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CURRENT ECONOMIC CONDITIONS BY DISTRICT

Prepared for the
Federal Open Market Committee
by the Staff

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SUMMARY*

The general impression given by this month's Redbook reports is some moderation in the rate of decline in economic activity. While no District reports suggest that a general economic upswing is "just around the corner", with some exceptions the March reports indicate that the deepening pessimism that had characterized businessmen's outlook in previous recent months may have abated significantly. Respondents in most Districts either expect a turnaround at some point in the second half of the year, or expressed relatively bullish sentiments regarding prospects for their individual firms and industry. Retail sales were generally described as running at a lower level than a year ago in unit terms, but the decline in consumers' outlays in general appears to be levelling off, and some Districts actually reported some improvement. Retail inventories have been substantially reduced, but manufacturers' inventories still remain high. The outlook for the housing industry on balance appears to be improving, if only slightly. There were further reports of price cutting, both at the retail and production levels. On the darker side, the employment situation continued to deteriorate in many parts of the country.

Among the comments regarding the economic outlook, Boston reports that its directors were more hopeful, and while they did not as yet believe the economy to be on the threshold of a turnaround, they felt that following the rapid deterioration in previous recent months, business activity was now stabilizing. Philadelphia reports little change in economic activity, which it considers an improvement compared with the declines in previous months. Moreover, it notes that businessmen in

* Prepared by the Federal Reserve Bank of New York.

general expect the District's economy to pick up in the fall. Similarly, while Richmond reports a continuation of a broad decline in economic activity, it also reports an easing of the pervasive mood of pessimism displayed during the past few months as more businessmen now see "a light at the end of the tunnel." St. Louis reports that the rate of decline in unemployment and output has moderated, and indeed notes that activity in selected industries continues at relatively high levels. Respondents in the San Francisco District expressed the belief that conditions in the District's hardest hit industries--construction, lumber, and transportation equipment--have now stabilized. On the other hand, Chicago reports that pessimism has not been so deep and widespread since the 1930's.

Retail sales continue to be generally sluggish in most Districts, but there appear to be scattered encouraging developments. St. Louis, for example, observes that no further decline in department store sales has been reported. Cleveland reports that bonuses as well as rebates spurred a sharp jump in auto sales in February, while more modest increases were reported in several other Districts. Dallas reports a rise in sales, with big-ticket items in particular moving well ahead of their sluggish pace of recent months. Atlanta, on the other hand, reports that home appliance sales have been particularly weak but that apparel sales have been doing well. A very recent pickup in retail sales was observed by Kansas City and New York, while Philadelphia reports optimism on the part of retailers despite sluggish sales. Minneapolis reports that retail sales have held up well in Montana and that the area's businessmen have grown more optimistic. Most Districts commenting on the subject report a decline, in varying degree, in retailers' inventories from their excessive levels at the turn of the year. Continued high inventories at the manufacturing level, however, are mentioned by a number of Banks, including Atlanta, Boston, Cleveland, and Richmond.

Activity in the housing industry in general continues at a low level. There were indications, however, that the industry may be coming out of its slump as mortgage funds become more readily available with the sustained inflow of funds to thrift institutions and as the inventory of unsold residential units is being worked off. Atlanta and Kansas City report some improvement in home sales. Cleveland reports a moderate rise in residential construction contracts from their severely depressed levels, while builders in the St. Louis District anticipate an early increase in residential construction activity.

The darkest spot in the current economic picture, of course, is the high level of unemployment reported by most Districts. Richmond reports that unemployment rates have risen to record levels in many areas. Minneapolis reports a sharp rise in unemployment in January, although the jobless rate for the District remains below the nationwide average. Cleveland mentions that numerous lay-offs have been reported thus far in March, while Chicago also refers to "waves" of lay-offs in durable goods industries. San Francisco and Philadelphia respondents do not look for an increase in the level of employment over the near term, which combined with the growth in the available labor force is expected to be reflected in further increases in the jobless rate. On the other hand, Kansas City notes an improvement in the employment situation at automobile manufacturing plants in the Kansas City area, while St. Louis mentions that scattered reports for February suggest a levelling off of the unemployment rate.

FIRST DISTRICT - BOSTON

For the directors of the New England region, the outlook has stabilized. Formerly, they were concerned about the signs of rapid deterioration; now they note a pause in the erosion. Although the directors are generally more hopeful, they are not yet anticipating that the economy is on the threshold of recovery. January unemployment in New England is 9.5 percent, up .7 from December and 3 points from the previous January. Rhode Island has a 12 percent unemployment rate, the region's highest, while Massachusetts and Connecticut report rates of 10 percent and 8.6 percent, respectively.

Directors in Massachusetts and Connecticut have specifically mentioned concerns about state budget trends. Economic weakness has brought deficits, and state authorities are undertaking major efforts to reduce spending and increase taxes. It is felt that these reactions will retard recovery.

In New England, only the industries connected with defense projects seem to be doing well. Despite the strength of United Aircraft and Electric Boat, one director's index of business activity for Connecticut is forecast to be 110 for 1976 (1967=100), 3 percent below 1974. Profits reports are generally dismal: "Fourth-quarter reports are full of minuses, with few exceptions."

