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CURRENT ECONOMIC COMMENT BY DISTRICT

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by the Staff

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SUMMARY*

Though some areas remain strong, economic weakness appeared to be spreading, even before the coal strike began. The consensus is a deterioration in economic conditions since last month's reports, with the earliest chances for a recovery in mid-1975 and then only a mild upturn. The drop in residential construction has spread to many other industries, such as timber and lumber, furniture, and textiles. Auto and auto-related manufacturing industries are also depressed because of the resistance to buying the new model cars. Plant closings, job layoffs, and, in some cases, bankruptcies have resulted. The regions hardest hit are those where these industries predominate: the East, Midwest, and Southeast. Other manufacturing industries, particularly capital goods, report continued strong demand. However, some softening may be starting in these industries, with an easing of new machine tool orders and cutbacks or postponements of capital-spending plans reported from some Districts. Consumer spending, particularly for big-ticket items, is off. Reports indicate that consumers are increasingly becoming more price-conscious and purchasing more heavily sale merchandise. Production and general sales declines have resulted in easier availability of many materials in short supply only a few months ago and, in some cases, lower materials prices. Only a few items are still in short supply. There was near-universal accord that because of sales declines and the greater availability of basic materials, manufacturing and wholesale and retail trade inventories are now too high. Realignment of these inventories will slow economic activity through the early part of next year. Bank lending has leveled off in most Districts because of a decline in loan demand and more

*Prepared by the Federal Reserve Bank of Atlanta restrictive loan requirements. Savings and loans inflows were reported in several Districts but are not expected to give any immediate relief to housing. A number of favorable crop reports were received, but livestock producers are still caught in a cost-price squeeze.

Plant closings and layoffs are now appearing more frequently in District reports. Richmond, Atlanta, Chicago, and St. Louis all report production cutbacks, plant closings, and layoffs by a wide range of manufacturers--such as autos, mobile homes, appliances, televisions, furniture, textiles, bicycles, and electrical components. Many of these cutbacks are related to the decline in housing, although a general fall-off in demand is also responsible. Lumber producers in the Atlanta and San Francisco Districts have been severely hit by the decline in residential construction. Lumber demand is practically nonexistent. Some areas have escaped substantial layoffs, however. Both Minneapolis and Kansas City Districts report only a slight rise in unemployment. They do not expect the situation to worsen significantly in the near future.

Capital goods industries remain the most buoyant. But even here more signs of cutbacks and postponements were reported. Cleveland reports machine tool orders still are strong, but a number of spending programs for 1975 have been cut back. Atlanta, Chicago, and Kansas City report similar cut backs. Capital equipment orders in the Chicago District have fallen off recently, and stretch-outs of orders have also become more common. A Richmond survey shows that one-third of its respondents now consider capital-spending plans excessive. Orders remain strong for steel and other types of capital goods, however.

There is growing evidence of a general weakening in demand for most consumer items. Auto sales are uniformly poor in all Districts. Most big-ticket items are not selling well. Only Minneapolis reports any strength in higher-priced consumer goods. Reports from San Francisco, Dallas, Boston, New York, Atlanta, and Philadelphia suggest that price cutting and sales campaigns by retailers and discount shopping by consumers are now more commonly practiced. Expectations about Christmas sales range from optimistic in Minneapolis and Dallas to Boston's report of no expected change in sales from last Christmas.

Shortages have apparently eased considerably according to reports. Boston, Cleveland, Atlanta, Chicago, and San Francisco all indicate that many shortages are abating. Cleveland notes that the greater supply availability has led to a moderation of materials prices. Several Districts report continued shortages of steel and petroleum-base products; but in the Chicago and San Francisco Districts, even these shortages have moderated. The coal strike will create new shortages, but it is too early to tell how severe these will be.

Excessive inventories and the need for inventory realignment appear to be on many businessmen's minds. Excessive inventories are the result of both declining sales and the easing of shortages. Dallas reports higher-than-desired retail store inventories are attributed in part to declining sales but also to overshipments by suppliers who are themselves trying to reduce inventories. Concern over shortages has dramatically given way to attempts to reduce inventories, according to Chicago's report. In the Kansas City District, the attempt to reduce inventories was one reason cited for the flatness in bank loan demand.

Most Districts report that loan demand has begun to ease. Philadelphia notes that loan commitments have fallen both because of a decline in demand as well as more restrictive lending policies by many banks. Business loan demand appears to be off the most. San Francisco indicates that many large borrowers are returning to the capital markets. Minneapolis is the only District reporting continued strong loan demand because of agricultural borrowing. Inflows to time and savings accounts at commercial banks are beginning in many Districts. Funds are also beginning to flow back into savings and loan institutions. The Kansas City report indicates that savings and loan associations are beginning to see a return to "black ink." New York also notes an inflow but doesn't believe it will significantly improve the housing situation in the near future.

FIRST DISTRICT - BOSTON

Though their personal business experiences may differ, the directors of the First District believe that economic conditions are deteriorating and that the situation will steadily decay before improvement may be anticipated, given current policy. In September, the unemployment rate for New England was 7.3 percent; that of Massachusetts was 8.3 percent. In September 1973, these rates were 6.3 percent and 7.1 percent, respectively.

An informal census of business hiring policy has indicated that most large employers are releasing personnel. The figures confirm our reports on regional unemployment trends and foreshadow future erosion of the unemployment rate. Comparing the first eight months of 1973 with 1974, the liabilities of small business failures in Connecticut have increased from $13 million to $65 million.

Our directors also tell us of mixed corporate profit reports. However, they note that shortages are ebbing sharply in New England since demand pressures are abating. One large firm with "long order books" heretofore felt safe in pushing prices to maintain returns; recently, it was forced to rescind an announced set of higher list prices. Inventories are being generally reduced as well.

A major Massachusetts producer of cardboard boxes indicates that production is off 60 percent. One director asserts that this gives insight into the times, since virtually everything is packaged in cardboard and orders and production are geared to meet impending shipping requirements.

