

CONFIDENTIAL (FR)

CURRENT ECONOMIC CONDITIONS BY DISTRICT

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SUMMARY*

The overall impression that emerges from this month's district reports is that the economy is recovering smartly from the disruptions caused by the bitter weather earlier in the year. Production has rebounded quickly, and laid off workers have returned to the job with the onset of more temperate weather. Retail trade generally shows strength, factory orders are reported to be rising, and a rebuilding of business inventories may be getting underway. There were also scattered reports of a strengthening of the business capital investment picture. On the darker side, however, there appeared to be increased apprehension over inflationary pressures, as the drought in the western states threatens to add higher food prices to higher fuel prices.

The impact of the weather-induced disruptions appears to be short-lived. Cleveland, for example, reports that economic activity in the district is recovering rapidly from the severe winter, with respondents from industries hardest hit by fuel shortages--steel, automobile, appliance, and glass--generally expecting losses in output to be recouped over the next few months. Economic activity in the Chicago district has returned to near normal levels, with many manufacturers, particularly in the steel and auto industry, working full speed to overcome shortfalls in output. St. Louis reports that although weather conditions and natural gas shortages hampered activity of some firms in January, the return of normal weather has alleviated most of the problems. Similar sentiments were expressed by New York respondents.

*Prepared by the Federal Reserve Bank of New York.

It appears, on balance, that weather related disruptions of industrial activity turned out to be less acute than had been feared. Boston states that New England industry escaped relatively unscathed, with only isolated production slowdowns, and Philadelphia reports only moderate disruptions at the relatively small group of firms affected--mostly in the primary metal and food product industries. Richmond and Kansas City report that weather-related difficulties were not widespread, and Atlanta reports only minor disruptions. Finally, Minneapolis reports the cold weather had no significant impact on its district's industrial activity, which indeed expanded further.

The consumer spending picture is generally favorable. Chicago characterizes retail sales of both durables and nondurables as excellent, and St. Louis reports February sales to be running somewhat above the particularly high February 1976 pace. Dallas sees continued strength in department store sales, and notes that merchants are generally optimistic. Richmond reports similar sentiment. On the other hand, sales were apparently mixed in the Philadelphia district in February.

Consumer outlays on new homes also appear to be on the upswing. Chicago reports that demand for housing, especially for single-family homes, is very strong, and residential building is up in urban areas of the Minneapolis district, where a healthy amount of residential construction is expected for 1977. San Francisco reports that construction activity continues strong in most western states. On the other hand, commercial and industrial construction generally continues sluggish, although Atlanta reports increases in nonresidential construction activity in some parts of the district.

Regarding business sales, Boston reports a particularly high level of new orders for hardware, machine tools, and appliances, and St. Louis notes a rise in the sale of chemical goods and commercial aircraft. Manufacturers in the Richmond district report a high level of orders, particularly for chemicals and primary metals, and as a group seem more optimistic than at any time in the past several years. Similarly, Philadelphia reports that manufacturing respondents report increases in orders and that most of these respondents expected further expansion over the coming months; Minneapolis reports manufacturing sales up 18 percent from a year before, with respondents expecting sales to exceed year-earlier levels over the coming months.

A period of inventory rebuilding may be getting underway. Chicago notes that many manufacturers and some retailers have already begun to rebuild depleted inventories. Philadelphia reports that retail inventories are in good shape and that higher levels of inventories are projected by manufacturers. Minneapolis respondents are generally content with current inventory levels, while manufacturing respondents in the Richmond survey of business conditions suggest the most comfortable inventory positions in almost a year.

Business outlays for plant and equipment generally still appear sluggish, although there was some limited evidence of a strengthening in that sector. Several respondents in the New York district expected some increase in plant and equipment outlays later in the year, partly reflecting a shift by some producers to alternative energy sources for their plants. Respondents in the Richmond and Philadelphia districts also expected some increase over the coming months, while Chicago notes that capital expenditure programs probably have increased somewhat but that uncertainties continue to hamper such spending.

On the darker side, respondents in over half of the districts looked for a heightening of inflationary pressures, particularly in view of the drought in the western states. Concern over possible damage to crops due to the lack of moisture is mentioned by Kansas City, San Francisco, and Minneapolis and, to a lesser extent, Chicago and St. Louis.

FIRST DISTRICT - BOSTON

The economic outlook for the First District continues to be encouraging. Industry in the region was relatively unaffected by winter weather, although there were scattered slowdowns because of bad weather and difficulties in obtaining parts. Some manufacturers' sales may have been reduced because of production cutbacks elsewhere in the country but many report high incoming order rates. A number of major companies have just released very favorable earnings reports for the fourth quarter of 1976. Retail sales in the region appear to have slipped from the high levels of recent months but this was expected. Construction remains very weak.

New England industry escaped the winter relatively unscathed. There were some difficulties in distributing fuel oil and individual dealers ran short, but this was handled by reallocations among dealers and there were no plant closings. Fuel supplies for March appear adequate. Isolated production slowdowns took place because of delays in receiving shipments from the midwest, but such delays are no longer a problem. For northern New England the winter has actually had positive aspects. The recreation industry is having a record season and retail outlets associated with ski areas are doing extremely well.

A number of large New England firms have just reported very strong fourth quarter earnings. These companies produce a wide range of products from candy to precision instruments. New orders for hardware, machine tools and appliances are particularly high. A large supplier to the tire manufacturers reports very strong demand. Capital goods orders, however, remain disappointing except for automotive products.

Retail sales in New England appear to have slipped. This is not seen

as a problem because sales volumes had been very high. As indicated above, retail outlets serving the recreation industry are an exception in the northern states. Also, a representative of a large department store with national affiliations reports that sales in January and February were very good with solid real growth. He is concerned that buyers for the fall line might overstock because current sales are so strong.

Construction remains the weakest element of the New England economy. One director indicated that he expects a pick-up in commercial construction as soon as the weather improves but at present there are no signs of increased activity. One banking director reported that he observes moderate housing construction but very little borrowing for commercial or institutional building. Another noted that solicitations to bid on construction projects are drawing unusually high response rates.

In general, New England manufacturers are not concerned about supply bottlenecks. However, several manufacturers expressed concern about drought caused electric power shortages in the west and their possible impact on aluminum production. Capacity limitations are not a problem for most New England companies. At the national level, one economic consultant indicated that capacity constraints are not likely to appear in the major processing industries during 1977. Utilization rates will be highest for paper. In the lower grades adequate world capacity will prevent shortages but in fine papers very strong economic growth or large hedging operations could create problems. If housing demand is strong, very substantial increases in lumber prices are expected. These would reflect increased costs not capacity limitations.