Consequently, there will be a period of time before business is willing to commit important outlays for expansion. A director involved with the production of fasteners, milling machines, and machine tools reports that new orders are down sharply. His personal indexes for the direction of business activity cause him worry; May and June will bring reduction of output. Several directors have reported that suppliers are stepping up shipments (steel, for example) by as much as six months in addition to padding orders.

Those connected with the production of automobile parts have noted a stabilization of conditions. It appears that the industry has adjusted production to a level consistent with a 6 million unit year. Housing starts have all but disappeared. One director mentions that low sales volume has placed pressure on him to increase prices. Reduced rates of utilization of factors of production require larger margins to cover overhead.

For retail sales, "there is no spring optimism". Orders are down, and consumer resistance is in the air. Promotions are common from supermarkets to hard goods. A director notes that his sales are running well, compared with his modest planning. His inventories are under control. However, manufacturers have significant overhang so that the director attempts to remain liquid, capitalizing on distress sales. "Massively heavy promotions" are to continue.

Bankers seem to expect a 7 percent prime to prevail for the second half of 1975. They also note that quality loan customers are moving into bond issues whenever possible, leaving low-quality paper. There seems to be a reticence to embark on a growth binge again, and construction lending will be approached with serious caution. Bankers also note that year-end statements show high inventory figures which require attention.

Prospects of a large tax cut have made Eckstein much more sanguine about the economic outlook. He now believes that the tax cut, combined with a monetary policy which lets the Treasury bill rate remain at 4 percent, will allow the economy to experience real growth rates of 3-4 percent in the second half of 1975 and even more vigorous growth in

1976. He believes that the role of the Federal Reserve in the next six months is to allow businesses to rehabilitate their balance sheets by creating market conditions in which corporations will be able to float long-term securities. Eckstein also noted that the Fed should be encouraging banks to make loans. The Fed, he argued, should put in abeyance its program of capital adequacy because "it is grossly inappropriate to the current situation".

While Eckstein was optimistic about a recovery, he did note that a sharp housing recovery is crucial to his scenerio. If the banks refuse to make construction loans, he argued that the Fed must make them do so.

Duesenberry expressed qualms about the early and strong upturn in Eckstein's forecast. He believes that demand may be much weaker than in past recoveries because the decline in real disposable income is much greater and because there is a big overhang of unsold houses and condominiums. He feels the present situation is most similar to the housing picture in 1963. He notes that the $20 billion upturn in residential construction forecast by the DRI model is as large as the whole tax cut and if it doesn't occur, there will be no second-half upturn.

Professor Solow remarks that further easing will not lead to a sudden expansion. He believes that the real guide to the leniency of monetary policy at this time is the level of long-term interest rates. Consequently, he advocates an aggressive policy designed to reduce the cost of long-term financing. He suggests a revival of operation twist. Although Professor Solow admits this experiment was not a "terrific success" in the past, "nothing awful happened". "It is wrong to watch money demand decay and short-term interest rates fall and say the Fed is doing its job." A revival of the economy will revive M1 figures. The economy is not poised to inflate, in his view, and he feels aggressive fiscal policy coupled with concomitant monetary ease is necessary to germinate recovery.

Eckstein, Solow, and Duesenberry all expect second-half recoveries. However, Solow and Duesenberry see only modest growth, and they feel the risk is that they are being optimistic. Eckstein sees a more vigorous recovery, but it is predicated on monetary and fiscal policy sufficiently aggressive to cause a significant resurgence of housing. All three advocate more monetary ease.

SECOND DISTRICT - NEW YORK

Second District directors and other business leaders who were contacted recently on balance took a rather dim view of the near-term economic outlook, but most expected a turnaround in business activity during the later part of 1975. The retail sales picture remained uninspiring, particularly in New York City. More encouraging was the reported significant reduction in retail inventories, and the improvement--albeit limited--in certain manufacturers' inventory positions. Comments regarding business capital outlays reflected a note of caution in that sector. There continued to be reports of a softening of prices of certain raw and semi-finished products and, at the retail level, of further price concessions, including a spreading of the "rebate" device. The District unemployment rate continues well above the nationwide average, although the most acute problems seem to be concentrated in New York City, Buffalo, and northern New Jersey.

None of the respondents commenting on the swiftness of the deterioration in the economy foresaw a bottomless downward spiral. Considerable uncertainty, however, surrounded the timing of the turnaround, with the respondents in general looking for a recovery to take place later than suggested by some official forecasts. Among others, the chairman of a large airline stated that, at this juncture, he saw no indications of a turnaround as yet. The chairman of a large metal producing firm expected the upswing to be delayed until the start of the fourth quarter, when he looked for an improvement in auto sales as new models were introduced. Among the Buffalo branch directors, those from the Buffalo area, which has been hit especially hard by the downswing, felt that it might well be year-end 1975 before the turnaround takes place. On the other hand, a director from the Rochester area, where business activity has remained relatively strong, expected the turnaround by summer or early fall. Among other respondents, the chairman of a diversified international chemical concern stated that the recession would be worse than had been generally expected, and the chairman of a conglomerate stated that he could not get enthusiastic until retail sales picked up, and would not predict when that would occur.

