

CONFIDENTIAL (FR)

CURRENT ECONOMIC COMMENT BY DISTRICT

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## SUMMARY\*

District reports generally suggest some recent moderation in the pace of overall economic expansion as well as in the rate of inflation. For the most part the manufacturing sector continues to expand but at what is characterized as a sluggish, modest, or less vigorous rate. Retail sales have been erratic in recent months but are apparently increasing at a moderate rate over time. New automobiles are selling well in the Atlanta, Chicago, and Minneapolis Districts. Current outlays for capital goods have yet to improve significantly. New York and Cleveland, however, report a pickup in capital goods orders. Construction of single-family housing is showing strength in the Chicago, Minneapolis, and Dallas Districts and remains firm in St. Louis' District despite some recent leveling off. Other construction remains basically weak except in the Atlanta District. The agricultural sector remains depressed, suffering from the recent drought, soft commodity prices and erratic weather conditions. Most districts appear to be experiencing some abatement of upward price pressures but price expectations have not been affected uniformly. Soft demand, slower growth, and excess capacity are causing downward revisions of some inflation forecasts. On the other hand, New York, Cleveland, and Kansas City cite continued concern over inflation among some businessmen, due to continuing cost pressures, notably wage settlements in excess of productivity gains, rising energy prices, and the higher costs of new plants.

Chicago, Richmond, Cleveland, and Atlanta report some recent pickup in orders for machinery and electrical equipment. Primary metals producers

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\*Prepared by the Federal Reserve Bank of Richmond.

continue to experience sluggish demand although New York Directors expect demand to strengthen in the near term. Manufacturing in the Philadelphia District is generally expanding while San Francisco notes unexpectedly strong orders for commercial aircraft, which has contributed to a leveling off in the aerospace industry.

Retailers have been experiencing wide month-to-month variations in sales, and September seems to have been a generally weak month except in the Boston District and in the New York area where new-found strength in consumer spending extended into early October. Expectations regarding fourth quarter sales vary across districts but what is widely perceived as erratic consumer behavior is apparently creating a mood of caution and uncertainty among retailers. On a more positive note, Chicago reports that sales of television sets are up significantly although still below expectations. Sales of new automobiles seem to be proceeding well, with the strike having only minor and scattered effects. Minneapolis and St. Louis report some spot shortages, such as of full- and intermediate-sized cars. Tourism appears relatively strong although some areas have yet to experience the expected level of activity. Chicago reports consumers spending freely for travel and entertainment.

Some strength appears to have developed in residential construction, particularly in the Minneapolis, Chicago, Atlanta, St. Louis, and Dallas Districts. But with the exception of Atlanta and Chicago the pickup seems to be concentrated in single-family dwellings. Minneapolis reports that housing unit authorizations have reached 1972 levels. Commercial and industrial construction remains basically soft although Atlanta and Chicago suggest some revival of interest in this area.

The overall level of business loan demand remains weak nationwide. Kansas City, Philadelphia, St. Louis, and Dallas report little sign of renewed strength in business loan demand. Richmond, on the other hand, reports a healthy increase in loans during September. Only in agricultural lending does there seem to be consistent strength. Dallas, Minneapolis, and Kansas City point to particular strength in this sector, which they attribute partly to producers holding commodities off of the markets.

News from the agricultural sector is generally gloomy, at least from the standpoint of farmers. Widespread drought and erratic rainfall have been disruptive, causing reduced yields on many crops, while what are perceived as low prices are discouraging farmers from marketing some crops and livestock. Kansas City in particular notes that the weakness in prices of Tenth District agricultural products is putting producers in a precarious financial position. Specifically, low prices for wheat, rice, and cattle are reported to be depressing factors. Minneapolis expects the reduced crop yields due to the drought and the depressed livestock industry to adversely affect income. Richmond District farmers, on the other hand, have experienced an increase, although slight, in cash farm income.

There seems to be no general concern over supply or capacity constraints. Boston foresees no problems other than perhaps in the lumber industry. Chicago mentions some lengthening of lead times for electrical components, and in the St. Louis District a manufacturer of diesel engines is reportedly operating at capacity and extending order backlogs into next year.

The most commonly held view of future price developments is that the inflation rate will decline further due to a moderation in demand.

Atlanta, New York, St. Louis, Minneapolis, and Richmond all suggest expectations of some further decline in the rate of price increases. New York, Cleveland, and Kansas City, however, indicate continued concern over inflation. Continuing cost pressures deriving from imminent wage negotiations, rising energy costs, and higher costs of plant expansion are cited by these districts.

FIRST DISTRICT - BOSTON

The New England directors have noticed few changes in the trends of business conditions during recent months. Except for lumber and some paper products, most industries are experiencing modest rates of growth and no industry (other than lumber) expects to encounter capacity shortage problems for the foreseeable future. Retail sales have continued to surge and wane while averaging moderate rates of growth.

Even though August retail sales were a major disappointment for some stores, September was a very strong month. However, the gains in September only managed to offset the weak volume of previous months by a small margin. One major retailing director reports that his average volume is basically meeting his plan of 5-6 percent growth. He also stresses that the surges and slides in the sales figures have made retailers very uncertain and cautious, since they see no clear trends emerging.

Banking directors continue to report that business and commercial loan demand is weak. In spite of reports of price cutting and competition among banks for loans, the New England directors are aware of only a few isolated instances of loan offers tied to the Euro-dollar rate (very short-term, limited commitments) or of reduced compensating balance requirements. According to the directors, no bank loan offerings are currently subject to an interest rate ceiling.

In general, capacity limitations are not thought to be a problem by New England businessmen. Major manufacturers of electrical apparatus, appliances, industrial thread and sewing products and steam generating equipment all reported no significant increase in new orders over the last year. A director connected

with machine tooling notes that the close of machine tool shows has brought more inquiries from prospective buyers but "no orders with signatures." Even though the order backlogs are increasing for some suppliers of tools, executive officers and directors seem to be restraining plant managers and delaying the release of machine tool orders.

Lumber suppliers, defense contractors, fabricated metal manufacturers, and newsprint suppliers have reported substantial increases in new orders over last year. But, even though order backlogs are increasing, capacity is not a major problem. None of the businesses contacted was having difficulty obtaining materials, although a major thread producer thought a worldwide shortage of cotton might occur and an appliance manufacturer was stockpiling copper in anticipation of a strike. Most firms reported raw materials price increases. The most commonly cited rates of increase were in the range of 5-10 percent.