Professors Houthakker, Samuelson, Solow, and Eckstein were available for comment this month. Professor Houthakker believes the economy is on the way to a balanced recovery. The winter may have been severe, but it was short. Moreover, recent surveys indicate that the investment recovery may be gaining momentum. Monetary policy holds the key for the recovery. Because inflation has begun a gradual decline and no major price rises are imminent, it is necessary for the Federal Reserve to maintain its present policy so that inflation may remain under control. Houthakker believes that fiscal and monetary policy should seek continued manageable increases in employment; the high elasticity of labor supply has made rapid reductions in the unemployment rate an undesirable, if feasible, policy target.

Samuelson believes that the economy is fundamentally healthy, despite the bad weather during the first quarter. However, he is concerned that money growth may be insufficient to maintain the pace of the recovery. Even though the weather has enhanced inflation concerns, it is best that monetary policy be ready to accommodate exogenous price increases. He believes "this is no time to put the economy through another wringer. . . don't meet irrational apprehensions by sacrificing real growth." He suspects that money growth may have to exceed stated targets in 1977; otherwise, the risks of jeopardizing real growth in 1978 are considerable.

Solow believes that the permanent effects of winter will be small, and, if interest rates remain fairly constant for the next 6 to 9 months, real growth during 1977 will average 5.5 to 6 percent. He would be "appalled" if rising interest rates jeopardized even this modest growth performance. Only if inflation were increasing rapidly at the end of the year, should tighter monetary policy lead to increasing interest rates. It would take another recession to push

inflation below the 5 to 6 percent range, and that is more than a depressed economy should pay.

Eckstein believes that an unremitting flow of good news is required if conventional forecasts are to be realized. Hence, new investment survey data merely support the outlook, they do not indicate a boom. A major concern is that policy-makers should not get excited about dilemmas until they are at hand. "Monetary policy should let the economy move into a period of stimulus leaving the money and credit system alone." Until there is evidence that fiscal policy threatens an unmanageable boom, the Federal Reserve should accommodate growth. This may require that the money aggregates exceed upper target bounds, especially during the rebate period.

SECOND DISTRICT - NEW YORK

Business activity in the Second District has returned to normal following the end of the severe weather and natural gas shortage, according to businessmen and directors contacted recently. At the retail level, spending apparently strengthened progressively over February, with sales for the month either meeting or exceeding merchants' expectations. With the restoration of natural gas service in early February, manufacturing output and employment rebounded as many firms stepped up production through overtime to meet order backlogs or rebuild inventories. At the same time, new orders appeared to have strengthened somewhat and many respondents expected a pick up in fixed and inventory investment. Respondents were less sanguine on the inflation outlook, however, expecting increased pressure on prices as a result of the weather problems.

Production and employment appear to have rebounded early in February with the resumption of natural gas service and moderation in the severe weather. Directors of the Buffalo Branch stated that in the Rochester and Buffalo areas many firms were stepping up production through overtime to meet order backlogs or rebuild inventories. This strong upward trend in output was most notable in the automotive sector, where substantial overtime expenses were incurred to make up production.

Scattered evidence of a pick up in capital spending was reported by capital goods producers in the District. New orders generally were up slightly in February and continued improvement was expected in coming months. For the most part, production losses due to the gas shortage were expected

to be made up. Many respondents had either increased overtime or have plans to lengthen the work week. An exception to this view was the vice president of a heavy machine tools producer, who reported that new orders were off in February. While expecting overall orders to pick up, the construction and mining equipment sectors were weak, and he felt that prospects for these lines were less certain.

On the outlook for capital spending, several respondents expected plant and equipment outlays to increase later in the year. Some of the increase in outlays may result from the natural gas shortage. Several respondents indicated that they were considering the addition of alternative energy sources for their plants. In this vein, the president of a major chemical and metals firm reported that the relative price of oil and coal could prompt major conversions to coal. He indicated that the costs of changeover at one of his plants were made up in one year. Directors of the Buffalo Branch felt that plant and equipment additions would be spurred by tightening capacity utilization resulting from stronger sales and inventory rebuilding. The president of a textile firm noted that, due to the low level of utilization, capital expenditures in his industry would largely be for replacement and modernization. An equipment manufacturing executive felt that President Carter's stimulus package was a psychological plus for business even without a substantial increase in the investment tax credit. His company is planning to step up plant and equipment spending in the second half of this year.

District merchants reported that consumer spending in February strengthened despite some limited disruptions in sales activity early in

the month. The consensus among retailers was that it is impossible to estimate to what extent the increase made up for sales lost in January. First of all, respondents were unsure of the extent to which the January sales disruption was a consequence of the weather-related natural gas shortage. During the natural gas squeeze, a number of retailers curtailed store hours and thermostats were lowered. This made shopping less convenient and tended to lower consumer spending. On the other hand, the unusually cold weather was credited by several retailers with stimulating sales of certain items, most notably outerware. Whatever the cause, retailing was apparently back to normal levels for February as a whole and, indeed, several retailers reported that sales were ahead of expectations. A vice president of a major department store reported that recent sales were "rather good," which suggested to him that they were entering a "healthy period" of expansion.

The disruptive effects of the severe weather were expected to put upward pressure on prices. In addition to the obvious effects on food prices due to the drought in parts of the nation, the severe weather was expected to influence prices in a number of ways. One metals producer reported that the price of lead had firmed recently, apparently in response to increased demand for batteries created by the cold. An economist of an oil company noted the higher fuel demand resulting from the cold would be met largely through the importation of high-priced foreign oil which would result in higher average petroleum prices. In the judgment of several respondents, these price pressures are likely to be exacerbated by the inflationary impact of fiscal stimulus measures. More positively, one respondent felt that the

recent increase in prices created by the severe weather would largely prove to be temporary--merely reflecting the inefficiencies associated with low production rates and dislocations. He expected an abatement in the rate of inflation as production levels return to normal levels.

THIRD DISTRICT--PHILADELPHIA

Economic activity in the Third District is mixed. Reports on department store sales are uneven, but activity in manufacturing clearly is expanding. New orders and shipments are higher this month while inventories are unchanged. At the same time, both employment and the workweek are expanding for the first time since last summer. The impact of the natural gas shortage on production in manufacturing appears to have been moderate, and prospects for making up shortfalls in output are good. Both retailers and manufacturers are optimistic for the longer term. Bankers say that business loan demand remains flat and they look for no substantial increase through this year.

