of the new model year.

Manufacturing activity continues to show weakness according to several reports. The chemical industry has experienced no change or slight declines in orders among a wide variety of products including industrial chemicals, plastics, and fibers, but sales of agricultural chemicals remain at a relatively high level. New capacity in the chemical industry is now coming on stream and is expected to limit price increases next year to a relatively modest increase. A major appliance producer in the District is planning to shut down from Thanksgiving to early January as a result of slackening demand. This manufacturer does not expect a pickup in demand for appliances until the first quarter of 1977. One representative of the paints and coatings industry reports less orders in recent weeks than expected, but another representative of this industry reports unit sales 15 percent above last year. A manufacturer of lift trucks reported that inventories have now stabilized, though excess productive capacity remains high. Firms supplying the home building industry are somewhat more optimistic in recent weeks than heretofore. A manufacturer of trusses and connector plates reported that sales have held up quite well in recent months and are expected to rise further as a result of recent increases in housing starts. Also on the optimistic side, a manufacturer of diesel engines reports additional hirings as incoming orders are exceeding current ability to produce.

Recent employment data tends to emphasize the economic slowdown in the District over the past three to six months. Employment has generally declined and unemployment rates have risen.

Homebuilding continues as one of the stronger segments in the St. Louis area. Homebuilding analysts in St. Louis reported that construction of single-family homes has been particularly strong for this time of year. Memphis, however, has experienced a leveling off or some decline in single-family home building in the past few months. Also reports from other parts of Tennessee and from Mississippi indicate that residential construction has slowed in recent months.

Growth of deposits at savings and loan associations has moderated in recent months and mortgage loan demand has improved. Nevertheless, these institutions continue to maintain fairly high levels of liquid investments which can be converted into mortgage loans. One association which decided to expand its lending for consumer durables reports strong competition from commercial banks which are also searching for loan opportunities. Loans at commercial banks in the District have increased in most categories in recent weeks. The prime bank loan rate, however, has declined in line with the decline nationally.

In the agricultural sector, weather has generally been favorable and harvesting operations are nearing completion. Crop yields have been mixed varying from good to poor. For example, in the Louisville area crop yields are reported to be quite good while in drought areas, such as Eastern Missouri, they are fair to poor. Although beef cattle prices have shown some slight increase recently, cow/calf producers are still reported to be in a loss position and poultry producers in recent weeks have experienced a sharp drop in their profit margins.

NINTH DISTRICT - MINNEAPOLIS

Information this month about district economic conditions is not particularly encouraging. The agricultural situation remains bleak. District cash farm receipts have been restricted by low wheat, corn, and livestock prices, and will be further affected by drought-induced reductions in output. As a result, farm debt is being extended while farm spending is curtailed. The outlook for nonagricultural jobs isn't very promising either. And expected wage increases will likely add to inflationary pressures.

Respondents to our October survey of Ninth District agricultural bankers gave two principal reasons for the reported drop in farm earnings throughout the district. First, depressed prices for agricultural products--notably, cattle, hogs, corn, and wheat--have restricted income gains. Second, drought conditions in most of Minnesota and a large part of South Dakota have drastically cut agricultural production. Furthermore, little improvement in district farm income was foreseen by those ag bankers, and concern was expressed that soil moisture next spring would not be sufficient for successful planting of the 1977 crops. Their responses join with evidence gathered from this Bank's directors.

Reductions in farm income are already having an impact on farm spending. Fifty-one percent of our survey's respondents reported lower spending in October of this year as compared to a year ago, and sixty-three percent expect spending to be lower in the next three months than the previous twelve months. Some of the responding bankers commented that farmers appeared to have eliminated expenditures for most items except irrigation equipment.

Despite spending cuts, lower earnings appeared to be forcing farmers into a financial squeeze. Forty-seven percent of the bankers responding had experienced greater demands than usual for farm debt refinancing, and 71 percent expected greater demand in the coming quarter. In addition, 60 percent of the bankers characterized the current rate of debt repayment as "slow," 42 percent reported a greater proportion of farmers now are at their debt limit than at this time last year, and 70 percent expected adverse changes in the ability of farmers to repay debt.

However, most bankers felt they would be able to meet current credit needs of farmers. Of those reporting, 55 percent were still actively seeking new farm loan accounts and only 10 percent had reduced or refused a loan as a result of funds shortages. The average loan-to-deposit ratio was reported as 65 percent, and only 26 percent of the respondents regarded their current ratios as being too high. These figures were identical to those reported three months earlier. While some increase occurred in the percentage of bankers who expect problems in meeting loan requests in the next three months, it is not a cause for alarm. The percentage rose from 9 percent to 12 percent between the July and October surveys. Also, several directors of this Reserve Bank reported that rural banks do not foresee any significant loan losses.

