April 19, 1973

Montana
North Dakota
South Dakota
Minnesota
Northwestern Wisconsin
Upper Michigan

NINTH DISTRICT CONDITIONS
federal reserve bank of minneapolis

GENERAL PROSPERITY

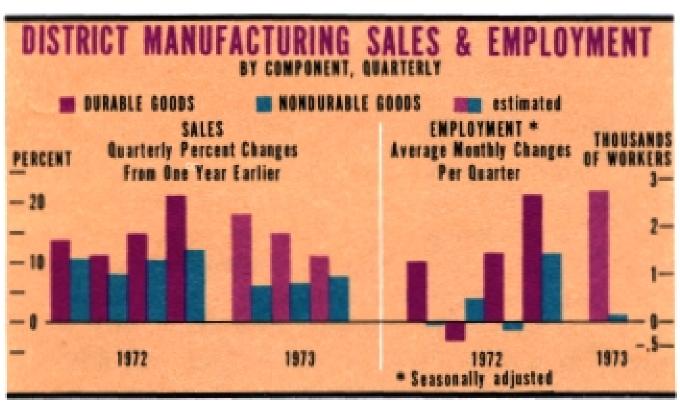
As the second quarter dawned, the district's economy looked livelier than it has for several years. Particularly noticeable was the increased rate of industrial expansion. Manufacturing sales—of durable goods especially—were running well above last year's levels. In the coming months, industry promises to maintain its lead over other sectors.

Employment gains and the sharp drop in district unemployment to 4.8 percent were further evidence of economic strength. Farm incomes have been high and will probably exceed last year's, at least through the second quarter. The construction sector should come through the first quarter unusually well. Present levels of construction will continue unless supplies become too tight.

Financial institutions reflected the solid economic situation. Loans grew at a brisk 23 percent seasonally adjusted annual rate and deposits expanded at about a 12 percent rate until March, when inflows slowed somewhat. Consumers have been spending enthusiastically and are likely to prolong their spree.

INDUSTRY: Higher Sales—More Jobs

Responses to our Quarterly Industrial Expectations Survey indicated that district durable goods sales should be up nearly 17.9 percent from a year ago. The gain in nondurable goods sales, while less spectacular, should come in at a respectable 6.1 percent.



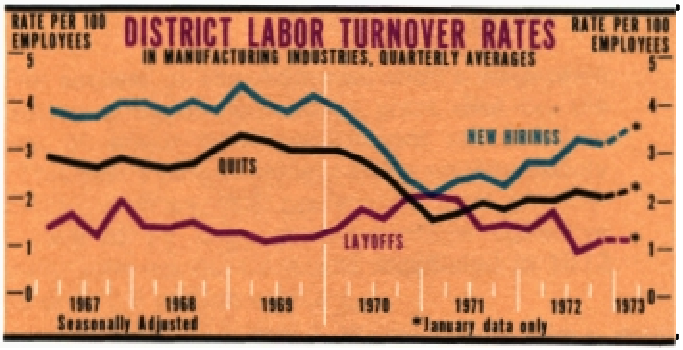
As sales improved, district manufacturing employment in January-February increased 2.1 percent over the fourth quarter of 1972. An average of 3,773 workers per month have been added to district payrolls between August and February. Approximately three-fourths of these new jobs were in durable goods industries, where sales of electric and nonelectric machinery, transportation equipment, lumber and wood products, and scientific instruments were quite large.

LABOR MARKET: 4.8 Percent Unemployment

District labor conditions improved considerably in early 1973 as employment gains outpaced labor force expansion for the second consecutive quarter. The district's seasonally adjusted unemployment rate averaged 4.8 percent in January-February, the lowest level since the second quarter of 1970. Unemployment nationwide was actually higher at 5.1 percent.

Recent employment gains have primarily been centered in the manufacturing, trade and service sectors. In January and February, trade and service employment averaged, respectively, 3.2 and 5.3 percent higher than in the final quarter of 1972.

