

CONFIDENTIAL (FR)

CURRENT ECONOMIC COMMENT BY DISTRICT

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SUMMARY*

Strong retail sales are the key to a generally optimistic outlook for the Redbook this month. Nearly every District focuses attention on the strength of consumer demand as an indication that the economy may be regaining some of the momentum it lost in the latter months of 1975. The picture is still far from rosy, but the outlook is distinctly more optimistic. Even though capital goods industries are still weak, the rest of the manufacturing sector is gaining strength. Inventories have been brought into line with sales and new orders are up. Two persistent weak spots--the construction industry's slump and high urban unemployment--remain gloomy, but inflationary pressures seem to be moderating in several Districts. While there is little disagreement that "catchup" efforts in wage negotiations scheduled for 1976 pose a problem for stabilizing production costs, there are differences of opinion on the likelihood that food prices will rise significantly during the next few months. The financial sector continues to build liquidity rather than expand. Savings are flowing into commercial banks and thrift institutions at very rapid rates. This is putting downward pressure on mortgage rates. However, despite low interest rates for business loans, demand for credit remains sluggish.

Reports from 10 of the 12 Districts indicate that the surge of retail sales experienced in December was no fluke. In each case, the bulk of the gains recorded at the end of 1975 were preserved through January. "Big-ticket" items are leading the sales surge in most areas. Cars, trucks, appliances and furniture are all selling well. Chicago, Philadelphia and Minneapolis note that apparel sales are also strong. In general, retailers

*Prepared by the Federal Reserve Bank of Philadelphia.

appear to have their inventories at levels which they feel are sustainable and are increasing their stocks only to the extent needed to meet revised sales forecasts.

The manufacturing sector continues its upswing. Cleveland notes that steel producers are experiencing a gradual recovery while Kansas City and Chicago both point to rising sales forecasts as a spur to automobile production in their Districts. In most industries manufacturing inventories are now either in line with sales or nearly so. Dallas reflects the findings of most District Banks in reporting that business continues to be reluctant to rebuild inventories now that stocks have been cut back. The manufacturing sector's advances seem to be most hesitant in the Richmond District. That region had experienced substantial improvement in late 1975, but this month's report indicates a retrenchment may be occurring. New orders and backlogs both softened during January in that District. Capital goods manufacturers have yet to participate fully in the recovery, and in the Boston District capital goods orders are still "feeble." St. Louis and Minneapolis report similar weakness. Cleveland describes farm machinery and mining equipment as "holding up well," while Richmond's machinery and equipment group is one of the few sectors showing progress in that region.

The construction industry remains in the doldrums throughout much of the country. Residential and nonresidential construction activity were both lower last quarter in the Cleveland District, and Boston's real estate and housing markets remain "depressed." Atlanta finds itself with very large amounts of vacant office space that resulted from overbuilding. However, the city is trying to turn substantial recent additions to its hotel room capacity into a plus by searching for more convention business. The

San Francisco District reports that its stock of unsold housing and high building costs are continuing to discourage new residential construction even though mortgage rates are dropping.

There has been relatively little progress so far in reducing the nation's unemployment problem. Chicago finds that "job markets are improving gradually but unemployment remains very burdensome in the inner cities." St. Louis finds its region in a similar situation. The Dallas region is one of the few in the country where the problem is not severe. Increasing job opportunities in the oil industry have helped to bring the area's unemployment rate below 6 percent. By contrast, San Francisco reports the opposite problem since its area's aircraft industry is once again badly depressed and its employment is dropping.

The best that can be said of inflation is that it may be moderating. Prices continue to rise virtually everywhere, but no District reports any unusual increases. New York and Kansas City both note predictions from sources in their Districts that food prices will be declining in the months ahead--courtesy of good harvests, heavy plantings and intensified preparation of livestock for meat production. The Chicago District report, however, disputes this forecast. New York, Richmond, Chicago and Minneapolis all mention the concern that "catchup" raises will be the objective of 1976 wage bargaining.

The current outlook for agriculture is mixed. With the exception of soybeans, forecasts call for planting additional acreage in most major crops. The outlook for 1976 crop harvests at this point is generally positive. However, farm income is currently under pressure because of declining grain prices. According to the Minneapolis report, the price decline is also resulting in slow debt repayment and requests for additional inventory financing at rural banks.

The situation of the country's banking community has not changed substantially in recent weeks. Savings inflows are generally strong, while business loan demand continues to be weak. For instance, Richmond reports that some of the banks in its District are experiencing unusually low levels of credit line utilization. Even aggressive loan pricing efforts (Philadelphia) are producing little new business. The Dallas District banks seem to be relatively busy with agricultural and consumer loans. But despite the comparative strength of that region's economy, commercial loan growth is described as "lackluster." The only development of significance is the downward pressure that savings inflows are putting on mortgage rates, especially in thrift institutions. Boston, Cleveland and Chicago all report declining financing costs for mortgage loans.

FIRST DISTRICT - BOSTON

The directors of the First District report a continuation of recent favorable economic trends. Retailing has retained the momentum of the Christmas period, and vacation areas are recording one of the best seasons ever. However, business loan demand, capital goods orders, and manufacturing employment have yet to improve. In general, the directors are convinced that the recovery has really commenced in New England, but it is neither widespread nor very vigorous.

The real estate and residential housing markets remain depressed. One director reported that virtually all residential development in the Boston area had depended to some degree on Massachusetts Finance Agency funds. The distressed condition of the municipal bond market, especially for this state's securities, has brought a halt to development activity.

Directors also report evidence that various thrift institutions in the region have begun to sharply reduce mortgage interest rates. In the month of January, some mutual savings banks lowered quoted mortgage rates by 25 basis points; for a 30 percent down payment, the interest rate has been cited as low as 8.5 percent at banks which had offered 9.5 or 9.25 percent loans to identical customers four months earlier. One banking director expresses concern that mortgage interest rates cannot decline much further. He feels Regulation Q establishes a "base point price" for bank certificate rates which, in turn, props the mortgage rate. Only illegal collusion could initiate and maintain a general reduction of interest rates on these instruments.

Banking directors report continued weakness in loan demand. However, they continue "enforcing the standards we always thought we were." Some competition for loan customers by New York City banks is noted, but there

is no aggressive seeking of borrowers as yet. Bankers are considering service charges on checking accounts, especially those that bear interest, and they are content to let certificates of deposit run off.

Capital goods orders are feeble and directors expect them to remain so in 1976. Although a recovery in orders of smaller machine tools is expected this year, there is no evidence of it as yet.

