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CURRENT ECONOMIC COMMENT BY DISTRICT

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by the Staff

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SUMMARY*

This month's Redbook reports provide several indications of improvements in activity, but many sectors are still declining. A widespread belief exists that the recession is "bottoming out," and that a turn for the better is near at hand. The words "optimism" and "optimistic" appear frequently. But an early return to full prosperity is considered unlikely, and unemployment is expected to remain high. Retail sales remain sluggish in virtually all regions. Inventory liquidations are continuing, especially at the manufacturing level. The rate of inflation continues to moderate. Makers of many types of capital goods are cutting output, and others are working off backlogs. Although residential activity is improving moderately in some regions, new construction remains at a very depressed level. A number of reports indicated that loan demand at commercial banks has been soft, but this may reflect, in part, highly selective lending policies. Agricultural prospects are generally favorable, except for flooding rains in the South and excess moisture in Iowa.

Most districts report that the rate of decline in activity has at least slowed down. Improvements are reported for appliances and auto tires (Cleveland), textiles and apparel (Richmond, Atlanta, and Dallas), chemicals (St. Louis), and aircraft (San Francisco). New York says many manufacturers are cutting output rather than prices. Demand for autos and most consumer durables remains very weak, inventory liquidations continue, and the capital expenditures boom is ebbing.

Virtually all districts commented on the continued poor performance of retail sales. Auto deliveries fell back after the rebate programs

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*Prepared at Federal Reserve Bank of Chicago.

expired. New York and Philadelphia indicated that cold, rainy weather had hurt sales of general merchandise recently, adding to the effects of unemployment and adverse consumer psychology. A number of districts attempted to assess the impact of the personal tax rebates, but with inconclusive results. Chicago commented on lagging sales of mobile homes, RVs, boats, and lawn and garden equipment. Atlanta was impressed with "unbelievably" strong tourism. A number of districts found that retailers had reduced inventories to desired levels, but some additional cutting was in prospect if sales did not improve.

Manufacturers' inventories remain generally excessive, except for textiles and apparel, and substantial further overall liquidation apparently is planned. San Francisco commented on very heavy inventories of petroleum and copper. Several districts indicated that steel mills are building inventories, while their customers are liquidating, but the overall effect is a substantial slide in mill shipments, output, and employment. No significant revival in steel shipments is likely until late in the year, when auto and appliance producers are expected to lead the recovery.

Various districts reported that price inflation had slowed significantly, with some wholesale and retail prices relatively stable and others declining--see New York, Philadelphia, and Chicago.

Cleveland and Chicago say that demand for equipment for coal mining, energy exploration, pollution control, steel production, and water and sewerage is very strong, but most other capital goods producers have reduced output, more or less substantially. Electric utilities and railroads are moderating capital outlays because of financial stringencies. The picture for farm and construction equipment is mixed. Heavy truck sales are dismal.

Districts commenting on the increase in the investment tax credit found it relatively ineffective. Foreign demand for U. S. equipment is strong, partly because of favorable exchange rates.

The construction outlook remains gloomy, although Atlanta and St. Louis report some improvement in the residential sector. Large inflows of savings to S&Ls continue, but both homes buyers and lenders remain cautious. San Francisco says new construction is at a "standstill." Districts commenting on the home purchase tax credit see little impact, partly because of the complexities of the IRS guidelines. Dallas suggests the tax credit is simply a "windfall" to those who would have purchased homes anyway. Usury rates are mentioned as a problem in Illinois and Minnesota. Atlanta reports several bankruptcies of apartment complexes and mortgage companies in Florida.

A number of districts (Boston, Philadelphia, Cleveland, and San Francisco) note that mortgage lenders expect interest rates to rise later in the year. Two districts discussed the "crowding out" effect of heavy Treasury financial needs. Philadelphia says few bankers believe demand for credit is being influenced by the prospective federal deficit. Dallas, however, emphasizes "crowding out" as a potent factor hindering efforts of business firms to raise funds in the capital markets, which have become "inaccessible." Commercial banks and other lenders have become highly selective in granting new credits to all classes of borrowers, according to several districts.

FIRST DISTRICT--BOSTON

The attitudes of the New England directors are hopeful; they anticipate a recovery of activity presently. However, it is stressed that much improvement is required before the economy will perform acceptably. In view of recent years' experience, businessmen are attempting to gauge likely policy in 1976 and 1977 before framing current investment strategies. Unemployment in New England rose to 11.1 percent in March; for the previous month the rate was 10.4 percent, and a year before it was 6.5 percent.

Savings bankers are in no hurry to cut mortgage rates despite record deposit growth. They suspect the money is merely "parked" since the gains have been most heavy in passbook and NOW accounts. Loan officers expect rising interest rates during the fall. Similarly, commercial bankers are expecting interest rates to rise later in the year; any cuts in loan rates will be modest and short-lived. Applications for business loans are strengthening and bankers are endeavoring to acquire direct consumer loans.

Retail sales are still sluggish despite the continuation of aggressive promotions. Retailers have managed a considerable amount of inventory liquidation and are looking to the tax cut as a source of hope. However, a director reports that his strategy is unchanged: remain liquid, plan modestly, and be ready to move aggresively.

Businessmen dealing in capital goods markets are noticing a continuation of weaker orders. Delays of delivery time are still occurring. However, directors claim they are becoming more optimistic. In some instances, they cite September or October for bringing significant improvements in production. More generally, they believe that if the bottom has not been attained, it is at hand.

Real estate development has been under a squeeze in Boston. A director reports that city residential rehabilitation projects are endangered since operating costs are overtaking expected revenue at a rapid pace. Even middle- and upper-class residential areas are developing tenants' unions.

The high rates of unemployment have caused some social problems. Young entrants to the labor force and college graduates are not being placed in jobs. A director closely involved sees substantial changes in the attitutdes of such people. Furthermore, the middle class has begun joining the food stamp program in numbers, which the director considers significant.

Announced layoffs and furloughs have moderated considerably in recent weeks. Consequently, it is expected that New England unemployment rates may increase, but it is anticipated that the top is near.