Our directors' information doesn't provide a good outlook for unemployed workers in the Ninth District. One director, from a major Twin Cities area employer, said employment at his firm has been flat, and he expects no significant growth. An economist from a large Twin Cities commercial bank said that major local companies are not currently expanding operations here which points towards poor employment growth. Manufacturing jobs in the central Minnesota area were reported to be down about 14 percent from a year ago, with no immediate increases foreseen. A Montana director indicated that the employment outlook was not particularly encouraging there, and a director from the Upper Peninsula of Michigan termed job prospects in his area "nil." The farm income situation was expected to hold down job growth in many rural areas. Some job gains were expected, though, in central Minnesota's trade and service sectors. And a southern Minnesota director said that the demand for unskilled labor in his area was quite strong.

Several of our Bank's directors expected wage increases to boost nonfarm prices in coming months. One of them heads a large manufacturing firm which will be raising prices to meet higher payroll costs in 1976 and 1977. An economist for a large Twin Cities commercial bank foresees wage settlement increases as a problem in attempts to ease inflation. A Montana director said labor negotiations in the farm machinery industry could significantly boost farm machinery prices. And a Minnesota director indicated that wage increases would raise service prices in his area about 10 percent next year. A few directors from rural areas, however, felt wage increases would not be a serious inflationary factor in those areas.

TENTH DISTRICT - KANSAS CITY

Sales by large retailers in major Tenth District cities generally exceeded expectations in October, resulting in a moderately optimistic outlook for the Christmas season. Retail inventories are generally reported to be about right, although a sizable minority of respondents had larger stocks than they desired. Dealers are uniformly optimistic about sales of the 1977 model cars. Plentiful grain stocks and livestock inventories are likely to help hold the increase in food prices down in 1977. Ranchers and cattle feeders are having a difficult time and--along with wheat farmers withholding grain from market--are a source of higher loan demand at District banks. Otherwise, bankers report only a stable loan demand.

Large retailers in major cities in the Tenth District generally report sales in October to have exceeded expectations, following somewhat weaker September sales. (Exceptions were not uniform with regard either to type of store or to geographic location.) The improved October performance has apparently resulted in some increased optimism for sales in the Christmas season, although the degree of optimism can only be described as moderate overall. One large catalog sales company reports that its Christmas sales are ahead of its expectations.

With few exceptions, stores reporting on relative strength or weakness of various product lines noted greater strength for durables than for nondurable goods. Appliances, home improvement items, and auto accessories were identified among durables selling well; the picture for other home furnishings was mixed. Sales of both men's and women's clothes were generally reported to be strong, although some instances of weakness in women's apparel sales were reported.

Most retailers described their inventories as being about at the level they wanted them. One respondent described his stocks as "right for expected sales;" another indicated that inventories had been too heavy until his store's October sales increase. A sizable minority of respondents reported larger stocks than desired, however.

Nearly all retailers contacted spoke of a steady pattern of price increases for the things they buy, but with no unusual or outstanding price rises. Several respondents indicated that their own markups are holding steady. Retailers in the Tenth District report that the United Parcel Service strike has had very little impact, or none at all, on their operations.

Sellers of domestic new automobiles in the Tenth District are uniformly optimistic about sales of the 1977 model cars. Full-sized and intermediate-sized cars are selling best; sales of compacts and subcompacts are still weak. Most dealers continue to sell cars heavily loaded with optional equipment. New car inventories are generally low, with few exceptions; this goes beyond Ford dealers still feeling the impact of the strike. Dealers generally report that 1977 model sales would be better if their inventory situation were better.

Although farm prices fell 5 per cent during the month ended October 15 to a level 9 per cent below a year ago, price gains during the first half of the year will hold the 1976 average very close to the figure for 1975. Food prices, therefore, have exhibited greater stability this year than in the previous 3 years--rising an estimated 3 to 4 per cent. Recent reports on grain stocks and livestock inventories suggest that food supplies will remain plentiful at least until midyear 1977, which should help keep the lid on food prices. Most of next year's pressures on food prices are likely to arise from probable increases in marketing charges for labor, processing, packaging, and the like. As a result, some acceleration in the rate of increase for food prices seems likely in 1977.