Retailing has shown no pause from the vigorous pace of the Christmas season. January was well above plan for stores throughout the District, and sales show every evidence of continued strength. People are beginning to purchase hard goods in quantity. Directors definitely hesitate to label this experience as a boom, and they stress that retailers remain conservative about stocking inventory; buyers are maintaining flexibility on a weekly basis.

Professors Houthakker, Tobin, Eckstein, and Samuelson were available for comment this month. All are concerned about the weaknesses in current economic data as well as the sluggish outlook.

Houthakker is not convinced that a 1976 forecast of 6 percent real growth and 6 percent inflation is possible in view of recent money expansion. Previously, he forecasted the inflation rate to be substantially below 6 percent, but noting recent spot price behavior and productivity reports, he has altered his personal inflation forecast to 5 percent. Even so, 6 percent real growth seems unattainable, since he suspects that recent velocity increases are not sustainable. He counsels a cut in the Federal funds rate to 4 percent to stimulate money growth and investment by reducing market interest rates.

Tobin shares Houthakker's view that the funds rate should be reduced to 4 percent. He is most interested in improving securities prices to hasten the investment revival. Although the recent rally has been

encouraging, it has fallen short of the mark: stock prices would have to increase 10 percent faster than capital goods prices just to raise real business fixed investment by 7 percent in two years' time. The lower funds rate is necessary to bring pressure on interest rates which influence borrowing and spending decisions. The current setting of 4.75 percent can only be judged high or low by considering the attendant path of recovery. Tobin's view is that the weakness of commercial and industrial loan volume is at once responsible for the large velocity increases and an omen of sluggish investment as other sources of funding carry relatively more of the burden. The spread between long and short interest rates is a symptom of the economy's portfolio strains. He noted that market rates firmed with the announcement of the new targets; interest rates are responsive to Fed policy and a positive signal is required.

Eckstein believes there has been a structural shift in money demand. So he advises that there be no change in the Federal funds rate at this time. However, due to the "obvious and demonstrated weakness in business investment demands," he has lowered his forecast of 1976 real growth to less than 6 percent. Believing that both interest rates and money growth should be consulted in framing policy, Eckstein feels that a reduction of the funds rate is not in order yet. In spite of modest money growth, the economy has begun a convincing recovery; should the recovery begin to falter, then the funds rate must be reduced. In any case, the rate of money expansion should not be erratic.

Samuelson feels that the goal of policy should be to secure 7 percent real growth from 1975:IV, once all risks are taken into account. He believes the Federal Reserve and the Administration should actively pursue this target and attempt to achieve it. Noting that lower interest rates could assist plant and equipment spending, which is now "a gleam in the eye,"

he feels there is no initiative to raise interest rates. If faster money growth is necessary in coming quarters to attain policy goals, then there should be no hesitation to stimulate M_1 .

SECOND DISTRICT - NEW YORK

Second District directors, businessmen, and business and financial economists who were recently contacted generally indicated that they were encouraged on the outlook for continued economic recovery. In their view, business inventories are now in reasonably good balance with sales expectations. With inventories thus realigned, most respondents felt that businessmen would pursue cautious inventory policies in the coming months, with stocks growing in line with sales. A minority of respondents, on the other hand, felt that any strengthening of demand should stimulate efforts to stockpile metals and would quickly drive up prices. For the most part, however, inflation was seen as moderating somewhat further, except in a few trouble spots. Some concern was also voiced over the large wage and benefit settlements that are likely to be demanded in forthcoming collective bargaining negotiations. Liquidity problems, however, were generally not viewed as posing any significant threat to the recovery this year.

The inventory situation was generally described as in good balance with sales. Indeed, according to one director, manufacturers were being, if anything, overly cautious in their inventory building. The Buffalo directors expected firms to maintain tight inventory control, although they saw prospects of "cautious and watchful" inventory buildup. The chief economist of a major chemical company, whose firm had only recently escaped from a tremendous inventory overhang, confirmed that his company was holding a "tight rein" on inventories. The president of a major metal company observed that inventories in his industry had finally been brought into reasonable alignment with current sales. He felt that any

strengthening in demand would prompt purchasing agents to aggressively seek to accumulate inventories. Among other sectors, one financial economist looked for increased liquidation of agricultural stocks held over from 1975, and also wondered whether severe cold weather would sharply reduce stocks of residual fuels.

On the outlook for price increases, a majority of respondents expected inflation to diminish in coming months, led by slower growth in food prices. At the same time, however, price pressures were seen developing in a number of sectors. The chairman of a major New York City bank expected overall prices to rise in a range of 5 to 7 percent for the balance of the year. Buffalo directors agreed with this assessment, expecting prices to increase 6 percent--somewhat below the recent rate of increase. A slowing in agricultural prices was viewed as one of the primary factors contributing to a slowdown in the rate of inflation. A director with agricultural interests expected food prices to decline and noted that there was already some evidence that this was occurring. An investment banking economist looked for a slowdown in fuel price increases in coming months as the result of the lifting of the crude oil tariff. Less encouragingly, he foresaw near-term pressures on metals prices developing. The president of a major metals company also expected rapid industrial wholesale price increases as a result of tight operating margins in most industrial concerns. Short-term upward pressures on paper and lumber prices were seen as a remnant of the Canadian mill workers' strike.

On a related subject, a senior economist at a major manufacturer that is facing heavy collective bargaining this year felt there was little chance of any abatement in the rapid first-year-of-contract wage gains that marked last year. In his view, moreover, nonunion wage gains

would accelerate in order to "catch up" from earlier imbalances. He expected hourly compensation to increase at least 9 percent during 1976, reflecting not only rapid wage and benefit increases but also cyclical increases in hours of overtime work and changes in the mix of employment among industries. Another business economist, on the other hand, expressed the view that continued high rates of unemployment would help to restrain wage increases in the nonunionized sector, even if some major unions won exceptionally generous settlements.

Questioned on the possibility that liquidity problems might retard economic recovery this year, the directors felt these uncertainties had largely faded into the past--either having been resolved or close to being resolved. In their view the supply of funds was more than ample to support the continuation of a moderate recovery. The chairman of a major New York City bank did note, however, that bank lending policies were "more conservative and quality-oriented" but could not determine if this would become a significant drag on the economy. Another director observed that financial institutions had apparently become more aggressive in the mortgage market. While not foreseeing any near-term balance sheet imbalances, several economists of nonfinancial corporations were concerned over the longer-term capital problems stemming from the insufficiency of internally-generated funds to meet prospective needs for capital investment.