Professors Tobin, Eckstein, Samuelson, and Solow were available for comment. None of them believe that a recovery is "in the bag" as yet. They also concur that monetary policy should take a stimulative attitude until the economy is definitely regaining health.

Tobin does not feel the economy is resting on a knife edge of depression and inflation. He would like to see a dramatically lower federal funds rate coupled with money growth of 10 percent for a few months. He fears that though things look rather hopeful on first blush, the economy has no holding power--the financial condition of business especially is unfavorable and we risk stagnation if the rebound is not nurtured. He sees nonmonetary forces fueling a 6 percent inflation rate should 4 percent growth be attained; 7.5 percent money growth would risk another slump. We need not lock the throttle at higher rates of money expansion, we need to assist the recovery.

Eckstein notes that the economy is still fundamentally weak, and his forecasts are "a gamble that the tax cut will work" and that monetary policy is stimulative. He is sympathetic with the use of the federal funds rate as a target and he is relieved to see that it has eased somewhat. He notes that a 5 percent funds rate accompanies 8.3 percent money growth in his model--this is close enough to 7.5 percent to be well within our margins of forecasting and control errors. Five percent money growth would produce a depression and would be plausible only if inflation falls to the 1 to 2 percent level.

Samuelson senses that the trough is near. He sees no rebound in housing or autos for some time, but it is a good bet that growth will exceed 4 to 5 percent by year-end. He feels that average money growth would be better near 7.5 percent, rather than 5 percent. Transient needs require faster growth until the recovery is definitely under way. We are still half a business cycle away from acceptable performance.

Solow believes the turn is near and he believes that monetary ease should be maintained. In terms of the funds rate, he feels that 5 to 5.25 percent is appropriate at least until the summer. In his opinion, fears that high real growth at this time will fuel inflation are "rational but wrong." Prices depend on the general level of activity, and the economy is very slack. Excessive growth is not likely and monetary policy should be prepared to assist capital investment during the recovery.

All agree that the tax cut is not excessive, therefore there is no reason to believe that investment need be crowded out by higher consumption outlays. There is room for investment expansion, and monetary policy need not inhibit it.

SECOND DISTRICT--NEW YORK

Second District directors and other business leaders who were contacted recently in general were restrained in their assessment of the retail sales picture, although some retailers were reported to expect business to pick up in the not-too-distant future. Views were mixed regarding the outlook for consumer prices. Some businessmen indicated an inclination to raise prices by cutting production if necessary, while some others expected reduced demand and excess capacity to exert downward pressure on prices. The respondents generally agreed that good progress was being made toward reducing inventories to desired levels.

The Buffalo Branch directors in general felt that the demand for automobiles and other consumer durable goods would remain depressed through the rest of the year and perhaps into 1976. These poor prospects were attributed to the continued lack of consumer confidence, high prices, unemployment, and, in the case of appliances, to the questionable outlook for an upturn in homebuilding during the balance of the year. Several of the respondents were also restrained in their assessment of the current retail sales picture. A survey of New York City's major department stores conducted by a local newspaper revealed that these stores in April had suffered the biggest year-to-year decline in sales in five years, reflecting in part cool and rainy weather conditions, as well as high unemployment in the city. On the brighter side, retailers were reported to be generally optimistic and to believe that business in the city must pick up soon. In this context another respondent expressed the belief that consumers were reaching the end of "stretching" out their inventories of automobiles, appliances, and other goods, a development he felt was a good sign for the economy generally.

Regarding the outlook for prices, a senior official of a large New York City bank felt that most manufacturers and processors wished to maintain their current prices, even if this means cutting production in the face of reduced demand. The president of a large textile concern indicated that his company intends to increase its prices when it has the opportunity. Several other respondents expressed similar intentions. On the other hand, the Buffalo Branch directors and several other businessmen looked for continuing downward pressure on retail prices throughout most of 1975. In their view reduced demand and unutilized capacity should lead to heightened competition which in turn should be manifested in lower prices.

The respondents on balance agreed that although many businessmen do not yet feel comfortable with the current level of their inventories, a good deal of progress has been made in reducing such inventories to acceptable levels. Indeed, a number of respondents reported that in the case of their own firms or industries, desired levels had already been attained or soon would be reached. Thus, among others, the president of a large chain of department stores reported that his firm's inventories were now in line with estimated sales. A senior official of another retail concern reported his firm's inventories to be down 15 to 20 percent from a year ago. An upstate New York businessman stated that some retailers in his area report low inventory levels. Another director, commenting about the automobile parts industry, noted that inventories of finished goods in that industry have now reached nearly acceptable levels, and that stocks of raw materials would probably be worked down to desired levels within the next two months.

THIRD DISTRICT--PHILADELPHIA

Over the last three months, the decline in Third District economic activity has been slowing. Area manufacturers report no change in the level of their new orders and prices, but inventories have declined markedly. These businessmen are optimistic, however, about an upturn in business activity within the next six months. They anticipate a significant upswing in new orders and hope to trim inventories even more. The employment picture in manufacturing for late fall continues to be optimistic, but there is still widespread concern that prices will continue to rise. Retailers are generally optimistic, too, but don't expect much of a pickup until near year-end. Area bankers report flat loan volumes, and few see much of a change before the fourth quarter.

Third District manufacturers, responding to this month's business outlook survey, report a continued leveling in regional business activity with some indication that the steady economic decline that the region has been experiencing is "bottoming out." Responses to the questionnaire indicate that new orders this month were nearly level (an improvement over last month) while shipments were up slightly. Over 50 percent of these executives experienced inventory declines during the month. This is the third month in a row that substantial inventory cutbacks have occurred.

The longer-term outlook is the same this month as in April with three-fourths of the respondents expecting an accelerated pace of business activity by November. They also predict that the pace of inventory liquidation will be slowing down. The proportion of executives expecting their inventories to drop below current levels by late fall has declined substantially from last month. Caution, however, dominates spending plans for new plant and equipment. While three-fourths of this month's respondents see an increase in business activity six months out, 60 percent foresee no change in capital expenditures by November.

