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CURRENT ECONOMIC COMMENT BY DISTRICT

Prepared for the
Federal Open Market Committee
by the Staff

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SUMMARY*

This month's REDBOOK reports show total activity continuing to hold at high levels, but softening is expected in the next several months. Mild weather in the North, in contrast to recent years, has influenced activity both for better and worse. Weakness is still centered in the auto and housing industries and their satellites, while performance has been "spotty" or "mixed" in other sectors. Several districts reported retail sales, other than motor vehicles, to be surprisingly strong both before and after Christmas. Signs of erosion in the generally vigorous capital goods industries are spreading. Unlike housing, nonresidential construction activity has remained at advanced levels. Inventories are under close rein and are in good balance overall. Price inflation has not abated. The President's grain embargo has not depressed prices as had been feared. Defense orders have not increased significantly to date, and manufacturers' ability to boost output is closely limited in the short run. Credit demands have moderated in the face of high interest rates and tighter credit standards.

Generalizations offered by the twelve districts reflect trends in the major concentrations of activity in each region. Boston respondents "still see very few signs of a downturn." New York reports activity "surprisingly resilient in January." Philadelphia finds a contrast between a decline in manufacturing and "unexpectedly strong" retail sales. Cleveland respondents "still expect a recession," but are less certain about "timing and depth." The Richmond district's businessmen remain "decidedly negative." Atlanta reports weakness in retail sales, but a boom in tourism. Chicago, affected more than the nation by the slowdown, sees "further deterioration."

*Prepared at Federal Reserve Bank of Chicago.

In St. Louis, the evidence suggests that total business activity has "declined somewhat" in recent weeks. Minneapolis reports that "the region is not in a recession," but "signs of softening persist." Kansas City says "business activity continues to slow." Dallas finds near-term weakness confined largely to autos and housing, with sustained long-term growth apparently assured. San Francisco reports "no major decline in employment or production."

Mild temperatures and light snowfalls in December and January contrasted with experience of recent years. In the northern districts there were few impediments to transportation of commodities and people, and construction continued at abnormally high levels. As a result, retail sales and manufacturing may have been maintained at deceivingly high rates. However, lack of snow markedly reduced tourist outlays in resort areas. Winter merchandise had to be moved with large markdowns. Stocks of fuel for heating were more than ample. Tourism in the South, by contrast, set new records.

Auto and truck sales remain seriously depressed, with most parts and assembly plants operating far below capacity. Some plants are being closed permanently. Sales of imports and desirable small domestic cars are still limited by availability. Many auto dealerships have closed and there are fears that many more will go under before sales revive in the spring. High interest rates are a major burden for dealers carrying inventories and many potential car buyers have been deterred by high finance charges and tighter lending standards.

Residential construction activity and sales of existing properties have declined further, with the end of the slide still not in sight. The recent suspension of state mortgage usury ceilings has not significantly benefited states where usury was a barrier. High interest rates, large down payments, and high prices keep many potential buyers out of the market. Most districts report considerable strength in nonresidential construction, especially office and commercial buildings. Atlanta expects a surge in building of ethanol plants. In the mining sector coal gasification projects are underway, and precious metals are booming in the West under the stimulus of high prices.

Capital equipment production continues at high levels, but this sector probably is no longer expanding overall. Among the strongest groups are machine tools, railroad equipment, energy-conserving equipment, items related to oil and gas exploration, electronics, and commercial aircraft. Among the weaker groups are construction equipment, farm equipment, heavy trucks and trailers. Some districts expect a rise in defense orders, but expansion of output will be limited by the availability of critical materials, various components, and skilled workers.

Inventories at both the manufacturing and distribution levels have been kept lean by adjustments in output, except for some products facing very weak demand. Retail inventories had appeared somewhat high before Christmas, but special promotions helped to correct these conditions.

Reports from virtually all districts show inflation continuing at a high rate, with no abatement expected in 1980. Rising energy prices and rising labor costs are largely responsible.

The farm sector is relatively prosperous because of bumper crops and high prices. However, the grain embargo has created a larger-than expected stock overhanging the market. Also, farm credit conditions are very tight, causing some farmers to defer purchases of equipment and other investments.

The new two and one-half year floating rate certificates are proving popular at both S&Ls and banks. Six-month money market certificates continue to expand at a rapid pace, and account for a larger volume of funds. Reports on the strength of business loan demand were mixed.

FIRST DISTRICT - BOSTON

Respondents in the First District still see very few signs of a downturn. If there has been a change in the level of economic activity during the past month, it has been for the better. Retail sales seem to have picked up in the few days before Christmas and preliminary January figures have been quite good compared with a year ago. An important exception is northern New England which is suffering from a lack of snow and consequently a lack of tourists. Manufacturing activity remains at a high level; in several cases December was stronger than expected. In the banking sector, the movement from savings deposits to money market certificates is continuing. Loan demand is holding steady; in northern New England delinquencies seem to have increased.

Respondents from the retailing sector report that sales in the last few days before Christmas were good. This pick up plus relatively strong sales in the first weeks of January means that the Christmas season was relatively successful. To a large extent the vigorous sales before Christmas were attributable to very large markdowns. This had the effect of bringing inventories under control and while it cut profit margins, a firm's inventory position seems to have more influence on its short-run purchasing behavior than do profits. In general retailing in New England had a much stronger Christmas than seemed likely a couple of months ago. An important exception, however, is the ski areas of northern New England. There has been virtually no snow in New England and this has adversely impacted not only the ski resorts themselves but also all the hotels, stores, restaurants and specialty manufacturers which are associated with them. Even if snow does come there is no way that the losses can be fully made up. Even real estate has been affected as developers of second homes rely on skiers coming up to see model homes.

The level of manufacturing activity remains high. One diversified manufacturer in the high technology area reports that December was very good in all categories; even areas which had been doing poorly picked up. A manufacturer of measuring equipment used in the process industries finds that orders are continuing at a strong pace and backlogs are high; if the present order rate continues this firm's 1980 plan will be revised upward. For a large producer of aircraft and parts, backlogs are rising steadily. A manufacturer of high quality sportswear has record spring orders. An exception to the generally favorable picture came from a firm in the furniture area; attendance at trade shows is low and price cutting is fierce. Moreover, even those respondents who are very pleased with their current level of business expect a fall-off later in the year. Prices do not seem to be softening, although there have been some improvements in delivery lead times.