THIRD DISTRICT - PHILADELPHIA

Economic activity in the Third District has picked up in February. The manufacturing sector, which was just marking time in January, shows modest expansion this month and retailers report strong sales. Manufacturers in the region indicate that new orders are higher and inventory liquidation has been halted. At the same time, employment is about the same as in January and the workweek is fractionally longer. Prices in this sector are higher, but the reported increases are not as widespread as they were last month. The outlook in manufacturing for the next six months is for continued expansion. Area retailers are enjoying brisk sales and envision a healthy sales picture over the coming months. Bankers report that loan volume remains basically flat.

District manufacturers, responding to this month's Business Outlook Survey, report a modest improvement in business over last month. Of the businessmen surveyed, 21 percent indicate improvement while 72 percent report no change. New orders are up this month for the first time since November, and the level of inventories is unchanged for the first time since the fourth quarter of 1974. This steadiness in inventory levels is reported for both durables and nondurables. At the same time, jobs in manufacturing are holding steady, and the workweek is fractionally longer. Here, weaknesses in durables are offset by gains in nondurables.

The outlook in manufacturing for the next six months is optimistic. More than 8 out of 10 executives polled expect a higher level of economic activity by August. A similar proportion anticipate an increase in new orders over the period and more than one-third project net accumulation

of inventories. At the same time, these businessmen look for gains in employment. Close to half of the respondents expect to add to their work forces, and almost one-third plan to lengthen the average workweek. Increases in spending for plant and equipment are anticipated by 4 out of 10 respondents. This is a continuation of a gradual upward trend in planned capital expenditures which began last October.

Retail executives report that current sales are running well ahead of the same period last year. In addition, all of the merchants contacted indicate that present sales levels are above their expectations for this period. In general, the strength in sales at most stores is reported to be broad-based, but certain items are singled out as strong sellers. For example, one retailer notes a resurgence in lower-priced durables such as small electrical appliances priced under \$50. He adds, however, that the bulk of the strength is in soft goods, especially apparel. In general, retailers in the area are optimistic about the next several months and there is little expectation that sales would suffer much if the proposals for substantial increases in Philadelphia taxes were enacted. One merchant indicates that a bullish forecast for his stores' sales made last November will probably be revised upward in the near future. In addition, all of the retailers contacted feel that inventories are better-balanced than they were during most of 1975.

On the price front, manufacturers report that prices are up for goods they buy as well as for those they sell. However, the increases are not as widespread as they were in January. This month, for example, only one-third of the respondents are paying higher prices for their inputs while close to one-half were experiencing increases last month. Similarly, 19 percent of the executives polled in the latest survey

indicate higher prices for the products they sell--down from 36 percent in the previous month. The outlook for the longer term is for additional inflation. Nine out of ten respondents expect to be paying more for supplies six months from now, and almost 2 out of 3 anticipate higher prices for their finished products. Retailers in the area note that while prices of inputs and outputs are both higher, there is "continued moderation" in the rate of increase. One merchant expects a highly competitive retail environment in '76, and as such he feels that it will be difficult for retailers to raise gross margins by raising their prices faster than costs.

Bankers in the District report that total loans outstanding are essentially flat. At one bank, however, loan volume is reported to be declining and below levels forecast in December 1975. There is general agreement that the weakness is in the business loan component. One executive notes that competition is much keener now than it was a few months ago. Last November an offer by his bank of 90-day loans at below-prime rates elicited a strong response. A similar offer recently has not added one cent to the volume of loans outstanding. The majority of bankers contacted look for an expansion in loans to begin sometime in the second quarter with slightly over 10 percent growth for the year being a frequently-mentioned expectation. The consensus is that consumer loans will grow faster than C&I loans. None of the bankers contacted expects short-term interest rates to go any lower, but there's uncertainty as to when they'll begin to rise. There is agreement, however, that the climb will be gradual at least through this year. All of the bankers surveyed express concern over the recent "Problem List" disclosures, but no unmanageable problems from customers are reported. In general, area bankers feel that the proposed increase in local taxes in

Philadelphia will have no noticeable impact on the current recovery. Any effects on the regional economy, they feel, will be longer-term.

FOURTH DISTRICT - CLEVELAND

Stimulus from consumer goods and a slowing in inventory liquidation continue to strengthen manufacturing activity in the Fourth District. Capital goods, while still weak, are picking up. Manufacturing employment has recovered very little from lows last spring. Residential and non-residential construction activity sagged last quarter. Thrift institutions report excellent net deposit inflows in January and early February.

Producers and retailers of consumer goods are more optimistic about sales than they have been in recent months. A major appliance producer noted its orders of major appliances so far this year are at least 30 percent above a year ago and orders of housewares are at least 20 percent higher because of the surge in retail sales and bottoming out of inventory liquidation. The same factors account for the steady improvement in shipments and sales of passenger car tires, according to an economist from a major tire producer. Retailers report that January and February sales are about equal to the November and December 1975 average after allowance for the usual seasonal drop. One retailer reports that sales of major appliances last month were better than expected and that sustained improvement through 1976 is now likely. His management has become more optimistic because consumer sales have consistently exceeded expectations since last fall. Another retailer, although cautiously optimistic, pointed out that use of charge accounts in their branch stores located in depressed auto and steel centers has picked up in recent weeks, reversing several months of decline. A director noted advertising revenue from television and radio will be up sharply this quarter, and that consumer spending for recreation has picked up.

Financial officers and economists with several firms report that inventory reduction for their products has about run its course. One director

noted that sales of fertilizers and herbicides are soaring. A major plastic producer reports that sales of polyvinyl chloride rebounded sharply in December and January and that rebuilding of stocks will boost output further in coming months. Also, retail and manufacturers' stocks of passenger tires decreased last quarter, although inventories in this industry are typically built in the final quarter of each year. A supplier of frames for trucks reports that the big inventory reduction of heavy duty trucks is about completed. Economists with major steel producers in the District expect reduction of steel inventories will be virtually completed by the end of this quarter.

Capital goods industries are still generally weak. Producers of farm machinery and mining equipment report their business has held up relatively well but is below peak levels in late 1974. Orders for metal cutting and for forming tools have risen for several months but from very depressed levels in early 1975. A producer of industrial equipment reports orders so far this year are 20 percent below a year ago and not much improvement is expected until the second half of 1976. A major supplier of frames to the automotive industry expects heavy duty truck sales to rise by 11 percent this year in contrast to a 27 percent drop in 1975. He reports orders from truck producers have begun to pick up slowly.