Employment levels mirror the flatness in business activity in May. Most Third District manufacturers report an unchanged work force and average workweek this month. By November over 40 percent expect to increase the size of their work force. With a growing labor force, however, there are no strong signs of any quick relief from high rates of unemployment.

Retailers in the area report that weak and sluggish sales are continuing They cite the cold and rainy weather that has followed on the heels of an early Easter as helping to keep the damper on spending. Further, no big "shot in the arm" to sales is expected from the tax rebates. Retail executives feel either that the rebate dollars have already been spent in anticipation of their receipt or that the money will be used to pay off debits. All in all, most retailers expect no significant upturn in sales until very late in the year, if one occurs at all. As one executive put it, "We're expecting business to stop declining, but we wonder how long we'll be on the floor."

On the inflation front, both retailers and manufacturers report continued moderation in prices. This month, between 80 and 90 percent of area manufacturers polled report no change in the prices of their inputs and outputs, but about half expect these prices to be higher by November. In the retail sector, most executives report moderation in the prices they charge. On the cost side, they indicate little pressure for higher prices from suppliers, but one said that he was encountering reluctance on the part of hard goods suppliers to lower their prices. With retail sales generally sluggish, he doesn't expect this reluctance to continue.

Area bankers report loan volumes down from the beginning of the year, but holding steady. Most report that they're looking to expand "quality" loans, but demand is flat. One banker expressed the view that potential borrowers were adopting a "wait-and-see-attitude"--looking for some clear signal that the upturn had begun. None of the bankers contacted expects a resurgence in the economy before year-end 1975 at the earliest. In this district there is broad agreement that the current spread between the prime rate and short-term money market rates will remain constant, at least until there's some measurable shift in loan demand. So far, few bankers see any clear signs that the demand for credit is being influenced by the fear of being "crowded out" of the money market. But one banker did express concern that mortgage rates might soon start to rise, thereby aborting any housing recovery in its early stages.

FOURTH DISTRICT - CLEVELAND

Comments from our directors and from other business executives suggest that economic activity is still declining. They indicated that although there are scattered signs of recovery in some industries, inventory liquidation will be heavy again this quarter. Conditions in the industrial sector are mixed with some firms continuing to produce at high rates, others beginning to recover, and some continuing to experience weak or declining demand. The decline in residential construction appears to have ended and a moderate recovery is under way. S&Ls, however, are being cautious in their mortgage lending.

New car sales in Cleveland rebounded last month from a sharply depressed level in March. (Some purchases in March were postponed because consumers believed the Ohio sales tax on motor vehicles might be suspended for a time.) Nonautomotive retail sales have held steady, according to a director with a national retail concern. He does not expect tax rebates to create a significant surge in consumer demand. Another director in the consumer entertainment business said motion picture revenues are very good and per capita expenditures in amusement parks are up 28 percent from 1974. All of the increase reflects discretionary spending rather than higher gate fees.

Purchasing agents in Cleveland and our own monthly survey of manufacturers indicate the rate of decline in new orders, production, and employment slowed during April. However, inventory liquidation proceeded at a faster rate than in the first quarter. Firms anticipate a continued high rate of inventory reduction in May. There is evidence of further abatement in inflation. The percent of purchasing agents paying lower prices exceeded the percent paying higher prices for the second consecutive month.

Market conditions for producers of capital goods and consumer goods are mixed. Demand for some types of capital goods continues to be very strong and a few previously depressed industries are beginning to recover, but conditions in some industries appear to be growing worse. Generally, firms producing materials, equipment, and machinery for coal mining, air pollution control, oil country goods, drilling rigs, rail cars, pipelines, and gas storage tanks are enjoying strong demand. District firms also report good sales of heavy duty power transmission components, but they caution that there may be more deferments, cancellations, and declining orders from major electric utilities due to uncertainties in the industry.

Signs of improvement among auto producers and suppliers are spreading, as some laid-off workers continue to be recalled. Automotive tire sales have started to improve, and industry sources say a massive adjustment in tire stocks has occurred in recent months. A director in the rubber and plastics business said inventories at his company and among its retailers are approaching normal levels; production is expected to increase soon. Chemical shipments have begun to recover according to one major firm. A large paper company and an appliance producer recalled some laid-off employees and lengthened the workweek. An industrial machinery firm reports that orders are starting to turn up, though slowly. The nation's leading machine tool producer recently received its first orders for machine tools from China, and it has been receiving large orders from Mideast and Eastern European countries.

On the less encouraging side, two major machine tool builders in Cleveland report no pickup in new orders, and they are continuing to work down their backlogs. One firm experienced a new wave of cancellations in April. A top executive in the heavy-duty truck industry reports that the industry is in its worst sales slump in many years. In Cleveland, a manufacturer of large trucks previously cut output from 60 units a day to 40 units. Now it is producing 24 units a day, following a recent three-week shutdown. Six hundred additional workers were laid off early in May. Truck and bus tire shipments are very weak, and further layoffs will likely occur in this segment of the tire industry. In central Ohio, a large firm is eliminating its recreational vehicle line and permanently reducing its work force by 1,500. Bankers in the area are extremely concerned.

Large and small steel companies continue to lay off workers, temporarily suspend some operations, and reduce their workweeks. Heavy liquidation of steel inventories by steel users is in process. Steel mills, however, are still rebuilding their own inventories. Economists from several steel firms say production should begin to recover in the fourth quarter, with demand from auto and appliance producers expected to lead the recovery. A large steel firm in Youngstown will furlough 2,000 workers for five weeks beginning June 8 while new equipment is being installed.

A number of our directors strongly emphasized the need for policies to stimulate capital spending. In their view, the recent liberalization of the investment tax credit is of only limited help. The directors believe that tax rules limiting depreciation to original cost rather than replacement cost, and long depreciation schedules, are inhibiting growth of the nation's plant capacity and will lead to new shortages. Several directors in energy-related businesses said they were certain that there would be severe energy shortages in the 1980s.

Among other comments from our directors, a university president said jobs are very scarce this year for all except the few best graduates. A director from a large bank in Cincinnati commented on the large increase in job applications at his bank.