Manufacturers responding to the latest Business Outlook Survey report substantial improvement over last month. One-half say that business is better this month compared to one-third reporting improvement in February. Increases in new orders are reported by almost one-half of the respondents and a similar proportion report increases in shipments. Last month, new orders and shipments had increased at one-third of the firms surveyed. Inventories show no change after declining in February.

This improvement in the manufacturing sector is evident in employment. One-fourth of the businessmen surveyed report increases in work forces and one-fifth report some lengthening of the workweek. This is the first time since last summer that concurrent increases in work forces and the average workweek have been reported.

For the longer term, manufacturers look for additional expansion. Eight out of 10 foresee a better business climate by September. New orders are expected to climb at 82 percent of the firms surveyed and shipments are

expected to increase at 74 percent. At the same time, higher levels of inventories are projected, and further improvement in employment is anticipated. One-half of the respondents plan to hire additional employees while 42 percent foresee a longer workweek. Increases in spending for plant and equipment six months ahead are projected at 45 percent of the firms polled-- about the same as last month.

A special survey was conducted to examine the impact of the natural gas shortage on industrial production. Out of 31 respondents, 17 say that production levels were not affected by the shortage. Five of these firms do not use natural gas while 12 were able to switch to alternative fuels.

Of the 14 firms affected, mostly in primary metals and food products, disruption of normal activity was apparently moderate. Output levels were reduced by no more than 10 percent below normal at six of the firms affected and were between 10 percent and 25 percent below normal at four of the 14 firms. Nine respondents say that employment was reduced as a result and working hours were shortened at 10 of the affected companies. Only two firms reported complete shutdowns, and one of these was for one week only.

According to the respondents, prospects for making up production shortfalls within the next six months are good. Eleven of the respondents plan to make up one-half or more of the output lost with five of these planning to recover the entire amount. Two firms expect to make up only one-fourth of their shortfall, and one firm plans no catch-up. However, output at this firm was no more than 10 percent below normal.

Prices in manufacturing continue to increase and higher prices for finished products are more widespread. Forty-seven percent of the respondents report higher prices for supplies this month while 34 percent report higher

prices for their finished products. Last month, the same proportion indicated higher input prices while only 16 percent indicated higher output prices. By September, 84 percent look for higher prices for supplies and 71 percent foresee higher prices for their outputs. Both of these are about 10 percentage points below the proportions expecting increases six months out in February.

Retailers in the area give varied reports on department store sales in February. One says that sales were good early in the month but tapered off more than expected. Another labels performance as "disastrous" and feels that a newspaper strike, which limited his store's advertising, was an important factor. However, two other area merchants are pleased with recent sales. One of these notes that February balanced out a poor January, and as a result, he is more bullish in his outlook for the rest of the year. Contacts are looking for improved sales in March and are "cautiously optimistic" about the spring in general. Inventories are reported to be in "good shape."

Bankers in the area report that business loan demand is flat. One says that corporate treasurers are showing more interest in terms and conditions on loans, but he doesn't expect much of an increase in actual volume in the near term. Another banker notes increased opportunities to participate in fixed-rate, term loans, but adds that the reaction at his bank has been passive thus far. Some pickup in business loan demand is projected in the second half of this year, but no substantial increase is expected. Two of the bankers contacted look for business loan volume by the end of '77 to be 5 percent above year-end '76 levels. Bankers report no visible effects on customers' borrowing plans or ability to repay loans as a result of the natural gas shortage.

FOURTH DISTRICT - CLEVELAND

Economic activity in the Fourth District is rebounding rapidly from effects of the severe winter and fuel shortages that sharply curtailed production, employment, construction and retail sales in January and early February. Layoffs in manufacturing are now a negligible portion of total manufacturing employment because alternate fuel sources and some easing in natural gas curtailments have improved energy supplies. Most financial officers and economists who were consulted expect that losses in output and sales will be recouped in the second and third quarters, providing extra thrust to real GNP. Inventories are likely to spurt during the next few months. Concern over inflation has intensified, as various sources expect high costs of substitute fuels, coupled with expected large increases in food and medical costs, to boost the rate of inflation in 1977. Business loan demand is still relatively soft for this stage of an expansion.

Although relaxed somewhat above plant protection levels, natural gas curtailments continue to cause layoffs in manufacturing. Firms without alternate or sufficient fuel supplies have not fully regained in output and employment levels. This is especially the case of small businesses, ranging from refactories to greenhouses. As of late February, an estimated 15,000 to 20,000 manufacturing workers, about 1.0 percent of total manufacturing employment in the District, were laid off because of natural gas shortages, a vast improvement over the estimated 110,000 workers laid off early in the month.

Industries hardest hit by fuel shortages, including steel, automotive, appliances and glass, are rebounding rapidly and, with few exceptions, expect losses in output to be recouped over the next few months. Economists with

three major steel companies indicate that steel output has recovered to early January levels and losses in output in the last two months will be made up in March and April. Two economists expect first quarter steel shipments to increase by about 5 percent from last quarter, although the improvement will not be reflected in earnings because of high costs of alternate fuels. All report that orders have increased sharply in recent weeks, which should boost shipments and output next quarter. Most order pick up can be attributed to a bottoming-out of customer inventories rather than to higher steel consumption. Flat rolled products are expected to be in strong demand at least through midyear. The economists also expect that next winter's steel output will not be affected by fuel shortages because dependence on natural gas is being reduced to minimum levels. A major aluminum producer reports output has not completely recovered from for January-February shutdowns, and that inventories were drawn down sharply during that period.

A major household appliance manufacturer has restored production to capacity levels following a shutdown caused by natural gas shortages. Inventories which were drawn down are expected to be rebuilt to desired levels by late April.

Auto producers expect to make up most production losses during this model year. One producer does not anticipate losses for this model year because plants will be on overtime schedules, while another expects losses of less than 10,000 units because plants producing large cars have been operating at capacity.

Major glass producers in the District have recovered fully from the drop in output because of natural gas shortages. One of the largest flat

glass producers that had laid off half of its work force for several days has recalled all workers and recouped production losses.