Regarding consumer spending, New York City department stores, following a poor January, had another poor month in February. Similar conditions prevailed in Buffalo. Sales elsewhere in New York State continued to perform somewhat better than in the State's two largest cities. An official of a trade association reported that while sales at some New York City stores had picked up somewhat, business at others had declined, and that on balance February sales at City department stores would be somewhat lower in dollar terms than in February 1975. On the brighter side, however, his impression was that there had been a slight improvement in recent days, a view also expressed by some retailers. Moreover, he reported that the merchants he has been in contact with were somewhat more optimistic than last month, and looked for an upturn as the spring season gets underway.

A number of reports indicate that further progress has been made toward reducing retail inventories, in good part reflecting significant cutbacks in merchants' purchases from their own suppliers. In this context, the chairman of a very large New York City-based department store chain with branches across the country stated that while his firm had been badly overstocked last November, it has now managed to significantly reduce its inventory position. He also felt this was true of the retail industry generally. Similarly, a senior official of another nationwide department store chain stated that as a result of an aggressive reduction program, his firms' inventories were now 20 percent below their level in the comparable period in 1974. At the manufacturing level, the chairman of a chemical firm reported that his firm had reduced inventories to desired levels, and the chairman of a health and cosmetics products manufacturer stated that his firm had no overstocking problem. Another observer noted that while there has been a general attempt by industry to reduce inventories, a decline in sales has partly frustrated such efforts in some cases.

A note of caution characterized comments on capital spending. A director stated that businesses were attempting to restore liquidity positions and as a result were scaling down large projects. One of the nationwide retail firm officials mentioned above reported that his firm was completing stores at shopping centers that were already on the way, but was putting "little new on the books". One of the metal producers reported that his firm had completed a new aluminum plant, but was not putting this plant "on stream" at this time because of the softening in the demand for aluminum. An airline official stated there were 100 to 250 too many jets available for the airline industry. (He further predicted that the airline industry would show "zero profits" in 1975.)

Regarding prices, the nationwide decline in wholesale prices was reflected in reports of price declines for a number of primary products, including copper, brass, fibers, and raw materials used in the health and cosmetics industry. At the retail level, there were further reports of price concessions in connection with promotional activity and of a spreading of the rebate device to such products as cameras, sewing machines, and home appliances. In the New York City area, rebates are being offered on purchases of condominiums and on leases of luxury apartments.

The District unemployment rate continues well above the national average, in large part reflecting the high jobless rates in New York City, northern New Jersey, and Buffalo. The unemployment rate for New York State rose to 9.3 percent in January. It was 10.6 percent in New York City, where many of the City's principal industries--such as dressmaking, printing, construction, and retail trade--are acutely feeling the downswing in economic activity. In Buffalo, the rate was up to 13.4 percent, reflecting the downturn in the auto, steel, and machinery industries.

THIRD DISTRICT - PHILADELPHIA

Economic activity in the Third District remains mostly unchanged in March from February. Manufacturers report no change in new orders, shipments, and unemployment, but are optimistic for the outlook six months ahead. Our retailers report continued declines in sales; however, the outlook this summer from resort business at the New Jersey shore is strong. The outlook for prices suggests some easing of inflationary pressures. Area bankers are somewhat confused about what the Fed and other regulatory authorities want in terms of loan policy, but loan levels remain flat.

According to this month's business outlook survey of manufacturers in the Third District, industrial activity remains about the same as it was in February. However, "no change" is an improvement, compared with recent months. In November, almost 90 percent of the respondents reported a decrease in the general level of business activity. However, as of this month, only 18 percent of the businessmen report a decrease in the level of activity. Area businessmen are more bullish for the fall, though. Almost 80 percent of the respondents expect the general level of Third District business activity to pick up, and three quarters anticipate that this upward trend will be reflected in increased volume for their own firms. Despite this glimmer of new optimism, however, capital investment plans six months out remain about the same. Our businessmen don't intend to increase spending plans until they have a firmer grip on the outlook.

Employment levels are also flat in March, compared with a month earlier. Half of the respondents report no change in the average number of employees, and three fourths report no change in the length of the workweek. In addition, manufacturers expect little change in their work force and the length of the workweek through September, despite hopes for increased output. This lack of increase in the size of the work force will likely spell continued high unemployment in the region, as the total labor force continues to grow.

Area retailers are harder hit this month than the rest of the region. For the second month in a row, dollar sales are again running slightly below last year's levels, and retailers are continuing their "no hire" policy. Retailers are optimistic though that, if warm weather comes soon, sales may be up by 2 or 3 percent over last year despite the tendency for early Easters to dampen holiday sales. Retailers are concerned about the impact of a tax cut on sales. They had hoped the President's proposed tax rebate might boost sales. However, a survey of Delaware Valley residents shows that only a minority of taxpayers anticipate making purchases they would not normally make. Most residents plan to use the additional funds to pay off existing debt or to save it, according to the survey.

In contrast to area retail sales, early bookings for summer vacations at the New Jersey shore show a bullish trend. A survey of rental agents at shore points found a high rate of renewals for shore homes and apartments and strong demand for one-time rentals. The explanation apparently is that vacationers will be staying closer to home this summer, as the cost of vacations continues to climb and jobs are more precarious.