There is expanding activity related to aircraft engine and submarine fabrication. Defense contracts are important props for these lines. However, replacement jet engines and spare parts for private use play a critical role. Orders related to new aircraft production for commercial use are inconsequential.

The retail sales outlook is depressed. With a soft after-school season, it is hoped, optimistically, that Christmas will reach last year's figures. Major retailers in the Boston area have been announcing significant sales featuring winter lines. Supermarkets note an unusual customer sensibility to weekly specials and discount coupons.

Bankers report declining loan pressure. They indicate that deposit growth has stagnated, but a reflow of deposits to interest-bearing accounts is anticipated.

Professors Eckstein and Samuelson and Dr. Shapiro have provided their views this month. Each opened his remarks by noting the economy is not simply bad but worsening. Eckstein's next forecast will show real GNP down 1 percent in 1975, business fixed investment off by 4 percent in real terms, output down at a 6-percent annual rate in the current quarter, and unemployment rising to 7.5 percent by mid-1975. Samuelson pointed to weaknesses which have been appearing in "boom" sectors such as paper and steel. Shapiro, who concurs that unemployment will reach 7 percent by spring, sees no prospect of a tax increase and an eight to five chance of a reduction. Samuelson cites Federal Reserve policy as a major cause of the weakness and disagrees with the minority of economists who have sought this amount of weakening in the economy. He feels the stagnation part of stagflation has gotten out of hand and accuses those of wishful thinking who think it will bring a rapid solution to our inflation problems. Those who emphasize that unemployment does not now cause as much hardship and suffering as it did at one time overlook that this is the very reason it is no longer as effective in dampening inflation. Samuelson argues for a 7-percent rate of money growth target. Eckstein and Shapiro advocate 5-percent to 6-percent money growth; both believe this would bring the prime rate to about 7.2 percent by spring. Shapiro would also like to see a 60-day wage-price freeze to be followed by a Phase II type of system of controls.

SECOND DISTRICT - NEW YORK

Second District directors and other business leaders who were contacted recently in general reported that they were taking a dimmer view of the economic outlook than last month and did not expect a pickup in business activity until mid-1975. The retail sales picture continues sluggish, particularly with respect to auto sales. Construction remains in the doldrums, with little improvement expected over the next six months. The District unemployment rate has been running at about the national level but substantially higher in New York City. There were scattered reports of a lessening of upward pressure on prices and of actual declines in some materials prices.

Most of the respondents reported that their outlook for the economy had worsened over the past month. Among others, the Buffalo Branch directors expressed the feeling that the current slowdown in business activity was likely to be more pronounced and of longer duration than had been previously anticipated. The president of a large chemical concern stated that he believed the outlook for the economy was for a general weakening amidst "a feeling of gloom," and the chairman of a large New York City bank reported that his estimates of the strength of the economy had moved lower over the past month and felt that inventory liquidation would have a depressing effect. The president of a multinational nonferrous metal producer expected the economy to remain flat until the middle of next year, when a slower upturn would occur. Similar sentiments were expressed by a number of other respondents.

The District retail sales picture continues sluggish. A number of respondents felt that new automobile sales would be at least 5 percent lower in 1975 than in 1974 and that the demand for other durable goods had also weakened. These respondents felt that while the demand for non-durable goods might be stronger, the overall retail sales picture was not likely to show significant improvement over the next six months. Against this background, retailers have been intensifying their promotional efforts with increased advertisements and special sales. The extent of the success of these efforts, however, remains to be seen.

Regarding residential construction, the majority of the respondents felt that the recent drop in interest rates would have no significant impact on housing starts over the next few months, while several respondents felt that rates would have to move significantly lower before residential construction picked up. The Buffalo directors, although feeling that the decline in housing starts appears to have bottomed out, cited the higher cost of construction as a major deterrent to an upturn in construction activity in the immediate future. The New York City banker mentioned above stated that an oversupply in housing was an even more important factor than the high level of interest rates in inhibiting construction activity. A senior official of a New York City based thrift institution association reported that, following a further sizable outflow of funds from District mutual savings banks in September, such outflow appears to have tapered off in October. For the time being, however, he felt that any possible increase in deposits at these institutions would first be reflected in repayments of loans from commercial banks rather than in new mortgage commitments.

Unemployment in New York State as a whole has been running at about the same level as nationwide. However, the jobless rate for New York City has been substantially higher, amounting to 7.4 percent in September.

A number of respondents reported that as a result of the sluggish economy, wholesale prices for a number of raw materials have dropped and that lead times for orders of many items have been shortened. These respondents expected that this will result in some reduction in finished product prices as well as in the liquidation of inventories built up in anticipation of increased shortages and rising prices. So far, however, there appears to be little evidence of discounting from list prices, although there are indications of a shift toward a buyer's market for a number of products, with future price concessions a real possibility.

THIRD DISTRICT - PHILADELPHIA

During October, both the current business climate and the six-month outlook for business in the Third Federal Reserve District declined from September's levels. Conditions in the manufacturing sector were substantially softer last month, as new orders sagged and prices rose. The outlook for the next six months is mixed, with businessmen giving the economy an even chance of picking up a bit by spring. Bank loans dropped very slightly during October, and retailing was weak. The labor market was also weaker, as manufacturing employment slid and the average workweek was trimmed.

A business outlook survey conducted among executives of major manufacturing firms in the District found area businessmen somewhat pessimistic about current business conditions. More than four out of ten of the respondents reported some deterioration in the overall business climate in which they operated. New order activity was below levels set in September, and backlogs dwindled. In general, business inventories, shipments, and delivery times were all steady. The labor requirements of these businesses were somewhat lower during the month. One quarter of the executives surveyed reported reductions in their firms' work force and average hours worked per week.

The six-month outlook in the manufacturing sector is less pessimistic, however. The results of the survey are mixed, but, in general, the number of businessmen anticipating an improvement in business conditions by April 1975 equals the number expecting further deterioration. These results are less optimistic than those of last month's survey, but they are more positive than the survey respondents' assessment of current business conditions. The outlook of these executives for new orders is much the same as it was last month, with the number expecting increases roughly equaling those expecting declines. Over the next half year, the firms canvassed anticipate a possibility of reduced employment but little likelihood, on average, that workweeks will be trimmed further.