Steel economists in the District report that orders and shipments this quarter will be about 20 percent higher than depressed levels last quarter. Demand for tubing and drilling pipe used in the petroleum industries has softened, but demand for flat roll steel products from automotive and appliance producers has strengthened gradually. Orders from capital goods producers are not expected to pick up until the second half of this year.

Employment in the District has risen very little since last spring. Scattered cutbacks in manufacturing employment are still occurring in

primary metals, electrical machinery, and machine tool industries.

Employment in fabricated metals and rubber and plastic products has stabilized. A large machine tool builder reports that it may layoff 1,000 of its 6,000 workers by year-end if orders don't pick up strongly. Many manufacturers continue to stretch out the workweek and hold down additions to their work forces.

Contracts for both nonresidential and residential building activity fell sharply in the District in recent months. Nonresidential contracts last quarter followed the mild declining trend that began in early 1975. Residential contracts also slumped last quarter following a rebound in the second and third quarters of last year. Multi-family units remain depressed with little builder-developer interest because of existing high vacancies and relatively low rental rates. However, one director noted that sales of cabinet and counter-top materials rose to a record last month, and a major lumber and home-modernization retailer also noted sharp increases in sales of home building materials. Mortgage loan demand is seasonally weak in most centers of the District. Net savings inflows in January were described as excellent by several savings and loan executives. These sources describe savings inflows in February as strong despite small losses in deposits to the 8 percent Treasury note. Mortgage rates in Cleveland were recently reduced 1/4 percent to 8 1/2 percent for a 30-year, 70 percent loan.

Price developments are mixed. Weak markets for cutting tools and steel fasteners have prevented price increases for these products despite higher steel and wage costs. On the other hand, recent price increases for steel products are holding, and a major plastics producer reported price increases for polyvinyl chloride in January and February are holding because of the recent strong rebound in demand. Our latest survey of

manufacturers shows some abatement in prices last month but more respondents in February than in January expect price increases.

FIFTH DISTRICT - RICHMOND

For the second consecutive month Fifth District manufacturing activity in January apparently showed little further improvement from recent advanced levels. In our latest survey, District manufacturers reported that shipments and the volume of new orders softened somewhat after several relatively strong months. Backlogs of orders and inventories were down slightly in January, but inventories relative to desired levels were higher than in recent months. Survey responses indicate no change in employment from a month earlier, while prices, including employee compensation, advanced across a broad front. Current plant and equipment capacity remains in excess at one-third of the manufacturing concerns surveyed. By contrast, consumer spending apparently remains strong. Retailers surveyed were unanimous in reporting increased sales in January, even after a very strong December. Sales of big-ticket items relative to total sales advanced slightly. Survey respondents remain generally optimistic, as most expect business to improve over the next six months. Over the past month bank credit at large Fifth District banks has fallen sharply, with both loans and investments showing declines.

Responses to our latest survey of manufacturers indicate little further progress toward recovery in the past month. Shipments declined for the first time in nine months, while the volume of new orders dipped for the second straight month. Declines in these areas were slight, but compare with widespread and sizable increases in most recent months. Over one-third of our respondents reported declines in shipments, new orders, and order backlogs. Manufacturers' inventories apparently fell further but more respondents now view current inventory levels as excessive than at any time since September. Reports from most individual industries seem

to be consistent with this general description. One exception, however, is the machinery and equipment group, which apparently experienced considerable improvement in the level of business during January.

Employment in manufacturing apparently remained about level in January as did the length of the workweek. Prices continued to rise in most areas, as they have done since early last spring. One-third of the manufacturers feel current plant and equipment capacity is excessive, and almost all respondents view current expansion plans as about right.

In contrast with the manufacturers, District retailers surveyed experienced a continuation of the strong improvement which began in December. All survey respondents reported increased sales in January. Sales of big-ticket items relative to total sales increased somewhat during the month, only the second such increase in over a year. Comments of branch directors substantiate this improvement in retail sales and include mention of such areas as automobile and boat sales as having experienced recent improvement. Despite some increase in inventories at retail, survey results show current levels as about right to too low. Twenty-five percent of the retailers surveyed also view the number and size of their outlets as inadequate. Employment at retailers increased during January as did employee compensation. Prices, paid and received, also advanced, as 75 percent of the retailers report them higher than one month ago.

District businessmen remain generally optimistic, expecting the level of business activity to improve over the next six months. Most survey respondents, both manufacturing and retail, expect improvement nationally, locally, and in their own firms over that period.

At Fifth District banks loan demand continues weak. Consumer lending has been essentially flat, with neither installment lending nor

credit card activity reflecting the recent strength in consumer purchases. Business loans continue weak. An indication of the slack in business lending is the current very low level of credit line utilization. One bank reports an all-time low in its credit line usage, 21 percent compared to normal usage of about 42 percent. Credit lines are not, however, being cancelled or allowed to expire. Expectations about the future course of business loan demand in the Fifth District are mixed. A large North Carolina bank, for example, anticipates that production and inventory loans will pick up in April, while a large Virginia bank expects no significant rise for at least a year.

Farmers in both the District and the nation indicated in early January that they intended to plant larger acreages of feedgrains and cotton but smaller acreages of soybeans than in 1975. Planned increases in District feedgrain and cotton acreages--6 percent and 30 percent, respectively--are somewhat larger than those indicated nationally. But the planned 8 percent cut in soybean acreage is about the same as that in the nation. Although the nation's total crop output reached a new high last year, 1975 will not be remembered as the best of crop production years in the District. With weather-reduced yields per acre and the total acreage of all principal crops harvested about the same as in 1974, the only crops recording significant production gains over a year earlier were tobacco, soybeans, and sweet potatoes.

SIXTH DISTRICT - ATLANTA

Continued gradual economic recovery characterizes the Southeastern economy. A survey of retailers in the Sixth District reveals no ebbing during January of the strength of retail sales. Inventory rebuilding continues in some areas at rates in anticipation of ongoing sales increases. Some stores have begun selective price increases, and profits are improving. Still, financial difficulties continue to surface in retailing and real estate businesses. Labor market developments include the termination of a protracted strike as well as the recall of furloughed workers. Tax law provisions affecting state revenues may constrain state government spending in many areas. International trade is growing in importance in the Southeast.

An early February survey conducted by the Federal Reserve Bank of Atlanta, confirmed by recent reports from directors, indicates that the resurgence of consumer spending at department stores has persisted. With very few exceptions, retailers' earlier concerns that there might be a downturn following the holiday season have not been realized. January sales reflect a normal seasonal decline, with the result that impressive percentage gains from last year's results are being maintained. Most merchandise categories appear to be participating in the sustained strength of sales.