Several firms which are active in the defense business were asked whether the industry could handle a large increase in spending. The industry as a whole has been below capacity; so physical capacity is not really a problem. The exception is in the manufacture of semi-conductors and chips; the lead times for these are already long and with a substantial increase in defense demand they could become "unbelievable." The other major bottleneck is labor; there are not enough people with the necessary skills, especially programming. While an increase in defense spending over what was already planned will have some effects in 1980, the real employment impact will not occur until 1981 and after.

Banking directors report that loan demand is holding steady at a relatively high level. Two respondents from northern New England have observed an increase in delinquencies and as a consequence they are adding to their reserves for bad debts. This increase in overdue loans is thought to be independent of the problems caused by lack of snow. All see a steady conversion of savings deposits to money market certificates.

Professors Eckstein, Houthakker, Samuelson, Solow, and Tobin were available for comment this month. Houthakker, Solow, and Tobin favor leaving the long-term monetary growth rate targets unchanged, Eckstein favors significant tightening, and Samuelson favors something in between.

Solow argues that continuation of the present 5 to 8 percent target rates for M2 provides ample room for monetary deceleration should that prove warranted. After analyzing the various reasons for the drop in the savings rate, he noted that they are all probably transitory factors; further decline should not be expected and a sharp reversal is also possible. Tobin argued that if the objective of policy is to produce a mild recession, a continuation of present policies is sufficient to achieve that goal. However, he questioned the strategy of seeking a mild recession which, he feels, will do little to reduce inflation very soon. He had hoped for but not really expected a more vigorous incomes policy. Houthakker argues that by the best available measure, the GNP fixed-weight deflator, inflation has been holding steady at about 10 percent. Thus, real interest rates are positive--short-term rates significantly and long-term rates slightly--and are "now about right." Despite the wild gyrations in the price of gold, Houthakker notes that the dollar has performed well and speculative activity has not spilled over into other markets. He continues to believe that the appropriate gold policy would be a major (5 million ounce) sale.

Eckstein favors a 4 to 7 percent target range for M2. He argues that we need a recession to reduce inflation. He has revised his real GNP forecast upward because of higher defense spending and "momentum." If the first quarter growth is positive, he feels another round of tightening will be unavoidable. He feels policy should be geared primarily to interest rates since the aggregates are currently impossible to interpret.

Samuelson favors "token tightening" simply to short-circuit the ideological contention that we must show determination to counter inflation. In fact, the growth recession we are now in is producing the appropriate amount of slack and a serious recession would be counter-productive. If the economy strengthens, we should move to the low end of the target range and run on the high side if it weakens. The possibility of a war is the most serious reason to expect the economy may strengthen. Samuelson also urged paying little attention to sharp variations in metals prices which are not a matter of national interest. If the dollar should weaken, Samuelson would welcome some overshooting on the downside, to generate a little "excess competitiveness" for traded U.S. products.

SECOND DISTRICT--NEW YORK

Business activity in the Second District has been surprisingly resilient in January, according to recent comments of District directors and business leaders. One of the brightest spots has been retail sales which were generally substantially higher in the first three weeks of the month than most respondents had expected. Outside of retailing, business activity also appears to be holding its own. New orders at several industries posted modest recoveries after declining slightly in recent months; and inventories seem to have been kept in line with shipments. At the same time, however, cost increases have cut into the profit margins of some companies since they have been unable to raise their prices fully under current market conditions. Most respondents expect the Federal override of state usury ceilings on mortgage interest rates to have little effect on construction activity.

Retailers in the Second District generally experienced higher-than-expected sales in the first three weeks of January. Merchants chalked up good to excellent gains in sales in downstate New York and in New Jersey. Stores in New York City appear to have done slightly better than those in the suburbs. Sales were mixed, however, in upstate New York. While consumer buying reportedly was "brisk" in the Rochester area, it was less sanguine in the Buffalo area. Inventories seem in balance with sales, with one major department store actually reporting them to be on the lean side. In this vein, many of those retailers contacted noted a lengthening in delivery times in some of their faster moving lines because suppliers had been caught with low stocks. Despite the healthy showing in recent weeks, most retailers expect a weakening in sales in the months to come.

New car sales appear to have stabilized in the Second District with small cars continuing to outsell large ones. At the same time, truck sales are showing tentative signs of recovering from the doldrums of a few months ago. Despite the softness in certain automotive lines, domestic dealers in this area report inventories are close to desired levels. In sharp contrast, foreign car dealers have apparently been unable to increase their inventories which reportedly has hurt their sales. Customers do not appear to be kept out of the market by any tightening of credit.

Outside the consumer sector, business activity for most firms seems to be holding steady or even improving slightly. Two upstate manufacturers of machine tools report that their orders and sales are continuing at high levels, although one did note that inquiries concerning prospective orders has tapered off a bit. Also reporting gains in orders or sales were companies in such diverse industries as chemicals, steel, and petroleum refining. One manufacturer of photographic equipment indicated that its sales had held up much better than it had been anticipated. The strength in consumption spending was cited by one upstate producer of paper boxes and other packaging containers for consumer goods as buttressing his business activity. A few firms, however, do report that they have been hurt by fall-offs in homebuilding and automobile sales.

Companies throughout the Second District report severe upward pressure on their costs led by higher energy costs and rising labor costs. One paper box producer, for example, reported that its costs had shot up 25 to 30 percent over the last six months. Most other companies indicated that their costs had increased by lesser amounts, on the order of 10 percent per year. The chemical companies contacted cited the rising cost of petroleum as a key element of their costs. In addition, labor costs have risen under new contracts as well as under the COLA provisions of contracts negotiated earlier. The higher cost pressures have led to price increases, but profit margins remain under pressure. Many firms are selling in weak markets and have been limited in their ability to raise their prices. Some firms, such as those in the photographic field, have been forced by the extraordinary explosion in certain commodity prices to raise their prices significantly just to cover costs. These firms may therefore be facing a particularly difficult period.

Despite price uncertainties, the longer-term outlook for firms is not unfavorable. There is some feeling that recent speculative fever in commodity markets may have run its course, and oil supplies seem to be coming into balance with demand. Nevertheless, most firms still expect a recession early this year with a recovery later in the year. Still, capital spending plans have not been reduced. Further strength in the local economy may come from the projected boosts in defense spending.

The temporary Federal override of state usury ceilings on mortgage interest rates is expected to result in only a limited increase in home-building activity. Several respondents felt that consumers simply could not afford the high costs of debt service. The amount of turnover in housing, however, was expected to rise as a result of increased availability of mortgage funds.