Large commercial banks in this region report that their commercial and industrial loan commitments have declined very slightly in the last month. While a good bit of this result stems from very restrictive loan policies that are in effect throughout the industry, there are hints that demand is also starting to weaken. There has been some movement of major borrowers away from the banks and back to the commercial paper market. In part, this may stem from the slowness of several Philadelphia banks to drop their prime rates as fast as the industry leaders. The bankers questioned also reported that liabilities portfolios are being held to relatively short maturities until interest rates stop declining. The Third District's major retailing chains continue to experience softness in their sales. Warm weather has kept some shoppers out of the stores, but that is not the entire explanation. Many items which have had substantial price increases are being shunned. However, sales of major appliances and other big-ticket items have also slowed markedly, even though price increases on these goods have been less than the rate of increase in the Consumer Price Index during the last year. The one bright spot in their sales picture has been major price promotions--a device that has been quite successful for most of these stores.

Inflation is continuing unchecked. Recent sugar price boosts have received extensive media coverage in this region, but consumers aren't the only ones being pressured by higher prices. Sixty percent of the manufacturers surveyed report paying higher prices for their inputs last month, and

40 percent posted higher prices for their own products. Their outlook is equally pessimistic. Over 60 percent of these businessmen expect to be paying and receiving higher prices six months from now.

FOURTH DISTRICT - CLEVELAND

Economic activity in the District appears to be weakening. New car sales are down sharply, and department store sales are softening. New orders are declining and layoffs increasing in the industrial sector. Residential construction continues to decline sharply. At the same time, the machine tool, mining equipment, general industrial machinery, and steel industries are still sources of considerable near-term strength.

New car dealers in the Greater Cleveland area report that sales in October declined 23 percent from the year-ago level. An official with one of Cleveland's large department stores said sales in the past few weeks have softened further. He attributes this in part to the considerable publicity given to inflation and recession. Sales of hard goods are especially weak; apparel sales, particularly winter clothing, have been below expectations. Inventories are on the high side, reflecting a rapid improvement in delivery and softening in sales.

Purchasing agents in the Cleveland area report a deterioration in business conditions during October, with declines in new orders and production. Lead times for production materials and supplies continue to improve. Purchasing agents report a moderation in the frequency and magnitude of price increases for the second consecutive month. Early returns from our monthly survey of District manufacturers indicate a sharp reduction in new orders during October, following some softening in September. Backlogs have started to decline, and inventory accumulation is showing signs of subsiding. Delivery times are becoming shorter. Employment and hours declined in October. In addition, a number of major firms plan to cut employment in November;

these include autos, appliances, building materials, aluminum, aerospace, and a few machinery companies.

Steel mills continue to operate at maximum capacity. A reduction in steel demand for appliances, housing, and commercial construction has been offset by other steel users. Auto producers generally are still buying heavily and are taking the maximum tonnage allotted to them. One major auto firm has reduced orders, but the amounts involved have not been significant. A steel industry economist says that automotive demand for steel has held up, despite production cutbacks, because of inventory hedging against a coal strike, which will curtail steel output. There are, however, a growing number of other steel customers who are deferring orders because of excessive inventories. Customer stocks are somewhat above normal, and the pressure for delivery is now less intense than it had been.

District coal mining operations have been at capacity because of heavy demands from all major users. Coal demand has been stimulated by prospects of a strike and by shortages of natural gas. (Several major natural gas companies in northern Ohio will be forced to curtail gas deliveries to industry this winter.)

Executives from machine tool companies in Ohio report continued strong demand from manufacturers of farm equipment, cans, coal mining machinery, and electrical generating and nuclear power equipment. Order cancellations are considered at normal levels. An economist with a major machine tool firm in Cleveland said the high level of backlogs in his firm indicates increases in production well into 1975. They are still experiencing production bottlenecks and having difficulties in increasing shipments.

Other areas of strength include casting companies and foundries, which are booking orders well into 1975 and even into 1976. A major producer of ore and coal mining equipment in Ohio says demand has exploded and their backlogs have surged. Delivery time for giant stripping shovels runs to 1980.

An executive with a major truck producer said their orders recently have dropped to a level about equal to capacity. (Orders had been roughly three times the volume of shipments.) Availability of most supplies they purchase is generally improving, but there are still shortages of commodities, such as castings, forgings, and some steel mill products that are delaying shipments of their trucks. The firm said there is still a need to build in-process inventories because of shortages.

Other firms have excessive stocks and say they are working toward bringing inventories back to normal. For example, one of the District's major tire producers reports it will take about three months of production cutbacks to bring excessive inventories to desired levels.

Contacts with several District firms indicate that recent events have not caused most manufacturers to alter their spending programs for 1975. Some firms acknowledge that spending plans are coming under increasing scrutiny and could be scaled down in the event of a deep recession. A major retail food chain headquartered in the District is cutting back significantly its capital spending plans for 1975. Within the past two weeks, another electric utility in the District announced it will cut its capital spending next year because the demand for electricity does not appear likely to grow as fast as previously expected. A large Cleveland-based consumer goods, automotive supplier, and electronics firm also recently announced a 10-percent cutback in spending plans for 1975.

Spot checks with three local savings and loan associations--one very small, one medium-sized, and the largest--showed that all three experienced net savings inflows during October. They are still being extremely selective in granting mortgage loans.

FIFTH DISTRICT - RICHMOND

The October survey of Fifth District businesses indicates a further deterioration of business conditions, with a few key industries leading the decline. General weakness in the construction industry seems to be having a depressing effect on both the textile and furniture industries, two of the District's leading manufacturing activities. Manufacturers in general report fewer instances of higher prices, particularly with respect to prices received. While retailers in the survey continue to indicate growth in the dollar volume of sales, big-ticket items continue to move slowly. Activity at Fifth District financial institutions during October seems to reflect the general slowdown in the nonfinancial sector of the economy. Outstanding CD's at weekly reporting banks are declining, and a growing number of banking respondents indicate that general pressures for credit expansion are easing.