Other district labor market indicators were also encouraging. Initial claims for unemployment compensation during the first 11 weeks of 1973 were down 5 percent from a year ago, indicating fewer involuntary job separations. The district's help wanted advertising index in January and February was 19 percent higher than in the fourth quarter and 54 percent higher than a year ago. The manufacturing layoff rate in late 1972 and early 1973 was no higher



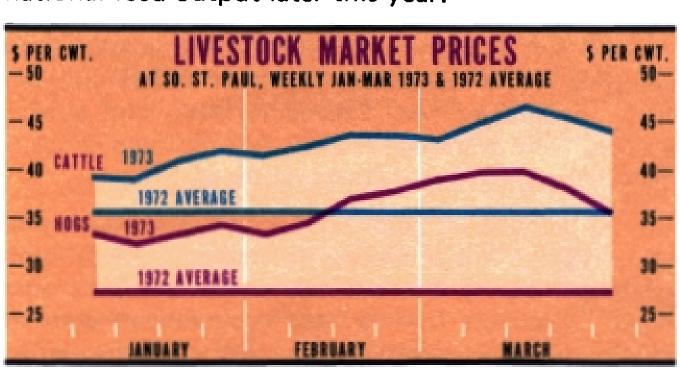
than in the late 1960s, and Minnesota job vacancies in manufacturing in late 1972 were twice as high as a year ago. Although considerably below the level of the late 1960s, the district's quit rate in manufacturing crept up throughout 1972, which means that workers are seeking and finding better jobs. The new hire rate is up substantially from a year ago, and as labor markets tighten, some labor shortages may emerge.

AGRICULTURE: Unsettled Markets

Farm prices during the first quarter attracted more than casual interest from the general public. Some of the price increases were indeed remarkable: soybean prices jumped 52 percent between mid-January and mid-March, and beef and pork prices at the farm gate increased 20 percent.

Given the unsettled state of current markets, forecasting future feed price movements is especially tricky. Near-term prices for soybeans, the major source of protein for livestock, will probably stay high until at least next fall, and possibly longer if farmers decide to expand meat output. Prices then will depend on soybean harvests and the extent to which farmers respond to the government's liberalized acreage allotment program.

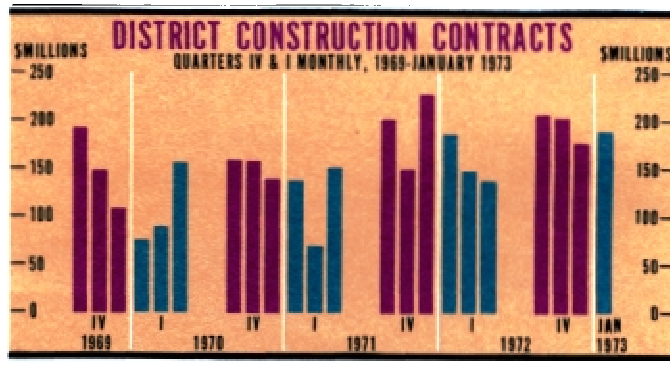
The outlook for livestock prices is even more nebulous. Despite mid-March news that future meat supply predictions were probably overestimates, prices received by farmers for beef and pork dropped. Quite probably this decline was unrelated to supply conditions and reflected instead speculation of a large national feed output later this year.



The recent meat price freeze and consumers' boycott have added more uncertainty to an already shakey market. If successful, a price freeze would hold farm prices at or below the mid-March level for the next few months. The boycott, unless it re-escalates, will likely cause price gyrations without much long-term price effect.

CONSTRUCTION: Another Good Year Ahead

District construction was off to a good start in January with the valuation of total contracts awarded amounting to $189.3 million. This was the highest January level on record and surpassed January 1972 by 2 percent and January 1971 by 37 percent. According to seasonal patterns, the first quarter is typically the lowest quarter of the year, falling well below the preceding fourth quarter. In this context, since fourth quarter 1972 contract awards averaged a substantial $196 million per month, first quarter 1973 showed up particularly strong.



Because construction in 1972 was slowed by strikes and poor weather, some projects have been carried over into 1973. This carry-over, along with relatively mild weather and few labor contract expirations, should bolster construction activity in the district this year.

Nationally, the Department of Commerce expects a record volume of new construction to be put in place in 1973. Residential building will level off somewhat from the highs of the last two years, but nonresidential expenditures are expected to increase more than 10 percent.