THIRD DISTRICT - PHILADELPHIA

Reports from the Third District in January indicate that business activity is mixed. Representatives of the industrial sector report continued decline in manufacturing and predict further slippage in the next six months. Retailers, on the other hand, are experiencing unexpectedly strong sales this month. In the financial sector, area bankers say consumer loan demand has been strong, but business borrowing is mixed. Interest rates have stabilized for the time being, but will probably drop slightly in the first half of the year.

Respondents to this month's Business Outlook Survey say the '80s have begun with further slippage in area manufacturing. About one-third of the manufacturers polled this month say general business conditions are worse than they were in December, while less than a tenth report improvement. In terms of specific indicators, new orders are down again in January, but shipments have remained stable. So, once again, producers' backlogs have diminished, and a commensurate cut in inventories is noted. On the jobs scene, payrolls have been pared slightly at area plants for the first time since the slump began some seven months ago, and many managers have cut working hours somewhat as well.

Looking ahead to the next six months, responding manufacturers predict further decay of general business conditions, as they've been doing since December '78. New orders are expected to increase only marginally between now and July, while a more significant pickup in shipments is forecast. The cautious mood of the respondents is reflected in their plans to maintain current inventory positions for a while and hold the line on hiring as well. Working hours will probably be trimmed fractionally in coming months.

Industrial prices are on the upswing again in January, according to survey participants. Over three-quarters of the manufacturers polled this month report paying higher prices for inputs than they did last month, and well over one-third say they are charging more for their finished products. For the longer term, almost 9 out of 10 respondents expect the cost of raw materials to be higher by midsummer, while about 8 out of 10 plan price hikes by that time for the goods they produce.

Area bankers contacted in January report strong consumer loan demand, but say business borrowing is mixed. Commerical loans are running between 1 and 19 percent ahead of January '79 levels, but are generally below plan. A Director of this Bank comments that inquiries about business loans are numerous, but that actual follow-throughs are relatively few. Looking ahead to the next six months, most bankers are anticipating a dip in business loans, as the economy in general slows down.

Interest rates appear to have stabilized, at least temporarily, in the Third District. The prime rate at all of the banks contacted remains at 15 1/4 percent, unchanged from its mid-November level. Projections of the prime call for a drop of about 100 basis points over the next six months, followed by further cuts which will leave the rate at about 12 1/4 percent by year-end.

Bankers say that deposit flows are adequate in January, but that the effect of the new two and a half year floating rate certificate is less than they'd hoped. Although response to the new instrument has been quick and enthusiastic, the certificates are attracting little new money, with as much as 75 percent of the funds used to buy them coming from other time deposits at the issuing bank. The minimum denomination on the certificates is generally $500.

Mortgages are still being made by banks in the District, with a good deal of nonprice rationing observed. Bankers say they have not seen, thus far, any improvement in the mortgage market as a result of the suspension of state usury ceilings effective January 1.

Area retail activity has remained strong thus far in January. Merchants report current dollar sales of 8 to 10 percent over year-ago figures, which is better than they anticipated. After strong Christmas sales in December, most merchants expected a slump as consumers became more cautious about their spending, but no curtailment has been observed as yet. Inventories are in "very good shape" because sales have been so much better than expected. No serious shortages have been reported.

Area retailers are cautiously optimistic about the next six months. The anticipated recession is overdue at this point, and the merchants contacted feel that if a slowdown does come, it may be only slight. They are not really anticipating any cutback, though, until late in the second quarter.

FOURTH DISTRICT - CLEVELAND

Most respondents in the Fourth District still expect a recession in 1980, but are less certain over the timing and depth than they were in recent months. Retail sales in December and early January, especially of non-durables goods continue to be somewhat better than expected, apparently in response to heavy sales promotions. Auto sales have picked up in the early weeks of January, although most respondents expect production in the first quarter to remain weak. Fixed investment, except automotive, continues to be a major source of strength in the economy, despite some loss of momentum noted by capital goods producers. Housing demand is weak, and S&Ls report adequate funds to meet current levels of demand despite some decline in savings flows into thrift institutions.

Some economists are skeptical of recently reported estimates of consumption expenditures and retail sales for December. They are therefore uncertain about the timing of a recession. In view of unexplained behavior by consumers, some now feel a recession will be shallow and brief. A retail economist attributes much of the strength in retail sales to widespread promotions, which should continue to support sales through January. However, discount stores in Ohio did not do as well as those department stores that cut prices, according to an area retailer, and sales of smaller merchants were off 2%-3% from year-earlier levels. A consumer goods producer believes that durable goods sales have flattened because appliance prices have been rising below the rate of inflation, which lessens the buy-in-advance behavior of consumers. A major appliance producer reports sales are holding up better than expected, and that dealers in some areas report spot shortages of ranges refrigerators and a surplus of dishwashers. Sales of nondurable goods appear to have benefited from the slow growth in durables and lower-than-expected energy bills. An area clothing producer reports no drop in orders yet and expects sales to remain relatively strong for the next five months. Growth in real sales of food has slowed, according to an economist with a food store chain, in contrast to a decline in sales of fast-food restaurants. He expects food price increases in 1980 to be in the 8%-9% range because of reduced demand associated with slower growth in disposable income and improved supplies, except for beef.

Consumer buying of autos has picked up after several weeks of weakness, but production is expected to remain depressed until inventories are in better balance. A local auto dealer reports January auto sales have risen 10% from December, but are still below January 1979. Reasons for the increased sales range from advanced-buying brought on by the mild winter to increased supplies of X-body cars. However, an auto economist reports that dealers are ordering cars without special features for faster turnover. He expects total new car sales to be somewhat above 9.2 million in 1980. A tire economist reports that sales were poor in the fourth quarter of 1979, and expects that the first quarter of 1980 will continue to be weak both in the original equipment and replacement markets.

Fixed investment should continue to be strong at least through the first half of 1980. One official expects the strength in capital spending to come from relatively good profits and high utilization rates among most industries, especially aerospace and petroleum. An economist with an aluminum producer states that capital spending in that industry remains strong. A capital goods supplier notes weakness in agricultural and heavy construction machinery, and a steel economist states their order pattern suggests that electrical and non-electrical machinery industries may be losing some momentum. However, several respondents note a change in the underlying factors affecting capital spending which make it less susceptible to cyclical swings. Investments are more short-term because of increased uncertainty; many are limited to replacement for cost-saving in labor and energy which have a quick pay-off; and many are mandated by government regulations. Defense spending will eventually boost economic activity, but several defense subcontractors expect little significant upward thrust for most of this year. Defense goods suppliers are concerned that a skilled labor shortage and severe capacity constraints will hold down real spending for defense from the Administration's proposed 5.8% increase this year. An electronics producer cites bottlenecks in computer chips and aluminum castings that will stretch out production and delivery schedules.