Over 75 percent of the manufacturers surveyed reported declines in the volume of new orders in October. Similarly, the diffusion of responses suggests a decided weakness in both the volume of shipments and the level of backlogs. This worsening in the orders picture represents the continuation of a trend that began late last spring. Our latest survey also shows declines in both the number of manufacturing employees and in hours worked per week. Despite this evidence of reduced output, almost half the manufacturing respondents report further accumulation of finished goods inventories and almost 45 percent view current inventory levels as excessive. More than a third see current plant and equipment capacity as excessive, and 16 percent feel current expansion plans should be cut back. Over

75 percent now feel that the level of business activity nationally will worsen over the next six months, and over 50 percent see the level of production in their own firms declining. Such attitudes represent a significant departure from those expressed in recent surveys.

As in previous months, the business slowdown seems to be having the greatest impact on a few key industries. The most negative responses come from the textile industry. Of 12 textile firms responding to the survey, 11 report declines in shipments, while all 12 report declines in new orders and in backlogs. Additionally, reports of layoffs and plant closings within the industry are becoming more frequent. Unemployment is rising rapidly throughout the industry, and most reporters expect conditions to worsen during the next six months. Respondents from the furniture industry indicated similar conditions, although they are maintaining the level of shipments by further reducing backlogs. Three-fifths of the furniture manufacturers surveyed feel current inventory levels are excessive and that conditions will continue to deteriorate during the next six months.

Retailers in the survey report further increases in sales but a continued decline in the sale of big-ticket items relative to total sales. In addition, there seems to have been some further accumulation of retail inventories during October, and 44 percent of the retail respondents now feel current inventories are excessive. Retailers are unanimous in reporting higher prices paid and received. Most foresee little change in business conditions during the next six months.

Activity at Fifth District financial institutions during October seems to reflect the general slowdown in the nonfinancial sector of the economy. Total loans of District member banks (seasonally adjusted) were up $379 million from the previous month but still below the July peak. Commercial and industrial loans at weekly reporting banks rose from September to October, while real estate and consumer instalment loans remained flat. District member bank borrowings at the discount window were at their lowest level since March. Outstanding CD's at weekly reporting banks are also declining. Preliminary data for September indicate that District S&L's (excluding West Virginia) experienced a decline in net savings received of $97.6 million. Recent deposit activity has probably been more favorable, however. Savings deposits at banks seem to have started a recovery from their declines in August and September.

With January-August cash receipts showing only a 7-percent increase, the farm income gain over last year has narrowed further. Livestock receipts were down 1 percent, while crop receipts were up 21 percent. The history-making prices paid for this season's flue-cured tobacco marketings will most likely improve crop receipts still further. On the border belt, for instance, a 20-percent gain in seasonal average prices combined with a 7-percent boost in volume to produce a 29-percent increase, or $67.1 million, in gross returns.

SIXTH DISTRICT - ATLANTA

The slowing in the Sixth District economy appears to be spreading. Residential construction remains depressed. Layoffs and plant closings are more numerous. Loan delinquencies and business failures are noticeable in many areas. Postponements and cancellations of industrial and commercial projects continue to occur. Directors report that price-cutting by retailers and bargain- or sale-buying by consumers, as well as downgrading of purchases, have now become a common practice. Shortages have eased significantly in many parts of the District. Below is a state-by-state rundown on economic conditions in the Sixth District.

Alabama: As in other states, residential construction is weak but, at least in central Alabama, commercial construction seems to be holding up well. Unemployment is not as severe as nationally (a 4.6-percent rate in September), but layoffs are increasing, particularly in industries related to housing. A pipe manufacturer has laid off 375 workers, while a castings manufacturer has furloughed 600 workers. The lumber industry has been most severely hit; demand for lumber is practically nonexistent, and many industry layoffs have occurred. One lumber dealer has been trying to sell 25 percent below market price and still cannot find a buyer. Several industrial projects have been canceled. Most notable is the possibility that the proposed $2.7-billion uranium enrichment plant near Dothan, Alabama, will not be built for lack of long-term financing. Price cuts in autos and tires were reported, and many items are only moving during sales.

Florida: Jacksonville and South Florida seem to be holding their own so far, but Tampa-St. Petersburg and central Florida have been severely affected by the current economic decline. Tourism is holding up pretty well in South Florida. Delinquency rates are increasing in central Florida and Tampa-St. Petersburg, according to one banker. Many of the delinquencies are from old customers who normally pay their bills promptly. In central Florida, several wholesale appliance dealers and electrical and plumbing contractors have closed their doors, and a few have filed bankruptcy. Among those filing are a major truck rental and leasing firm and one of Florida's oldest and best-known families in the citrus industry. One of the largest cement firms in South Florida has put 50 of its largest trucks in mothballs, and it is laying off a large number of workers. Florida Power Company has furloughed 5 percent of its work force. Mobile home sales are down by as much as 50 percent, and many workers have been laid off. Businessmen report shortages easing in areas related to construction such as timber and cement, but shortages remain in petroleum-base products.

Georgia: This state's economy has sagged, with construction-related industries taking the brunt of the slowdown. Bankruptcies are up 50 percent in Georgia and Greater Atlanta from a year ago. Motels, mobile home companies, bars, and restaurants have been hardest hit. Consumer bankruptcies are up but not as much as for businesses. Textile manufacturing plants are cutting their workweek back to four days. Office space is becoming oversupplied in Atlanta. It is rumored that two partially completed office buildings are stopping construction. A $4.5-million plant, which manufactures door units, was recently completed. The opening has been shelved for eighteen months to two years because of the decline in construction. The coal strike could severely affect Georgia's economy. Georgia Power Company relies on coal for 80 percent of its electrical supply.