Retailers and producers of consumer goods experienced a drop in sales during the most severe winter months but generally expect a revival in consumer spending. One major national retailer headquartered in the District commented that retail sales strengthened sharply in recent weeks and recovered all sales losses of late January and early February. Current forecasts of gains in total retail sales for 1977, about 10 1/2 percent higher than in 1976, remain virtually unchanged from those of late last year. However, the retailers now expect larger gains in food sales and smaller gains in department store items and auto sales. Automotive producers apparently have not adjusted sales forecasts downward because of possible effects of fuel prices on durable goods spending. One economist does not believe higher fuel bills will have much adverse affect on consumer expenditures for automobiles, and, therefore, is holding to his forecast of 11.2 million new car sales for 1977. Another expects consumers to reduce their saving rate instead of cutting back new car purchases. A retailer with a major national food chain reported consumer response to higher prices has been to buy down rather than cut back spending. Moreover, he noted that higher coffee prices led initially to stockpiling by customers, who since have not shifted to coffee substitutes.

Twenty financial officers who met at this Bank on March 4 viewed the sluggish recovery in capital spending as stemming largely from inadequate profits and cash flow and uncertainty over the rate of return on investment. They acknowledged that the high cost of capital may also be a deterrent but asserted that inflation and environmental regulations have heightened business

risk. They view tax relief as a necessary stimulant to investment, but see little long-term benefit from changes in accounting rules even though these changes may tend to increase cash flows.

Many economists and producers expressed concern that the rate of inflation in 1977 has intensified, as suggested by strong upward price pressures in metals, fuel, food, and medical costs. Steel sources reported a price hike for tin mill steel products effective this month and noted that alternate fuels and modes of transportation sharply boosted costs this quarter. Retailers expect consumer prices to accelerate this year, especially for apparel and food. One source indicated that forecasts for retail food prices in 1977 were increased from 6.5 to 7.7 percent because of the drought in the West. Another retailer does not expect leveling off of rising prices for fresh fruit and vegetables until the California harvest is marketed. Current moderation in beef prices should be followed by higher prices later in the year. Health care costs are expected to jump 15 to 18 percent this year, according to an executive with a major health insurance agency in the District. Increased cost and usage of medical services account for the expected acceleration in health care charges this year.

Business loan demand in the District remains soft and generally below expectations of some of the District's major banks. Several bank officers expect only gradual pick up in loan demand until recovery in capital goods strengthens. Consequently, most of these banks have been actively soliciting business loans. An executive with one of the largest banks explained his firm's relatively sharp growth in both take downs and unused commitments is in response to the bank's program to refinance cap loans that will begin to

run off early in 1978. Customers with the highest credit ratings are offered 5- to 7-year loans at rates somewhat above those of insurance companies, which have stepped up solicitation in term loans over the past year.

FIFTH DISTRICT - RICHMOND

Our latest survey of Fifth District business conditions, covering the month of February, suggests little lasting negative impact from weather and fuel problems. Manufacturers' shipments rebounded from a relatively weak performance in January and new orders continued to improve. The improvement in orders over the January-February period of bad weather, led to a substantial increase in backlogs of orders and a general improvement in inventory positions. Among the manufacturers surveyed, there is less dissatisfaction with current inventory levels than at any time since May 1976. These conditions have also apparently contributed to a marked improvement in the outlook of our manufacturing respondents, who are now more optimistic, as a group, than at any time in the past several years. Fully three-quarters of the respondents expect business conditions to improve over the next six months. In the past few weeks, it appears that large District banks have experienced little demand for consumer credit but somewhat increased demand for business credits. The flow of funds into banks is not especially strong, but liquidity is high and bankers have become more aggressive in seeking out loans.

Of manufacturers responding to our March survey, more than one-fourth report increases in shipments and over one-third experienced a higher level of new orders last month. Order backlogs rose at 43 percent of the firms surveyed, while finished goods inventories apparently declined slightly. Orders appear to have been especially strong in the chemicals and primary metals industries. Nearly one-third of the respondents continue to view current inventory levels as excessive, but almost one in five now considers them inadequate. These responses suggest the most comfortable inventory position reported in our survey in almost a year.

Employment and weekly hours were down slightly among manufacturing respondents, probably reflecting weather and fuel difficulties, but these effects seem not to have been widespread. In general, prices continued to move up in February, although among District manufacturers increases in employee compensation and prices received were less widespread than they had been during most of 1976. Prices paid by manufacturers, however, continued to move up across a broad front. While one-fourth of our respondents continue to view current plant and equipment capacity as excessive, there has been a slight increase in the number of firms indicating that current expansion plans should be enlarged.

District retailers surveyed report no noticeable change in total sales and a slight relative decline in sales of big ticket items during February. Retail inventories declined, although slightly, for the first time in nearly a year and a half and are now in line with desired levels. Several retailers noted increased interest in promotional and lower to middle priced lines, and are trying to assess the longer term impact of such things as higher fuel prices and weather and fuel related unemployment. Any uncertainty which exists, however, does not seem to be reflected in the retailers' expectations.

In fact, the most distinctive result of this month's survey was a decided jump in both manufacturer and retailer respondents' expectations regarding business activity over the next six months. Three-fourths or more of all the retailers and manufacturers reporting this month expect business conditions nationally, locally, and in their respective firms to improve over that period. This suggests a marked improvement in confidence, which now appears to be at a higher level than at any time in recent months.

Our February 15 survey of changes in bank lending practices shows most banks reporting no significant change in business loan demand. A few banks, however, report moderately stepped up activity and a larger number indicate greater willingness to make fixed rate and term loans and a stronger disposition to compete for commercial business. Much of the success realized by these banks to date appears to have come from regional customers, e.g., the coal mining industry and some manufacturing firms requiring receivables financing. Quite a few banks in this District report easing lending terms, either through lowering rates, or cutting compensating balance requirements. Significantly, a number of banks are lengthening the maturities of term loans in response to customer demand. In addition, several banks are becoming more willing to put single-family mortgage loans on the books.

SIXTH DISTRICT - ATLANTA

Improving weather conditions brought a return to more normal economic conditions in the Southeast. Restoration of natural gas supplies to most industries returned most employees to their jobs. A survey of manufacturers and distributors found only minor disruptions of sources of supplies and raw materials. In addition, only a few firms report alterations in their investment plans as a result of the natural gas shortage. The effects of severe weather lingered in some parts of the District economy, particularly in agriculture. Port activity seems to be increasing in the Southeast.

In the aftermath of the natural gas shortage, supplies were restored in late February to 3,300 small- and medium-sized industrial users who had been without gas supplies since January 19. About 500 large industrial plants with interruptible service remained without gas. As a result, U. S. Steel in Birmingham began recalling 1,250 employees, about one-third of its work force. In late February, only about 7,000 persons remained unemployed in Georgia as a result of the shortage, compared to a 55,000 maximum at the peak of the crisis.