Housing starts in December held up better than expected, but several S&L officials and economists attribute the strength to a record level commitments built up earlier in 1980. Moreover, a mild winter may be distorting the housing numbers. An S&L official states that the seasonal adjustment may have overstated actual starts in December and may understate strength in January. One S&L official expects a drop in starts below 1.5 million units in January. He cites a persistent decline in sales of new and used houses that will lead to a drop in starts this quarter. Mortgage funds are generally available to meet the present low level of demand. Most of the weakness in housing is attributed to weak demand. Therefore, several mortgage lenders have lowered their mortgage interest rates in recent weeks. Officials do not expect rates to fall much below 12½% because of the high cost of funds associated with the steadily rising proportion of deposits held in savings certificates and "jumbo" CDs. One S&L official estimates profit margins for most S&L associations at 1% or lower and slipping fast. Some S&Ls expect to show losses during the first quarter of 1980, and one S&L official expects 1980 to be the "toughest" year for thrifts in the post-World War II period.

FIFTH DISTRICT - RICHMOND

Business conditions continue spotty in the Fifth District. Manufacturers surveyed this month have, on balance, experienced further weakening of new orders, reduced order backlogs, and a resumption of inventory accumulation. There is little indication, however, that these conditions are pervasive or, in fact, that they represent the underlying trend. Our directors, for instance, see little evidence that demand for the products of firms in their areas has slackened further in the past month. Nonetheless, the expectations of District businessmen remain decidedly negative. Retail sales have softened in recent weeks. Indications are that wholesale and retail credit demands have also moderated. Most lenders hold the view that, in the near-term at least, loan growth will continue to slow.

Despite the continuing weakness in new orders, Fifth District manufacturers were able to maintain the level of shipments over the past month. More than 40 percent of the respondents to our survey of manufacturers reported a decline in the volume of new orders over the past month and nearly as many experienced further reductions in order backlogs. Survey respondents also suggest a resumption of inventory accumulation. Apparently most of the additions to stocks took place in materials. Also, inventories appear not to have risen relative to desired levels. The number of respondents viewing current stocks as excessive has remained fairly stable for several months now. The view that current plant and equipment capacity might be in excess has become slightly more widespread recently, but remains a minority position. There is still virtually no sentiment for altering current expansion plans, however. Employment and weekly hours worked both declined among our manufacturing respondents over the latest survey period.

Most of our directors have seen little or no improvement in conditions in their respective areas over the past month. Nonetheless, they report some industries, e.g., textiles, electronics, printing, food processing, continuing to show some buoyancy. The directors continue to cite weakness in residential real estate, automobiles, and some related areas such as construction, primary metals, and glass. Despite what is apparently perceived as a lack of any real strength, our directors are unaware of any significant layoffs, unwanted inventory accumulation, production retrenchments or other evidence of slackening demand.

Retail sales have softened slightly in the past few weeks, but general merchandise lines such as those in department stores continue to hold up. Big ticket items and home improvement lines are contributing significantly to the broad weakness in total sales. Retailers have apparently reduced their inventories somewhat and there do not seem to be any serious problems in this area. Survey responses suggest that there may be some significant price cutting taking place at the retail level.

Despite the view among district lenders that loan growth will continue to slow, few expect interest rates to decline by any substantial amount. As has been the case for sometime, consumer demand for personal loans is offsetting weakness in other areas, but this source of strength is not as great as it has been. The larger business customers of banks have been very quiet. There continues to be a steady flow of smaller sized business loan requests, but only in a very few cases have lenders seen firms seeking financing for unusual inventory buildups. In some areas, e.g., Maryland, industrial revenue bond financing for plant improvements is an important source of funds.

Area lenders are beginning to see some signs of retrenchment on the part of consumers insofar as the use of credit is concerned, but the picture here is far from clear. Credit card volume, which is still growing due to Christmas related expenditures, remains strong. A number of banks, however, have commented on signs of weakness in installment loan demand. Moreover, this developing weakness appears to be broadly based and not due exclusively to slower automobile sales. There has been some mention recently of increased applications for second mortgage loans to be used for bill consolidation. Residential mortgage financing is slowing, due largely to decreased willingness on the part of borrowers to pay high rates. The market has softened to such an extent that in some areas rates have come down 1/4 - 1/2 percentage points from their peak levels.

With both crop and livestock receipts significantly larger, the District's total cash farm income during the third quarter of 1979 registered a 16 percent gain over a year earlier. The District improvement, which compared with a 14 percent upturn nationally, may well be somewhat lower at year-end 1979, however, because of the sharply smaller tobacco and peanut crops.

SIXTH DISTRICT - ATLANTA

Residential construction continued to falter, but commercial and industrial construction held firm. Retail sales, other than autos, moved downward. The slump in automobile sales abated due to expanding sales of domestic and foreign compacts. Loan demand remained weak. Winter tourism for Florida looks bright. Ethanol production began its ascent, and northern Alabama was chosen as the site for a multibillion dollar coal gasification plant. Gold Kist officials are not optimistic regarding clearance for a massive poultry shipment to Russia.

Retail sales, excluding automobiles, declined, with nominal sales about equal to year-ago levels. A property manager at a large Nashville mall observed normal clearance sales and promotional activity compared to recent years. The majority of his tenants have reduced inventory volumes 10 to 15 percent below last year's level due to an expected lackluster first quarter. He believes an unusually large number of customers reached their credit limits and that credit rejections were higher. A property manager at another Nashville mall reported sales were slower, traffic was less than normal, sales and promotions were greater, and fewer trucks delivered goods. According to its management, a Fort Lauderdale area mall experienced sales levels equal to last year, helped considerably by markdowns.

The downturn in automobile sales appeared to level off. Overall, unit sales were stable. Demand for smaller cars grew more intense and accounted for the bulk of sales. Fuel-efficient domestic autos sold well, and some foreign car dealers described their sales as fantastic. For example, a Honda dealer said sales have taken off, with twice the number of sales compared to last January. A Nashville Chrysler dealer noticed a dramatic rise in sales after Chrysler's Federal loan guarantee was approved, while a Montgomery Chrysler dealer reported a moderate increase. Many dealers observed a sizable increase in consumer loan denials by finance companies. Also, many potential customers who own large cars are not buying because their outstanding loan balances are greater than the value of their rapidly depreciating fuel-inefficient vehicles. Most dealers believe the price of gasoline has become at least as important as availability when purchasing decisions are made by customers.