Louisiana: Economic conditions in this state are mixed. The agricultural picture is one of a bumper soybean crop and skyrocketing sugar cane prices, which have boosted farm incomes. Cotton yields are below normal, however; and livestock producers are in a severe squeeze as they are everywhere. The timber industry is doing poorly in Louisiana as well as in other southeastern states; timber prices have dropped off 50 percent since February. Several cutbacks of capital spending plans have occurred. One oil company has postponed their previously announced $60-million construction program because of cost escalations which would make the present cost $145 million. One large industry recently decided not to locate in central Louisiana because of a lack of natural gas. Commercial and industrial construction is doing well, however, in other parts of Louisiana. The largest shopping mall in Louisiana, and the tenth largest in the country, is being built in Baton Rouge at an estimated cost of $50 million. Several chemical plants have announced multimillion-dollar expansion plans.

Mississippi: This state, with its large agricultural base, has been least affected by the current economic decline. The state's unemployment rate was 4.1 percent in September, up only slightly from the year-ago 3.7-percent rate. Cotton and soybeans are now being harvested and will be larger than the 1973 crops. This year's pecan crop, also being harvested now, will be off somewhat from last year. Commercial and industrial construction remains healthy. A new shopping center is being built in Jackson. At least two new chemical plants have been announced, and a new paper products plant will be built in the Meridian area.

Tennessee: Reports of price-shading and budget-buying have been received from many parts of the state. Of course, autos are selling at discount prices, but other items also are moving only at sale prices. One Tennessee businessman stated that two years ago he was given a bid price of $85,000 on construction of a new office building. Recently, five bids were received for the same job, and the contractor who bid $85,000 two years ago was awarded the contract at the low bid of $65,000. Tennessee retailers are noticing a significant shift in the downgrading of purchasing by their customers. One businessman notes that the average customer is shopping more and more in the budget sections of the department stores rather than in the regular merchandise lines. Shortages have lessened in most parts of the state, except for fertilizers, antifreeze, and farm machinery. Job lay-offs have been increasing. A large bicycle manufacturer is laying off 1,500 workers; a television maker is closing down operations for two weeks. There is fear that the curtailment of natural gas to east Tennessee may force the closing of some plants in that area. Tourism, which is doing well throughout the state, is one of the few bright spots in the state's economy. Instances of capital spending curtailments were reported by Tennessee directors. The development of three major shopping centers has been delayed because of financing costs and other difficulties. A large apparel manufacturer in middle Tennessee has delayed completing a $1.2-million plant after already spending $400,000. A $55-million expansion program announced by a Tennessee engineering company has been delayed because customers are now asking for later delivery of equipment already ordered.

SEVENTH DISTRICT - CHICAGO

The softening in business activity in the Seventh District, reported in earlier months, has broadened and deepened. New orders have slowed almost universally, even in the case of heavy equipment producers, most of whom are still operating at capacity. Except for coal and steel--closely related products--concern over shortages has given way, dramatically, to attempts to reduce inventories. Many firms, large and small, are pressing cost-cutting programs, which usually involve reductions in staff. Publicity over layoffs and rising unemployment are adversely affecting consumer psychology and, therefore, sales of both big-ticket consumer goods and houses. Although savings inflows have improved, the depression in the housing industry continues to worsen. Harvesting of crops is progressing rapidly, but yields are far below the levels anticipated early in the year.

A majority of the purchasing managers in Chicago reported significant reductions in activity starting in September. (A similar shift from strength to softness occurred in December 1969.) The list of items in short supply has dwindled almost to zero. Steel is the only basic material still said to be in short supply. But even in the case of steel, availability has improved and remaining stringencies are probably related to fears that a long coal strike may severely restrict supplies. Long lead times on such items as bearings, power transmission equipment, fasteners, and electric motors have shortened significantly. Supplies of heavy castings, forgings, and steel plates are still below requirements. In many areas, imports are again more available. Frequently, it is said that "salesmen are calling for a change."

Inventory reduction efforts have been spurred by a combination of increased availability of goods, reduced demand for products, high interest costs, and limited financial resources. Reduced output schedules and layoffs of production workers have been announced by many manufacturers--especially in autos, appliances, television, furniture, bicycles, and electrical components. Many of these items were back ordered only a few months ago. Publicly or privately, executives of many manufacturing firms say the fall-off in new business was abrupt. Frequently, the turn came in mid-September.

A number of electric utility companies are in serious financial trouble and have embarked on austerity programs and cutbacks in capital spending programs, even though service capabilities may be affected adversely in the future. Also, some large firms, which continue to report substantial increases in sales and appear financially strong, are pushing cost-cutting efforts because profit margins are unsatisfactory.

Pressures to reduce staff are beginning to resemble the experience of 1970, with white-collar employees sometimes under a "reign of terror." Employment is reduced by attrition, cancellations of unfilled requisitions, forced early retirements, and outright firings.

Most producers of capital equipment have noted a slowing in new orders recently, and they have been able to reduce swollen backlogs; however, stretch-outs and cancellations of orders also have become more common. Materials handling equipment, pollution control equipment, and heavy trucks have been affected by these trends, although orders on hand should keep output high into early 1975.

Many equipment producers have been able to overcome bottlenecks that had resulted in badly unbalanced inventories, including finished goods lacking one or more parts. Solid strength in capital goods continues for machine tools and for equipment for chemical processing, mining, oil and gas exploration, heavy construction, railroads, and agriculture. Some producers of these items, however, are becoming apprehensive concerning demand after the first quarter of 1975.

Retail sales of autos and most large household goods have been running well below a year ago (and below expectations). As a result, production schedules have been reduced sharply in a series of steps. Producers of these goods frequently complain that tight credit has been a factor in reduced sales, both at the dealer and consumer levels.

Despite prospects for improved savings inflows, there is little hope for a revival in residential construction before the second quarter of 1975. Lenders are making few new commitments, either for construction loans or for mortgages. This reflects a desire to repay debt and rebuild liquidity but also a concern that any improvement in supplies of funds may be temporary. The mobile home industry also remains severely depressed. Some large builders of conventional housing have abandoned big projects in the region. Various mobile home producers have closed plants or have gone out of business.