Construction material shortages and wholesale price increases seem to be developing throughout the nation, however. Lumber and wood products output, for example, fell an actual 9 percent in October-November 1972 (the most recent figures available), and portland cement fell 28 percent. Correspondingly, wholesale lumber prices in the latter part of 1972 increased dramatically—as much as 22 percent for some softwoods and plywoods.

FINANCE: Mortgage Rates Near Limit

District savings and loan associations (S&Ls) proved a willing source of mortgage credit in early 1973. During January and February, their seasonally adjusted monthly average of mortgage loans made was 8 percent greater than in the fourth quarter of 1972 and 30 percent greater than a year earlier. Mortgage loan commitments in January and February rose 13 percent above the fourth quarter level.

Conventional mortgage interest rates on new homes in the Twin Cities area averaged 7.81 percent in January, unchanged from three months before. The rate has remained stable despite the strong demand for mortgage loans because savings inflows have been fairly heavy (until recently) and because this rate is already close to the 8 percent state limit.

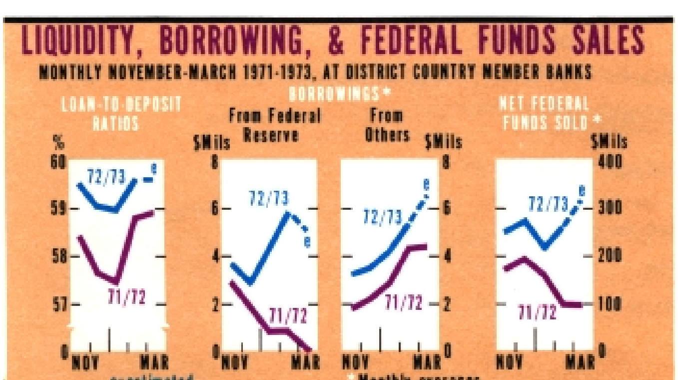
Loan Demand Remains Strong

Loans at district member banks grew at a vigorous 23 percent seasonally adjusted annual rate in the first quarter. Both country and city banks experienced solid loan growth but, due to heavy business borrowing, almost two-thirds occurred at city banks.

At various times during the quarter, credit demands to finance grain inventories, manufacturing and construction were strong at large banks. City bank loans to nonbank financial institutions and individuals continued to reflect active consumer spending. To meet demand, some funds were raised by liquidating portions of short-term U.S. Treasury portfolios.

Recent loan expansion at country banks reflected the prevailing rural prosperity. As district farmers earned, spent and borrowed more than usual, loans outstanding at country member banks rose 15 percent (seasonally adjusted annual rate) for the three months ending with February. Farmers took out short- and intermediate-term loans apparently to purchase increasingly high priced items such as livestock, machinery and equipment, and also to cover costs of land and building improvements.

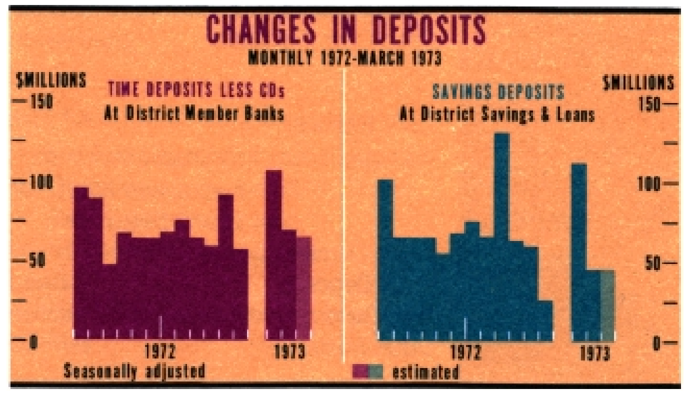
Strong loan demand at country member banks limited investment holdings to an 8 percent seasonally adjusted annual rate of growth. Nevertheless, country



banks as a group did not appear to be unduly squeezed for liquidity. Loan-to-deposit ratios have not shown a significant gain and net sales of federal funds remain at a relatively high level. Moreover, borrowings from the Federal Reserve and other sources have increased only slightly.

Some Depositors Switch to Securities

At district member banks, total time deposits excluding large CDs have been growing at about a 12 percent seasonally adjusted annual rate since the fourth quarter of 1972. However, toward the end of the first quarter, savings inflows slowed so that March inflows fell below January's.