In the construction sector, nonresidential building remains depressed, but housing is beginning to edge up. Mortgage lending activity by district S&Ls increased in April, following a very sluggish first quarter. Many S&L officials believe interest rates will rise sharply by year-end and, therefore, are not aggressively seeking mortgage loans. Net savings inflows showed some signs of slowing in April.

FIFTH DISTRICT--RICHMOND

The April survey of Fifth District businesses reveals a number of signs of some improvement in business conditions, particularly in the manufacturing sector. Responses from manufacturing concerns suggest somewhat stronger current activity and, in particular, a significant improvement in expectations, with a majority of those surveyed anticipating continued improvement over the next six months. Manufacturers' responses suggest some recovery in shipments and new orders, as well as some further decline in inventory levels. The survey of district retailers reveals little change from recent months other than a marked turn toward optimism on the part of respondents. In the banking sector, loan demand for inventory and receivables financing and capital expansion programs has not yet materialized, as commercial and industrial loan volume at weekly reporting banks has remained steady since the beginning of April.

The latest survey of manufacturers indicates improvement across a broad range of activity. Only 15 percent of the respondents report a decline in the level of shipments during April, and a diffusion of responses reveals the first increase in this indicator in eight months. Virtually the same picture shows through with regard to the volume of new orders. Materials inventories apparently continued to decline, and for the first time in recent months the diffusion of responses suggests a decline in finished goods inventories as well. Nevertheless, over half the manufacturers surveyed continue to view current inventory levels as excessive and almost half hold the same view with respect to current plant and equipment capacity. Perhaps a further indication of actual or anticipated gains in business activity is revealed by a relative firming of prices, both paid and received, during April. Some reports indicate that with inventory levels becoming more manageable, firms are beginning to review current price lists. The most dramatic result of the latest survey concerns the outlook for the next six months; fewer than 1 percent of the manufacturing respondents expect further worsening of conditions, locally or nationally, over that period.

Retailers responding to our April survey gave little indication of any change during the month. Total sales were essentially flat, while sales of big ticket items relative to total sales remained weak. Inventories showed no change, and current levels remain above desired levels. As in most recent months, responses continue to suggest a mild tendency toward higher prices. Further, each of the respondents is satisfied with the current number and size of outlets. As was the case with manufacturers, expectations showed a dramatic improvement during the month. No retailer responding forsees any worsening of conditions over the next six months, and each expects improvement in his market area as well as in his individual firm.

But in general, business remains slow and there is little firm evidence that any significant recovery has begun. Nonetheless, improvements in various indicators are contributing to a growing mood of optimism. With inventory levels becoming manageable, some firms are apparently preparing to resume production at more nearly normal levels. Unemployment seems to have stabilized and in some cases to have declined as plants have recalled laid-off workers. Significant improvement in this area may be some time in coming, however. Despite the growing optimism, caution prevades some industries and substantial adjustments may be yet to come as marginal operations are eliminated and plans are revised to meet new market conditions. Industries such as textiles, which have been especially hard hit, are poised for the recovery, and a good showing in housing construction could lead to a swift return to relatively high levels of production.

Any improvement that may have occurred in Fifth District businesses has not yet been strong enough to show up in increased demand for bank credit. Bank loan customers in some important Fifth District industries, however, have indicated to reporting banks that their business situations are improving. The demand for residential mortgages at district banks and S&Ls is substantially below the level normally experienced at this time of year. S&Ls in some areas have responded to improved liquidity by becoming quite aggressive in the mortgage market, and as a result are doing more business than most banks. The tax credit on new home purchases may have stimulated some interest in home buying, but most lenders feel it has had only a limited impact on market conditions. It is seen as having limited effect because (1) few homes qualify, (2) builders and consumers are confused by its complexity, and (3) existing homes must be sold before many consumers can take advantage of the credit.

Our recent survey indicates that farm loan demand is unusually strong at banks, PCAs, and the FMHA. Demand is strongest for operating loans, weakest for farm mortgage loans. This is at least partially due to the fact that farm suppliers have largely withdrawn from the credit business and now require payment for their goods on delivery. Availability of bank loan funds this spring, compared with last fall, generally shows improvement, markedly so in some cases. At banks which had some bad lending experiences in other fields last year, and at small rural banks, availability of funds is generally down. One large district bank reports that some of its small correspondents are buying federal funds in order to meet this demand for agricultural production credit.

On balance, the majority of our bankers do not appear to be reluctant to expand their farm loan volume this spring. But they are apparently taking a hard look at the credit worthiness of their borrowers. Volume of loan referrals to nonbank credit agencies seems to be about the same as last year. There appears to be some increase in the volume of participation loans with FMHA, however.

SIXTH DISTRICT--ATLANTA

According to reports, some district industries continue to slide but an increasing number appear to be expanding production and employment. Housing remains weak, but some improvement has been noted. Auto sales have fallen off since the rebates have ended. The agricultural picture has suffered from flooding conditions in Alabama, Mississippi, and Louisiana. Credit demands of farmers have also eased substantially, partly as a result of a sharp reduction in cotton acreage. A wave of new commercial and industrial projects appears under way, according to latest reports.

Scattered layoffs continue to retard the expected recovery in the district. The Reynolds alloy plant in Alabama has laid off more workers. Normally, 5,500 workers are employed; now, only 1,100 are working there. Other recent layoffs have been centered in Tennessee industries. A General Electric plant (manufacturing air conditioners), the Oak Ridge Y-12 plant, and a large bicycle manufacturing plant have all reduced their work forces.

But more and more district industries seem to be cranking up production and employment. A large Alabama shipbuilding company will need 1,500 skilled workers because of a large backlog of contracts. Dupont plants in Chattanooga and Nashville, Tennessee, are calling back large portions of the workers laid off last winter. The callbacks are the result of the improvement in demand in fibers produced at these plants. A Wilson sporting goods plant, also located in Tennessee, earlier reported to be closing down, has received new orders and is now operating full time. The president of a textile company reports that they are on the upswing again. He notes that for them, the recession started to bottom out in March. Inventories at mills and at the retail level are low, and retailers are beginning to place orders. Reports from north Georgia's large carpet industry also indicate that there are signs of revival. Local mills are cranking up second and third shifts again. According to these reports, the turning point came in mid-February when workers started being recalled. Even southern lumber mills, probably hardest hit by the housing slump, are beginning to reopen, according to industry spokesman.