On the price front, the inflationary pressures that have been plaguing the regional economy may be easing somewhat. Three fourths of the respondents report no change in the prices they must pay for raw materials as well as in the prices they receive for finished goods.

Manufacturers look for a continued easing of inflation during the next six months.

Area bankers report conflicting signals about what they regard as appropriate loan policy. While most Philadelphia banks have been holding down loan levels, partly on a strictly voluntary basis and partly because they think that is what the regulators want, some confusion exists following Governor Sheehan's speech in New York in which he implied that the Fed is no longer advocating a restrictive loan policy. Some bankers in Philadelphia expressed the need for the Comptroller and the Fed to "get together" to develop a consistent policy stance. Several banks report that they would anticipate few problems in increasing loan levels with quality customers. One large Philadelphia bank, however, reports that Governor Sheehan's remarks mirrored those of Governor Coldwell's when he was in town recently and that they are already pursuing a looser loan policy. General loan levels, however, remain essentially flat at area banks, and demand deposit levels are down slightly from last month.

FOURTH DISTRICT - CLEVELAND

District economic activity continues to decline generally, although new car sales have been exceptionally strong. Firms report considerable further slowing in prices they pay for materials and supplies. Few companies see any near-term improvement in business. Many industries expect further weakness in the months ahead, although there are scattered reports of bottoming-out for a limited number of products. Numerous layoffs have been reported thus far in March. Nonresidential construction is declining, and residential construction remains severely depressed.

New car sales rebounded in February much more in the Cleveland area than in the nation. Compared with year-ago figures, sales in Cleveland were down 22 percent in January, but up 13 percent in February. This reflected the effects of not only the manufacturers' rebates but also bonuses offered by a number of firms in the Cleveland-Akron area to employees who purchased a new car. These included a steel company, two advertising agencies, an auto producer, several large banks, a radio station, two major tire companies and various auto suppliers. In addition, some banks helped promote auto sales by advertising reduced interest rates on auto loans. Many firms will continue the rebates until late spring or early summer. Cleveland auto dealers report that sales have slowed thus far in March; but their inventories are down, and they are placing orders for April delivery.

Early returns from our survey of manufacturers indicate additional widespread weakening in manufacturing activity during February. New orders, shipments, backlogs, inventories, employment, and hours all continued to decline sharply. In addition, price pressures continue to ease. The proportion of firms reporting price decreases has risen significantly in recent months and is now roughly equal to the proportion paying higher prices. On balance, no improvement in general business conditions is expected this month.

Several industrialists believe the worst of the decline in a few product lines may be over. One chemical producer said its business has been sliding, but the decline in pigments (for industrial, commercial, and household appliance uses) appears to have bottomed out. Another chemicals firm said its inventory excesses are rapidly dwindling, and it expects to increase production in March. A machine tool executive is hopeful that signs of a bottoming-out in its declining order bookings are appearing (cancellations exceeded new orders by only one machine in February, compared with a significant volume of cancellations in excess of new orders in the previous three months).

Other firms indicate further adverse developments may be in store. A major tire producer said the tire replacement business remains weak. Tire inventories held by the industry are massive and still rising. More production cutbacks and layoffs will be necessary. Shipments of household appliances are described as "miserable". A large appliance firm said it will take three to five months to bring inventories into balance. Sales are not expected to improve until midyear, assuming tax rebates become effective in late spring. Several large glass companies laid off a substantial number of additional workers in late February and early March. A major truck producer in Cleveland, which cut output one third last month, is closing its Cleveland plant for two weeks in March and three weeks in April.

In the steel industry, new orders are tapering off slowly. The decline in steel demand thus far has centered mainly in stainless and specialty steels and in carbon steel sheet and strip. The result has been cutbacks and fairly substantial layoffs at a number of steel plants in the District. Further curtailments and layoffs are likely over the next two months unless there is an unexpected quick improvement in steel demand. Much of the raw steel currently being produced is going into mill inventories to rebuild stocks run down last year when demand was extraordinarily strong.

An economist with a major steel company said he was invited to visit with purchasing agents of three auto producers in recent weeks. The auto firms were looking for price cuts and were wondering who was buying all the steel they were not taking. (Some of the sheet metal that would normally be purchased by the auto companies is being used for storage tanks, which are in strong demand.) The economist noted that the auto firms are torn between wanting lower steel prices and wanting the steel industry to generate profits sufficient to expand capacity so as to avoid future bottlenecks in supply. The auto companies still have large inventories of steel even though they have sold some flat-rolled steel that has age hardened. They are not expected to be ordering steel until the model changeover this summer.

In the construction sector, nonresidential building contracts have been declining sharply since the peak reached in the third quarter of last year. Residential construction contracts turned up moderately in January but are still at a severely depressed level. The dollar value of residential contracts is down about 50 percent from the peak of early 1973. Some local savings and loan associations report continued net gains in deposits in February and early March. Mortgage rates continue to slide, but there has been no recent pickup in loans.