Net savings inflows to district S&Ls have also slowed in the last two months. Following a sharp increase in January (which led to a strong first quarter showing) savings inflows dropped to a 10 percent seasonally adjusted annual growth rate in February and did not change much in March.

The contraction in savings inflows at district financial institutions is consistent with a pattern developing in the nation and possibly reflects disintermediation. (Disintermediation is the shift of savings from commercial banks, S&Ls and mutual savings banks—intermediary thrift institutions—to direct investments in higher yield short-term securities.) Since the end of January, interest rates on short-term investments available for direct purchase have risen above the highest rates financial intermediaries are permitted to offer on savings deposits.

CONSUMER SPENDING: Car and Truck Sales Soar

District consumers are spending optimistically. In the fourth quarter of 1972, Minnesota retail sales were up 12 percent over the comparable period of 1971, and this year-over-year increase seems to have held during the first quarter of 1973. The vigor of consumer spending in the first quarter largely resulted from higher employment and personal incomes. Automobile and truck sales have expanded sharply in both the district and the nation. The district's unusually mild winter, despite its adverse effect on winter recreational-related expenditures, appears to have had a favorable impact on total vehicle sales and especially on recreational truck sales.

UNITED STATES income and finance

Percent Change FEB.-FEB.	1973 MAR.	1973 FEB.	1973 JAN.	1972 FEB.	UNIT	INDICATOR	
+ 9.4	n.a.	993.9p	985.6	908.5	Billion $, saar	Total Personal Income	MEASURES OF CONSUMER INCOME & FINANCIAL POSITION
+ 9.3	n.a.	964.9p	956.6	882.4	Billion $, saar	Nonagricultural Personal Income	
+ 8.1	n.a.	161.18p	159.20	149.17	Dollars	Average Weekly Earnings in Manufacturing	
+ 18.1	n.a.	60.6	60.1	51.3	Billion $	Consumer Installment Credit Outstanding [2]	
+ 16.1	n.a.	251.5	245.0	216.6	Billion $	Time and Savings Deposits at Member Banks	
	n.a.	n.a.	n.a.	180.6	Billion $	Savings Balances at Savings & Loan Assoc.	
+ 23.7	n.a.	4.7	6.0	3.8	Billion $	Cash Farm Receipts	
						CITY BANKS [4,5]	MEASURES OF FINANCIAL CONDITION OF MEMBER BANKS
+ 22.0	n.a.	232.7	225.6	190.8	Billion $	Adjusted Loans and Discounts [6]	
+ 16.6	n.a.	96.2	92.3	82.5	Billion $	Commercial and Industrial Loans	
+ 20.2	n.a.	47.0	46.5	39.1	Billion $	Real Estate Loans	
+ 7.5	n.a.	157.1	156.9	146.2	Billion $	Gross Demand Deposits	
+ 16.7	n.a.	168.2	162.9	144.1	Billion $	Time Deposits	
- 6.2	n.a.	25.7	28.9	27.4	Billion $	U.S. Government Securities	
+ 4.9	n.a.	55.2	55.4	52.6	Billion $	Other Securities	
						COUNTRY BANKS [4,7]	
+ 18.6	n.a.	86.9	85.4	73.3	Billion $	Loans and Discounts	
+ 12.5	n.a.	56.8	57.0	50.5	Billion $	Gross Demand Deposits	
+ 14.9	n.a.	83.3	82.1	72.5	Billion $	Time Deposits	
+ 2.3	n.a.	18.0	18.4	17.6	Billion $	U.S. Government Securities	
+ 12.5	n.a.	31.6	31.4	28.1	Billion $	Other Securities	
- 0.5	n.a.	31,732p	32,896	31,896	Million $	Total Reserves [8]	MEASURES OF RESERVE POSITION AND "LIQUIDITY" OF MEMBER BANKS
- 0.7	n.a.	31,537p	32,674	31,753	Million $	Required Reserves	
+ 36.4	n.a.	195p	222	143	Million $	Excess Reserves	
+4,451.4	n.a.	1,593p	1,098	35	Million $	Borrowings from FRB	
+ 9.8	n.a.	76.1	74.8	69.3	Percent	Ratio of Loans to Total Deposits—City Banks [4]	
+ 4.0	n.a.	62.0	61.4	59.6	Percent	Ratio of Loans to Total Deposits—Country Banks [4]	
+ 3.9	n.a.	128.6	127.7	123.8	Index	Consumer Price Index [9]	MEASURES OF PRICE LEVELS
+ 22.1	159	149	144	122	Index	Prices Received by Farmers [9]	