If the coal strike lasts more than two or three weeks, steel output necessarily would be reduced. The auto companies also say their operations would be affected before long. Utilities in this area are said to be fairly comfortable, with 70 to 100 days' coal on hand. Heating oil inventories are said to be adequate, unless a coal strike lasts more than five to six weeks.

EIGHTH DISTRICT - ST. LOUIS

Business activity in the Eighth District remains at a relatively high level, but there are signs of weakening. In addition to the housing market, which has been depressed for several months, demand for many consumer durables, including automobiles, has weakened in recent weeks. Other industries, such as steel, certain chemicals, and capital goods products continue to exhibit strength, but slowing in overall demand has been confirmed by a drop in manufacturing employment. Recently, business loan volume has leveled off and interest rates have declined.

Representatives of some major retail stores reported that retail sales have declined recently. Consumer durables have been the hardest hit, with television sets, home appliances, and automobiles among items with lagging sales. In addition, there is a reported softening of other items such as clothing and shoes.

Manufacturing activity in the District has also slowed in recent weeks. Activity in the automobile industry has declined, and cutbacks in production schedules and some layoffs have been announced. Demand for paper and paper products has slackened considerably, and some firms' operations have been contracted. In contrast, backlogs of orders were reported only a few weeks ago. Shoe manufacturers also report cutbacks in production and plant closings in some areas.

Total employment in the Eighth District continues on the weak side. Payroll employment for the five Eighth District states showed only a slight increase for the third quarter in contrast to a high rate of growth last year. This small increase reflected an increase in nonmanufacturing employment and a decline in manufacturing employment.

Business loans at banks were virtually unchanged during October for the Eighth District, while total bank loans declined slightly. Savings flows into thrift institutions in October were at a somewhat higher rate than in September, with most of the growth in the higher yielding time deposits. Savings and loan associations generally reported a decline in passbook deposits in recent weeks. In addition, these associations reported making very few loans except where previous commitments were made.

Crop harvesting conditions have been generally favorable, and harvesting has generally continued on schedule throughout most of the District. Livestock farmers continue to report unprofitable operations. Cow-calf operators, poultry farmers, and dairymen are among those whose profits have been pinched in recent months. Reports indicate a considerable expansion in grass-fed beef production, while cutbacks were reported in egg, broiler, and dairy production.

NINTH DISTRICT - MINNEAPOLIS

Even though some softening in farm income is anticipated, no immediate letup in consumer spending or increase in unemployment were foreseen, in general, by District bank directors. District gross farm income in 1974 is expected to approximately equal last year's level, and net farm income is anticipated to be down from a year earlier. In addition, credit conditions are tight at District rural banks. Although slowing was cited in several retail spending categories, especially automobiles, the consensus was that despite the softening in farm income, spending in rural areas has not yet been significantly affected and District retailers are hopeful for a good Christmas season. In contrast to the prospects of sharply rising unemployment in the national economy, several directors foresaw no immediate increase in their areas' joblessness.

Although the consensus among directors was that the District's gross farm income in 1974 will approximately match last year's level, the situation is expected to vary within the District. Given that livestock prices are down 60 to 70 percent from a year ago, a Montana director indicated that the outlook is rather bleak for the District's livestock industry; this view was also voiced by a western South Dakota director. Grain producers in Montana are benefiting from record high prices and relatively good crops this year, but farm receipts are expected to be off this year in North Dakota, where dry weather restricted crop yields. Directors from Minnesota and western Wisconsin state that they expected their areas' farmers to do quite well.

Given the above opinions about gross farm receipts, directors looked for District net farm income to be down in 1974 from a year ago; however, one view was that 1974's District farm income would be high by historical standards. Another opinion was that District farmers have considerable savings and that crop incomes were carried over from 1973, which would help support their income this year. One more view was that the general softening in the economy would put downward pressure on farm input prices, which would also help the net farm income situation in 1975.

According to our latest agricultural credit conditions survey, this year's District farm income developments have slowed deposit growth at rural banks and increased loan demand. The slow deposit growth is a result of several factors: 1. Drought and frost have reduced crop yields in many areas. 2. In areas where crops are good, farmers are holding their crops in hope of benefiting from further price increases. 3. Cattle prices are lower than last year. 4. The movement of feeder cattle from western ranges to midwestern feedlots has been much slower than usual. Further, the contract market for feeder cattle virtually disappeared this past summer. At the same time that deposit growth has slowed, loan demand has remained high. Bankers indicated that an important reason for this has been the need to finance cow-calf operations through the winter months, since many ranchers will be holding their calves and yearlings and gambling on a turnaround in the livestock industry next spring. Consequently, credit conditions are tight at District rural banks. Thirty percent of our survey's respondents expect problems in meeting their fourth quarter loan demand, and only 27 percent are actively seeking new loan accounts.

Even though concern was expressed about sales prospects and some softening was reported, directors generally expected District retail spending to hold up quite well until the end of the year. Directors from rural areas indicated that the softening in farm income either had not yet begun or else was just beginning to affect spending in their areas. This view was also expressed by District bankers responding to our latest agricultural credit conditions survey. Several directors stated that their areas' retailers were looking for a good Christmas season. Still another view was that Christmas spending would be stronger in the District than in the nation. One director stated that retail sales have been spotty in his area, and another expected consumer nondurable sales to hold up quite well but higher-priced durable sales to be off. Higher-priced and fashion merchandise was selling quite well in another director's area, but lower-priced merchandise was becoming somewhat difficult to move. Most directors stated that auto and truck sales were off in their areas.

In contrast to the increasingly bleak prospects for employment nationally, several directors were rather optimistic about their areas' prospects. In North Dakota, labor market conditions were termed normal and a skilled labor shortage was cited. In Montana, expansion in the coal industry is absorbing workers; however, the underground copper mines there were recently closed, affecting 700 workers. The unemployment rate is currently at its lowest level in a number of years in the upper peninsula of Michigan, as that area has benefited from the increased demand for iron ore. Within the Minneapolis-St. Paul metropolitan area, however, some layoffs have been reported. Recently, a large window manufacturer layed off 680 people--approximately a third of its work force--in response to the slump in the housing industry. Also, concern was expressed that a prolonged period of severely cold weather this winter could disrupt natural gas supplies to industrial employers in the Minneapolis-St. Paul area, resulting in additional layoffs this winter.