FIFTH DISTRICT--RICHMOND

Results of the February survey of Fifth District businesses give no indication of any significant change in business conditions but rather reveal the continuation of a broad decline in activity. Generally, unemployment rates have continued to rise, reaching record levels in many areas. Whereas in recent months pockets of severe unemployment were notable exceptions, the noteworthy areas are now those with moderate rates of joblessness. Survey responses suggest further declines in manufacturers' shipments, orders, and backlogs, as well as some further accumulation of finished goods inventories. More plant closings and layoffs have occurred in a wide range of industries, with the paper and cardboard packaging materials industry becoming a prominent participant. One change indicated by the survey responses concerns a break in the pervasive mood of pessimism displayed during the past few months. Responses suggest more businessmen now see "a light at the end of the tunnel".

Recent surveys of Fifth District banks indicate continued easing of credit demands and some greater willingness, on the part of banks, to lend to qualified customers. Bank sources of funds are changing somewhat, as declines in demand deposits are being partially offset by inflows of consumer time deposits.

Manufacturers responding to our latest survey reveal continued weakness in shipments and new orders and further declines in backlogs of orders. Meanwhile, inventories of materials remain stable, although further accumulation of finished goods is indicated. Over 46 percent of the manufacturers surveyed reported increases in finished goods inventories, while one out of three reports a reduction in inventories of materials. Almost 60 percent report declines in the number of employees as well as in the hours worked per week. For the second consecutive month, relatively few manufacturers report increases in employee compensation, suggesting some decline in the rate of increase.

The February survey further reflects some continued softness in prices received, and perhaps some early indication that prices paid by the manufacturers are no longer showing the widespread increases which were prevalent in recent months. Over 60 percent of the manufacturers surveyed feel current inventory levels are too high, and over 50 percent view current plant and equipment capacity as excessive. Nevertheless, over 80 percent feel current expansion plans are about right, while only one out of nine thinks expansion plans should be cut back.

District retailers responding to the February survey offer much the same picture. Little change in the dollar volume of sales is indicated, although the slump in sales of big-ticket items continues. Inventory levels appear to have stabilized, and concern over inventory levels seems to be diminishing. Employment by retailers declined further in February, but survey responses indicate further increases in employment hourly compensation. The suggestions of price weakness offered by the manufacturers are not yet being duplicated by the retailers. Although price increases may not be so widespread as in recent months, the diffusion of response suggests the upward trend persists.

If there is any discernible change indicated by the February survey, it is in the area of respondents' expectations for the next six months. It is clear that the pessimism prevailing over the past half year has begun to dissipate. Among retailers, 40 percent now expect improvements in the level of business activity over the next six months and, perhaps more significant, not one respondent to the survey of retailers foresees a worsening of business over that time period. Among manufacturers, the shift is not quite so dramatic, but almost 40 percent of the respondents expect the level of production in their own firms to improve over the coming six months.

Recent surveys indicate that current economic conditions are having a definite impact on Fifth District banks, affecting both their sources and uses of funds. Credit demands continue to ease considerably, and some banks are developing a greater willingness to lend to qualified customers. Consumer-type time and savings deposits remain strong, and increases are partially offsetting declines in demand deposits. Competition for these types of deposits remains strong, and most banks surveyed report paying maximum permissible interest rates on them. Holdings of negotiable certificates of deposit (CDs) at weekly reporting banks have fallen steadily since the beginning of the year. Member banks continue to place less reliance upon the discount window, average borrowings in February having declined for the eighth straight month. At weekly reporting banks, the level of loans, including both business and consumer types, continued to decline across a broad range in February, and most bankers expect the demand for business loans to weaken further in coming months. There is also concern that high prices on homes and durables will keep consumer lending depressed.

District farmers' cash receipts from farm marketings in 1974 climbed to a record $5.3 billion, up 10 percent over the previous high set in 1973. Crop receipts, up 25 percent, paced the advance, but a 6 percent decline in receipts from livestock was partially offsetting. Last year's large jump in farm production expenses, however, will most likely more than offset the gain in cash income and result in a drop in net farm income.

SIXTH DISTRICT - ATLANTA

The most recent reports from District businessmen and directors contain a mixture of pluses and minuses. On the plus side, tourist traffic remains brisk in Florida and District manufacturers have recalled some workers. Although residential construction activity remains at low levels, there is some spotty evidence that the large unsold housing inventories are beginning to sell. Oil exploration and mining activity also are adding strength to the District economy. On the minus side, retailers are reporting continued weakness, especially in home appliances and furniture. Inventories in many lines still remain above desired levels. Delays and cancellations in capital spending plans are still being reported. There is evidence that the previously heavy steel demand may be slackening off, with layoffs on the horizon.

The most pleasant surprise has been tourist traffic in Florida; it has been a lifesaver for that state's economy. South Florida's tourist trade has remained at high levels after the Christmas rush. No rental cars were available in Miami for a two-week period, and the hotels are sold out. However, tourists are apparently staying for shorter periods than in the past and are spending more carefully. One cruise ship line reports that business is so good that they are turning away people. They are not sure whether it is bad weather in the North or people taking a last fling that is responsible. However, the cruise ship business does not appear to be booming across the board. The Carnival Cruise Lines have mothballed the "Bahama Star" because of low bookings and increased costs, particularly for fuel.