Single-family residential construction remained weak throughout the District, except in the Mobile area, where rebuilding from Hurricane Frederic's destruction in September created a construction boom. Residential construction was viewed as poor in Jacksonville, off sharply in Baton Rouge, nonexistent in northern Alabama, and at a standstill in central Alabama and southern Mississippi. A south Florida banker reported almost no new construction of lower priced homes favored by younger families.

An appreciable slowdown in sales of existing homes was evident in Birmingham, Nashville, Baton Rouge, and southern Mississippi. However, sales of more expensive homes in most of southern Florida were brisk. Several directors from that area noted a large number of wealthy individuals continued to purchase expensive retirement homes. Also, a notably increased proportion of sales to retirees involved only cash or very large downpayments.

Districtwide, commercial and industrial building provided considerable support to the construction sector. In Jacksonville and Atlanta, contractors enjoyed a backlog of current projects. Heavy construction remained active in Birmingham but at a slower pace vis-a-vis recent months.

In southern Mississippi, commercial construction held up fairly well, and it expanded in New Orleans. Industrial construction continued strong in Baton Rouge, where reasonably brisk activity was expected. However, most industry contacts believe few major projects will be undertaken until long-term interest rates subside.

Overall, loan demand continued to sag. A central Florida and a northern Alabama banker reported a substantial drop in loan demand. Weakening loan growth and weak deposit growth were reported by a Jacksonville banker. A south Florida banker commented on a significant downward trend in retail lending due to high interest rates that caused consumers to defer purchases of more expensive items.

The District's emerging alternate fuels industry was bolstered by numerous developments. Construction is expected to begin soon on two alcohol fuel (ethanol) plants in southern Louisiana which will use agricultural biomass to produce over 20 million gallons annually. Plans for building ethanol facilities in Jacksonville and Tampa were disclosed, as were future plans to construct plants in Orlando, Miami, and Pensacola. A Federal grant to support development of ethanol production at a distillery in southeastern Georgia was approved.

The chairman of TVA announced the selection of northern Alabama as the site for the agency's $2-billion coal gasification complex. The northern section of the state was chosen because of its accessibility to Alabama and western Kentucky coal and the demand for gas in the area. An exact site will be decided upon by October 1980. Also, the TVA embarked on large-scale efforts to provide low-priced solar homes within its region and to build the nation's first coal-based fuel cell power plant.

Tourism in Florida is expected to be very good this winter. A contact from the Fort Lauderdale-West Palm Beach area reported reservations well ahead of comparable 1979 figures. Attendance at central Florida attractions is strong, occasionally reaching saturation levels. Hotels and motels there are enjoying near-record occupancy rates. And the Kennedy Space Center is experiencing its best season.

Retaliatory trade restrictions against Russia are likely to produce a major impact on District poultry farmers and Gold Kist, an Atlanta-based agricultural cooperative. A huge shipment of frozen chickens, representing about 2 percent of U. S. annual poultry production, was delayed pending the granting of an export license, an increasingly unlikely prospect, according to a Gold Kist executive.

SEVENTH DISTRICT - CHICAGO

The Seventh District has been affected more than the nation by the slowing in activity. Further deterioration is expected. Output and sales of motor vehicles and recreational goods remain weak with no reversal in sight. Capital goods production, overall, probably has passed its peak. Wage settlements have been generous. Price inflation has not moderated, except for temporary bargains on items in excess supply. Except for depressed sectors, inventories are of moderate size in both manufacturing and retailing. The grain embargo has not had the adverse effect on prices that had been feared. Although mortgage terms have eased, the drop in the housing sector is still underway. Credit remains available, but at high rates, and with more careful screening of applicants. The crisis in Chicago's municipal finances appears more serious as additional information is forthcoming.

Although most of the information presented in this report is negative, total output, employment, and sales remain at high levels. Virtually nobody expects a broad, deep recession. Large order backlogs in some industries and a heavy volume of contracts for nonresidential construction will keep activity at high levels in these sectors into the second half of 1980. Moreover, except for a widely publicized case, there is little evidence of defaults on loans or other commitments.

Purchasing managers in both Chicago and Milwaukee (the major producers of capital goods) reported a significant deterioration in output, new orders, backlogs, and employment starting in December. Surveys of the outlook for the new year are the most pessimistic since December 1974.

Business leaders are deeply concerned about inflation. There is a widespread tendency to applaud the Federal Reserve's firm position, but without any conviction that the rate of inflation will slow significantly.

The growing expectation that defense outlays will rise significantly has not had any impact on the outlook here. Military orders are a very small factor in this district. Moreover, there is no evidence that increased military orders will be forthcoming in the near future, and few companies are anxious to obtain such contracts.

Weather continues favorable, particularly in comparison with each of the last three years. There have been no problems with fuel, transport, or ability of workers to get to their jobs or to stores. As a result, January may appear more robust in year-to-year comparisons than is truly the case. Moreover, there will be no "bounce back" as the weather improves, such as occurred in each of the past three years.

The motor vehicle industry, centered in Michigan, continues to be the major problem area. Layoffs and plant closings, some temporary, have continued at the vehicle producers and their suppliers of components. Demand for tires, batteries, and other replacement items is also off. More dealerships have closed and there is serious concern that this trend will accelerate before the spring selling season.

Other industries hit by high fuel prices and concerns over availability are RVs, boats and motors, and restaurants. High beef prices have played a role in the poor results of some fast food outlets. Some have closed.

Steel shipments are expected to decline 3 or 4 percent this year, but activity may remain near current levels--about 81 percent of capacity. Except for motor vehicles, orders have remained at good rates. Customer inventories are low and lead times are very short.

Among the capital goods that have showed weakness starting in late 1979 are farm equipment, construction equipment, and trucks and trailers. Heavy backlogs for machine tools and railroad equipment appear firm for the time being. A number of producers of capital goods and other multinationals report foreign sales to be stronger than domestic sales.

Retailers had stocked ample quantities of warm clothing, galoshes, skiing equipment, snowblowers, and other winter goods. Sales of these items have been very poor because of the mild, virtually snowless winter. In recent weeks discounts ranging up to 50 percent have helped to move excess stocks.

Aside from the depressed items, retail sales are said to be relatively good. Credit has continued to be used freely with no significant increase in delinquencies.