The academic correspondents contacted this month--Professors Eckstein, Samuelson, and Tobin--were unanimous in the view that the Federal funds rate should be lowered 50 to 75 basis points. "Not to do so," according to Eckstein, "is to ignore all the evidence. The economic pickup is based entirely on theory; the momentum is just not there." With fiscal policy paralyzed by the elections, the Fed alone can lean against the wind. Samuelson stressed that a good "optimal control" policy would, based on present evidence, lower rates now even if subsequent events should support a reversal. Holding rates steady when demand is weak (and we don't know just how weak) is a restrictive policy. Because inventories are in fairly good balance, there is no danger of an uncontrollable downward spiral. However, there is a danger that the mid-year slowdown will undermine the hoped-for recovery in capital spending which is needed not only for purchasing



power but also for capital formation to avoid future shortages. Low capital formation is the logical outcome of a system in which the central bank always plays the lead role in curbing inflation. The inflation rate is not sensitive to an acceleration in real growth to 5 or 6 percent. At this stage in the business cycle, a sustained period of trend rate of growth is "a policy scandal."

The market response to the Thursday afternoon reports has been "comic." The market must learn how to handle a choppy series. Samuelson suggested that the Chairman make clear to the Congress and the market that the self-imposed monetary growth targets would not be allowed to stand in the way of heading off a growth recession. This will pave the way for top-of-range or above-target monetary growth if the economy deteriorates further.

SECOND DISTRICT - NEW YORK

The continuing improvement in economic conditions in the Second District appears to have been sustained in the face of the apparent slowing in the pace of the nationwide recovery, judging from comments of directors and other business leaders who were contacted recently. The strengthening in retail sales in New York City has carried into early October and appears to have spread into other parts of the region. While capital spending continued to lag, there are scattered reports of a pickup. The rate of joblessness in the region appears to have stabilized and the gap between the regional and national unemployment rates has narrowed. On the outlook for prices, respondents generally felt that inflation was moderating gradually and that the recent resistance to attempted price increases would help temper the future inflation. Nonetheless, many remained concerned over the prospects of mounting cost pressures.

Consumer spending in New York City appears to have retained its newfound strength. While for most of the year, New York City merchandising has been a weak spot for many national retail chains, that situation seems to have changed in recent months. The vice president of a national department store chain reported that the increase in September sales for New York exceeded that chain-wide average and that, while sales in the rest of the country showed signs of a weakening in early October, sales in New York City remained strong. According to a City department store executive, sales were strong in September and were better than expected in early October. The pickup in consumer buying appears to have spread outside of New York City as well. The directors of the Buffalo Branch detected a modest improvement in

department store sales in September. Part of this impetus in the recovery in consumer buying may have been due to growing acceptance of Sunday openings. The head of a large department store chain in the Buffalo area noted a marked improvement in sales of the final weeks of September, which he attributed to the success of recent Sunday openings. He expects Sunday openings to become a way of life in the Buffalo area. In New Jersey, a trade association official noted that, although new car sales continued to be more sluggish than nationwide, automobile dealers were generally optimistic about the future. He also commented that sales apparently had been unaffected by the Ford strike.

Capital spending in the District continues to lag, but there has been scattered evidence of a pickup. The president of a company producing petroleum and building equipment expected his firm's capital outlays, which were up 50 percent this year, to double next year. The president of a manufacturing company was also optimistic concerning plans to augment capacity, stating that his firm would be emphasizing machinery and tools rather than additions to plant. On the other hand, the vice president of a mining concern did not feel that his company would increase capital spending before early 1977, and the president of a maritime corporation stated that his company planned to purchase fewer new ships this year than usual.

Production of capital goods in the District continues to lag. A national manufacturer of industrial machinery announced a 2 percent reduction in its work force. At the same time, a major steel producer in western New York announced layoff plans in conjunction with the closing of relatively inefficient blast furnace facilities. Directors of the Buffalo Branch, however, expected the near-term prospects for new orders, production,

and employment in steel and other heavy industries in western New York to be strong. One director, whose firm is a major purchaser of steel, contended that press reports were misleading in conveying the impression that recent cutbacks in steel production reflected weak demand. Rather, in his view, they were primarily attributable to a spreading out of existing orders to achieve more efficient production.

While the recovery in the region's economy since the trough of the recession has still not matched the national recovery, there have been some encouraging signs in the employment situation of late. The seasonally adjusted unemployment rates of both New York City and State held steady from June to August despite an increase in the national rate. Furthermore, in recent months the slide in the City's private employment appears to be coming to a halt. Indeed, for the New York-New Jersey metropolitan area, private employment increased in July for the first gain in almost three years.

On the outlook for price increases, a majority of respondents expected inflation to diminish slowly in coming months. The president of a national retail store chain thought the recent sluggishness of the economy would have a moderating influence on prices--both materials prices and product prices. Consistent with this view, the chief economist for a paper company stated that prices of his firm's products had "softened" recently, and the vice president of a company dealing in minerals said that demand conditions had not allowed cost increases to be passed on. The chairman of a major New York City bank felt that the recent resistance to attempted price increases was encouraging and a healthy development in helping to assure the continuation of the economic expansion. Other respondents echoed this view and generally felt that there was little danger of a return to double-digit

inflation. The president of an international oil firm expected industrial prices to increase 5 to 6 percent over the coming year. The Buffalo directors expected prices of industrial materials to rise about 6 to 8 percent during the next six to nine months.

Although there was a consensus that inflation was likely to diminish, strong cost pressures remained a matter of concern to a number of respondents. One director expected major wage settlements to continue in the neighborhood of 10 percent. A senior economist of a major manufacturer also thought that the momentum for large wage increases still remained. Indeed, he felt that wage increases might become larger as certain groups of workers sought to regain their relative positions in the wage structure. Because this economist felt that the bulk of cyclical productivity gains had been exhausted, he expected upward pressures on prices to remain strong, with prices rising by a minimum of 6 percent in 1977. On the other hand, the president of a major chemical firm anticipated that employees would become less aggressive in their wage demands. As a result, wage settlements would moderate slightly, perhaps to a rate of 8-1/2 percent. An investment banking economist felt that price expectations would wind down, causing wage pressures to moderate. The president of a retail store gave another reason for wage moderation. He expected that businessmen would toughen their bargaining stances as they experienced difficulty in raising prices.

THIRD DISTRICT - PHILADELPHIA

Business conditions in the Third District are improving, but the pace of improvement is somewhat sluggish. Retail sales are only slightly above the same period last year, and while the manufacturing sector is expanding, job growth is at a standstill. New orders and shipments in manufacturing are higher this month, while inventories along with work forces are unchanged. The longer term outlook in manufacturing remains optimistic, and retailers are hoping for a healthy fourth quarter. Reports of higher prices for finished products in manufacturing are less widespread than in September. Businessmen indicate that their outlook for inflation over the next three quarters has not changed within the last few months. They still expect the current rate to continue through the second quarter of next year. Bankers report that business loan demand remains weak, and they foresee no pickup in the near future. As a result they face growing pressure to ease their lending terms and are gradually lengthening the maturity of their government securities portfolios.