Retailers report ongoing price increases on goods they are purchasing, but no unusually large jumps are reported in particular merchandise categories. Goods, in general, are readily available from manufacturers, with the exception of especially popular products such as prewashed denim apparel and Citizens' Band radios. (Mood rings have sunk into a deep depression; pet rocks are on the endangered species list.) Most department

stores are reordering in line with the increasing trend of sales. Some, in areas where sales improvements have been particularly strong, anticipate continuing increases and are placing orders in accordance with this projection. Nevertheless, restraint in building inventories continues to be a primary consideration.

Some retailers have begun selective, gradual increases in their prices but are proceeding with care. None of these merchants report encountering resistance from customers. Several stores mention a very gradual increase in the percentage of goods purchased on credit, although the percentage of cash purchases remains above pre-recession norms. One report was received of an effort to encourage new credit accounts as well as greater use of existing ones.

Other comments from retailers indicate that the solid sales gains achieved during and after the holiday season were attained without mark-downs and heavy promotions which characterized retailing in late 1974. The profit outlook is, therefore, much improved. Retailers note that, as a result of reduced manufacturers' inventories, goods obtained at low prices for use during promotions are very scarce. In general, the best sales increases are reported by top-of-the-line department stores which suffered greater sales erosion a year ago.

Information of a less positive hue is largely limited to reports from Florida, where January sales in some areas have produced much less impressive increases than those of December. However, independent variety stores in Florida are reportedly reordering in line with sales following a very successful Christmas season. Concerning trends by type of merchandise in the Southeast, it is reported that furniture and carpet sales are encouraging but appliance sales in certain areas remain subnormal. Kennedy and Cohen, a large electrical appliance chain headquartered in Miami, was

forced by financial difficulties to close 17 stores located in several major cities and to release over 650 employees. The organization subsequently filed for protection under the bankruptcy laws.

Reports of financial difficulty also appeared in the troubled real estate industry. Control of a recently completed 35-story office building in downtown Atlanta has been acquired by a large out-of-state bank and an insurance company which had supplied construction financing. The building presently has only about six tenants, despite the very liberal leasing arrangements being offered. This case exemplifies the severely overbuilt condition of the office space market in Atlanta. Lessors are engaged in a bidding contest for occupants because anticipated rates of entry and expansion by firms have not been realized. One real estate consultant reports that general office space in the downtown area is about 28 percent vacant, with six major new projects only 23 percent rented. A carpet supplier notes that about 20 percent of a recent mailing addressed to smaller carpet specialty shops and decorators was returned, indicating that many of these small businesses have been unable to weather the recession in the construction industry. Concern is voiced by some branch directors that disclosures of "problem" loans in testimony before congressional committees may precipitate financial pressures sufficient to force business firms into bankruptcy, thereby jeopardizing the employment of many workers.

A brighter note about construction activity concerns three new hotels oriented toward convention business which have recently been completed in Atlanta. A total of 2,850 rooms have been added to the city's hotel accommodations, all of which are near the downtown area. The negative aspect of reduced construction employment is offset by increased services employment produced by the opening of the three hotels.

Additional developments in Southeastern labor markets include the end of the 126-day strike of flight attendants against National Air Lines during early January. One community served by the carrier is reportedly seeking to obtain more reliable service by having its route transferred to another carrier. Also, 1,800 workers who were laid off two years ago, were recalled by the General Motors plant in Atlanta as a result of improvements in new car sales; an additional 500 new jobs have been created. The plant payroll during 1976 is expected to double that for last year.

A fiscal problem has surfaced in Georgia which may also be affecting other state governments. Tax revenues are not expected to increase in proportion to increases in income, owing to provisions allowing previous years' losses to be carried forward in computing corporate income taxes. Carrying forward of losses is expected to place a restraint on expenditures by the state government.

The role of the Southeast in international trade appears to be expanding. Southwire Corporation has entered into an agreement with the Soviet Union to market Russian chemical and metallurgical technology in the United States. Coca-Cola has contracted on a trial basis to supply Russia with lemons from Florida. In addition, a new duty-free foreign trade zone is being established south of Atlanta. Manufacturing and assembly areas will be provided in addition to warehousing and distribution facilities.

SEVENTH DISTRICT - CHICAGO

Confidence in the economic outlook in the Seventh District has strengthened in the past month. Consumers continue to spend at a faster pace. Employment is increasing and unemployment is decreasing. Tough bargaining is in prospect on major labor contracts. Some business firms have raised their projections of sales gains for 1976, and some are raising capital spending plans. Order backlogs are stabilizing. Supplies of goods are ample in all sectors, but upward price pressures persist for finished products. The sales outlook for both cars and trucks has improved. Farmland values are sharply higher. Interest rates on new corporate bonds and on mortgages have eased.

The business atmosphere cannot be described as bullish, but the flagging confidence evident two months ago has been replaced with a less hesitant view of the future. More purchasing managers reported output, new orders, and backlogs to have improved in January. Projections of increases in sales of manufactured goods and services for 1976 either are being raised or are being stated with more assurance. A quarterly survey of consumer confidence in the Chicago area, just released, showed a surge to the highest level in three years, after having fallen back last time. The upswing in the stock market and the decline in interest rates since the turn of the year were especially welcomed because these developments were unexpected. There are many comments that Congress, the Administration, and the Federal Reserve "will not let the economy falter in an election year."

The stronger tone of retail sales noted in the Christmas period has continued in January and February. The list of products that are going well has broadened and includes apparel, auto supplies, furniture,

appliances, recreational vehicles, truck-vans, and Citizens' Band radios. A producer of garbage disposal units is producing "full blast" again after a severe drop last year. Retail inventories generally seem in line. However, recent household goods trade shows in Chicago have brought an excellent response suggesting that many retailers are planning to restock in expectation of further growth in consumer outlays. Consumers are using installment credit more freely, and delinquencies and write-offs have improved. Loans on new cars are being held at three years, except for exceptionally good risks.

Job markets continue to improve gradually, but unemployment remains very burdensome in the inner cities. Current and prospective labor negotiations are uppermost in the minds of many executives. A major airline was well pleased with a recent settlement that provides a first year wage boost of "only" 8.5 percent. The Teamsters are starting talks this week in Chicago. As before, the Chicago union is bargaining separately and is expected to set the pace. (Initial Teamster demands are very large.) The UAW is pressing for COLA increases for pensioners. An appliance union demands "30 and out," which management strongly opposes.