TENTH DISTRICT - KANSAS CITY

Economic conditions in the Tenth District continue to be somewhat better than in the nation. Unemployment figures are lower and more stable than those observed nationally. District savings and loan associations are beginning to see a return to "black ink." The District is sharing the problems of the automobile industry, both in reduced output and employment at assembly plants and in lagging sales. Area new car dealers cite higher prices and economic uncertainty for a marked fall-off in sales. Recent rains have resulted in a significant improvement in the condition of the District's winter wheat crop. Overall loan volume at District banks is generally flat, while deposit growth has remained strong.

The Tenth District unemployment situation continues to be relatively stable in contrast to the recently observed upward movement in the national figures. On a seasonally adjusted basis, District unemployment in September was 4.2 percent of the civilian labor force, compared with 4.1 percent in August and 3.8 percent in September 1973. At the national level, the rate climbed to 5.8 percent in September from 5.4 a month earlier and 4.7 a year earlier.

District construction employment continues to suffer. In September, construction employment--which has been declining since early 1974--dropped 0.6 percent below the August level and 5.5 percent below September 1973. The decline was most severe in Colorado and Oklahoma. With the normally slow season fast approaching, the outlook is not bright for District construction employment.

Savings and loan associations in the Tenth District reported a slightly brighter deposit picture for the end of October and early November. While net inflows have not been strongly positive, all institutions surveyed showed a return to "black ink" in November. On the mortgage front, there was some indication of a downward movement in rates in states without usury ceilings. Except for Wichita, housing expectations were generally pessimistic, at least through the first half of 1975. One negative factor mentioned was a large backlog of unsold homes, many of which have been on the market for a year or more. On the positive side, an Oklahoma City association states, "The demand is there. It all depends on whether or not we start getting more deposits."

"Slow across the board" and "off considerably on sales" are typical responses obtained in our survey of Tenth District new car dealers. Among domestic car dealerships, a trend away from smaller models appears to be materializing. In many cases, a large backlog of 1974 cars still exists. Some foreign car dealers, who have not as yet introduced their 1975 models, report a severe drop-off in sales from last year and a serious problem of overstocking.

While higher prices, new equipment, and financing difficulties were sometimes cited as reasons for the sales fall-off, the most strongly voiced reason was a fear of the general economic situation. One dealer stated, "President Ford's speaking made an eerie marked difference in sales." Expectations for calendar 1975 sales ranged from a substantial fall-off to a pickup in the spring, as more people simply have to buy. To date, very few longer-term financing contracts (42-48 months) are being seen, though dealers expressed a willingness to accept them if they were available.

The condition of the District's winter wheat crop has improved in the last month, despite heavy rains which caused some flooding in a few areas.

The prospects in Oklahoma look very good, and cow-calf producers are beginning to place animals on wheat for pasture. Recent floods in the state caused little damage to the new crop. Due to earlier dry weather, wheat stands in Kansas and Nebraska are spotty and stunted in many areas. However, sharp improvement either has occurred or is expected as a result of the recent rains.

The change in weather has obviously slowed the fall harvest, which had been progressing very well. Feed grain yields are sharply lower this year, but soybean yields seem to be holding up a little better than expected. Reports on fertilizer supplies are mixed, with prices sharply higher. Generally, however, farmers who are willing to pay the price have been able to meet most of their fertilizer needs.

Overall loan volume in Tenth District banks is reported as generally flat. Nearly all banks contacted indicated that they were making new loans reluctantly and then only to old customers. On the demand side, cancellations of plans for residential and commercial buildings have reduced requests for construction loans. In New Mexico, Oklahoma, and Nebraska, businessmen were reported to be attempting to decrease inventory holdings and accompanying financing, but banks in Kansas City and Denver saw no clear inventory pattern among their customers. Declines in loans for consumer durables were being offset by increases in credit extended through bank credit cards. Several bankers were worried about delinquencies in their consumer loan portfolios.

Deposit growth has remained good at the District banks contacted. Private demand deposit behavior was felt to reflect the general strength of the District economy relative to that of the nation. An increase in deposits has been noted as a result of seasonal inflows into agricultural banks. Consumer time deposits have begun to increase again as rates on government securities have fallen. Banks have maintained recent levels of negotiable CD's outstanding. Goals for the CD maturity structure seem largely unaffected by the recent change in reserve requirements, as expectations of substantial rate declines are so strong that CD's are being kept as short as possible.

ELEVENTH DISTRICT - DALLAS

Department store sales in the Eleventh District, which have been strong throughout most of this year, have slowed since early September. Retailers report that there may be some slowing in purchases made to avoid anticipated price increases. But the fact that the slowdown in buying has been confined to big-ticket items, particularly television sets, furniture, and appliances, suggests that the drop in sales of new homes is also an important factor. By contrast, demand for apparel, recreational equipment, and automobile parts remains brisk, generally running ahead of last year's pace.

Approximately half of the stores contacted said inventories are currently above desired levels. Retailers have been able to obtain additional financing needed to carry these inventories, but the cost has been very high. Consequently, efforts are being made to move the merchandise quickly, including increases in promotional activity and price cutting. In most cases, the build-up of inventories is attributed to slower sales, but some retailers believe the increase is due in part to overshipments by suppliers in an effort to avoid high storage costs. For one large retailer in the Dallas-Fort Worth area, this resulted in pre-Christmas inventories reaching their peak three weeks earlier than last year.

Despite the recent weakness in sales, most of the department store executives surveyed are optimistic about the Christmas season. For example, the largest department store chain in the District expects the dollar volume of sales to be 10-15 percent higher than last year. That is expected to more than offset higher prices and to reflect, of course, some increase in unit sales. Expectations of strong Christmas sales assume that the current slowdown is due more to voluntary consumer restraint than to a constriction in consumer ability to purchase. Optimistic retailers cite a low rate of delinquencies on customer charge accounts, in some cases below the level of a year ago, as evidence that the buying power of most customers is still strong. Another sign is that customers are showing a preference for higher-quality items in most product lines.