District manufacturers, responding to this month's business outlook survey, report a somewhat higher level of economic activity than last month. New orders and shipments are higher this month, and the factory workweek has been lengthened as well. However, inventories and jobs are unchanged for the second month in a row. While inventories declined on balance during the summer, the sluggishness in employment comes on the heels of monthly job gains in the April-August period.

The outlook in manufacturing for the next six months is for additional expansion. Of the executives polled, 3 out of 5 look for better business

conditions over the next two quarters. Increases are projected in new orders and shipments, and the employment picture is expected to brighten as well. A longer factory workweek is anticipated by 20 percent of the respondents and 40 percent plan to hire additional workers--up from last month. At the same time, one-half of the manufacturers surveyed plan to hike their spending for plant and equipment over the period while one-tenth expect capital expenditures to be lower by next April. This "net increase" is about the same as last month. The only major indicator not projected to increase over the longer term is inventories which are expected to be unchanged from present levels.

With respect to prices, 50 percent of the respondents indicate paying higher prices for their supplies--about the same as in September. At the same time, 20 percent report price hikes for their finished products. This is down from last month when 30 percent were reporting increases. By April, 8 out of 10 expect to be paying more for their inputs, and 7 out of 10 anticipate higher prices for the products they sell.

The question of inflationary expectations was explored with several retailers, bankers, and manufacturing executives. All of those surveyed expect the current rate of inflation to continue through the first half of next year. In addition, all but one of those questioned indicate that these expectations are unchanged from a few months ago. One banker has lowered his forecast of the inflation rate for the next three quarters. Seven weeks ago this executive expected prices to be climbing at a somewhat higher rate over the period in question. Now, however, "As a result of the continued pause in the recovery," he looks for the rate of inflation to stay flat through the first half of 1977.

Area retailers report that current dollar sales are running only 1-2 percent above the same period last year. This performance is several percentage points below their expectations. One merchant says that furniture, floor coverings, and major appliances are selling well, while most of those contacted single out men's and women's apparel as being relatively weak. Retailers express mixed views about the rest of this year. The highest forecast is for a fourth quarter gain over last year of 12 percent, but some of this will be the result of an additional branch store which has been in operation for only a few months. Another merchant, as a result of the soft third quarter, is scaling down his projections for the last quarter of the year. He notes that, "I'm still looking for a small improvement over last year, but this is a very 'iffy' guess."

Bankers in the area report that the loan picture is little changed from previous months. While consumer loans are reported to be more or less steady, business loan volume is labeled as "very very sluggish" and "worse than flat." Bankers indicate that the pressure on them from potential borrowers to ease up on loan conditions is continuing. Interest rates, credit line fees, and compensating balances are all reported to be slipping "modestly." This applies especially to balances, which bankers indicate, "are not being watched very closely."

For the longer term, business loan demand is expected to remain weak. One banker sees no pickup in business borrowing until spring at the earliest. At the same time, the pressure to ease conditions on loans is expected to intensify over the next few months. The outlook for interest rates is for continued softness into 1977 with some possibility of a further drop in the prime rate before year-end '76. Bankers report that the maturity



structure of their government security holdings is lengthening somewhat, but they expect to be liquid enough to meet increased loan demand when it materializes. One financial executive, however, voices some concern over the longer maturities, noting that, "our expectations have been wrong before."

FOURTH DISTRICT - CLEVELAND

Economists who met to discuss the economic outlook at the Federal Reserve Bank of Cleveland on October 1 were optimistic that the expansion would continue through 1977 and the rate of unemployment would improve gradually. However, they forecast the rate of inflation to step up somewhat from 1976. Capital spending is forecast as a major source of strength in 1977, although no boom is expected. Steel operations are not expected to pick up from recent levels until next quarter. With few exceptions, there is no indication of shortages nor are any expected at least through 1977, unless the economy grows faster than the standard forecast indicates. Upward price pressures remain strong.

Twenty-eight economists who met at this Bank expect the expansion to last through 1977. Not one of the group expects real GNP to decline in any quarter next year. Forecasts of gains in real GNP for 1977 ranged from 4.5 percent to 6.5 percent, with a median of 5.1 percent: The group was not particularly concerned about relatively sluggish performance in recent economic activity, nor did they point to any excesses that might contribute to a slowdown in 1977.

The most optimistic of the group expect larger gains next year than in 1976 in both consumer spending and capital spending to support an increase in real GNP in 1977 of about 6 percent. In contrast, the less optimistic expect gains in consumer spending next year to be somewhat less than estimated for 1976. New car sales, for example, are expected to rise nearly 8 percent, following a 20 percent gain in 1976.

The economists are counting heavily on capital spending as a major source of strength in 1977. Even the least optimistic expect gains in nonresidential fixed investment of about 13 percent from 1976, with the median at 16 percent. According to an economist associated with a large machine tool builder, the current mild recovery in capital spending reflects the fact that the drop during the latest recession was neither as severe nor as long as some other contractions in spending since World War II. His firm's orders for machine tools rose sharply in the last two months, continuing a V-shaped recovery from depressed levels in early 1975. Orders from automotive producers account for much of the recent spurt. Another economist with a major capital goods producer reported that demand for some types of capital goods, including motors and generators, has rebounded sharply in recent months, but that demand from electric utilities and for new plant construction remains weak. According to his estimates, real spending by the electric utility industry for generating capacity is unlikely to match 1970-1971 expenditures until the early 1980's, because an estimated 35 percent of the industries' capacity is idle, and because long-range projections of electric power consumption have been scaled down. Plant expansion also is being dampened by environmental regulations that lengthen lead times and by high costs that hold the return on investment on new plants lower than for existing facilities. His firm has no plans for new plant construction but will accelerate spending for modernization and replacement in 1977. A bank economist estimates there should be ample funds to finance capital spending, reflecting further improvement in corporate cash flow and new sources of lending by life insurance companies and foreign banks.

Steel economists have scaled down their estimates of steel shipments and production for this quarter but expect production next year will be about 10 percent higher than in 1976. They are depending on acceleration in capital spending and some inventory building to boost production. Industry plans to add upward of 20 million tons of capacity over the next few years are apparently being held in abeyance because of environmental regulations, high costs of new plants, lower return of new investment, and inadequate prices to finance new plants. One economist expressed the view that the spot shortages that might surface in 1977 can apparently be accommodated with foreign steel.