SOURCES

PERSONAL INCOME: U.S. Department of Commerce, Office of Business Economics

AVERAGE WEEKLY EARNINGS: Michigan, Minnesota, Montana, North Dakota, and South Dakota Employment Security Departments; U.S. Department of Labor, Bureau of Labor Statistics

COMMERCIAL BANK FINANCIAL DATA: Federal Reserve Bank of Minneapolis; Board of Governors of Federal Reserve System

SAVINGS AND LOAN ASSOCIATIONS: Federal Home Loan Bank Board

CASH RECEIPTS FROM FARM MARKETINGS: U.S. Department of Agriculture

CONSUMER PRICE INDEX: U.S. Department of Labor, Bureau of Labor Statistics

PRICES RECEIVED BY FARMERS: U.S. Department of Agriculture; Minnesota Farm Price Report

NINTH DISTRICT income and finance

INDICATOR		UNIT	1973 MAR.	1973 FEB.	1973 JAN.	1972 FEB.	Percent Change FEB.-FEB.
MEASURES OF CONSUMER INCOME & FINANCIAL POSITION	Total Personal Income *						
	Nonagricultural Personal Income*						
	Average Weekly Earnings in Manufacturing[1]	Dollars	n.a.	165.96e	167.85	155.58	+ 6.7
	Consumer Installment Credit Outstanding [2]	Million $	n.a.	1,832	1,825	1,486	+ 23.3
	Time and Savings Deposits at Member Banks	Million $	7,885	7,714	7,540	6,618	+ 16.6
	Savings Balances at Savings & Loan Assoc. [3]	Million $	n.a.	5,301	5,261	4,541	+ 16.7
	Cash Farm Receipts[3]	Million $	n.a.	460	594	368	+ 25.0
MEASURES OF FINANCIAL CONDITION OF MEMBER BANKS	CITY BANKS[4,5]						
	Adjusted Loans and Discounts[6]	Million $	3,654	3,574	3,504	2,777	+ 28.7
	Commercial and Industrial Loans	Million $	1,670	1,623	1,583	1,221	+ 32.9
	Real Estate Loans	Million $	628	639	631	500	+ 27.8
	Gross Demand Deposits	Million $	2,023	2,199	2,162	2,084	+ 5.5
	Time Deposits	Million $	2,289	2,204	2,082	1,872	+ 17.7
	U.S. Government Securities	Million $	438	477	514	477	
	Other Securities	Million $	866	823	798	664	+ 23.9
	COUNTRY BANKS[4,7]						
	Loans and Discounts	Million $	5,288	5,181	5,066	4,330	+ 19.7
	Gross Demand Deposits	Million $	2,688	2,789	2,738	2,406	+ 15.9
	Time Deposits	Million $	5,591	5,510	5,457	4,746	+ 16.1
	U.S. Government Securities	Million $	1,153	1,191	1,240	1,191	
	Other Securities	Million $	1,743	1,728	1,723	1,518	+ 13.8
MEASURES OF RESERVE POSITION AND "LIQUIDITY" OF MEMBER BANKS	Total Reserves [8]	Million $	720	716	743	785	- 8.8
	Required Reserves	Million $	717	711	738	780	- 8.8
	Excess Reserves	Million $	3	5	5	5	
	Borrowings from FRB	Million $	61	51	21	1	+5,000.0
	Ratio of Loans to Total Deposits—City Banks[4]	Percent	85.3	82.6	83.8	72.0	+ 14.7
	Ratio of Loans to Total Deposits—Country Banks[4]	Percent	63.9	62.4	61.8	60.5	+ 3.1
MEASURES OF PRICE LEVELS	Consumer Price Index—Minneapolis [9, 10]	Index	n.a.	n.a.	127.8	n.a.	
	Prices Received by Farmers—Minnesota[9]	Index	166	155	146	119	+ 30.3