The business slowdown has not caused unions to moderate their demands. The strike at International Harvester over mandatory overtime that started November 1 is still on, with no serious move by either side toward an early settlement. Oil refinery workers struck after turning down a 9 percent increase, but refineries can be operated for a long time by supervisory personnel. A Chicago news truck drivers' strike was settled for a 16.4 percent boost (retroactive) to $426 per week. Tank truck drivers settled for a 13.4 percent rise after losing a strike for a full COLA. Chicago teachers threaten to strike if the school term is cut to save cash. Chicago firemen also are threatening a strike to get a contract, despite generous compensation.

The grain embargo has caused a backup in the "pipeline" moving grain to the ports. The strain on transportation is giving way to underutilization. Corn Belt farmers and bankers had feared much lower grain prices. However, after the initial drop, prices recovered to pre-embargo levels. The large carryover of grain stocks resulting from record crops will continue to overhang the market, because no large orders are anticipated from non-Communist countries. Diversion of grain to alcohol production is strictly limited in the near term by the capacity of distilleries which is fully utilized.

District farmland values rose 2 percent in the fourth quarter, down from 6 percent in the third quarter, and the smallest rise since late 1977. At year end district farmland values were 14 percent higher than a year earlier, and four times as high as 10 years earlier.

Mortgage terms have eased somewhat. The going rate in the Chicago area on 20 percent loans is now 12½ percent plus 2½ points. Loans are readily available to good risks, but many potential buyers have pulled out of the market. S&Ls have been repaying borrowings in some cases. People desiring to sell homes have been advised to use land contracts, conditional sales, second mortgages, and other devices, but such transactions are not popular with sellers who wish to realize the full cash price.

EIGHTH DISTRICT - ST. LOUIS

Business activity in the Eighth District appears to have declined somewhat in recent weeks. Although the automobile and housing sectors led the decline, a number of associated industries are beginning to experience reduced sales and orders. On the other hand, capital goods production and nonresidential construction remain relatively strong and, in some instances, continue to increase. Among those capital goods experiencing strong demand are products used for energy conservation purposes, oil and gas exploration, and aerospace and defense. In the financial sector, net inflows of savings have been quite modest in recent weeks as competition from other instruments, such as money market funds, has been acute. Mortgage interest rates have increased to 12-1/2 percent or more and the number of mortgage loans made in recent weeks is reported to have decreased.

Department store sales since the year-end have been about the same as a year ago after adjustment for inflation, but such sales data are not quite comparable since weather has been significantly better this year. Retailers are guarded about prospects for sales, with most retailers expecting no improvement before mid-year. Automobile sales remain substantially below a year ago, and car dealers report that the trend toward more gas-efficient cars continues. A foreign car dealer noted, however, that the waiting list has declined for some gas-efficient models from as much as six months last summer to about six weeks currently.

Manufacturing activity in the District is mixed. Automobile manufacturing has been the hardest hit of the major industries in terms of layoff of workers. In the St. Louis area, where automobile and truck assembly activities are very important, the work force at the end of January is estimated to be down 40 percent from a year ago. Deterioration of business activity was also reported in many auto-related industries, such as auto frames, carburetors, brakes, piston rings, etc. On the other hand, it was reported that some types of consumer tools, such as chain saws and various do-it-yourself tools, are in great demand. Also, suppliers of the residential construction industry believe that the decline in home building will have a major impact on their business in the near future. Some other manufacturers of consumer durables, such as appliances, reported that demand has fallen.

Inventories at retail stores have generally been kept at desired levels as excess stocks have been quickly removed by sales promotions. Inventories of most appliances are at desired levels, with the exception of room air conditioners.

Demand for nondurable products has been affected less than durable products, yet some declines have occurred in this sector. Demand for domestically produced apparel and shoes has slowed, partly due to increasing foreign competition. A boxboard manufacturing representative noted a decline in orders in recent weeks which has led to some layoff of workers. The biggest drop in boxboard orders has been from manufacturers of automobiles parts.

Capital goods production remains the strongest area of manufacturing activity. Farm equipment is experiencing increasing demand, a reflection of the strong farm income in 1979. However, such demand may diminish later in the year if the expected decline in 1980 farm income occurrs. Another area of strength is defense-related goods. Major defense contractors reported that production increases are likely in 1980 based on a high level of orders and the prospect of increased defense spending. The aircraft industry has experienced a strong demand for commercial aircraft. Other products with strong demand include energy-efficient motors, welding and cutting equipment, gas and oil drilling equipment, telecommunication products, and data processing equipment.

Nonresidential building remains at a high level in the District whereas residential building has declined further and is now at a virtual standstill over much of the District. Several major commercial and government projects in the St. Louis area are expected to get under way in 1980, including a major office building, hotel, and waterway project. While contractors are fairly optimistic that a high level of activity can be maintained through mid-year because of a backlog of projects, they expect a slowing later in the year as these projects are completed.

Representatives of financial intermediaries report that strong competition from money market funds is having a sizable impact on the net inflows of funds. Saving and loan officials report only modest increases in net savings in recent weeks, although the new 2-1/2 year certificates have been received better than expected. The bulk of new funds, however, continues to be the six-month money market certificates.

NINTH DISTRICT - MINNEAPOLIS

Although the district has been jolted by the grain embargo, agricultural conditions remain good, industrial activity is continuing to expand, and employment is still climbing. Thus, the region is not in a recession. But signs of softening persist, as consumers remain hesitant to spend, new orders continue to weaken, and loan requests are still declining.

Despite embargo, ag conditions remain good . . .

Many farmers feared that the embargo would lower grain prices. The embargo, they felt, would depress this year's demand for grain and possibly result in the permanent loss of an important export market. The government's agreement to purchase the embargoed grains helped ease their fears about demand in early 1980, but not about the possible loss of a large market. In addition, many farmers feared that the embargoed grains could be returned to the market later this year, when they were marketing their 1980 crops, or during the next several years. Thus, the possibility of both lower demand and higher supplies was foreseen depressing prices.

Grain prices are still high, although farmers' fears of lower prices could still be realized. Prices could still fall because of uncertainties about how our government and the Soviet Union will deal with the embargo. So far, however, the government's measures to shore up demand and hold grain supplies off the market appear to be working. Although both cash and future prices for grains fell in response to the confusion that followed the embargo's announcement, they have now returned to their preembargo levels.

High agricultural prices have been complemented by the district's large harvests, harvests that have exceeded earlier expectations. For example, Minnesota's 1979 corn harvest, the state's second largest, ended up 6 percent above November's estimate. With grain prices high and crops larger than anticipated, district agricultural conditions continue to be good.