Various industry sources indicate they do not expect shortages to reappear in 1977. One economist reported that projected gains in real GNP of 4 to 5 percent for 1977 do not imply bottlenecks in supplies, although some spot problems may surface, especially for some chemicals. Utilization of capacity in materials-producing industries is projected to increase to about 86 percent by year-end 1977, compared with 80 percent last quarter and a high of 93 percent in 1973. If the economy were to expand at a 6 percent or higher rate in 1977, bottlenecks might appear in some other industries, including steel, aluminum, and paper. A financial officer with a petrochemical firm confirmed tightening in demand for some chemicals. Demand for flat-rolled steel products, which were informally allocated by some steel producers last spring, fell sharply during summer months, and these products are no longer considered in tight supply. Production in the steel industry, which fell to about 80 percent of capacity last month, continued to ease in early October.

There is little evidence of relaxation in upward price pressures. Preliminary results from a limited sample of this Bank's monthly survey of

manufacturers show nearly 70 percent of respondents expect price increases in October, as was the case during the summer months. Need for higher prices to finance high costs of new plants, a continued rise in energy costs, and management worry over some type of wage-price guidelines seem to be the most frequently cited reasons. An executive with a fastener producer noted weak demand and heavy imports have prevented a price increase since August 1974, but his company hopes to raise prices for some lines late this year or early next year. One steel source expects that the industry will again seek to raise prices for sheet steel in December or January as consumer inventories are brought down to desired levels. He noted that although scrap prices have declined substantially in recent months, prices of iron-ore, transportation, natural gas, and oil continue upward.

FIFTH DISTRICT - RICHMOND

Responses to our October survey of Fifth District business conditions suggest continued sluggishness in demand at both the retail and the manufacturing levels. Although shipments by District manufacturers increased in September, the volume of new orders remained soft and backlogs of orders declined somewhat. Manufacturers' inventories are still apparently above desired levels, although stocks of materials declined slightly. Manufacturers' responses showed the first signs of weakness in employment since spring. Retailers reported sales as steady but with big ticket items continuing to move slowly. Inventories at retail continued to expand in September. There is some evidence that price pressures may be abating. Increases were less widespread in September than in most recent months and respondents in a follow-up to our regular survey cited relatively low capacity utilization, growing inventories, and continuing weakness of demand as reasons to expect greater price stability over the next three to six months than in the recent past. With only a few isolated exceptions respondents anticipate no difficulties in obtaining supplies or in meeting orders. In line with recent developments in business conditions, there seems to have been some downward revision of respondents' expectations for the level of activity over the next six months, although the general tone of those expectations remains positive.

Of manufacturers responding to our latest survey, over one-third report an increase in the level of shipments during September and nearly one-half noted no change from August. With respect to the volume of new orders, however, only 28 percent reported increases, slightly fewer than reported declines. Over 20 percent indicated declines in employment and a

comparable number reported reduced weekly hours. Despite virtually no change in finished goods inventories and a slight decline in stocks of materials, the proportion of manufacturers viewing current inventory levels as excessive was somewhat larger this month than last. The view that current plant and equipment capacity is excessive remains widely held but few respondents indicate any inclination to alter current expansion plans. The fraction of manufacturing respondents expecting business to improve over the next six months declined slightly in our latest survey but about 45 percent still expect some improvement, while another 45 percent expect the general level of business to remain unchanged.

Among individual industries, producers of consumer goods, particularly apparel and furniture, seem to have accounted for much of the slowing in activity. Primary metals producers also apparently have experienced some slowdown, but producers of machinery and equipment, electrical equipment, and chemicals continue to report some improvement.

At the retail level respondents once again noted a weakening in sales of big ticket items but overall sales apparently held at almost the August level. Inventories expanded further in September and remain somewhat above desired levels. Retail price increases were also less widespread than in recent months.

Responding to a brief follow-up survey concerning price expectations, a small sample of our respondents expressed general agreement that prices should show little change or remain flat over the short-term future. Such reasons as generally soft demand, the failure of earlier optimistic expectations to be met, stability of materials costs, and growing inventories in many sectors were cited as explanations for this view. One respondent

expressed great hesitancy to comment on the future of prices because of what he called a most confused market, with prices for some lines remaining quite strong and others showing considerable weakness.

Our survey of District banks suggests some healthy increases in loans over the past month, particularly business loans but also in the consumer and real estate areas. Much of the strength in business loans seems to have originated among wholesalers, commodity dealers, and public utilities.

With the sharp decline in crop receipts through the first seven months of the year, the District's total cash farm income has registered only a slight increase over a year earlier. But with the marketing of the fall-harvested crops, this situation could improve significantly. Both soybean and cotton prices are higher than last year, while flue-cured tobacco prices are at record levels, 14 percent above a year ago.



SIXTH DISTRICT - ATLANTA

Deceleration occurred in the stronger sectors of the Southeast's economy, but the lost momentum is considered temporary. The outlook for moderate prices of lumber and wood products has become more favorable. However, curtailment of natural gas supplies and increased rates for natural gas and electricity are creating upward price pressures. Retail sales, with the exception of new automobiles, flattened in August and September. Tourist traffic, although still strong in some areas, has also been disappointing. Offsetting these weaknesses, some improvement has occurred in portions of the construction and real estate sector. Diverse indicators of general business conditions, on balance, suggest an uptrend in economic activity.

Several developments affecting the outlook for prices have been reported by directors. Demand for lumber has decreased by more than normal for the season and prices have declined. Concern has been expressed in previous reports about the effect on prices of lumber and wood products of legislation restricting clear-cutting in national forests. Prospects now appear good that Congress will produce "an acceptable piece of legislation."

Several energy-related developments also have potential price effects. Electrical utilities are pressing for sizable rate increases. The recent action by the Federal Power Commission raising the wellhead price for natural gas takes effect in Tennessee during late October. Customer rates will increase from 17 to 21 percent. Nevertheless, curtailments of gas supplies to industrial users are expected to amount to 24 percent of requirements. These curtailments will necessitate substitution of alternative fuels such as propane and liquefied natural gas which are much more expensive and more hazardous to

handle. Furthermore, delivery problems resulting from limited railway tank car and barge capacity may complicate the problem of obtaining adequate, reliable supplies. Finally, the Tennessee Valley Authority is investigating new methods of burning high-sulfur coal in steam-powered generating plants. This research may permit Tennessee to rely more heavily on coal deposits located within the state.

At the retail level, department stores are expected to emphasize seasonal promotions during October in an effort to boost lagging sales increases; price concessions are anticipated. Sales of new car models are proceeding without any evidence of resistance to the higher prices.