Some other industries have continued to operate at near capacity through the recession. The phosphate industry is still booming in Florida, as the demand for phosphate, chemicals, and fertilizer gets larger. Tourism remains unbelievably strong in Florida, Alabama, Louisiana, and Tennessee tourist sites. Birmingham's U.S. Steel plant continues to operate at full production; despite a 22 percent sales decline, the plant is now rebuilding depleted inventories.

Reports from Alabama indicate that the housing tax credit program has helped home sales. Other cities which have recently recorded pick-ups in home buying are Atlanta, Jacksonville and Winter Haven, Florida, and New Orleans. The Miami housing market remains bleak, according to reports. One director indicates that the housing tax credit has done nothing for home sales in his area. Several bankruptcies of apartment complexes and mortgage companies in the Florida area have occurred in recent months. Savings inflows continue to be large at most of the district savings and loans.

In all six district states, auto sales are off since the rebate program ended. Used cars are selling well and also small foreign cars. Winter Haven, Florida, and Montgomery, Alabama, were the only cities of those reporting which had sales increases. Mobile home sales have also picked up in the Winter Haven area.

Farm prospects took a sharp blow in Alabama, Mississippi, and Louisiana, where farmers, already suffering from earlier rain-delayed plantings, were hit by floods and rains that drenched their land in April. The cattle market is still depressed, but recently cattle prices have increased a few cents a pound. Cotton acreage is expected to be about one-third lower this year than last year throughout the district. The acreage will be shifted to crops such as soybeans and corn, which require less operating capital than does cotton. Reports from district bankers indicate that, in general, this decline in cotton acreage will reduce farm loan requests.

After falling for several months, the number of new commercial and industrial projects seems to be on the upswing once again. Citizens Mortgage Corporation of Birmingham, Alabama, has arranged $3.5 million in financing for the construction of two five-story office buildings in downtown Birmingham. Plans for two new hospitals have been announced for Montgomery, Alabama, and a civic convention center is also being built. A large $70 million commercial and entertainment complex has been announced for Miami. A $100 million shopping mall-multipurpose complex is planned for Jackson, Mississippi. New nuclear generating units are planned south of Miami and in Louisiana. Louisiana is receiving a large number of new industrial plants, as well as announcements of expansions. Largest of these is a $35 million plant in Donaldsonville to make ammonia.

SEVENTH DISTRICT--CHICAGO

Economic prospects in the Seventh District continue to be highly uncertain. The best that can be said is that the rate of decline in general activity has slowed. Residential construction has not revived significantly, despite heavy savings inflows to S&Ls. Capital equipment output, in total, appears to be in the opening stages of a long and, probably, steep decline. Desired inventory reductions at the manufacturing level, overall, are far from complete. Consumers' outlays on virtually all hard goods remain at very depressed levels. Prospects for a substantial increase in crop harvests are generally good, although rains have delayed some plantings. Competitive forces are dampening price increases in the manufacturing sector. Many prices have declined recently, most notably prices of processed foods, at both the wholesale and retail levels. Meat prices, however, have increased sharply.

Because of the Seventh District's concentration on durable goods manufacturing, this region probably has been hit harder by the recession than the nation generally--just as the upsurge in activity was more pronounced here. Order backlogs of most firms have declined sharply. Order cancellations have been heavy, partly reflecting the reductions in lead times that have removed the inventive for anticipatory ordering. Many firms have instituted stringent cost-cutting programs, and have deferred or stretched out capital spending programs.

Perhaps the greatest disappointment of recent weeks has been the lack of significant improvement in residential and commercial building, which remains at extremely depressed levels. Most S&Ls have used the heavy savings inflows to repay debt and rebuild liquidity. Forward mortgage commitments are virtually unobtainable in Illinois, where the usury rate is scheduled to drop from 9.5 to 8 percent at midyear. Throughout the district, sales of new or existing homes have remained very slow. Chicago area homebuilding permits have been at the lowest level since World War II.

Some builders have announced reductions in house prices of 10 percent or more, despite rising costs, to attract customers. Recent bids on new construction projects often have been below estimates, and many more bids are being received on proposed projects. There is evidence of a pickup in repair and remodeling work, perhaps in lieu of new construction. Early indications that building trades unions would moderate their demands significantly, have given way to new militancy in the face of very heavy unemployment. Chicago area painters have just gone on strike after rejecting a 6.6 percent pay boost.

The tax credit on home purchases has not been of much help, partly because of the complicated rules. Similarly, the increase in the investment tax credit is not a powerful incentive because most industries have idle facilities. Moreover, three percentage points added to the tax credit is only a partial offset to increases of 20 to 30 percent or more in prices of equipment in the past 12 to 15 months.

Large retailers are curtailing expansion plans, partly reflecting reduced residential building. Steel producers are moving ahead with basic expansion programs, despite a sharply reduced level of new orders and renewed concern over imports. Demand for most types of equipment for mining, heavy construction, and water and sewer projects remains excellent. Sales of the largest farm tractors and combines also remain very strong. However, demand for lighter construction and farm equipment, and for most types of industrial equipment is off sharply. Sales of large trucks remain very poor and railroads are said to be canceling orders for equipment. Foreign demand for various equipment is very good, especially from the Communist bloc, OPEC nations, and Germany. Favorable exchange rates encourage sales abroad.

Most consumers continue to spend very cautiously. Some producers of laundry equipment and TV sets have announced callbacks of laid-off workers, but any revival of sales has been modest. Demand has remained very weak for mobile homes, RVs, air conditioners, pleasure boats, lawn and garden machines, and, of course, autos (except for imports and specialty and luxury models). Consumers have slowed purchases of processed foods this year. Relatively large inventories of these foods at the wholesale level are associated with price reductions averaging about 10 percent at Chicago area food chains.