<u>. . . industrial activity and employment also are still good . . .</u>

Along with good agricultural conditions, strong industrial activity and employment gains continue to keep the district out of a recession. Our last Redbook report indicated that district industrial activity was strong and that employers were adding workers. These conditions haven't changed. At their January meeting, this Bank's directors reported that industrial activity was still growing in their communities. Facilitating this growth, help-wanted advertising in Minneapolis/St. Paul papers in January was still high, so employment appears to be still expanding. These gains in employment are not being offset by lay-offs; Minnesota's initial claims for unemployment insurance remained low in early January.

<u>. . . but signs of softening persist.</u>

Even though the district is not in a recession, the signs of softening that our Redbook report noted last month still persist: consumers are hesitant to spend, businesses are cutting back on ordering, and loan requests are declining.

Consumers remain hesitant to spend. Directors used terms like "spotty," "steady," or "down" to describe their area's general merchandise sales in early January. They also indicated that consumers are very reluctant to purchase homes and cars.

This reluctance to spend has made retailers hesitant to expand their inventories and is contributing to a continued slackening in new orders. A Minneapolis/St. Paul director reported that several Twin Cities manufacturers have had fewer new orders than in recent months, and a director from the Upper Peninsula of Michigan had a similar report.

The letup in new orders and consumers' reluctance to spend are resulting in fewer loan requests at district financial institutions. Bank directors indicated that in early January business and consumer loan requests were down at commercial banks. Likewise, the Savings League of Minnesota reported that in early January mortgage loan requests were down 50 percent from a year ago at Minneapolis/St. Paul area S&Ls.

TENTH DISTRICT—KANSAS CITY

Inflation remains strong in the Tenth District while business activity continues to slow. Purchasing agents report suppliers have recently increased prices for material inputs and further increases are expected in the near future. Retailers report good January sales performance due to mild winter weather, but expect sales over the coming year to increase by less than the increase in retail prices. The recently imposed grain embargo has produced uncertainty in area grain markets and the resulting decrease in marketings has produced cash flow difficulties for many farmers. Loan demand is moderate in most areas of the District while deposit growth is reported to be moderate to strong.

Purchasing agents contacted in the Kansas City District report input prices have increased by 10 per cent or more over the past year. Most purchasing agents indicate that suppliers have raised prices within the past three months, and all expect further price increases over the next three months. With the exception of the aircraft and electronics industries, input availability is not a major problem in the District, nor is it expected to become one during coming months.

The majority of purchasing agents report that material inventories are to be kept low during the next several months because of high interest rates and a pessimistic outlook for the economy. About half the companies contacted will need to further trim their inventories to reach their desired lower levels. The majority of firms contacted indicated that they were operating at about normal capacity for this time of year. Labor is in adequate supply in the District, although a shortage of skilled labor continues to exist in Wichita and Colorado Springs.

Most retailers contacted report that sales during January are 6 to 20 per cent higher than a year ago, mostly as a result of mild weather which has encouraged shopping. Most retailers expect sales to increase between 5 and 8 per cent during 1980, while retail prices are expected to grow by 10 per cent or more. Inventories are currently at satisfactorily low levels, and are expected to be kept at low levels by means of continued winter clearance sales.

The embargo on grain sales to the Soviet Union is having short-term effects upon Tenth District agriculture. Area grain markets are nearly at a standstill, because of farmers' unwillingness to sell until some of the current price uncertainty is resolved. Transportation problems are being exacerbated as grain backs up from port elevators to local grain elevators. Shortages of grain storage facilities are occurring in many areas and wet grain is compounding storage problems.

Many farmers are experiencing cash flow difficulties. Loans are now due that were to be paid by receipts from grain marketings. Agricultural banks are finding it difficult to meet the increased demand for loans and extensions because of slow deposit growth at many rural banks. Machinery and new equipment dealers are also feeling the impact of the embargo, as orders for new equipment are being canceled by farmers concerned about 1980 income prospects. Production yields may decrease in the 1980 crop year as farmers reduce fertilizer purchases and use more crop rotation.

The District's 1980 winter wheat crop production is heavily dependent upon weather conditions during the next two months. Wheat seedlings did not achieve enough growth during the fall to adequately protect the topsoil.

Lack of snow cover coupled with strong winds has led to erosion of topsoil in many areas and loss of some planted acreage. Moisture levels are sufficient at the present time due to recent rainfall. Snowfall is needed both for moisture and as protection against extremely cold weather.

Loan demand is moderate in most areas of the Tenth District. High lending rates and usury ceilings are limiting real estate, business, and automobile loans. However, growth in agricultural loans remains relatively strong, in part because the embargo on grain exports to the Soviet Union is causing increased demand for loans to finance inventories of wheat and corn. Lending rates have been relatively stable in the past month and are generally expected to remain stable for the next several weeks.

Most of the bankers contacted for the January survey report moderate or strong deposit growth. Money market CD's continue to account for most of the deposit growth. However, the 2 1/2-year floating rate CD's are also attracting substantial funds.

ELEVENTH DISTRICT--DALLAS

The economy of the Eleventh District enters the eighties on a strong underpinning that promises sustained, long-term growth. Weakness in the near term apparently will confined largely to auto sales and residential construction, while dollar sales at department stores are likely to slow. Increased oil field activity and nonresidential construction, and their supplying industries, are expected to provide most of the strength to the economy this year. Buyer resistance to high interest rates has stymied home mortgage lending. Bank loan demands are running slightly ahead of normal for this time of year, while agricultural loans at rural banks declined slightly last quarter.

The dollar volume of department store sales in the Eleventh District is about 18 percent above the level a year ago when bad weather brought shopping to a standstill. And retail executives indicate post-Christmas sales exceeded expectations. Sales in South Texas are being bolstered by a heavy influx of northern tourists and increased buying by Mexican nationals. Retail inventories are trim. Most retailers expect a slowing trend in sales for the next six months and are ordering conservatively for spring and summer.

New car sales may have bottomed out at the low level recorded in December, according to dealers surveyed. Tight credit conditions continue to be a drag on sales. Our respondents suggest sales are 15 to 35 percent below potential because many would-be customers cannot obtain credit. Auto inventories remain higher than desired, but improved deliveries of popular domestic models are helping to keep stocks up. Most dealers forecast a pickup in sales this spring, especially if credit conditions ease.