Within the construction and real estate sector, some further brightening is occurring in Southeastern condominium markets. Several reports have been received that unfinished, apparently abandoned projects have been revived, completed, and placed on the market. In the Atlanta area, units in such projects have been sold at public auction. Some unsold projects are being rented. But, despite the declining overhang of unsold units, the condominium market remains soft in Florida, Tennessee, and the Atlanta area.

"No-frills" housing is being constructed in parts of the District. In west Florida, substantial numbers of standardized, inexpensive units have been built. This approach has also been followed in Alabama but has not been well received. Apartment construction is becoming increasingly attractive in several areas. Occupancy rates are rising in parts of Alabama and Tennessee. New construction is beginning or is receiving serious consideration. But, in central Florida, the only effect of increased occupancy has been to end a price war.

Renewed interest has also developed in warehouse and shopping center construction. A permit for foundation work has been issued in Mississippi

for a large regional shopping mall; plans for additional commercial construction projects have been submitted for approval in several Alabama cities. Government construction remains a strong point, with a new state capitol building under construction in Florida, and planning is under way for a new convention center and hotel complex in Orlando, Florida. In Louisiana, the Red River Navigation Project is receiving annual funding of about \$100 million.

Unfortunately, the improved outlook in real estate and construction is offset by some weaknesses in retail sales and tourism. Although sales of new automobile models appear to be consistently strong, according to initial reports, general merchandise retailers indicate that sales flattened or became sluggish in September. However, according to most reports, retailers retain highly positive expectations for the upcoming holiday season. Inventories appear to be well in line. However, many retailers are stressing seasonal promotions in an effort to stimulate sales.

In view of these mixed results, a report from a Florida boat manufacturer is informative. A 25 percent increase in sales volume compared to last year is attributed to higher unit cost as much as to higher unit volume. Larger and higher quality units are being purchased, while less expensive units are difficult to sell. This observation is consistent with recent findings of a disparity in consumer confidence between higher income consumers and low- to moderate-income individuals.

Tourist activity presents a varied impression. A south Florida director feels that Miami is increasingly by-passed by tourists in favor of central Florida and the Caribbean. Occupancy rates in Miami are down. Some softness is also apparent in central Florida, although certain attractions

continue to record gains. Northeastern Florida tourism has turned up again after a period of declines. Tourist traffic is at record levels in Tennessee, both at Opryland and in the Great Smoky Mountain National Park.

Finally, an array of indicators of general business conditions appeared in this month's directors' reports. In Alabama, sales of energy-saving building products such as double-paned windows have risen. In addition, engine and stand-by generator sales are strong, reflecting increases in public construction projects such as hospitals. Mining equipment sales are also good. However, declining sales of lift trucks are interpreted as a reflection of a general slowing of the economy as a consequence of their widespread usage. Cargo transported into Florida by trucks has risen 21 percent, year to date, reaching its highest point since late 1973. Truck leasing and rental, after a steady 20-month decline, have risen rapidly in the last 60 days. The reversal is regarded as evidence that consumption is increasing, necessitating increased shipments to maintain a steady flow of goods. Increased truck usage by firms engaged in building trades, redistribution of wholesale hard goods, and fertilizer and chemicals is noted. Increasing TVA power sales to industry, following a lengthy decline, indicate increasing industrial activity in Tennessee.

SEVENTH DISTRICT - CHICAGO

The past month has produced no solid evidence from Seventh District sources that the tone of less vigorous growth and general caution reported in previous months will soon change, either for better or worse. There are no problems with shortages either currently or anticipated in the near future. Expectations of a near-term acceleration in price inflation for manufactured goods have moderated. Large retailers report good levels of sales, but somewhat less than had been anticipated. Demand for capital goods, overall, has not improved significantly with increases in some lines about balancing declines in others. The single-family housing boom continues, but prospective increases in other types of construction are relatively moderate. The supply of loanable funds remains ample in all sectors. Although it is commonly asserted that the November elections "will not change anything," many observers believe that uncertainties related to a possible change in the political environment are partly responsible for caution in executive decision making.

Chicago area purchasing managers' report for September shows somewhat higher rates of increase for new orders, output, and backlogs. Slightly over half of the group expects better business activity in the fourth quarter, compared to the third quarter, against only 9 percent who see a decline. For the first quarter of 1977, 70 percent expect an improvement, while 10 percent see a decline. The proportion reporting higher prices paid dropped to 53 percent in September, about the same as a year ago, but down from 75 percent in both July and August. However, the proportion reporting lower prices paid has been virtually zero for the past twelve months.

Although price increases continue, most boosts are smaller than expected and others are being delayed awaiting stronger markets. Steel producers, having canceled the boost for sheet scheduled for October 1, are anxious to please customers with promises of quick delivery and improved quality and service. Paper companies report similar conditions. The main products for which lead times have lengthened significantly recently are various electrical components, but no one speaks of shortages. Some concern had existed several months ago as to the availability of ferrous and non-ferrous castings, but a diversified independent foundry says "when do you want it?" A very large general merchandiser expects prices paid and received for consumer goods to average 4 percent higher in 1976 and sees a 4.2 percent average rise for 1977.

The increase in retail sales from year-ago in most Seventh District areas seems to be about in line with the rise in disposable income. Purchases of motor vehicles continue strong with only a minor loss thus far because of the Ford strike. One Chicago area lender has begun to advertise 48-month car loans, but most banks have held to 36 months, except for very good risks. Consumer credit experience has been favorable. Television sales are up significantly this year, but not as much as expected, and Japanese imports are taking a larger share of the market. Another Seventh District TV producer recently was acquired by Japanese interests.

Consumers continue to spend freely for travel and entertainment. A major airline reports the increase in air travel to be above expectations, with trips to Hawaii near capacity. A large amusement park, which opened north of Chicago in late spring, started slow, but now expects two million

guests this year. Outlays per family average at least \$50, with many waiting out long lines.

Exhibitors of the international machine tool show held in Chicago in mid-September gave mixed reports on business generated. There was great interest in new labor-saving machines. For example, some machine tools now can operate for two days unattended. Wisconsin producers of large machine tools say that orders for big units are "beginning to move." Several companies see a gain of about 20 percent in orders for 1977 with a marked improvement already underway.

Demand for large earth-moving equipment continues to lag badly, and one producer has just reported a layoff. However, this company is stepping up production of front end loaders, mainly smaller units, which had been cut back.

Slow demand for producer equipment in general is the main factor causing steel producers to reduce forecasts of consumption. Various reports from architects, engineering firms, contractors, and zoning authorities indicate some revival in nonresidential construction activity, but mainly for smaller projects.

Apartment building permits granted in the Chicago area are running far above last year, but are only a fraction of the level of the early 1970's. Lenders are much more cautious than a few years ago and some overhang of vacant units remains, but, most important, current rentals do not justify most plans offered by promoters.