Spring plantings are on schedule, or ahead of schedule, in Illinois and Indiana. Rains have delayed plantings in Iowa, however, and continuance of wet conditions past mid-May could reduce prospective yields there. Farmers are buying equipment more cautiously. Prices of farmland in the district rose 2 percent, on average, in the first quarter, according to bankers' reports, the smallest quarterly rise in three years.

A final note: There is no lack of statements of general views that the recession has bottomed out, and that the second half will see significant real gains in activity. These encouraging generalizations usually are buttressed by references to tax reductions, dampened inflation, easing of supplies, inventory liquidations, slower rates of decline in new orders,

EIGHTH DISTRICT--ST. LOUIS

The optimism expressed last month by Eighth District businessmen has been reinforced by some further signs of business recovery in recent weeks. Several manufacturing firms reported an upturn in sales. Some plus signs for the homebuilding industry were also reported. Funds continue to flow into thrift institutions at a relatively high rate. After declining through the first quarter of the year, mortgage interest rates have remained stable in recent weeks. Signs of economic recovery were not found in all industries, however. The local steel industry, for example, is apparently just beginning to feel the brunt of the recession as liquidation of inventories by steel processors is under way. Also, retail sales continue sluggish in the district.

Major retailers in the district report that consumers remain very cautious about their purchases. Sales of durable items are reported as depressed. Domestic car sales were reported to be off substantially from the February and March levels. However, sales of used and imported cars as well as trucks are fairly good.

Car dealers are pessimistic about a sizable upturn in car sales in the near future, pointing to uncertainty stemming largely from possible government actions affecting automobiles or fuel supplies.

Some types of manufacturing activity are beginning to pick up as a result of a slight upturn in sales. Representatives of the chemical, clothing, and construction-related industries reported some upturn in activity in recent weeks. Representatives of these industries, however, felt that a good part of the current upturn in sales represents a replenishing of inventories which had been pared to a minimum. Until recently, orders were mostly on a hand-to-mouth basis. On the other hand, a steel industry representative reported that steel users are reducing inventories and a turnaround in production is not expected until later in the year. Representatives of several industries reported that some workers have been recalled in recent weeks, although employment levels in most of these firms are still below earlier levels. The unemployment rate generally continued to increase through the first quarter in the Eighth District. Whether this trend has continued in April, in view of reports of rehires, is difficult to assess; however, the reports indicate at least a leveling off in the rate.

Homebuilding in the district is well below year-ago levels. In the St. Louis area, however, it was reported that housing permits for April were about the same as for April 1974 after a sharp decline of 40 to 50 percent from the year-ago level in the first quarter of this year. Mortgage funds continue to flow into thrift institutions at a rapid pace. Mortgage rates are holding at about the levels of the past two months, although some concern was expressed at the prospect of rates rising again in the near future.

In general, loan demand in the district continues sluggish. Consumer instalment and real estate loans have declined somewhat in recent weeks, while business loans remained virtually unchanged. At the same time, interest rates have generally remained stable after declining earlier in the year. Demand for farm loans, primarily of the operating type, is strong. Interest rates charged farmers have not changed substantially from last year, although rates on most agricultural loans did not rise as high as rates on other loans.

large savings inflows, and lessened consumer pessimism indicated by surveys. But very little solid evidence of improvements in particular types of activity can be adduced, and some manufacturing sectors have only begun to slide off.

NINTH DISTRICT--MINNEAPOLIS

Although the district continues to fare better than many parts of the nation, directors' comments indicate that the recession has dampened business activity and that the prospects are for only modest improvement this spring and summer. District consumers have curbed their spending, and no large gains in retail sales are expected in the near future. In the district, as in the nation, automobile sales have been slow. The increase in the investment tax credit is not expected to boost district capital spending, but it may have prevented some cuts in plant and equipment outlays. One encouraging development is that some improvement has recently occurred in the outlook for district residential construction. Also, credit conditions have eased at district agricultural banks.

District consumers have been hesitant to spend so far this year, and little improvement is expected for this spring and summer. The softening in retail sales has been most pronounced in the Minneapolis/St. Paul metropolitan area, which is now only slightly better off than the nation. On the other hand, several directors from outside the Minneapolis/St. Paul area indicate that consumer spending has held up quite well in their areas. A director associated with the retail trade industry believes that the decline in retail spending has bottomed out, but he does not look for any strong recovery in the near future. Another director reports that food product sales have recently improved and that business in that industry is expected to continue to strengthen this spring and summer.

District automobile sales are generally described by directors as being slow. Minneapolis/St. Paul area dealers, however, report that a moderate pickup occurred in late April. The most encouraging results, as expected, appear to be concentrated on the models which combine fuel economy and a low price, while the weakest sales area is still concentrated on standard car models. Top-of-the-line cars continue to sell very well in the Twin Cities area. Outside of the Minneapolis/St. Paul area, most directors term automobile sales as slow; however, a Montana director indicates that automobile sales have been excellent in his area.

Directors in general indicate that the two-year increase in the investment tax credit is not expected to raise district capital spending this year. One director expresses the view that the recent increase in the investment tax credit is nice but that it was not considered a significant factor when his firm's capital spending plans were assessed. On the other hand, three directors express the opinion that the investment tax credit may have been helpful in preventing some cuts in plant and equipment spending. One director, however, reports that a firm in his area had increased its capital spending in response to the rise in the investment tax credit. If the economic outlook is favorabe for 1976, according to another director, some businessmen may be prompted to take advantage of the investment tax credit next year.

Some improvement in residential construction is anticipated by bank directors. In the Minneapolis/St. Paul metropolitan area, there has been moderate improvement in the outlook for residential construction. The activity is concentrated in the $25,000-$55,000 price range where FHA and VA loans can be made. Because of Minnesota's 8 percent usury ceiling few conventional loans are being made. Several directors from outside the Minneapolis/St. Paul metropolitan area also indicate that their area's residential building outlook is encouraging. Much of the apparent improvement in the housing construction outlook can be traced to recent increases in savings inflows to district thrift institutions. In a number of cases, Minneapolis/St. Paul area thrift institutions describe April savings inflows as "fantastic." However, there is some concern that these funds may not be invested in Minnesota because of the state's 8 percent usury ceiling.