Output continues to increase in most manufacturing industries. Much of the strength is centered in building materials, machinery and metals; but food and apparel production is also on the rise. The only areas of weakness are auto assemblies and refining. Refinery runs continue to decline with weakening demand and improved inventory levels of finished products. A prolonged strike by the Oil, Chemical, and Atomic Workers union could eventually impact on refinery output.

A survey of three large aircraft manufacturers indicate they could increase substantially their current average rate of capacity utilization if defense spending is boosted. However, all cited substantial production bottlenecks would be created at the materials and supplier stages of production if expenditures were increased rapidly.

Drilling activity is off to a fast start this year because of favorable weather and high product prices. The average rotary drilling rig count in the nation is forecast to rise about 12 percent, and the number of wells completed is expected to increase about 7 percent. Expanding oil field activity has created a continued shortage of experienced drilling crews.

Construction activity shows little sign of slowing. Much of the increase in activity this year will be for such heavy construction projects as highways; earthwork, waterways, and irrigation; and water and sewerage systems. Large nonresidential building construction projects should also post strong gains, while residential and small business construction projects should slip further.

The mortgage market in Texas is at a standoff. Buyer resistance to the prevailing 13-percent mortgage rate is stiff, and some S&L's have begun to back down from that rate. Loan activity is not expected to pick up substantially until buyers are offered a more acceptable rate, and the S&L's increase their liquidity by selling loans in the secondary market. New savings inflows at S&L's continue to run below seasonal norms. Municipally backed bond programs stimulated mortgage activity in some Texas cities, but those funds were exhausted quickly.

Total borrowings at District member banks quickened at year-end, but business loans at large banks remain soft--especially to customers in nondurable goods manufacturing, trade, and services. Deposits at large banks are growing slightly faster than normal for this time of year, and liquidity is not a problem.

Our January survey of rural bankers indicates farm loan demand has eased somewhat since October. Requests for feeder cattle loans, in particular, are down. Higher interest costs may have contributed to the apparent decline in cattle feeding activity. On average, interest rates charged for short-term farm operating and feeder cattle loans at survey banks increased about one and one-half percentage points in the fourth quarter of 1979. Loan-deposit ratios averaged 59 percent, compared with 63 percent in October and 60 percent a year ago.

TWELFTH DISTRICT -- SAN FRANCISCO

The economy of the Twelfth District exhibits presistent strength with no reports of major declines in employment or production. The housing industry and automobile retailing activity continue to be extremely weak, however, and there is mounting evidence that this weakness is spreading to allied industries. Retail sales over the holiday were quite good, but many retailers are gloomy over the prospects for the first quarter of 1980. Loan demand has fallen off sharply in most parts of the District and most bankers anticipate continued declines in lending as the "pipeline" of commitments dries up. Harvests were generally good in the District and the prospects for the agricultural sector in 1980 are believed to be bright.

Residential construction activity has fallen off sharply throughout the district. In Utah, for example, residential construction permits declined approximately 20 percent in 1979 compared to 1978. Similar reports were received from the states of Washington and Oregon. Home resales are also very weak. Homes in California, for example, are now staying on the market much longer although the housing market in the San Fernando Valley and Orange County areas of Southern California is still very active. There is no evidence of widespread softening of housing prices.

The weakness in the housing industry has begun to have reprecussions in the lumber industry and other activities associated with housing. A regional lumber manufacturer in Oregon reports that production is off 20 to 25 percent. Closures of both plywood facilities and sawmills are also reported in Oregon, with the loss of about 1,000 more jobs than is usual for this time of year. Employment data for the state of California show an abnormal decline in November in the lumber and furniture industries although the absolute numbers involved are small. Prices of dimension lumber have dropped by about a third since early September. Non-residential construction activity is credited with temporarily cushioning the building supply industries from a more severe decline and some observers expect considerably worsened conditions in the coming months as non-residential construction falters.

Automobile retailers are reported to be in severe straits in some parts of the District. A survey of dealers in Salt Lake City resulted in remarks about sales such as "almost non-existent" and 'worst in twenty years." In Seattle, however, dealers have accommodated high flooring costs by cutting inventories and sales are reported to be "fair." Sales of small and foreign cars continue to be stronger than sales of large domestic automobiles.

There are very few reports of weakness in the District's economy outside the housing and automobile sectors. Demand for aluminum products is so strong that a major producer is allocating the product to its customers. Recent rainfall in the Northwest has removed the threat of hydroelectric power cutbacks that would have hurt aluminum production. High world prices for lead, zinc, gold and copper have boosted the value of output from the Coeur d'Alene mining district in the Northwest. If current metals prices hold, the mining district's 1980 production is expected to be more than triple last year's figures. The Secretary of Interior announced last month that the intermountain power project will be located near Delta, Utah. Construction of this $4-6 billion plant is expected to further boost that area's economy.

The demand for skilled technical and clerical labor remains high throughout much of the Twelfth District. The unemployment rate of clerical labor in Southern California is estimated to be only 2 percent, for example. A major transportation company reports strong demand for its pipeline and rail services despite weakness in the forest products and automobile industries.

The large department stores in the District report a level of holiday sales ranging from "good" to "exceeding our budgets". A regional manager of Sears in Utah added that regional sales were better than those for Sears nationally. Sales of kitchenware and softgoods were stronger than sales of consumer durables. Most retailers are apprehensive about the prospects for the first quarter of the year and have maintained trim inventories.

Loan demand is generally weak throughout the District. However, a major bank headquartered in Southern California reports strong demand for commercial loans and loans for commercial and industrial construction. The weakness in demand for consumer loans, auto loans and mortgage loans is ascribed to consumer resistance to high interest rates. Several lenders in the District have dropped their rates but still have no significant loan volume. In those states without binding usury limits, funds are reported to be "generally available" at the prevailing interest rates. However, applicants in many parts of the District are having difficulty qualifying at present interest rates. A bank in Oregon reports that only one out of every four mortgage loan applicants is able to qualify for a loan. Delinquencies on consumer loans are reported to be on the rise, although they still remain at reasonable levels. Bankers in the District generally expect bankruptcies and foreclosures to increase in 1980. They also expect loan volumes to weaken further as previous commitments dry up.

The agricultural sector in the District is in good shape after the successful harvests of 1979. Banks in the central valley of California enjoyed strong deposit growth because of good harvests and there are no reports of anticipated farm credit problems. Inventories of farm equipment are high as a hedge against the increasing prices of this equipment. Farmers expect the markets for beef cattle, dairy cows and farm crops to be strong in 1980.