A major airline has placed a substantial order for new B727-200's to replace older DC 8's. This order was not expected to be placed so soon.

Traffic has improved, but the major factor is lower fuel consumption by the new aircraft. One railroad has placed a substantial order for locomotives and freight cars with District producers, but railroad capital spending, overall, is still far below the levels required to maintain the systems properly.



EIGHTH DISTRICT - ST. LOUIS

Business conditions in the Eighth District continue to improve somewhat, although the rate of expansion has been at a slower pace in recent weeks than in the first half of the year. Businessmen generally remain optimistic as to economic activity through next year. Their views on future price movements, however, were mixed ranging from moderation to some acceleration in the inflation rate next year. Retailers reported that sales volume has been unchanged, on balance, in recent weeks from mid-year levels. Most manufacturing firms noted a slower growth rate of orders through the summer which has continued in recent weeks. While housing construction has made substantial gains this year, this industry has tended to level off recently. Harvesting of crops is well underway in the District. Yields are generally below average due to the damage inflicted by drought, but in some areas are good.

Businessmen were asked in this month's interviews about their expectation of future price increases for the rest of this year and for 1977. Responses indicated that for the rest of 1976 price increases will be more moderate than that of recent months. Most firms noted that their own prices had been increased earlier in the year. No clear consensus emerged from the responses concerning inflation next year. Those who were pessimistic pointed to the recent wage settlements which they considered too high to be offset by productivity gains and to the tendency for excessive government spending. Those viewing inflation as likely to slow next year pointed to continued excess capacity, the slower rate of economic gains in recent months and the moderate rate of monetary growth. Business-

men generally report a more cautious expansion than in the 1972-73 recovery which is viewed as an important factor in achieving an orderly transition to stable prices.

Retail sales have registered little or no gain in recent months. Retailers noted that sales during the back-to-school period were good, but sales subsequently fell back to the previous level. Despite this lull in sales, retailers generally expect sales gains later this year. Automobile sales apparently suffered recently in some areas from a lack of car inventories.

Manufacturing activity apparently leveled off during the past month. A chemical industry representative reported that business was steady in the third quarter after substantial gains in the first two quarters of the year. A major appliance manufacturer reported that sales of appliances are approximately 3 percent ahead of a year ago, but that sales gains in recent weeks have been slower than expected. Nevertheless, a 10 percent increase in sales and production is expected in 1977. Paper and steel manufacturers reported slower increases in business in recent months than earlier in the year. A paint and coating firm noted some pickup in demand in August and September, but not as much as had been expected earlier. On the other hand, a manufacturer of diesel engines reported operations at full capacity and order backlogs well into next year. This firm is now planning further capital expansion.

Housing activity in single-family construction, after making sizable gains throughout the District in 1975 and 1976, has apparently leveled off. Apartment construction is picking up slightly in various parts of the District, but remains relatively low compared with 1972 and

1973. Commercial and industrial construction continues rather sluggish. One contractor noted that major retail chains are planning expansion for 1978 through 1980 but are contemplating little expansion next year.

Demand for commercial and industrial loans has remained unchanged in the past two months and interest rates have declined somewhat according to local bankers. One reason given for the low loan demand by business is that corporate treasurers are underpaying corporate taxes and thus have more funds for financing inventories. One banker expects loan demand to rise in the near future, and the increase to be observed first in small communities. Savings and loan associations report sizable gains in deposits during recent months. Liquid investments are substantially above last year and borrowings from the Federal Home Loan Banks are down considerably. Interest rates on home mortgages in the St. Louis area, however, remain unchanged in the past month.

Crop harvesting appears to be ahead of schedule in most of the District reflecting favorable harvesting weather. Yields are generally below average in the western portion of the District, while generally good in the eastern portion. Cotton yields are likewise mixed depending on the location. Rice yields are good to excellent in Arkansas but prices are relatively low. Reports indicate that land prices are continuing to rise rapidly in parts of the District. Recent farm land sales in parts of Illinois have been reported at prices up to \$3,500 per acre and cash rents at \$125 per acre.

NINTH DISTRICT - MINNEAPOLIS

The dominant economic event in the Ninth District continues to be the drought and its impact on the region's business activity. Reduced crop yields and a depressed livestock industry are manifestations of this situation, and concern now centers on their impact on income in late 1976 and into 1977. In contrast to agricultural developments, however, some strengthening is evident in other sectors of the region's economy. District retailers report some pickup in sales while auto sales and the tourist business continue to be good. District home building has been quite strong this year. With regard to price expectations, District firms do not foresee any excessive inflationary pressures developing and many indicate demand is not yet strong enough to justify large price increases.

The drought has affected the District economy in several ways. The most obvious is reduced yields on many crops, especially corn and soybeans. Though the District wheat crop was quite good, dry weather has impaired river navigation and some difficulty is being experienced in shipping wheat from this region. In addition, the drought has increased livestock marketings and this has helped push livestock prices well below year-earlier levels. Also, the drought conditions are currently retarding seeding of winter wheat, and if top soil moisture is not replenished this winter and next spring, reduced yields are likely again next year. Drought-induced shortages in cash farm receipts throughout the remainder of the year and into 1977 will hold down District personal income growth and restrict District business activity. In response to this situation, loans at District ag banks, Federal land banks,

and production credit associations have already increased. However, bank liquidity is not yet a problem, though some lenders were voicing concern about loan repayments.

Retail sales were disappointing last quarter, with summer and back-to-school business below expectations. Nevertheless, business in this region was reported to be better than in many other parts of the country. More recently though, District retailers surveyed by this Bank stated that business has begun to improve, and they are quite optimistic about the outlook for fall and the holiday season. Although some unwanted inventory accumulation occurred this summer as sales slackened, retailers are generally satisfied with current inventory levels and are cautious about building inventories for the Christmas season.

District auto sales have been rising about in line with national sales increases. Full- and intermediate-sized autos are in particularly short supply in this area, although demand for these sizes has moderated slightly over the last quarter. Ford and Lincoln/Mercury dealers so far have had no problems satisfying consumer demands, despite the strike.

It was a good summer for the tourist business. Large resort owners throughout the District had a very profitable summer, with most reporting an increase in vacation traffic. However, the closing of this fall's hunting and fishing seasons in northern Minnesota, due to dryness and fire danger, is expected to significantly decrease that area's tourist and recreational spending.

Home building in the District has been particularly strong. Although residential building permits for the year are only 7 percent above 1975 compared to the 30 percent national growth, the District's decline in 1973-

75 was not nearly as severe as the nation's. As a result, District housing unit authorizations are back to the 1972 rates, whereas the nation is still running 30 percent behind its 1972 pace. Availability of mortgage funds for private housing is good, loan commitments are at a high level, and liquidity at financial institutions is above year-earlier levels.