Among the industries that have raised sales projections for 1976 recently are motor vehicles, steel, and airlines. An oil company expects a 6.5 percent rise in total petroleum product sales, following a 2 percent decline last year.

Among firms that have raised capital spending plans for 1976 recently are motor vehicles, electric utilities, and chemicals. Oil companies say they are cutting back. Machine tool bookings are still very weak, but some producers have substantial backlogs. Increased sales of some smaller capital goods may be satisfied from field stocks for several months.

Heavy construction equipment sales dropped off sharply late in the fourth quarter and are not expected to recover soon.

Output schedules for trucks, including heavy trucks, have been raised substantially recently, but from very low levels. Auto companies are pressing programs to offer broader lines of light-weight cars--under 3,500 pounds. There has been an unusual amount of juggling of auto output schedules recently to adjust unbalanced inventories to buyer tastes, but total assembly schedules have been maintained and the tendency has been to raise sights on sales for the year.

Inflows of savings to S&Ls have continued at advanced levels. Loan commitments are being made more freely and terms are easing. At least one Chicago area S&L is offering 80 percent, 30-year loans, at 8.5 percent, plus "two points." Most loans are at 8.75 to 9 percent, down slightly in recent months. Builders and lenders maintain that most proposed new apartment projects do not offer prospects for profits at present levels of rents. Rents on existing apartments are under upward pressure, partly because of sharply higher costs of fuel and maintenance.

District analysts expect food prices to rise at a faster pace in the second quarter more than offsetting a slowdown in the first quarter associated with declines in prices of cattle and processed foods late last year and early in 1976. Cuts in wholesale prices of processed fruits and vegetables are not fully reflected at the retail level. Fertilizer inventories are heavy and prices have declined recently. Farm equipment sales are expected to be larger this year. This Bank's survey of farmland values shows further increases in the fourth quarter to levels 22 percent above last year on average. Credit conditions at rural banks are much improved this year, because of good deposit growth and agricultural loan repayments.

EIGHTH DISTRICT - ST. LOUIS

The economic recovery in the Eighth Federal Reserve District is continuing according to recent reports from businessmen. Retail sales remain relatively strong after the Christmas surge. Most manufacturing firms likewise report increasing sales and are optimistic that further improvement will occur during the year. Funds continue to flow into financial intermediaries at relatively high rates, though mortgage interest rates remain stable. On the agricultural scene, crop farmers are making plans for large 1976 plantings.

Department store representatives noted strong sales in the post-Christmas season, following the excellent sales gains during Christmas. Most types of merchandise are reported to be selling well, with some improvement in big-ticket items which heretofore have registered less gains than other items. Reports by local car dealers are mixed. However, car and truck sales appear to be improving with domestic automobiles selling somewhat better than foreign cars.

Several manufacturing representatives noted moderate gains in their sales and reported that inventories are at desired levels. A major chemical firm reported sales gains late last year and early this year. Chemical products with rising sales this year include fabricated plastic products, petrochemicals, rubber, phosphates, and herbicides. A local steel firm has recently brought on line an additional blast furnace as a result of rising orders. A producer of both consumer and capital goods noted strength in consumer products, but no growth of demand for capital goods. A representative of a paper and boxboard manufacturing firm reported sizable gains in sales in recent months and believes the uptrend will continue this year. Apparel manufacturers, which have already

experienced a substantial turnaround in demand, expect further increases in sales in the coming months. Institutional apparel, which until recently had lagged the upturn, was reported to have shown some strength in sales recently.

Latest employment data indicate that the upturn in the District's non-metropolitan areas has been stronger than in metropolitan areas. The rise in employment in District states has so far been about twice the rate of increase in major District cities.

Residential construction has increased somewhat, according to housing representatives. Several builders of single-family housing report optimism about housing sales this year. A couple of builders in the St. Louis area reported rising sales in recent weeks and they have already sold a sizable percentage of the homes that they plan to build. Multi-family construction has generally remained at a very slow pace throughout most of the District, but some improvement is expected later in the year. Although a surplus of multi-family dwellings has been a depressing factor in many parts of the District, especially the Memphis area, no overhang in multi-family units is reported in the St. Louis area. As a consequence of this small inventory, several analysts are predicting a sharp increase in rental prices this year in St. Louis.

Savings and loan associations report strong gains in time and savings deposits in recent weeks, continuing the upswing of last year. Commercial banks reported increases in time deposits in January, with declines in large certificates of deposit more than offset by increases in other time and savings deposits. The pickup in single-family housing construction has resulted in some expansion in mortgage loan demand, but the situation in multi-family construction remains a limiting factor to such demand

growth. Despite the large quantity of funds available and the relative weakness of mortgage loan demand, lenders are reluctant to decrease mortgage rates. Some savings and loan institutions are investing some of their funds in installment-type consumer loans.

Bank business loan demand continues unchanged. One representative of a large bank noted the widening gap between bank lending rates and rates on commercial paper as one factor. Demand for consumer installment loans was also noted to be rather weak.

Crop plantings are expected to be larger in 1976 than last year. Recent reports indicate farmers will increase the acreage planted to most major crops, except soybeans. They are planning to shift some acreage from soybeans to cotton and corn, reflecting changed price relationships.

NINTH DISTRICT - MINNEAPOLIS

Ninth District directors are becoming more optimistic that the current recovery will be sustained through the remainder of 1976. Midway through the first quarter, consumer spending is proceeding at a strong pace. Business investment spending, though currently not very robust, is expected to gain momentum by the second half. Fears of inflation have subsided somewhat, though several directors anticipate slightly higher inflation rates later in the year. However, the lessening concerns over inflation appear to be having little effect in moderating overall wage demands. Farm income in the District is running below year-earlier levels, and inventory financing of grain is up in rural areas. Both rural and city banks appear to have adequate liquidity to meet anticipated loan demands in coming months.

Directors confirm that consumer spending in this District was strong in the fourth quarter, and they say that current spending is proceeding at a good pace. A North Dakota director says that January retail sales in his area were very good; and a Minnesota director expects consumer spending in 1976 to average about 10 percent above 1975. Automobiles continue to sell well and one director reported exceptional strength in soft goods. Despite sales gains, retailers continue to exercise tight control over inventories, with any buildup generally being kept in line with increases in sales volume.

Directors foresee increases in aggregate investment spending through the remainder of the coming year. On balance, the directors feel that advances in investment spending in 1976 will exceed the 5.5 percent gain registered in the recent Department of Commerce Expectations Survey. However, one director, taking a more cautious view, expects that current

excess capacity in the industrial sector will help keep the increase in spending in the range of 5 to 6 percent.