NOTES

e—Partially estimated; all data not available

n.a.—Not available

p—Preliminary; subject to revision

r—Revised

sa—Seasonally adjusted

*—District and U.S. data not comparable

saar—Seasonally adjusted annual rate

FOOTNOTES

1. Excluding Northwestern Wisconsin
2. All commercial banks; estimated by sample
3. Excluding Northwestern Wisconsin and Upper Michigan
4. Last Wednesday of the month figures
5. Selected banks in major cities
6. Net loans and discounts less loans to domestic commercial city banks
7. All member banks, excluding the selected major city banks
8. Average of daily figures of the four or five weeks ending on Wednesday which contain at least four days falling within the month
9. Index: 1967 Base Period
10. Quarterly

NINTH DISTRICT production and employment

INDICATOR		UNIT	1973 FEB.	1973 JAN.	1972 FEB.	Percent Change FEB.-FEB.
MEASURES OF PRODUCTION AND FACTOR INPUTS TO PRODUCTION	Total Industrial Production*					
	Electrical Energy Consumption: Mfg. and Mining[1]	Index, sa	140	143	136	+ 2.9
	Production Worker Manhours: [1]	Index, sa	104p	106	97	+ 7.2
	Manufacturing	Index, sa	106p	107	98	+ 8.2
	Mining	Index, sa	93p	98	92	+ 1.1
	Total Construction Contracts Awarded	Million $, sa	841.5	293.8	258.7	+225.3
	Residential Buildings	Million $, sa	107.8	144.7	77.3	+ 39.5
	Nonresidential Buildings	Million $, sa	53.0	128.4	95.5	- 44.5
	All Other Construction	Million $, sa	617.7	20.7	85.9	+619.1
	Bldg. Permits: New Housing Units[2]	Number	1,295	1,428	2,421	- 46.5
MEASURES OF MANPOWER UTILIZATION	Civilian Work Force[3]	Thousands, sa	2,724p	2,725	2,650	+ 2.8
	Total Civilian Employment	Thousands, sa	2,590p	2,594	2,504	+ 3.4
	Number Unemployed	Thousands, sa	134p	131	146	- 8.2
	Unemployment Rate[3]	Percent, sa	4.9p	4.8	5.4	- 9.3
	Average Weekly Hours in Manufacturing[3]	Hours, sa	40.9e	41.7	40.2	+ 1.7
EMPLOYMENT BY INDUSTRY SECTOR	Wage and Salary Employment, Nonfarm[3]	Thousands, sa	2,091p	2,080	1,992	+ 5.0
	Manufacturing	Thousands, sa	390p	387	368	+ 6.0
	Mining	Thousands, sa	32p	32	31	+ 3.2
	Construction	Thousands, sa	105p	105	103	+ 1.9
	Transport., Comm., & Public Utilities	Thousands, sa	135p	135	132	+ 2.3
	Trade	Thousands, sa	517p	516	483	+ 7.0
	Finance, Insurance & Real Estate	Thousands, sa	96p	96	92	+ 4.3
	Service Industries	Thousands, sa	369p	366	346	+ 6.6
	Government	Thousands, sa	447p	443	437	+ 2.3
MEASURES OF SPENDING	Total Retail Sales*					
	New Passenger Car Registrations	Thousands, sa	n.a.	n.a.	n.a.	
	Bank Debits[4]	Billion $, saar	264.6	260.7	200.7	+ 31.8

NOTES

e—Partially estimated; all data not available

n.a.—Not available

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r—Revised

sa—Seasonally adjusted

*—District and U.S. data not comparable

saar—Seasonally adjusted annual rate

FOOTNOTES

1. Index: 1967 Base Period; Weights: 1967
2. A sample of permit-issuing centers
3. Excluding Northwestern Wisconsin
4. Six standard metropolitan statistical areas
5. A sample of centers blown up to represent total permits issued
6. 226 standard metropolitan statistical areas, excluding the seven leading centers