This has been a difficult year for ranchers and cattle feeders in the Tenth District. Agricultural bankers responding to the October 1 agricultural credit survey indicated only 13 per cent of their rancher and feeder customers would increase their net worths this year, while 50 per cent expected a decline. A large percentage of those expecting increases or no change in net worths attributed this solely to higher land values. One banker noted, "The land value increase is about the only answer to holding property statements together."

Higher input costs, low cattle prices, and slow selling by wheat farmers--who are holding crops for better prices--have resulted in markedly higher farm loan demand in the Tenth District from a year ago. Over 72 per cent of the bankers reported an increase in loan demand, and 39 per cent noted a decrease in loanable funds. Lower rates of loan repayments and more loan renewals or extensions were noted by just over half the bankers. These trends were particularly noticeable in the cattle and wheat raising areas of the District.

Total loans increased at Tenth District banks in October. However, bankers contacted for the survey reported only a stable loan demand. Most stated that they would like to build up their business loans and are actively seeking new corporate customers. They reported normal to good automobile sales for their areas, but most stated that their automobile loans had not increased because their terms were not competitive with other automobile financers. One banker reported a brisk pick up in loans to retailers due to earlier than usual shipments of Christmas merchandise.

The recent declines in the prime rate have resulted in pressure on earnings for several banks. These bankers stated they were trying to trim their costs primarily by reducing overhead. Also, they have lowered their rates on large CD's and reduced their purchases of Federal funds. Bankers are reluctant to reduce the rate on consumer-type time accounts from the maximums because of the competition for these deposits.

ELEVENTH DISTRICT - DALLAS

The major regional economic indicators suggest that business conditions in the Eleventh District have begun to strengthen. Although mining output is off, production in manufacturing is up sharply, led by large gains in such major nondurable goods industries as chemicals and refining. Housing starts in Texas are at the highest level since January 1973, and there are 19,000 more construction jobs than a year ago. The growth in total employment in the Southwest has reduced the unemployment rate to 6.3 percent from a peak of 7.0 percent in September 1975. This month's survey suggests that new car sales are climbing again, and new orders for women's and children's clothing have picked up. Total bank loan demand remains on a plateau, but loan demand for multifamily construction and irrigation farming is increasing.

Demand for new automobiles appears to be growing, following a lull in sales during September and early October. Part of the recent increase, however, is attributable to fleet sales that obscure underlying consumer demand. However, all auto dealers interviewed anticipate strong sales during the 1977 model year. A few dealers expect sales will pick up significantly now that the Presidential election is over. There is no indication of unfavorable consumer reaction to the reduction in size of GM models or to the average 6-percent increase in new car prices. Some used car sales, however, are attributed to higher prices for new cars. Almost all dealers indicate that their inventories are lower than they would like. Ford dealers are experiencing a slow pickup in deliveries since the auto strike ended, and GM dealers report that it is difficult to get enough of the most popular models.

The outlook for apparel sales is mixed, according to market observers at recent showings of spring merchandise at the Dallas Apparel Mart. The number of buyers at the women's and children's market was 10 percent higher than a year ago, and the volume of new orders was up an estimated 20 percent. Inventories at most buyer outlets--largely "mom and pop" stores--were reported to be low. The biggest price increases were reported for articles made of denim and for children's wear. For all goods, higher priced merchandise tended to sell better than medium- or low-priced goods.

New orders for men's clothing were off at the latest market. Partly because few style innovations have occurred in the past two years, consumers appear content with their current wardrobes. Some price increases in men's clothing have occurred, especially for shirts and worsted goods. Industry spokesmen note that consumer price resistance for men's suits begins at about $165 in department stores, while price resistance for similar goods sold in specialty clothing stores begins at about $200.

Interviews with District bankers suggest that business loan demand continues "disappointedly flat" and in some cases is falling. The long anticipated turnaround has not appeared, and several bankers now put off to mid-1977 an expected rise in business loan demand. Loans to the petroleum industry for drilling and developing fields continue to be the only area of significant strength. Although commercial and industrial loans remain weak, loans to local firms, in contrast to national firms, have been coming in better.

Consumer loan demand is lackluster. With the exception of the Houston area, there is little or no growth in credit card usage or delinquencies. A Fort Worth banker reported that repayments in credit card accounts are outstripping sales, and a Dallas banker noted the high level of savings was impeding growth in consumer loan demand. New car loans are weak because many purchases are being financed through sales finance companies. Several bankers indicated that real estate loans--especially for construction of multifamily housing--have bottomed out and appear to be in an initial state of recovery.