Currently, though optimism is increasing in the business community, most firms are still being slow to commit themselves to new capital projects. However, a more rapid advance in investment spending is foreseen for the second half, and one director anticipates second-half investment spending substantially above 1975 levels.

At the micro level, patterns of investment spending are mixed. A Montana director observes that farm machinery is still moving at a brisk pace, but a North Dakota director expects farm machinery demand to be down in the coming year due to the heavy investments in that industry in recent years. A Michigan director said that investment spending in his region will be off due to depressed copper prices and an inventory overhang. However, spending on coal development and associated industries will likely be up through 1976.

Directors feel that investment spending will not generate a major increase in bank loan demand. Any increases which do occur in loan demand are expected to be modest, at least through the first half. Two directors say that businesses will be looking more to internal cash flows to help finance new investments.

Ninth District directors generally feel that fears of inflation have subsided somewhat. Two directors cite declines in the prices of some food items as one reason to expect only modest inflationary pressures in coming months. On the other hand, price increases for heavy goods and rate increases for utilities will continue to exert inflationary pressures on the District's economy. In addition, several directors anticipate a somewhat faster pace of inflation in the second half than in the first half.

Few directors feel that the slowdown in inflation will have much effect in moderating wage demands in 1976, though there are some exceptions. For instance, a North Dakota director feels that recent wage settlements in that state have been tempered by a slowdown in inflation, and a Minnesota director reports that teachers in his area appear satisfied with wage gains in the 5 to 7 percent range. Nonetheless, most directors feel that workers will be seeking large wage increases in 1976, not so much to hedge against future inflation as to recoup losses from past inflation.

According to bankers responding to the latest Agricultural Credit Conditions Survey, farm earnings in the District are moderating as producers remain reluctant to sell grain on a bearish market. The rate of debt repayment is slow, and farmers are seeking more inventory financing from rural banks. The refinancing of farm debt is up, and rural bankers expect refinancing needs to be fairly strong through the first quarter of 1976. Nevertheless, banks appeared to have sufficient funds to meet credit needs of farmers; few agricultural banks were forced to turn down farm loans in the last quarter because of a fund shortage, and a high proportion of banks are still seeking new farm loan accounts.

TENTH DISTRICT - KANSAS CITY

Tenth District retail sales continued strong during the month of January and are expected to show steady growth at least through the summer. Area automobile manufacturing plants are expanding employment and Ford and GM dealerships reported both excellent sales and an optimistic outlook. Chrysler and AMC dealers, however, were not doing well. Although there is still concern about wheat, generally positive crop expectations, expanded cattle placements, and increased hog farrowings all point to reduced pressure on food prices during 1976. Tenth District bankers, however, reported mixed views on the strength of business loans, noting that local businesses were exercising caution in inventory rebuilding. Savings inflows, on the other hand, continued strong.

The strong January retail sales reported in the national press were also evidenced throughout the Tenth District. While two large stores in Denver noted a falloff at the end of the month, all respondents indicated that January sales ranged from "good" to "super." The majority of stores reported that improvement was strong "across the board." Big-ticket items were said to be strong in two stores but weak in two others. On the inventory front, no problem areas were mentioned, and several respondents stated they were now in excellent shape going into spring. Only one Denver store reported any difficulty in obtaining merchandise from suppliers. Citing improved consumer confidence, all interviewees looked forward to a strong spring and summer. Consumers were expected to emphasize quality in their purchases rather than price.

Automobile manufacturing plants in the Kansas City area reported a favorable outlook for 1976. Starting March 1, the remaining 1,900 GM workers laid off last year will be recalled, representing a \$26 million

increase in annual payroll. The Ford plant outlook is not as bright, with a tentative shutdown scheduled for the week of February 23, depending on sales. Ford still has 519 employees on indefinite layoff.

On the retail side, however, both Ford and GM dealers throughout the Tenth District reported excellent sales and expectations. While all models are selling well, Ford is doing best in large cars and Chevy in smaller models. Buick and Pontiac are also doing well. On the other hand, both Chrysler and AMC reported strong December sales, but very sharp falloffs in January to below 1975 levels. Chrysler sales are concentrated on Volare and AMC sales on Pacer. All dealerships reported that most units sold were fully-equipped and that inventories were generally good though some shortages existed in high-demand models.

Recent reports on agricultural conditions have bolstered the prospects for greater stability in food prices in 1976. Farm prices have been quite sluggish for the last five months, owing to large harvests last fall and a seasonal increase in red meat production during the fourth quarter of 1975. For the month ended January 15, prices received by farmers dropped 0.5 percent following a modest increase in December. Given the evidence of increased cattle placements in feedlots during the fourth quarter, together with the beginning of an expansion in hog farrowings, meat supplies in 1976 promise to be large enough to offer some stability to retail prices--assuming that the farm-to-retail margins do not widen significantly. The winter wheat situation in the District is still hanging in the balance due to the lack of moisture. Several stories of farmers abandoning the crop, taking steps to prevent wind erosion where there is no wheat, and applying for disaster payments have been reported in the news media. However, a large crop is still possible if the weather cooperates over the next few months. And, if crop producers follow through

with their intentions as reported in January, the production of most crops in 1976 will likely be large enough to restrain any sharp rise in prices. In fact, given the information on probable carry-over stocks next summer and fall, grain prices could slide rather significantly should 1976 production levels be of bumper proportions.

Tenth District bankers contacted had mixed views of business loan strength. Four banks indicated January declines in business loans while three reported strong gains. Shifting of national accounts was mentioned by several banks as a major reason for either increased or decreased loan demand. Only one bank reported strong gains in demand from local customers--primarily from agribusinesses and utilities--while several mentioned that local businesses are exercising caution about inventory rebuilding. Credit card sales are still up seasonally, and a few banks reported increases in auto loans.

Savings inflow continues to be strong in both the consumer and the corporate areas because of low CD and Treasury bill rates. Some outflow is expected within the next week because of the new Treasury issue. Banks are continuing to run off certificates of deposit.

ELEVENTH DISTRICT - DALLAS

Large commercial banks in the District report that lending activity continues at a lackluster pace even though loan officers have become more aggressive in seeking new customers. As a result, they expect only a moderate recovery in bank loans in 1976. Total loan volume should only increase between 7 percent and 10 percent with petroleum loans--especially to finance oil field operations--and consumer installment loans leading the recovery. For the largest banks, foreign lending should also continue to increase, as these banks attempt to offset the sluggish recovery in domestic loans.