UNITED STATES production and employment

Percent Change FEB.-FEB.	1973 FEB.	1973 JAN.	1972 FEB.	UNIT	INDICATOR	
+ 9.8	120.8	119.9	110.0	Index, sa	Total Industrial Production	MEASURES OF PRODUCTION AND FACTOR INPUTS TO PRODUCTION
					Electrical Energy Consumption: Mfg. and Mining*	
+ 6.3	101p	99p	95	Index, sa	Production Worker Manhours:[1]	
+ 7.4	102p	99p	95	Index, sa	Manufacturing	
- 4.1	93p	93p	97	Index, sa	Mining	
+22.2	8,368.0	8,586.1	6,849.0	Million $, sa	Total Construction Contracts Awarded	
+23.2	4,346.2	4,300.1	3,527.2	Million $, sa	Residential Buildings	
+24.0	2,565.0	2,725.2	2,068.2	Million $, sa	Nonresidential Buildings	
+16.2	1,456.8	1,560.8	1,253.6	Million $, sa	All Other Construction	
	n.a.	n.a.	143.6	Thousands	Bldg. Permits: New Housing Units[5]	
+ 2.4	87,569p	86,921	85,518	Thousands, sa	Civilian Work Force	MEASURES OF MANPOWER UTILIZATION
+ 3.1	83,127p	82,555	80,594	Thousands, sa	Total Civilian Employment	
- 9.8	4,442p	4,366	4,924	Thousands, sa	Number Unemployed	
-12.1	5.1p	5.0	5.8	Percent, sa	Unemployment Rate	
+ 1.2	40.9p	40.3	40.4	Hours, sa	Average Weekly Hours in Manufacturing	
+ 4.1	74,693p	74,245	71,744	Thousands, sa	Wage and Salary Employment, Nonfarm	EMPLOYMENT BY INDUSTRY SECTOR
+ 5.1	19,557p	19,469	18,612	Thousands, sa	Manufacturing	
- 0.2	612p	610	613	Thousands, sa	Mining	
+ 2.7	3,589p	3,502	3,494	Thousands, sa	Construction	
+ 3.2	4,582p	4,574	4,438	Thousands, sa	Transport., Comm., & Public Utilities	
+ 4.3	16,121p	15,989	15,456	Thousands, sa	Trade	
+ 3.6	4,012p	3,999	3,874	Thousands, sa	Finance, Insurance & Real Estate	
+ 4.7	12,687p	12,621	12,112	Thousands, sa	Service Industries	
+ 3.0	13,533p	13,481	13,145	Thousands, sa	Government	
+17.0	41.3	40.7	35.3	Million $, sa	Total Retail Sales	MEASURES OF SPENDING
	n.a.	909.9	856.4	Thousands, sa	New Passenger Car Registrations	
+22.5	5,021.3	4,976.5	4,100.2	Billion $, saar	Bank Debits[6]	

SOURCES

INDUSTRIAL PRODUCTION: Board of Governors of Federal Reserve System

ELECTRICAL ENERGY CONSUMPTION: Federal Reserve Bank of Minneapolis

PRODUCTION WORKER MANHOURS: Federal Reserve Bank of Minneapolis

CONSTRUCTION CONTRACTS AWARDED: Board of Governors of Federal Reserve System; F. W. Dodge Corporation

NEW HOUSING UNITS AUTHORIZED: Federal Reserve Bank of Minneapolis; U.S. Department of Commerce, Bureau of Census

EMPLOYMENT, UNEMPLOYMENT, AND HOURS: Michigan, Minnesota, Montana, North Dakota, and South Dakota Employment Security Departments; U.S. Department of Labor, Bureau of Labor Statistics

RETAIL SALES: U.S. Department of Commerce, Bureau of Census

NEW PASSENGER CAR REGISTRATIONS: Automotive News Magazine

BANK DEBITS: Board of Governors of Federal Reserve System

LABOR NEGOTIATIONS IN 1973

The success of the Administration's wage-price stabilization program depends a great deal on the outcome of major labor negotiations scheduled in 1973. This year's bargaining will affect approximately 4.7 million workers (5.8 percent of total employment) covered by large private-nonfarm collective bargaining agreements. Contracts negotiated in 1972 covered only 2.8 million workers.

Unions representing a broad spectrum of important industries—meat packing, automobile, farm equipment and electrical machinery manufacturing, trucking and construction—will be negotiating this year. Large wage settlements in key industries would set the pattern throughout the country for strong demands by smaller unions and nonunion workers. Since heavy bargaining is also scheduled in 1974, large wage settlements this year would, furthermore, encourage substantial wage increases next year as well.