Home building may be showing strength, but other construction activity is weak. In dollar terms, both nonresidential and nonbuilding contract awards are off significantly from last year in the District.

Although prices are expected to continue climbing, District firms responding to a special survey do not foresee excessive price increases either for the goods they purchase or the products they sell. An economist for one major retailer headquartered in the Twin Cities indicated that his firm's prices on merchandise purchases have been quite stable and expects his firm to increase their prices about 5-1/2 to 6 percent next year. Another Twin City-based retailer's economist believes retail prices won't increase significantly until demand becomes firmer.

Two construction firms report moderate increases for most material costs, except for lumber and plywood, and don't look for that trend in price increases to change.

Most manufacturing prices are stable. Weak demand was holding price increases down for an apparel manufacturer and a major paper products manufacturer in our District. Also, three manufacturers of communication and computer equipment do not foresee excessive price increases. However, a publishing firm did indicate a steady increase in paper costs.

An area food producer said milk prices have dropped and expected them to stay low. Only seasonal increases are foreseen for poultry and eggs; however, some increase is foreseen in beef and pork prices by the end of the year.

TENTH DISTRICT - KANSAS CITY

In light of a series of negative economic indicators, some Tenth District directors are expressing uncertainty about the strength of the recovery. Concern about inflation is also widespread, but inflationary pressures appear to be abating somewhat. The weakness in prices for District agricultural products, however, especially for cattle and wheat, has put many producers in a precarious financial position. Loan demand at savings and loan institutions for single-family houses remains strong, but business loan demand at commercial banks has shown little sign of renewed strength.

Nonbank directors surveyed expressed uncertainty over the strength of the recovery. Although the likelihood of a slump was viewed as slight, the recent collection of negative indicators has generated uneasiness in certain management groups. One respondent suggested that we might be experiencing a pre-election pause, with consumers and businessmen holding off spending until a clearer picture of the economic course that will be followed is available. Respondents generally viewed their local economies as in good shape, with most sectors up moderately. The situation in agriculture and ranching, however, was said to be very grim, with cattlefeeders losing \$100 to \$125 per head and some wheat farmers unwilling to sell their wheat but also unable to borrow any more money on it.

Inflation remains a major concern of several of the directors, who expect the CPI to increase from 5 to 7 percent during 1977. Price expectations reported by purchasing agents for several area companies, however, were varied. A steel warehouse and service center reported that most steel items are readily available, that it is "definitely a buyer's market," and that there



have been real efforts at stimulating demand with price cuts from the mills. "Retail prices shouldn't go up significantly until something happens at our end and I just don't see anything on the horizon to change things," he noted. A lumber company reported that "prices have leveled off at a high note" and will continue there unless demand softens in the housing area. A major purchaser of paper goods identified two different markets: that for coated paper (as in brochures), which is strong, and that for uncoated paper, which is "soft." In the uncoated market, no more price increases are expected this year and an 8 percent rise is expected for 1977. Coated paper, however, may rise an additional 5 percent in 1976 and then 12 percent in 1977. Finally, a major purchaser of materials for chemical containers expects another 5 to 6 percent tacked on to its paper and steel purchases in the next few months.

District bankers are expressing deep concern over the present state of agricultural prices. The recent reduction in commodity prices, while reflecting the typical bulge in farm marketings that occurs during the fall harvest period, has put many producers in a precarious financial position. In particular, cattle and wheat producers have seen their hopes for higher prices vanish. As a result, farmers have sharply increased their requests for renewals and extensions on current obligations. Furthermore, wheat producers, who purportedly will plant as much winter wheat this year as last fall, are trying to line up financing for the new crop. Although many rural banks have good liquidity and are actively seeking other new loan accounts, there seems to be little enthusiasm for making new loans on wheat in the current economic environment. It is likely, then, that some wheat farmers will be forced to sell their grain at depressed prices to pay off loans that bankers may call. Cattle producers can be expected to continue

making adjustments in herd sizes and feedlot placements. Others will no doubt try to wait for a recovery in the market, and thus will seek alternative sources of financing. The decline in wheat prices, combined with the less lenient attitude of bankers in making or extending loans, is provoking widespread support for higher government loan rates.

Tenth District commercial banks and savings and loans were surveyed on the volume and composition of their recent construction loan demand. Generally, the picture reported by the banks was not good, with multi-family construction especially weak. The one bank that did report some new multi-family demand was not lending due to the poor quality of the projects. There was also little report of renewed industrial loan activity. While some commercial borrowing for new, small shopping centers was noted, major improvement was not expected before early to mid-1977, and then mainly for commercial warehouses. Only about half the respondents expected significant improvements in multi-family construction in 1977 and little mention was made of industrial construction.

Savings and loan associations, on the other hand, reported excellent single-family loan demand and continued strong savings inflows. Conventional loan rates averaged about 9 percent with some mention of softening to 8-3/4 percent. In general, those savings and loans who made commercial loans stressed that they were very quality conscious, but that "there was not a lot of quality stuff out there." Some pickup in loans for small apartment houses and for warehouses was mentioned. One Oklahoma respondent noted that insurance companies were undercutting savings and loan rates in attempting to attract borrowers.

Most bankers contacted for the October survey indicated that loan demand had changed very little over the past month. Some reported an increase in farm loans due mainly to operating loans to farmers and ranchers who are withholding grain and cattle from the market. Several bankers expressed disappointment that the new car models had not yet increased consumer loan demand. Most of the banks contacted have lowered their prime rate to 6-3/4 percent for their national customers. Banks maintaining a local prime rate have reduced it 1/4 percent to 7-1/4 percent.

ELEVENTH DISTRICT - DALLAS

The economic recovery in the Eleventh District has settled back to a lackluster pace. The growth in total employment has been relatively flat since June, and with a faster rate of growth in the civilian labor force, the unemployment rate has increased to 6.6 percent--the second highest level this year. Industrial production in Texas continues to edge up, but largely because increases in drilling and crude oil production are offsetting declines in manufacturing. According to this month's survey, residential construction remains strong, and the prospects for commercial building next year have brightened. Curtailments in natural gas supplies this winter should not seriously affect economic activity, and the demand for agricultural loans has strengthened as farmers defer marketing grain in anticipation of higher prices.

Residential construction in the District continues to be strong, and a majority of the home builders surveyed expressed optimism about the overall outlook in coming months. Housing starts in Texas are at the second highest level this year, and construction employment rose by 700 workers in August. Residential builders in Dallas and Houston report that they are actively recruiting labor from outside the state. Most respondents feel that employment prospects in the industry will continue to show improvement.