The April survey of Ninth District agricultural banks indicates that credit conditions eased somewhat between January and April. Both supply and demand factors have contributed to the easier credit situation. The recession in the nonfarm sector of the economy and the cutbacks in farm spending on capital inputs have resulted in a slowdown in loan growth at rural banks, thereby helping to alleviate credit shortages at rural banks. On the supply side, declining interest rates on nonfarm loans have probably increased the aggregate amount of funds available for farm lending. However, despite this recent easing, credit at district agricultural banks remains tight relative to a year ago. Interest rates are still above the rates of last year, and loan-to-deposit ratios, while below the high levels of April 1974, are still high relative to historical second-quarter rates.

TENTH DISTRICT--KANSAS CITY

Retail sales in the Tenth District have shown some improvement in recent weeks. Inventories are still being worked down, but seem to be close to desired levels. Moderately increasing retail sales are expected for the rest of this year. New car sales continue to be weak. An increase in prices received by farmers, after five months of decline, is likely to put upward pressure on food prices in the next few months. Loan demand at Tenth District commercial banks continues generally soft, although business loan demand has shown moderate improvement.

Retail sales in major metropolitan areas of the Tenth District have shown some improvement in recent weeks. Consumers are still shopping carefully for bargains, and much of the improvement is attributed to special sales and other promotional activity by sellers. Durable goods sales are not yet showing much general gain, although there are some reports of strengthening sales of furniture.

Most retailers see the impact of the tax rebate as primarily a confidence-booster for consumers. They do not expect much direct impact because of the relatively small size of the individual rebates. However, the majority of respondents apparently believe that the psychological effect of the tax cut package will have a positive influence of their sales.

Although some department stores are still working down their inventories, most respondents believe their stocks to be about in balance with current sales. With inventories now near desired levels, several retailers reported plans for "slow" or "gradual" increases in stocks during the rest of the year. Such plans seem to be in keeping with expectations of increasing sales--variously described as "a slow but steady increase"; "a normal rate of expansion" following a real turnaround by the third quarter; "very optimistic for fall"; and "a moderate expansion expected," but not overly optimistic.

Tenth District automobile dealers are apparently sharing in the weak performance of the industry nationally. Most reported their business stimulated by the rebate program, beyond those particular models on which rebates were paid, as a result of increased showroom traffic. Weaker sales after the rebate period ended also extended over a wider segment of the market. Inventory situations vary by dealership and by make of car--some are adding to inventories, a few are still overstocked in particular models, others are in a satisfactory position but are keeping a close eye on their stocks. Uncertainty and lack of confidence on the part of consumers is a theme in most of the discussions; not knowing what to expect in the way of gasoline prices and availability, government anti-pollution and safety requirements, the possible return of rebate programs, etc. Potential buyers are clearly acting in a way that underlines the "postpone-ability" of new automobile purchases. At the same time, used car sales are strong and prices relatively high.

Auto dealers expect no direct help from the tax rebate program. Customers at the majority of dealerships appear very interested in fuel economy as well as in the price of the car. However, there is no clear-cut evidence of movement to, or away from, a particular size of car.

A substantial increase in cattle and hog prices during the month ended April 15 reversed the five-month skid in prices received by farmers. Although farm prices as a whole rose 4 percent last month, they were still 8 percent below the year-earlier average. Nevertheless, this turnaround in prices--while gratifying to livestock producers--will likely keep pressure on food prices.

Recent strength in slaughter steer prices could signal a revival of the cattle feeding business. The number of cattle on feed as of April 1 was the lowest for that date since 1963, but March placements in the seven major feeding states were 20 percent above the previous year. Carryover stocks of wheat and feed grains at the end of the marketing year will be quite low by historic standards, but no shortages are foreseen. Although the export market for wheat and corn has softened, dosmestic prices should remain firm in view of the tight old-crop supply situation. Production prospects for 1975 indicate a record 2 billion bushel wheat crop is possible, and with a normal growing season feed grain production will likely achieve a new high. Thus, grain prices could weaken below current levels during the second half of the year.

Loan demand at Tenth District banks was generally soft over the last month. Agricultural, consumer, and, especially, bank card credit loans continued soft in all areas of the district. However, business loan demand showed moderate improvement, and some respondents in Kansas City and in Denver believe they detected an increase in interest in real estate and housing loan demand. One area of the Tenth District that seems especially hard pressed is Albuquerque, where loan demand for most categories of loans is reported to be down considerably.

Demand deposits have increased moderately, while time and savings deposits have fallen slightly. CDs in some areas of the district were running off, although Oklahoma City and Kansas City, where rates on some maturities were higher than in the rest of the district, reported CDs as being stable. Most CD rates tended to be just below the prime rate charged by the banks. Some respondents also expected the CD rate to decline an additional one-half percent.

ELEVENTH DISTRICT--DALLAS

Deficit financing by the Treasury is adversely impacting on borrowing by district firms. This conclusion was reached in a survey of corporate financial officers who, for the most part, described debt markets as in such poor condition that new offerings are not even being considered. Consequently, some expansion projects are being postponed, and a few companies are resorting to private placement of securities. Some firms also warned of continued shortages of capital during the anticipated economic recovery.

Several firms that have recently sold bonds had to restructure their issues to improve marketability. A manufacturer of building materials, for example, shortened the maturity of a recent issue from 20 to eight years and marketed only 80 percent of the planned issue. And another large corporation recently announced a $250 million offering at 9.25 percent--substantially greater than the yield it had planned just a few months ago.

Only one firm surveyed had canceled a proposed debt issue. That firm, a major oil company, planned to use the funds to complete a refinery. Now funds for the project are being borrowed on a short-term basis--both through the commercial paper market and bank financing. But a representative of the firm said that unless bond markets improve, the company will have to postpone future expansion projects.