A special survey of southeastern manufacturing and distributive industries conducted by the Federal Reserve Bank of Atlanta finds that few firms have experienced serious shortages as a result of weather and gas-related production cuts. In most cases, delivery delays for supplies and raw materials have been temporary or have been alleviated by locating alternate sources. Some modest delays in textile deliveries are noted. One manufacturer of ammonia for whom natural gas is a feedstock experienced

curtailed production and has reduced allocations to customers. Few firms indicated any intention to liberalize inventory policies.

Manufacturers were also asked whether they intend to invest in equipment to provide alternate fuel capacity and if such investments would curtail previously scheduled investments. Very few firms indicate that investment in alternate fuel systems is planned. In Louisiana, this reflects the reliability of natural gas purchased at higher prices in the intrastate market. A few firms responded that they are planning to convert to coal. In Mississippi, most large firms already have alternate supplies. Many smaller firms indicate that their plan, in the event of a cutoff of natural gas, is simply to shut down. There is little indication of postponement of other plans for capital investment as a result of investment in alternative fuel systems, except for the largest fuel consuming plants. The necessity to invest in pollution-reducing equipment is regarded as a greater deterrent to investments in expanded productive capacity.

The effects of harsh winter weather could also be seen in reports from Mississippi and Louisiana of falling shrimp production due to weather conditions which inhibited the growth and movement of fish in the region's estuaries. In addition, fire damages have greatly increased in Georgia's forests. The weather severity has killed most of the vegetation in pastures and timberland, leaving vegetation in an unusually flammable condition and contributing to the severity of fire losses.

The livestock industry is another area of the District economy still feeling the aftereffects of the weather. Reports from throughout the District stress the increased cost of cattle raising. Winter pastures

have developed very slowly as a result of weather conditions, necessitating high costs of purchased feed and increased labor costs associated with feeding. Weight gains have been subnormal. The outlook in some areas is now improving, as pastures develop and permit transferring cattle to pastures from purchased feed. Poultry producers are also feeling the pinch of higher heating costs, lower gains in weight, and a reduced percentage of eggs hatched. However, these declines may aid producers in stabilizing their prices.

A Florida report indicates that reduction of the anticipated bumper crop of citrus fruit will benefit producers whose crops are still salable and unsold. Considerable pressure on prices had been feared before the freeze. Oranges, which froze and split open, are providing lower juice yields due to evaporation losses. Damage to trees is said to be light, so an average crop is foreseen for next year.

Many cotton growers in Mississippi plan to reduce cotton plantings, while only a small number intend to increase production, according to soundings taken in recent agricultural meetings. However, the relationship between cotton and soybean future prices as planting season approaches remains a crucial determinant of actual planting decisions. There is little current interest in forward contracting for the 1977 crop as a result of farmers' belief that insufficient planting will force the price upward.

Activity at ports in the Southeast is growing. Tonnage of cargo in New Orleans has declined slightly in comparison to year-ago levels. But Pascagoula, Mississippi, reports a new tonnage record set for the fifth consecutive year, primarily because of increased handling of petroleum and grain

products. In Jacksonville, port tonnage is also rising. The Port of Tampa is undertaking an ambitious expansion program, beginning with widening and deepening the main channel into Tampa Bay to accommodate larger ships. This enlargement is expected to lead to large increases in phosphate shipments. Plans for the next five years call for constructing a roll-on/roll-off berth to allow easier loading of ships by trucking the cargo directly onto them. Specialized facilities for ship repair and handling of dry and liquid bulk cargoes are also envisioned. Within ten years, expanded general cargo wharves and a bulk petroleum dock are to be added.

SEVENTH DISTRICT - CHICAGO

Since mid-February economic activity in the Seventh District has returned to relatively normal levels following the most severe deep winter of modern times. Many manufacturers, particularly steel and motor vehicle producers, have been working full speed to overcome shortfalls in output. Many manufacturers and some retailers have begun to rebuild depleted inventories, and order lead times have lengthened, at least temporarily. Retailers continue to report excellent sales of both durables and nondurables. Employment appears to be rising in most areas. Projections of price inflation through year end have been raised. Capital expenditure programs probably have been increased overall, but uncertainties continue to hamper business decision making. Residential construction projections have been increased. Farmers and rural bankers are much disturbed by very low levels of subsoil moisture, but the situation could be corrected by adequate spring rains.

Virtually everyone agrees that losses in output and work time reported in January and February will be largely made up in the months ahead. Activities related to producing, storing, conserving fuel and energy are being accelerated. For example, programs to reduce or eliminate dependence on natural gas by converting heating systems and increasing storage capacity for fuel oil and propane are moving ahead at a faster pace. Companies will be increasingly secretive concerning their fuel resources because of certain unfortunate incidents during the recent crisis.

Indiana was the only district state that had significant layoffs directly because of natural gas cutoffs. The last restrictions on large gas users in Indiana, including the steel mills, were lifted in mid-February, but some com-

panies did not regain normal operations until late in the month. Some output was lost in Michigan, Illinois, and Wisconsin because supplies from vendors were curtailed, reflecting fuel shortages elsewhere, because of transportation problems and other weather-related factors. Much construction work scheduled for the winter was postponed. Damage to roads and other structures from frost is much greater than in past years.

Frozen waterways hampered transport in the district from mid-January to mid-February. The important Illinois Waterway from Chicago to the Mississippi reopened on February 22.

Although there was a tendency to exaggerate the impact of weather on activity, the dangers were very real. If February had been as bad as January, as was predicted, fuel oil and propane shortages could have caused great hardship. Moreover, district utilities feared forced diversions of gas to the East.

The bad winter, rising fuel costs, use of more expensive alternative fuels and transportation, absenteeism, and other related problems have adversely affected profits of many companies. The drift of Midwest industry toward the "Sunbelt" doubtless will be accelerated. A constant refrain among important business executives is that "now we must have a sensible national energy policy."

Users of natural gas emphasize that some processes, particularly annealing and heat-treating, require natural gas. They urge that these special needs for gas be considered in the future, instead of restricting usage purely on the basis of total requirements. Most interruptible gas users may not obtain usual summer supplies. The real shocker in the recent curtailments was the suddenness with which firm customers were cut off. Some of these companies had entered into more expensive contracts to assure essential supplies.

The auto and truck markets are very strong. Motor vehicle assemblies will be at near-record levels in March and probably in April as well to make up

for lost production. Almost one million people attended the Chicago auto show last week and potential customers appeared enthusiastic, at least for the larger more fully-equipped models. Domestic small cars continue to sell very poorly despite inducements, and output has been restricted in a series of steps.