Consumer installment lending, paced by new car sales and home improvement loans, has increased steadily since last fall. Credit card use is also on the rise. Moreover, credit card delinquencies and demand for debt consolidation loans are down sharply from their peak levels early last year, indicating household finances are much improved. Bankers are aggressively marketing consumer loans, trying to keep this market strong throughout the year to help offset slack demand for other loans.

According to most loan officers, business continues to be reluctant in rebuilding inventories. Although retailers are replenishing stocks in expectation of a record sales year in 1976, manufacturers and wholesalers, for the most part, are keeping their stocks near last year's low levels. Nevertheless, nearly half the bankers surveyed said a number of manufacturers are currently reevaluating their inventory policies, and as a result, borrowing may pick up in the spring.

Bank loans to small businesses for equipment and plant expansions are also sluggish. Many of these firms have cut back their capital spending plans until they can build liquidity. Moreover, Houston bankers say

the major oil companies are facing uncertainties that will keep new capital requirements below the level of last year's spending.

In addition, the reluctance of bankers to make term loans last year to bail out firms with weak working capital positions has resulted in these firms turning to other sources of funds. Asset lenders in particular are reported to be doing a brisk business at interest rates in the neighborhood of 6 percentage points over prime.

Real estate lending is increasing, but loan officers say the cautious rise in lending activity is far different from the speculative pace of a few years ago. Sales of single-family homes are providing most of the strength. Bankers note that large holdings of non-income producing land by both banks and REITs continue to hold down real estate lending.

More on the positive side, bankers expect a revival in business acquisition lending in the near term. A Dallas banker, for example, said he is receiving an average of two inquiries a week from large firms looking for small businesses as candidates for acquisition.

Rural bankers report demand for farm and ranch credit is strong. With rising costs of production and more intensive irrigation due to dry weather, demand for crop operating loans is up sharply. And, as a result of declining grain prices, crop storage loans have risen. Also, farm machinery loans have increased due to substantially higher prices for tractors, machinery, and equipment.

Livestock lending has strengthened with more feedlot placements and increased supplemental feeding of cattle on ranges and pastures. In addition, lending for dairy operations has picked up as that industry has responded to lower feed costs and higher milk prices. However, demand for stocker cattle for winter grazing on wheat and oats is below normal because of the lack of rainfall and deteriorating forage conditions.

Agribankers indicate that many farmers and ranchers in the District are having problems repaying loans. Farm and ranch income has been weakened by depressed grain and cattle prices, rising production costs, and poor moisture conditions. As a result, loan renewals and extensions are running well above normal.

The Texas labor market continues to improve as the unemployment rate in the state has dropped below 6 percent. The number of jobholders in the state is slightly higher than the level a year ago, paced by a gain of nearly 10 percent in mining employment. This reflects the boom level of oil field drilling. If legislation is enacted to partially deregulate natural gas prices, new hirings in this sector are expected to continue to increase.

Construction employment is the weakest sector in the labor market. In the Dallas-Fort Worth area, many large companies have been making greater use of industrial workers for plant construction, reducing employment opportunities for union members in the building trades. Already, jobless rates in some organized building trades are running 30 to 40 percent. As a result, union bricklayers, operating engineers, and laborers in the North Texas area have agreed to pay cuts of around 30 percent to help union contractors compete for construction bids against open-shop rivals. And in El Paso, many building tradesmen are pocketing their membership cards and are hiring out to nonunion contracts.

TWELFTH DISTRICT - SAN FRANCISCO

More optimism than caution characterizes the most recent attitudes of our directors concerning business trends. Retail trade has sustained its year-end buoyancy and advance orders are dramatically higher than a year ago. For many manufacturing industries, e.g., steel, pulp and paper, and clothing, operating rates have increased substantially in recent months; in some instances such as lumber and wood products and electronics, operating rates have at least firmed or have moved up slightly. In the aircraft industry, however, business has resumed a declining trend after a period of stabilization. Order backlogs are disappearing and layoffs are mounting. In agriculture, prices are generally lower than they have been in two years and crop prospects are good. Lower feedgrain prices have activated cattle feedlots and brought a sharp increase in cattle slaughterings.

The year-end acceleration of consumer spending was sustained through January causing a slight shift of emphasis from caution to optimism on the part of retailers. Order backlogs have built up to a "respectable" level, especially for automobiles. A national clothing manufacturer indicated that orders for spring and summer wear were "very much better" than a year ago and that "January orders were excellent."

Except for the aircraft and heavy construction equipment industries, manufacturers report gradual improvement in business over the past three months. Operating rates have risen substantially in the steel, pulp and paper, and clothing industries, and have increased noticeably in the lumber and wood products, electronics, and chemical coatings industries. Regarding the lumber industry, however, one director commented on the concern of the industry over pending lawsuits that could reduce timber

sales by 50 percent, noting that the "environmentalists are winning all the way so far." While new orders for machinery are picking up, it is estimated by one director that "an additional six months would have to elapse before operating rates of a year ago are realized."

The aircraft industry is facing a very depressed market. Backlogs are down and business has slipped to about half of what it was last year at this time. Industry employment is declining. Manufacturers complain that "the CAB will not agree to fare increases but the costs of fuel and labor continue to go up." Prices are being heavily discounted as producers are forced to choose between market share and profit margin. Developments are tied to a world market and are responding to slow growth in Japan and Western Europe as well as domestic demand.

For most industries, on the other hand, prices have firmed over the past three months. Discounts and special deals are rapidly disappearing so that effective prices have generally increased. In some instances, however, e.g., farm machinery, chemical coatings, and marine products, price increases have had to be rolled back. The actual cost of producers' materials is reported to be increasing, but at a decreasing rate.

The agricultural community is being careful about new expenditures and planning for reduced net income for the next several years. Commodity prices are reasonably lower than they have been in the last two years and there is no anticipation of change. Crop prospects are generally good with feedgrains stored about 10 percent higher than a year ago. With increased feedgrains on hand, placement of cattle in feedlots during the last quarter of 1975 rose 23 percent in Oregon, while marketing for slaughtered cattle rose 21 percent.

In response to a question regarding the probable effect of lower interest rates on construction activity, a director from a large west coast

bank believes that additional expenditures over those already planned will be modest. "Further significant increases in housing starts will be limited by high selling prices well beyond the financing capability of most families, plus some remaining surplus housing built earlier. Fortunately, this unsold inventory is now small in California and mostly multi-family. Land development suitable for new housing is proceeding very slowly for environmental and financial risk reasons. Significant increases in commercial construction will be held back by some excessive vacancies and by needed investment expenditures for new and depreciated equipment."