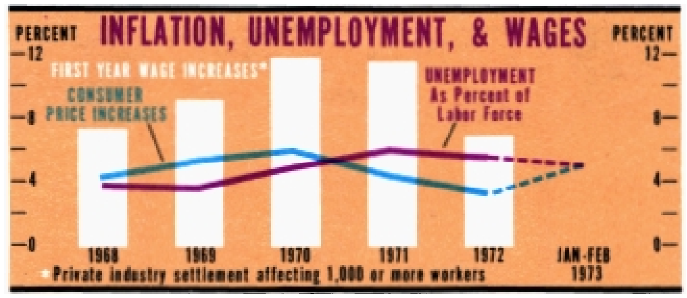
In the district, bargaining will affect 3,500 workers in the United Auto Workers, 2,800 members of the International Brotherhood of Electrical Workers, and several hundred workers from the Meat Cutters Union and the major meat packing companies. Negotiations between Minnesota Mining and Manufacturing Company and the Oil, Chemical and Atomic Workers International Union will cover 3,240 district workers. And, talks involving the Teamsters and the trucking industry will determine wage increases for many district transportation workers.

HISTORY OF WAGE SETTLEMENTS

In the recent past, wage settlements for the first year of a contract have been running considerably higher than the Administration's 5.5 percent guideline under Phase III. In 1970, for example, the typical first-year increase averaged 11.9 percent, and in the first nine months of 1971, 11.8 percent. Wage gains were held down under Phase II to a more moderate 7.6 percent average for 1972.

The conditions existing during Phase II—a tapering rate of inflation and generally slack labor market—undoubtedly softened organized labor's wage demands. Because conditions differ under Phase III, pressure for higher wages may well be exerted. Historically, the interaction of inflation and employment levels have had a marked influence on wage demands.

In the late 1960s and early 1970s, rapidly rising prices prompted organized labor's demand for large wage gains. When the consumer price index rose by 5.9 percent in 1970, for example, collective bargaining agreements contained first-year wage increases averaging 11.9 percent, for a real income gain of 0.7 percent. In 1972, consumer prices were held to a 3.3 percent rise, and despite more modest wage gains, the average real hourly earnings of a production worker rose 2.9 percent. Real income gains achieved last year should help constrain wage demands this year unless the consumer price increase of 5.1 percent (annual rate) in January-February 1973—mostly from rising food costs—continues to whittle away real income.



Low levels of unemployment also encourage unions to press for higher wages. U.S. unemployment was unusually low in the late '60s and wage gains accelerated sharply. Unemployment remained below 5.0 percent until late 1970. High unemployment of 6.0 percent in 1971 and 1972 coincided with wage demand moderation, especially in the construction industry where unemployment hovered around 10 percent last year. Since mid-1972 labor markets have tightened and in February unemployment dropped to 5.1 percent from 5.8 percent a year ago. As labor shortages emerge, wage demand pressures will pick up.

WHAT TO EXPECT UNDER PHASE III

Besides inflation and the tight labor market, the liberalized wage-price controls of Phase III will have a noticeable effect on wage negotiations in 1973. Phase II provided precise guidelines for wage-price increases and strict enforcement mechanisms, but Phase III will be essentially self-administrating and voluntary. The creditability of Phase III is already in question as the Administration and organized labor dispute whether the 5.5 percent wage guideline of Phase II also applies to Phase III.

In 1973, twice as many workers as in 1972 from some of the nation's more militant unions will be bargaining for meatier contracts. If rising prices continue at the same rate or accelerate, and if the labor market tightens further, unions will not be content with the relatively low first-year contracts reached last year. The Administration has retained one club to safeguard its stabilization policies, however: Phase III regulations stipulate that large wage agreements must be reviewed by the Cost of Living Council which is empowered to roll back settlements that jeopardize stabilization efforts.

INDIAN RESERVATIONS are "the most economically depressed areas in the United States," according to Michael J. Schmid, Federal Reserve Bank of Minneapolis researcher. Mr. Schmid studies government attempts to aid reservation economies in his recently published *Federal Programs for the Economic Development of Indian Reservations.* Copies are available from our Office of Public Information.