Orders for heavy trucks and trailers continue to strengthen. Unfortunately, one major producer of heavy trucks located in Indiana lost substantial output in February, mainly because of fuel shortages.

Steel orders increased in February, especially from auto companies. Purchasing managers say lead times on steel have lengthened by about a month. Demand for "oil country goods" has picked up sharply, and there has been some increase for other capital goods. Inventories are low. If steel for construction and heavy capital goods also increases, shortages are possible later in the year, despite increased imports from Japan. Trouble for future years may arise from the fact that half of the 25 million ton increase in raw steel capacity scheduled for 1980 has been cancelled or postponed.

Demand for housing is very strong, especially single-family homes. Prices of both new and well-located existing homes are increasing about 10 percent per year with no slowdown in sight. Increases in compensation for the building trades moderated last year, but this was offset by more rapid increases in prices of virtually all materials and components. Lumber, gypsum board, insulation, and various housing components may limit production of new units. Credit is in ample supply and this is expected to continue to be true throughout the year. Residential tract developers are becoming active again. Some work has been delayed by bad weather. Industrial plant construction prospects are still poor in this district. Light commercial building activity has improved, however.

EIGHTH DISTRICT - ST. LOUIS

Businessmen in the Eighth District continue to be optimistic about prospects for further economic gains in 1977. Weather-induced problems in January are expected to affect first quarter profits of several firms, yet the view that the economy will continue to make gains in 1977 has not been fundamentally altered. Retail sales in February registered moderate gains over February of last year. Manufacturing activity in such industries as chemicals, aircraft, and construction-related equipment continues upward. Funds are flowing into thrift institutions at a strong pace, auguring well for future homebuilding, and major banks report rising business loan demand.

February retail sales were moderately above those of a year ago according to major St. Louis retail representatives. Retailers were encouraged by this gain in view of the weather problems earlier this year and the strong sales of February 1976 which were boosted by unseasonably warm weather. One representative reported that sales of such items as shoes, fabrics, and recreation products, have performed well in recent months despite the adverse weather conditions. Strong sales virtually exhausted stocks of many items, such as heavy outer clothing, boots, and overshoes, although reordering at this stage of the season is not contemplated.

While weather conditions and gas curtailments hampered activity of some firms in January, normal weather in recent weeks has alleviated most of these problems. Several firms report, however, that plant closings, higher energy costs, shipping delays, high absenteeism, and other problems will reduce first quarter earnings from what they would have been otherwise. While the lost earnings may not be recovered fully, firms report that a

substantial amount of lost production may be made up.

Several manufacturers report rising sales and orders in their lines of business. A major chemical manufacturer reports that considerable optimism is building up in this industry. Sales of fibers, most industrial chemicals, petrochemicals, and herbicides are described as good. Unused capacity for polystyrene production continues, although sales are beginning to improve. A major aircraft manufacturer has experienced some strength in commercial aircraft orders. On the other hand, concern has increased over the possibility of cutbacks in military aircraft, which would severely affect this industry. A small apparel manufacturer noted that orders last fall were below expectations, but that orders now being taken are up somewhat from last spring. A small manufacturer of welding equipment reported that incoming orders have been excellent since last fall. A paper manufacturer noted that sales were good in the first two months of the year, although some softening has been detected in the past couple of weeks. This manufacturer also reported that prices of certain paper products have dropped since the beginning of the year after a sharp run-up late last year.

Savings and loan associations had strong net inflows in February. Those institutions continuing to offer ceiling rates on CDs are attracting the largest volume of funds. Mortgage loan demand is said to be moderate with interest rates unchanged in recent weeks. Commercial banks in the District report a rising volume of time and savings deposits. Representatives of commercial banks in St. Louis report business loan demand has been excellent so far this year. Bankers in some other areas of the District, such as Kentucky and Indiana, however, report that loan demand is flat in their areas.

Chronic dry weather conditions and low subsoil moisture was suggested by some respondents as a potential threat to this year's crops. Such fears, however, are probably premature since the planting season has not yet begun. Furthermore, recent precipitation has been more substantial than in late 1976. According to planting intention reports, Eighth District farmers are now planning to increase soybean and sorghum acreage in 1977 over 1976, while decreasing cotton and rice acreage. Corn acreage is expected to remain unchanged.

NINTH DISTRICT - MINNEAPOLIS

Concern continues to be expressed about agricultural conditions in the Ninth District, but indications are that nonagricultural business is expanding at a fairly strong pace. January and February's cold weather did not have a significant effect on production in this area. In fact, district manufacturing activity is expanding and further increases are anticipated. So far this year, consumer spending in the district has been quite good, and residential building is up in the major urban centers. Nonresidential building, on the other hand, is somewhat weaker.

Farm-related economic activity continues to reflect anxiety about this year's moisture conditions and about low agricultural prices. In those areas dependent primarily upon agriculture, consumer spending is down and farmers are hesitant to make either short- or long-term commitments. Although loan losses have not yet been a problem, rural banks have had to refinance or extend loans. North Dakota bankers are currently encouraging farmers to sell their wheat in order to reduce their debt. A number of directors are concerned that the drought could force some farm operators out of business this year. Profitability in the livestock industry continues to be marginal. Two directors report that the situation was aggravated by January and February's cold weather which accelerated feeding rates and added further to production costs.

In contrast, the Ninth District's nonagricultural sectors have been fairly strong so far this year, and general economic activity has not been disrupted by fuel shortages. Results of our latest quarterly Industrial Expectations Survey, taken in early February, indicate

that fourth-quarter district manufacturing sales were up 18 percent from a year before. Furthermore, respondents expect their sales to exceed year-earlier levels in 1977's first, second, and third quarters by 15, 14, and 15 percent, respectively.

Most of the current strength in district manufacturing sales can be attributed to sales of durable goods, which were up in the fourth quarter 23 percent from a year earlier and are expected to advance year over year around 18 to 21 percent during the first nine months of 1977. Nondurable goods sales in the fourth quarter advanced 11 percent over a year ago, and only moderate sales gains are foreseen for the first three quarters of this year.

Manufacturers' evaluations of current inventories and plant capacities have not changed appreciably since the previous survey. They remain basically content with inventory levels and existing plant and equipment in view of expected sales.

Consumer spending in those areas not entirely dependent on agriculture has been fairly good. A major retailer in the Minneapolis-St. Paul area indicates that January and February sales were quite strong and looks for business to continue improving. Several of this Bank's directors report that consumer spending has been satisfactory in their areas so far this year. On the other hand, a large retailer with headquarters in the Twin Cities, reports that sales so far this year "haven't been really great" and doesn't anticipate a big spending surge in the immediate future. One retailer believes that high fuel bills probably curbed some consumer spending but looks for tax rebates and refunds to help bolster consumer outlays in the second quarter.