Reports continue to indicate that mortgage money is becoming more available. A New Orleans director indicates that mortgage rates there are currently at 8.75 percent; he envisions rates going below 8 percent by April. A large, regional life insurance company reports that the sharp decline in short-term interest rates is causing them to consider putting some of their new money into the housing area. As yet, this greater availability of mortgage financing has not translated into a noticeable pickup in sales. A New Orleans businessman reports that, while more people are looking for houses, the discretionary home buyer is still not in the market. New Orleans resisted the condominium market and, hence, has no "Condo" problem. A speculative builder in the Jacksonville, Florida area has reduced prices by as much as $15,000 but is still having trouble selling new houses. Florida still has 60,000 to 70,000 unsold condominiums, but they appear to be starting to sell because of the greater availability of permanent financing. Apparently, the high-priced condos are still not selling, however. Anticipations of lower interest rates and prices were also reported as deterrents to sales. Nevertheless, house sales in South Dade County (Miami) have picked up in the past two months.

The Gulf Coast area is booming from oil exploration. This industry is one of the few still experiencing shortages. A lack of skilled labor and materials has slowed activity. They are begging for welders. Steel pipe and pumps are still in short supply and delivery time remains long. Construction is under way on an oil refinery in the New Orleans area. A company representative reports that anything of sophisticated fabrication is hard to obtain, and there is no fixed price on this type of equipment. The largest strip-mining operation in Tennessee is expected to spend $10 million in new equipment on new coal fields.

The sales and inventory picture remains mixed in the District. It would appear that most retailers are still experiencing slow sales and high inventories. Only auto dealers, as reported last month, have made much progress in reducing inventories. The home appliance business has been particularly weak. One South Florida retailer indicates that inventories are heavy at both the manufacturing and the retail levels. Manufacturers are just beginning to make some selective price reductions. He notes that his credit business had doubled from 30 percent to 70 percent of total sales. He expects that this large portion of credit sales will cause problems in coming months. A large department store representative reports that apparel sales are now doing well but that appliances are not selling. The consumer is buying either the very deluxe or the most economical appliances; he has gotten away from the intermediate market, where inventories are heaviest. Furniture manufacturers have tremendous inventory overhangs and are now taking losses to move their goods. Reflecting these depressed sales and high inventories, plant closings and layoffs continue by textile, apparel, appliance, and furniture manufacturers. Paper and lumber mills are still operating at low levels; many remain closed.

An area of growing weakness is capital spending, where new reports of delays and cancellations of previously announced projects have been received. Plans for a large $100 million chemical plant for the Mobile, Alabama, area have been suspended until market conditions improve. Dupont will delay construction of a $125 million plant in Mississippi until business in the paint, paper, and textile industries picks up. The huge Tenneco-Westinghouse project to build floating nuclear power plants near Jacksonville, Florida, received an additional jolt. First, Tenneco pulled out of the project; then the New Jersey Electric Company, the only customer for four plants, asked for a five-year delay. Westinghouse has laid off workers and is now just hanging on, with its future uncertain.

The recession is apparently beginning to hit the steel industry; foreign steel is now cheaper than United States steel. One businessman indicated that he is now getting promises of steel deliveries in three months rather than the eighteen- month period needed only a short time ago when manufacturers were building up inventories. He indicated that multiple orders will soon be canceled, which will reduce steel order backlogs.

SEVENTH DISTRICT - CHICAGO

The business downturn continues in the Seventh District. The rate of decline may be slowing, but there are no indications of a near-term improvement in general conditions. The drop in manufacturing employment and output since October has not been matched since 1945-46, and pessimism has not been so deep and widespread since the 1930's. Consumers are buying cautiously, business firms are attempting to cut costs (often reducing staffs), many companies are reducing capital expenditure plans, and lenders are more selective in making new commitments. Reflecting reduced demand, including inventory liquidation, the rate of inflation has slowed substantially and many prices have been reduced.

Regardless of estimates of overall rates of unemployment, it appears that job markets weakened further in February and March. Deterioration has been especially marked in the central cities of Chicago and Milwaukee. (Detroit remains a disaster area, despite recent call-backs of laid-off workers.) Waves of layoffs have continued in a wide variety of durable goods industries, which are predominant in this region. Construction activity is at a very low level, and freight tonnage is down sharply.

Although techniques leave much to be desired, state agencies have been attempting to estimate unemployment in central cities, in addition to metropolitan areas as in the past. For the city of Chicago, unemployment is estimated at 8.5 percent in February, compared with 7.2 percent for the SMSA. For the city of Milwaukee, which had been relatively vigorous, the unemployment rate is estimated at 11 percent for January, compared with 6.5 percent for the SMSA, and 16 percent for a 15 square mile area within the city. The current picture is undoubtedly worse.

In Chicago, a discount department store to be opened in May processed 5,600 applications for 300 prospective jobs. A job conference for prospective college graduates in marketing was able to accept only 800 of 1,400 applicants for interviews, compared with a total of 350 applicants a year ago. The weakness of the job market reflects not only layoffs but hiring freezes and a sharply reduced rate of voluntary separations.

Some unions have moderated demands for upcoming negotiations. Chicago area construction laborers agreed to forego a wage increase for 1975, and electricians will work a four-day week and will accept an unspecified pay cut. Some employers, however, say union militancy is as strong as ever, even when layoffs are large and continuing. Some employers have reduced the wages and benefits of white collar workers and are asking unions to accept similar reductions. However, a survey showed average compensation of executives in the Chicago area to have increased 16 percent from May 1, 1974 to January 1, 1975, compared with a 10 percent rise in the average from 1972 to 1973.