Corporate treasurers expect businesses to respond to further crowding out by putting more pressure on banks to increase existing lines of credit and to open new commitments. However, there are reports that banks are exercising greater selectivity in their lending policies. An official for one utility claimed that banks are becoming increasingly reluctant to raise lines of credit to public utilities. And an electronics manufacturing company, which tried unsuccessfully to increase revolving loan commitments at banks around the country, gave a similar report.

Bankers admit to increased loan selectivity, saying they are determined to protect liquidity positions and are not actively seeking new loan commitments. They expressed concern that if the inability of corporations to go into capital markets is prolonged, commercial banks will not be able to meet short- and intermediate-term credit needs. They expect the utilities, in particular, to be hard pressed to operate on bank credit if capital markets remain inaccessible much longer. In addition, several bankers said smaller- and medium-sized companies would ultimately bear the brunt of a credit squeeze. Their reasoning was that when major corporations are crowded out of capital markets, they will turn to bankers who will accommodate the larger borrowers first. Inevitably, less credit would be availabe for smaller companies.

The latest employment statistics suggest the district labor market is stabilizing. In Texas the number of jobholders has been edging upward while the unemployment rate has dipped below 6 percent. Moreover, indicators of future labor market strength suggest this trend is likely to continue. Initial claims for unemployment insurance have dropped roughly a fifth from the peak reached earlier this year. And the average workweek in manufacturing has climbed to 40.1 hours, up from 39.7 hours in February.

Employment in the construction industry in the district, however, continues to fall. But the drop has not eased wage demands. In the north Texas area, for example, work on approximately 1,300 projects was stopped recently when 26,000 trade union members went on strike. Currently, the union is holding out for a 40 percent hike in the hourly wage rate over the next three years.

The government program to grant a maximum $2,000 tax credit to new home buyers has been termed "largely disappointing" by area homebuilders and mortgage lenders. Respondents to a survey said even though the program has produced some pickup in homebuilding, it has failed to give the industry a substantial boost. Builders offered several reasons for the ineffectiveness. Not all of the potential home buyers are aware of the program. And ambiguities still exist about which homes qualify for the program. Moreover, builders said houses that have been on the market for more than a few months cannot realistically be sold under the program. Because houses must be sold at the lowest asking price (normally the original price), builders cannot recapture interest expenses that have accrued on those homes that have been on the market for some time. Builders generally view the program as little more than a windfall for people already planning to buy; people who were not serious prospects before the program have not been persuaded to buy. The largest homebuilder in the Dallas area summed up his colleagues' views of the program with "if a couple cannot afford the first monthly payment this summer, a tax break next April will not change their minds."

The early fall and back-to-school apparel shows held in Dallas in April were described by market observers as strong. But individual apparel manufacturers were somewhat less enthusiastic. Buying sentiment by retailers, nevertheless, has improved greatly in recent weeks. Nevertheless, apparel production in Texas--which accounts for nearly a tenth of manufacturing employment--is still running about 70 percent of productive capacity.

TWELFTH DISTRICT--SAN FRANCISCO

Our directors indicate that there are still few tangible signs of economic recovery in this district. However, there is cautious optimism that the trough has been reached and a slow pickup in activity will occur over the next six months. Wary consumers are likely to save tax rebates. Petroleum inventories are at an all-time high and copper stockpiles are growing. New housing construction remains at a standstill while mortgage rates rise as a result of increased refinancing demand. In agriculture, crop prospects are generally good, but declining food prices and rising costs of fertilizer and machinery are likely to lower net farm income this year. The banking industry is still pursuing a selective loan policy.

Over the next six months our directors foresee only a modest pickup in consumer spending. Most anticipate that the tax rebate will be saved in some form. Toward the end of the six-month period, however, given a continuation of the decreasing inflation rate, the increase in disposable income should bolster consumer confidence and trigger a restoration of real consumer expenditures. According to a survey by one of the very large banks in this district, "about 30 percent of households have been forced by the recession to curtail their living standards. Another 15 percent have pulled back spending because of fear. The remainder have not been affected noticeably. The outlook is for the 'fearful' 15 percent to return to the market in the next few months--but the 30 percent will move back slowly over the year ahead."

Although aircraft demand has firmed in the Pacific Northwest, most industries continue to have problems of oversupply. Petroleum inventories are higher than at any time in history, and copper stockpiles are growing. The threat of a British Columbia work stoppage has caused a slight pickup in timber wood and newsprint production, but the underlying trend is still down. Japanese manufacturers have indicated that they foresee no change in their economy for the next six months and, consequently, they would not be stepping up their purchase of logs from the West Coast until year-end at least.

Demand for new housing remains very weak. One director cites the lack of historical balance between the current average income in the $13,000 range with the $36,000 average price of a newly constructed home. Mortgage rates are expected to firm at about 9 percent over the next six months in spite of large savings inflows because of federal deficit financing. One large California bank, however, reports that the recent surge in demand for mortgage funds at commercial banks has stemmed from refinancing needs, a negative reaction to the introduction of variable mortgage rates by some S&Ls, and a belief that future rates will increase to the extent that these factors are temporary, mortgage rates will not be pushed up significantly over the next six months.

Gross farm income receipts to growers and processors this year are expected to be only slightly lower than 1974 levels due to lower prices, but an anticipated increase of 10 to 12 percent in the costs of production, including fertilizer and machinery, will reduce net income receipts substantially. Weather conditions have been favorable for the most part and crop prospects are good. However, both domestic and foreign demand, especially for wheat, is off drastically. The price of wheat was $3.68 per bushel in Portland on May 1, 1975, compared with a record high of $6.35 per bushel on February 26, 1974. Cattle prices are still depressed, but at the retail level prices have increased, giving hope to the cattleman that higher prices will pass on down to him. Generally, the livestock industry anticipates that 1975 will be a readjustment period with market fluctuations due to short-term shortages and surpluses.

In banking, first-quarter figures were far ahead of last year; the cost of money is down and there is a favorable spread to loan rates. However, most banks are maintaining a selective posture on loans. Savings inflows continue strong and one bank has reduced interest on savings accounts by one-half percent.