New car dealers in the District report that the 1975 models are "just not moving." Most agree that the main factor causing sluggish sales is sharply higher sticker prices. The number of new cars sold is down substantially from this time a year ago--approximately 30 percent at the typical large dealers contacted. But retail demand is probably even weaker than this, since many of the units sold recently have been to fleet buyers. Thus, dealers are fearful that once fleet orders are filled, sales will fall even more sharply. Faced with lagging sales and the high cost of carrying inventories, many dealers are seeking to prevent a build-up of unsold cars by reducing their orders of new models. Some firms report cutbacks as high as 50 percent.

Financing for consumer purchases of new cars is becoming more difficult to obtain and, thus, contributing to the lower volume of auto sales. Most of the new car instalment loans currently being made in the District are for 36 months at 7.5 percent add-on interest. However, financial institutions are reported to be very selective, turning down loan applications they would have accepted a year ago. For example, a large dealer in El Paso is experiencing a turndown rate three times higher than normal. Some dealers have been notified by their banks that this financing is no longer available, while others have recently experienced an increase in the discount rate banks charge.

Demand for recreational vehicles, specifically motor homes and camping trailers, is holding up well. A survey of some of the largest dealers in the District shows sales generally running ahead of a year ago, despite complaints by these firms that financing for their customers is becoming more difficult to obtain. Dealers report that the demand for motor homes has been strong since the easing of the energy crisis in March. Most buyers are showing a preference for the higher priced units, even though prices for most new models have been increased in excess of $1,000. Inventories are generally reported to be in line with sales. Retailers of camping trailers are also experiencing a higher level of sales, which they attribute partly to an influx of buyers priced out of the motor home market. Prices of their units are also up sharply--as much as 20 percent for several popular models. Higher camper prices have led to brisk demand for used trailers, even though many older units now sell for more than their original price.

Loan demand at Eleventh District banks has apparently softened somewhat since mid-September. Despite substantial inflows of both demand and time and savings deposits, the volume of loans outstanding at the large commercial banks in the District has decreased. One reason for the decline may be increased selectivity on the part of bankers. However, recent reductions in prime lending rates of banks indicate that demand for bank loans may be weakening. Information available from one of the largest banks in the District indicates some strengthening in demand for loan participations by smaller banks. Although recent declines in the Federal funds rate have made loan participations relatively more attractive, greater demand for participations may also be an indication that smaller banks in the District are experiencing some decline in loan demand and are turning to participations with larger banks as an outlet for funds.

TWELFTH DISTRICT - SAN FRANCISCO

Our directors report the slowing of economic activity in the Twelfth District is likely to continue into 1975 before any recovery begins. The weakest sectors are housing, lumber, and autos. Sectors such as agriculture and electronics remain strong, and consumer spending is steady except for a decline in automobile purchases. Bankers report some weakening in loan demand. With the exception of agricultural areas, our directors report that their local economies are weaker. Residential housing construction shows no evidence of improving, and one large California bank suggests that housing might even decline further during the coming months before recovering. Non-residential construction, in contrast, has been maintaining a good pace, but the backlog of work is becoming smaller. Increases in bankruptcies among subcontractors have become more common, and the unemployment rate among construction workers in Southern California is about 30 percent.

Because of weakness in construction, District lumber and plywood producers have cut production and, in some cases, closed mills. One exception to this situation is that demand for laminated wooden beams, which substitute for steel, is excellent. Paper mills, which are dependent upon general demand, are still having a good year, but there have been some indications of reduced demand. Consumer spending is relatively satisfactory in most categories, with the exception of automobile purchases. Most of our directors think that the automobile industry will have a depressed year. Electronics manufacturers and other high technology industries are still maintaining high levels of employment.

Agriculture in this District has escaped bad weather and has had another good year. Crops have been excellent; and where average yields have been lower, increased acreage under cultivation resulted in greater total crops. Grain prices are high; and potato prices, although somewhat below earlier levels, are well above those of a year ago. The only weak sector in agriculture appears to be livestock.

The slowing of the general economy is being reflected by improved supply conditions. Supplies of steel, in particular, appear to be better. Foreign mills are quoting prices very close to those of domestic mills. Unless there is a long coal strike, most steel products are expected to be available with reasonable procurement lead times and at lower prices by year-end. Basic petrochemicals and vinyls also are becoming readily available and at lower prices. Prices of vinyls are lower because of falling demand by domestic automobile manufacturers.

Buyers are reported as being more cautious in responding to greater availability and lower costs. For example, a steel supplier in Washington had been informed of a doubling of his quotas on certain items, but in light of expected declines in demand, he was reluctant to expand his inventory. Buyers are described as buying on the basis of "need," and inventories are being held down.

Demand for agricultural equipment is, however, still strong, as farmers are continuing their purchases. Farm machinery is now more readily available, but inventories are still low in the face of heavy buying. Continued shortages are reported for fertilizers and certain classes of prefabricated materials. The situation for gasoline is mixed. In Southern California, allocations to independent dealers recently have been reduced, but satisfactory supplies are reported in other parts of the District and prices have declined somewhat.

The demand for bank loans has eased and is expected to fall somewhat further. In particular, the demand for business loans is lower in most areas. To some extent, large borrowers are preparing to return to the capital markets and preparing to rely less heavily upon bank financing. The demand for real estate credit is strong, largely because of the absence of activity by savings and loan associations. Where they have gained funds, associations are apparently trying to rebuild liquidity, and they are following conservative lending practices. Loans are made primarily to established customers for refinancing. Despite continued increases in recent months, bankers expect that consumer credit demands will ease. In addition, some directors are concerned with the possibility of increased consumer loan delinquencies after the end of the year.

The directors continue to be concerned with inflation, and they do not want an easy monetary policy. Nonetheless, some easing is desirable, and a somewhat less restrictive monetary policy is preferred.