A search for favorable developments yielded scattered and inconclusive reports of increased orders for metal stampings, cardboard cartons, textiles and mobile homes. Some of these reports may indicate the need to correct excessive inventory reductions. Most of the heavy capital goods industries continue to operate at high levels, although with declining backlogs. Auto companies are increasing output schedules through May. Previous drastic cutbacks in output and the sales stimulus of cash rebates resulted in unbalanced inventories. If demand does not pick up a solid basis, these assembly schedules probably will not hold up.

Perhaps no industry was hit so suddenly and so hard by reduced sales and order cancellations as heavy trucks. Plants producing components and finished vehicles that were fighting to reduce heavy backlogs last summer are now operating at about 30 percent of capacity. Experts have been surprised at the rapid turnaround, even those who had forecast a substantial drop-off. A small producer of heavy trucks is in bankruptcy proceedings, Chrysler has pulled out of the market, and marginal plants are being taken out of production "permanently". Highway freight tonnage is down 25 percent from last year. The largest drop in any earlier recession since World War II was 10 percent. Moreover, many trucks had been sold and produced with a view to "beating" the costly air-brake standards that became effective March 1. The current inventory of heavy trucks is equal to about six months' prospective sales. There are signs that demand for heavy construction equipment will soon start down, although probably not so rapidly as in the case of heavy trucks.

Price cuts on manufactured goods have been substantial and widespread, both at the wholesale and retail levels, perhaps to a greater extent than at any time since World War II. Many of these price cuts, e.g., auto rebates and department store markdowns, represent attempts to reduce inventories on hand and will not be permanent. Most costs of production continue to rise, and various manufacturers without inventory problems are raising prices. Prices of some models of autos have been "reduced" by changing the product, e.g., substituting lower grade tires. Prices of services continue to rise rapidly, including apartment rents, hospital care, utility rates, insurance rates, and professional services. Many prices of goods had been at unsustainable levels in view of market forces. Some types of steel are coming down, most nonferrous metals are cheaper, and gasoline stations are in a minor price war. Many price adjustments are indirect--a return to freight absorption, elimination of extras and surcharges, and restoration of quantity and cash discounts. Individual negotiations between buyers and sellers are more likely to result in lower prices. Overall, price reductions on goods probably are not fully reflected in official indexes.

EIGHTH DISTRICT - ST. LOUIS

Eighth District businessmen reported that economic activity was at substantially reduced levels in recent weeks in comparison with most of last year. However, the rate of decline in employment and output has apparently moderated. Department store sales continue at a slow rate, but no further decline was reported. Automobile sales have increased somewhat. The rate of savings inflows at thrift institutions has increased in the past couple of months. Although new home construction has not responded to the greater availability of mortgage credit, builders anticipate an early increase in home construction activity.

Department store sales continue sluggish, according to area retailers. Sales are reported to be down most for durables products, such as refrigerators, washing machines, and television sets. Price promotions are being used to clear current inventories of both automobiles and other durable goods.

Manufacturing activity continues at a reduced level throughout the District, compared with last fall. However, the rate of deterioration appears to have moderated in recent weeks. Representatives of the hardest hit industries, such as automobile, housing, appliance, lumber and forestry, and clothing and textiles, did not report much further deterioration from January levels. In fact, a few firms reported plans for recalling workers and for achieving a higher level of output.

Activity in the chemical, steel, petroleum, and food industries has continued at relatively high levels. A major chemical firm reported good sales for drugs, but poor sales for some types of synthetic fibers and industrial products.

Unemployment increased dramatically near the close of the year in most parts of the District. Data for January indicate employment declines in almost all industrial categories, and unemployment rates jumped substantially from the December level. Scattered reports for February indicate the unemployment rate has tended to level off.

Mortgage funds are reported to be more available and interest rates somewhat lower in recent weeks. Savings and loan institutions reported an upturn in net savings through March 1. These institutions report that they are using additional funds to make new loans on both old and new housing and to build their liquidity through increased holdings of cash and short-term instruments. Also, they are paying off debt to the Federal Home Loan Banks.

Mortgage rates on an 80 percent loan in St. Louis have declined from 9 1/2 percent late last year to 8 1/2 percent in recent weeks. Savings and loan officers point out that the extent of further reductions must be related to rates offered to savers. Some institutions have already discontinued the 7 3/4 percent six-year certificates and are increasing the minimum size of the 7 1/2 percent certificates from $1,000 to $10,000.

The upturn in availability of loans had no noticeable effect on new housing starts so far; however, representatives of the building industry are becoming more optimistic. A considerable inventory of unsold homes currently exists, but these inventories are beginning to move. In addition, the apartment vacancy rates are quite low in some parts of the District. Hence, with funds available, building representatives expect a sizable pickup in housing construction this year. A number of businessmen, however, expressed serious reservations concerning the continued availability of funds once major government borrowings to finance the deficit begin. Commercial construction in the downtown areaof St. Louis is quite active, but elsewhere in the District, including St. Louis county, such construction is at a relatively low level.