Most of the home builders surveyed think that sales of single-family homes are good. An El Paso contractor reports that sales are "unbelievable" and that his only problem is a shortage of lots. The prices of most homes are rising moderately as demand strengthens and construction costs climb. Most respondents believe housing inventories are about normal for this time

of the year. In Houston, however, a recent study indicates that the inventory of completed but unsold homes in that city is growing, as sales have begun to lag behind new housing starts. Texas home builders familiar with the recent housing lotteries in Southern California do not see any prospect for lottery sales here. They cite the greater availability of land for development and a larger number of home builders supplying the Texas housing market as primary reasons why the demand for new homes can be met fairly easily.

Multiple-family construction in the Eleventh District is improving slowly. Apartment occupancy rates in major Texas cities are high, ranging from roughly 90 percent in Dallas to 96 percent in El Paso. The majority of the apartment builders surveyed indicate that the current level of rents is not providing them with the incentive to build at a faster pace. They report that the fast rise in utility rates and their general inability, due to lease arrangements, to pass these rate increases on to tenants quickly is a major constraint on the expansion of apartments. A Dallas builder also feels that the recently enacted tax reform bill could further dampen the incentive to build new apartment units.

Commercial building continues to be the weakest area of construction. A commercial builder in Dallas reports that construction financing will likely be tight the remainder of this year and that some new form of interim financing is necessary to stimulate industry growth. Almost all the commercial builders surveyed are optimistic about the prospects for increased construction activity next year.

A survey of mobile home manufacturers and dealers found that current sales are being hampered by stringent financing terms. All respondents cited a need for lower down payments and longer-term financing. Dealers in Houston,

who are familiar with the new Veterans Administration financing program for mobile homes, indicate they feel the program will not significantly improve sales. Another Houston dealer cites a general unwillingness to handle Veterans Administration loans because of the large amount of paperwork and the long lead time necessary for approval of loan applications.

The outlook for natural gas supplies in the District states this winter is mixed. Louisiana, New Mexico, and Arizona may have curtailments in natural gas supplies much larger than the estimated 22 percent cutback that may be experienced nationwide. Curtailments in Texas and Oklahoma, however, are likely to be smaller than the national average. A survey of state utility agencies indicates that none of the states is expecting curtailments to significantly interfere with economic activity. Alternative fuels, such as distillate and residual fuel oils, should be readily available and can carry most industries for short periods of time.

Although higher production costs and increased farming and ranching activity have increased the demand for credit, most country bankers in the District report adequate funds available for agricultural loans. Deposits at commercial banks have increased substantially in the past year, and lower yields on alternative investment have released funds for farm and ranch credit. Moreover, correspondent lending activity can be further increased as loan demand at large urban banks is not growing as fast as it is at rural banks. And country bankers are still selling substantial amounts of Federal funds. However, a few agribankers, particularly in the large wheat producing areas of Texas, report very high loan-to-deposit ratios. Repayment of loans has slowed, and many loans have been extended as farmers have withheld wheat from the market waiting for higher prices.

TWELFTH DISTRICT - SAN FRANCISCO

Our directors continue to report moderate economic growth but undertones of growing pessimism are discernible. The trend in consumer spending has been erratic resulting in uncertainty about the strength of holiday season sales. Demand for basic metals such as steel and aluminum has weakened more than could be ascribed to strike activity. The lumber and plywood industry is meeting expectations for a prosperous year, but there is a heavy overhang of pulp causing a lowering of sights for that industry. On the other hand, there has been a decided pickup in sales of commercial aircraft. Adverse weather and low water inventory in some areas have impeded crop production, but the more widespread condition is one of over-supply with selling prices, and consequently incomes, declining.

Retailers in the District have become apprehensive over the recent saw-toothed behavior of sales and are following a very cautious inventory policy. It is generally believed that consumers are in the process of adjusting their consumption patterns to more modest rates as opposed to the higher growth rates of 1975 which were caused by recession-related, pent-up demand. No unseasonal spurt in holiday spending is anticipated. Nondurable goods sales, especially, are expected to be flat, as indicated by a declining trend in new orders for apparel. Early data indicate that 1977 automobile models have been well-received, but the strike at Ford Motor Co. made analysis more difficult than usual. In agricultural areas, lower anticipated incomes are expected to result in lower retail sales of all consumer goods.

New orders for aircraft have exceeded expectations this year and manufacturers feel that the industry has turned a corner. Replacement demand

for commercial aircraft is expected to be heavy through 1981 leading one large producer to consider introducing a whole new family of jets. At Boeing, an order for 28 aircraft by United Airlines (largest aircraft order since 1968) has raised earlier forecasts of 1976 sales by 70 percent in dollar terms. The aerospace industry as a whole is leveling out and improvement is expected next year. Government defense bids are now out on 10 projects valued at \$10 billion.

Demand for basic metals has slipped in recent months and is reflected in shorter lead time on procurements, special discounts and lower aluminum scrap prices. The rate of increase in the cost of purchased materials is slowing up and indicating greater availability of supplies. In contrast, the large overhang of copper inventory has been reduced and production is picking up. One director reports a definite lull in demand over the past two months for steel and aluminum products as well as chemical coatings, polyester and associated resin products that is not entirely related to the automobile and rubber workers' strikes.

Within the forest products industry, activity in lumber and plywood has been strong, meeting earlier expectations of a prosperous year, whereas, forecasts for the paper industry have had to be scaled down. "The pulp overhang in the world is the largest that it has ever been." Operating rates have been flat to declining from the pace of the first half of 1976 and no pickup is expected over the next few quarters.

News from the agricultural front is uniformly gloomy. Prices are low for both crops and cattle and one reporter states that, "This slump in agriculture could last for a year or two," because of over-production in a long list of commodities. The price of wheat declined by \$1.00 a bushel



over the past month. Potatoes are being ploughed under because the price has slipped to 90 cents per cwt. Farmers are finding this situation difficult to understand in the face of the recent European drought.

Machinery and equipment sales to agricultural areas are expected to decline. Spurts in capital investment are usually made in years of high income in order to take advantage of tax shelters in the form of fast depreciation as well as the investment tax credit.

Erratic rainfall and low water inventories have been disruptive to farmers all year. The content of sugar in the sugar beets is down because of the weather. Heavy rain hampered harvesting of beans, caused the third cutting of hay to be low in quality and destroyed approximately 50 percent of the California raisin crop. Water restriction (15 percent in the San Joaquin Valley) caused a great deal of crop diversion, such as from alfalfa to cotton. All agree that the situation will worsen considerably in 1977 unless there is adequate rain and a heavy snow pack this winter.