A healthy amount of expansion in district residential construction is expected for 1977, but it probably won't be as rapid as last year. One director states that low homeowner vacancy rates should stimulate single-family construction in the district. Furthermore, he reports that low apartment vacancy rates point toward a pickup in multifamily construction. However, a Minneapolis-St. Paul area banker does not currently foresee any sizeable pickup in apartment building. There is concern in eastern Montana that restrictions on natural gas hookups could restrain residential construction there.

Nonresidential construction during 1977 is not expected to be as strong as residential construction in the district, but it is anticipated to be stronger than nationally. A number of major energy-development projects are under way, such as coal mining and coal gasification in western North Dakota.

TENTH DISTRICT - KANSAS CITY

A slow and gradual increase in economic activity, along with a slightly more rapid rate of inflation, is expected by marketing and financial officers and corporate economists in the Tenth District. Few significant long-term effects of the severely cold January weather are expected for business activity. Little enthusiasm is evident for the purchase of new plant and equipment. Expected weakness in the farm sector is a source of concern for economic activity this year in some states. Fuel cost increases may be joined by food cost rises due to drought if the amount and timing of precipitation received this year are not satisfactory. Although business loan demand remains little changed, bankers believe that loan activity has been postponed rather than eliminated.

This month's Red Book survey included conversations with marketing managers and financial officers of various nonfinancial corporations, as well as with economists for both financial and nonfinancial businesses, and at several universities. The consensus view saw only a slow and gradual increase in economic activity overall, with inflation perhaps becoming more worrisome than appeared likely a few months ago. There was general agreement that there would be few significant long-term effects on business activity from the severe cold in January. Production disruptions have been temporary, and are expected to be offset by a catch-up later in the year. Expectations for GNP growth for the year remain about the same, even if first quarter growth is low. (A large interstate trucking firm noted, however, that they have experienced a tremendous increase in shipping in February and early March, indicating to them that "the first quarter will be stronger than most people think.") Caution is still the watchword with regard to capital spending. Respondents

report that they see "little enthusiasm" for purchases of new plant and equipment, reflecting a conservative mood on business fixed investment.

Several respondents believe that some of the problems of the severe winter--especially the fuel situation--will combine with the effects of the drought to affect adversely the rate of inflation this year. "Inevitably" higher energy prices are expected to "ripple" through the economy, adversely affecting prices, income, and economic activity. An Oklahoma City bank economist notes that a number of 20-year natural gas contracts are now expiring, and that sharply higher fuel costs are thus almost certain this year for businesses and households in Oklahoma.

Business in Oklahoma generally is reported as favorable--retail sales good, "housing moving well, consumer borrowing improving." More uncertainty and concern were expressed for Kansas and Nebraska in the year ahead, primarily because of the expected weakness in the farm sector. Adverse weather effects in Colorado were reported as limited to agriculture and tourism. One respondent noted that "the winter sports season was ruined"; another commented that, although the ski areas were hurt substantially, they represented only a small part of Colorado's income total.

Expected food cost increases for 1977 have recently been revised upward to 3 to 5 per cent for the year, as a result of the harsh winter and drought conditions over much of the country west of the Mississippi. Worsening of drought conditions during this spring and summer could result in even larger food cost increases. Soil moisture levels in the Great Plains and western corn belt presently range from 2 to 5 inches below normal. Thus, crop production in these areas will depend solely upon the upcoming season's precipitation, and the timing of the rainfall takes on added significance. Well

timed rains during periods of peak demand by crops will result in normal crop production, while the same amount of moisture less well timed, will result in less than normal production. Past history suggests that the precipitation required to produce a normal yield for crops in these areas will occur during 3 to 4 years out of 10 early in the growing season and 1.5 to 3 years out of 10 during critical later stages of the growing season. On balance, the chances of producing normal crop yields in these areas during 1977 are small, due to the low soil moisture levels that presently exist.

Tenth District banks contacted for the March Red Book indicated little change in business loan demand during the month of February. One bank which reported a small increase in demand attributed it to participations in loans generated at correspondent banks. Another banker stated that strong cash flows at businesses were holding down or delaying new loans. It was also suggested that the weather had temporarily depressed loan demand. None of the banks reported any changes in their prime lending rates.

Several bankers indicated that they felt that the impact of this winter's severe weather had been overestimated and that loan demand was probably being postponed rather than eliminated. All did express greater concern about the effects of the drought. Besides direct loans to farmers and agribusinesses, other areas expected to be adversely affected include agricultural loan participations with smaller banks, and skiing area loans. The possibility of water rationing in Denver is quite strong and could result in weakening of demand for single-family construction projects and for many business loans.

ELEVENTH DISTRICT - DALLAS

Economic activity in the Eleventh District continues to improve, although weakness in some industries still hampers overall growth. The expansion in total employment that began late last year continues and has reduced the unemployment rate for the District states to 5.7 percent. Department store sales remain strong even though some recent softness has been noticed, and automobile and truck sales continue to rise. Increased demand for real estate and consumer loans leads total lending activity, but business loan demand has picked up slightly. Lower prices for grain and cattle and rising costs of production--especially higher irrigation costs--continue to depress farm incomes. The growth in industrial production in Texas is being held down by durable goods manufacturing. Nondurable goods production, led by the chemical and petroleum refining industries, continues to grow, while activity in the oil and gas industry remains at a high level.

Department store sales in the District continue to exhibit strength. Sales picked up significantly in December and January, even though the gains over a year ago have narrowed slightly in recent weeks. Merchants are generally optimistic concerning the immediate outlook for sales. Retailers report that bad weather has had only a very limited effect upon sales. Sales of furniture and appliances in most major cities are strong, but some recent weakness has been noted in El Paso. Retail inventories are generally at desired levels, although some firms in Dallas report them a bit on the high side. An El Paso retailer indicates that his inventories are in good shape after several months of adjustment to reduced sales caused by the peso devaluation.

Automobile sales are rising with much of the growth in the full- to intermediate-size models. Sales of trucks, vans, and recreational vehicles

also remain quite strong. Dealers continue to report shortages of large cars and vans. Demand for small cars continues sluggish, although inventories of these models are gradually being brought into line. While some dealers indicate small car sales are at a virtual standstill, an El Paso dealer reports some signs of a slight improvement. Demand for optional equipment on all models continues strong. Most dealers indicate that any loss of sales due to bad weather last January was quickly recovered with the return to more seasonal temperatures.