Country bankers report that operating loans for irrigation farming are being spurred by sharply higher production costs and lower market prices for grain. But bankers are firming collateral requirements as a means of reducing loan risks. And many bankers indicate that the net worth of borrowers will become a more important factor in the evaluation of farm loans in the future. A banker in the High Plains of Texas stated that marginal tenant farmers will likely have difficulty in obtaining sufficient operating capital next year to meet their projected needs. Another banker reported that financing of many tenant farmers will likely require more participation of the Farmers Home Administration and/or the Small Business Administration in making guaranteed loans.

Most of the bankers interviewed indicated that with continued expectations for an impending rise in loan demand, they plan to maintain a liquid investment portfolio. Because the tax-exempt advantages of municipal obligations are currently less attractive, the major portion of new acquisitions is mainly comprised of U.S. Treasury issues. More banks, however, are lengthening the maturity structure of their investment portfolios somewhat in order to obtain the higher rates of return available on intermediate-term Government securities and, thus, help offset the slower growth in income from loans.

TWELFTH DISTRICT - SAN FRANCISCO

The general trend of business continues to be listless according to reports from this District's directors. No increase in consumer spending beyond seasonal gains is anticipated for the holiday season. The steel industry is being adversely affected by the lack of demand for new plant and equipment construction and, although the housing industry is pulling itself out of the quagmire, it faces many unpredictable elements which confuse the market and make project planning difficult. In many industries, prices are reported to be stable, but the overall conditions of sale are showing signs of weakness. Corporate loan demand is not expected to increase significantly until well into 1977.

Demand at the retail level has been sluggish and no change is anticipated through the end of the year. Inventory-ordering has been completed for the Christmas season at levels which would be in line with a normal seasonal increase in sales. The market for new cars is spotty, ranging from "very good" to "fair" across the District. Deposit flows continue high which indicates consumer caution and a high savings rate.

Commercial and industrial construction continues weak except in Utah and Idaho where capacity levels have been reached in a few lines. New storage facilities are being built to service this year's large harvests. Housing construction is on an up-beat. One director reports that insurance rates for contractors have risen astronomically. In the Los Angeles area where new home prices have been rising 2.8 percent per month, there have been the first signs of an adverse consumer reaction and it is expected that this rate of increase will diminish very soon.

There is over-all softness in the forest products industry. Lumber demand, which had been strong earlier in the year, dipped in September and prices have slipped 5 to 10 percent over the past two months. "Downtime" is increasing in the board and paper areas, reducing operating rates below the 90 percent level experienced in the first half of 1976. Capacity growth over the next four years is expected to be only 2.2 percent per year, slightly less than over the past four years.

Steel output has declined reflecting the low levels of demand for new plants and equipment. In the earlier part of the year, aluminum business was considered strong, but it has dropped off somewhat to a level that is expected to be sustained until next spring. On the other hand, demand for copper is strong. Nationwide output of copper has risen nearly 10 percent during the first seven months of 1976, and stocks were reduced nearly 20 percent below year-earlier levels. In Utah, production of lead and zinc for the first seven months of 1976 was up nearly 45 percent from the previous year.

In spite of generally unfavorable weather conditions, the fall harvest for many crops exceeded last year. Fruits, wheat, beans, and potatoes are in heavy supply and storage facilities are bulging. Prices have declined for both crops and livestock; quotations for wheat, barley and potatoes have dropped 10 to 20 percent over the past month. The field price for potatoes is below $2 per cwt. In the livestock market, feeder cattle are getting 20 to 30 percent less than a year ago, lamb prices are holding steady, but hogs are lower by 30 to 40 percent. "Anyone who held his 1975 steers lost money because of low prices, high cost of feed and interest on financed money."

Although most manufacturers report that prices have been stable over the past month, there appears to have been some softening in the "conditions of sale." Producers who are unable to reduce prices because of rising costs are beginning to compete by improving quality. In agriculture, prices of burlap sacks, container cartons, fertilizer and insecticide have been declining this year, whereas costs of gasoline, oil and general repair parts have been slowly increasing.

In response to a question regarding business loan demand, one director who is the president of a large west coast bank reported as follows: "Over the last two months we have been noticing modest increases in commercial and industrial loans especially smaller and medium sized companies. We expect these modest increases to continue between now and the end of 1976. The structure of increased demands among various industries reflects that while corporate liquidity is high, it is not pervasive enough for all firms that are realizing increased working capital and investment spending funding needs. Stronger trends in investment spending are not likely to result in significant increases in corporate loan demand among large companies until well into 1977."