Chemical production in Texas has started to climb moderately. Demand for plastics has strengthened, while fiber demand remains weak. Fertilizer production in the state has not been appreciably affected by the small number of natural gas curtailments at ammonia plants. Inventories are higher than desirable but are being reduced as transportation bottlenecks to markets east of the Mississippi are cleared. The outlook for capital spending in the industry is mixed. Some respondents expect substantial increases in capital spending, but an industry consultant expects meager increases in capital spending this year due to industry uncertainty concerning a national energy policy.

Output in petroleum refining has also begun to climb, and production has shifted from primarily heating fuel to gasoline. Ample supplies of gasoline are anticipated for the summer. However, gasoline prices are expected to rise slowly this year due to the growing share of higher-priced oil imports.

Fabricated metals production has started to advance. Current demand for metal cans is being spurred by previously announced price increases which become effective this month. A San Antonio metal fabricator reports that his current level of business has been steady, but he is optimistic about the near future. New orders for fabricated structural metal products have slowed

in Dallas because of sluggish nonresidential construction demand. Some future supply shortages may develop for machine parts and steel castings.

Production of primary metals has failed to show real strength in recent months. Demand for steel is beginning to improve as total construction activity continues to pick up momentum. Demand for aluminum has also strengthened, but production at individual plants is directly related to the cost of electricity. A Texas refinery that uses power generated at a lignite-fired plant is running at full capacity, while a smelter that relies on a gas-fired generating plant has remained idle for 17 months. A refinery line in Louisiana was recently opened up because reductions in hydroelectric power production in the Northwest (caused by the drought) are forcing a reduction in production in that area of the country. Production of lead has fallen short of demand, and prices are expected to rise until balance is restored. Copper producers are faced with an oversupply of inventories which will continue to hold down copper prices. Capital spending plans in the primary metals industry this year are largely for pollution control devices. Shortages of final products are not expected because of the current high level of unused capacity in the industry.

Transportation equipment production in Texas continues to be hampered by the slowdown in U.S. Government contract commitments for aircraft and helicopters. Despite the falloff in domestic sales, foreign orders continue to provide moderate to strong demand. The Dallas-Fort Worth based Vought Corporation is cautiously optimistic that Congress will restore budget funds cut recently by President Carter for the A7E aircraft and Lance missile. If Congress fails to restore funds, the company expects as many as 7,000 employees could be laid off by early 1979. Nearly 90 percent of those who may be laid off are located in the Dallas-Fort Worth SMSA.

TWELFTH DISTRICT - SAN FRANCISCO

The mood of the Twelfth District could be characterized by a drought-induced uncertainty in agriculture, aluminum, timber, skiing and energy, tempered by a general optimism that the housing boom will continue at least through midyear. Timber harvest has been excellent though there are fears of forest closure due to fire hazard. Hydro electric power to aluminum producers and irrigation water to farmers have both been cut back and are causing declines in production. Little or no snow has caused a substantial decline in ski resort activity. Low vacancy rates and a vigorous construction sector characterize most Western states.

To date, timber harvest has actually been aided by the dry winter, though there is concern that the extreme dryness will create such fire hazards that logging operations will be curtailed come summer. Northwest aluminum production has already been cut back 12 percent with 500 people laid off due to a cutback in power deliveries by the Bonneville Power Authority. By June, a further decline to 75 percent of normal production is anticipated. Despite recent snow, ski resorts in several western states remain in a depressed condition -- \$20 million in losses and 2,300 people laid off in Utah's skiing industry alone. Assuming precipitation continues at a quarter of normal, the Oregon Employment Division predicts that another 6,000 to 9,000 persons will lose their jobs.

The water situation is so uncertain in agriculture that farm equipment sales are at a standstill in Washington and in parts of Oregon and California. To date, loss estimates of Oregon's winter wheat range from 25

to 50 percent and gross farm income is expected to drop by 12 percent for the year by one banker's estimates. In Idaho, both sugar beet and winter wheat production are expected to be down significantly, though potatoes in the Snake River Basin should have ample water. Fruit growers in Washington's Yakima Valley are worried about the survival of their trees, since some expect irrigation deliveries to be only 6 percent of normal. There are reports of agricultural unemployment in several areas with serious irrigation cutbacks. In California's San Joaquin Valley, some observers expect acreage to be cut by 25 to 35 percent, with production costs up on the remaining land due to increased pumping costs. Oregon has resorted to cloud seeding and Idaho has raised legal questions about whether Oregon may be stealing rain that would have fallen on Idaho.

Weather has had a strong impact on western energy. Record declines in western stream flow has cut down the hydroelectric output of most western states. Last year at this time Oregon was sending California surplus hydroelectricity at a rate equivalent to 300,000 barrels of oil a day. This year, there is none to spare as the northwest has had to cut back its power deliveries to its own people: power supply to the energy-intensive aluminum industry was cut by 25 percent. Union, Standard and Gulf Oil have each purchased land in anticipation of the Alaskan pipeline's completion in June, possibly for refineries though construction has not yet commenced. Utah, in response to increased demand for coal, raised its coal output to a record 7.5 million tons last year.

Construction activity continues strong in all western states except Idaho where construction starts in January were 5 percent below a year

earlier. In Utah, housing starts in January were running 53 percent above the previous January, though there was some concern that the Administration's proposals to stop a number of western water development projects would undermine this strength by the second half of the year. Dry weather in usually wet Oregon has allowed construction to boom. Very low vacancy rates (1.7 percent in Corvallis) characterize many Oregon cities.

The price of homes in Southern California continues to advance rapidly -- by 39 percent in the past 12 months according to the records of one banker. The reason for this, explains the president of a construction company, is a rapid advance in land prices, assisted at least partially by environmental and other restrictions. Actual construction costs, he maintained, have remained fairly stable over the past one to two years. Kern County (the nation's leading agricultural producer) is experiencing a record housing boom due both to recent oil activity and the flight of businesses out of Los Angeles into the Bakersfield area.

Auto sales are reported good in Washington and Oregon, though big cars are moving faster than the smaller models. Retail sales are strong in Washington with Seattle's largest retailer reporting appliance and furniture sales running at 20 to 25 percent above a year ago. Consumer loan demand is quite strong in Southern California. Three sets of labor contracts expire before midyear (construction and dairy workers in Southern California and timber workers in Oregon) and there is some concern about the outcome of the associated negotiations. In aerospace, Boeing is reported to have strong sales and rising employment.