The volume of business and consumer loans in the District has declined in recent weeks, reflecting reduced loan demand. As a consequence, the rates charged have declined and a number of banks are actively soliciting loan accounts. Total demand deposits at District commercial banks have fallen off in recent weeks, but savings and time deposits have increased.

Farmers have become more pessimistic about current agricultural conditions with the decline in crop prices and little increase in livestock prices. Livestock producers, especially cow-calf operators, are under a considerable profit squeeze; however, the profitability of the cattle feeding business has improved as a result of the lower priced feeders. Cotton producers in some areas of the District are planning sizable cutbacks in acreage. Soybean prices have also become less favorable, yet some farmers, particularly cotton farmers, plan to substitute soybeans for cotton.

NINTH DISTRICT - MINNEAPOLIS

Recent evidence indicates further weakening in District business activity. Unemployment rose sharply in January, and manufacturers are not so optimistic as they were last November. Nevertheless, bank directors cited several sectors where business activity has improved. In addition, directors report that District businesses have not been confronted with overly excessive inventories; inflationary pressures have also eased. The District's rural areas continue to be relatively unaffected by the recession.

Unemployment continues to rise. The District's unemployment rate, seasonally adjusted, increased from 5.9 percent to 6.4 percent between December and January, with the Minneapolis-St. Paul area rate jumping from 5.1 percent to 6.2 percent. In early 1975, District help-wanted advertising was down 30 percent from a year ago and initial claims for unemployment insurance were up 35 percent.

District manufacturers are not so optimistic about their sales outlook as they were last November. After increasing 15.9 percent from a year earlier in the fourth quarter, District manufacturers look for their sales to surpass year-ago levels by around 9 percent during the first nine months of this year. (Last November respondents had anticipated a 14 percent sales gain during the first half of 1974.) Both durables and nondurables producers revised downward their sales expectations, with price increases probably accounting for most, if not all, of the anticipated sales gains. Recent declines in District manufacturing employment also denote a weakening in manufacturing activity. There are, however, some areas of strength. Twin Cities producers of medical equipment and peripheral electronic data processing equipment are enjoying strong sales. Small local machine shops are also doing quite well from both a volume and profit standpoint.

Although District business activity has continued to weaken, some District industries have recently shown improvement. Several directors commented that the automobile rebates have had a favorable effect upon sales. The substantial inflows of savings to thrift institutions have made more mortgage money available, and one large Minneapolis-St. Paul area savings and loan association has begun to advertise the availability of funds. In addition, the observation was made that lower interest rates have benefited finance companies, the securities industry, banks and utilities. A director associated with the retail trade industry indicated that his firm's sales improved in February but cautioned that it was too early to ascertain whether a definite pickup in consumer spending has occurred.

Directors from outside the Minneapolis-St. Paul metropolitan area indicated that business has held up quite well in their areas. Two directors from the Dakotas described business in that region as normal for this time of year. A Montana director stated that his area's businessmen are more optimistic than earlier this winter and reported that his area's retail sales have held up quite well. A director from the upper peninsula of Michigan, however, indicated that business has been off in his area's copper and paper industries.

Directors indicated that no excessive amount of unwanted inventory accumulation has occurred in the District. Many local and regional companies in the Twin Cities area are holding inventories above desired levels. The situation, however, does not call for any forced liquidation of inventories. Most managers are of the opinion that, with a modest reduction in their rates of output, the desired level and balance of inventories can be achieved by midyear or earlier. Another report indicated that the inventory situation in the retail trade industry has improved. Directors from outside the Minneapolis-St. Paul metropolitan area generally agreed that excess inventories are not a problem. However, two directors reported a weakening in farm machinery sales and a recent buildup in inventories. Also, the District's livestock industry is burdened with an excessive supply of cattle; one director felt that the District's livestock industry would not recover until 1978.

Bank directors were unanimous in expressing the opinion that inflationary pressures have or will be easing. One director, for example, indicated that his firm's budgeted price increases for 1975 were only half as large as price increases experienced in 1974. Many directors cited examples of price reductions in their area or industry. One report indicated that list prices are not being cut because of some fear that there will be a return of wage and price controls. However, transaction prices are declining as businessmen provide special incentives or volume discounts.

TENTH DISTRICT - KANSAS CITY

Interviews and local newspaper reports point to some improvement in the Tenth District new housing industry. Tenth District builders, home builders associations, and savings and loan institutions all indicate a degree of cautious optimism for 1975. Employment has improved at automobile manufacturing plants in the Kansas City area. Retail sales remain soft, while inventory levels appear to have stabilized. Winter wheat prospects are still regarded as good, although potentially damaging dry conditions do exist in some areas. The pronounced decline in farm product prices could pose a serious financial problem for some producers. Total loan volume at Tenth District Banks has declined in recent weeks, while deposits have moved slightly upward.

Savings and loan associations report a fairly heavy inflow of funds in January and February, mainly into passbook accounts. One officer notes that, while he does not foresee any large drain-off of funds, "the 'smart' money is waiting for some higher rate that seems inevitable when the Government has to look for financing for the rebate program". Despite this fear, mortgage rates are softening and money is becoming available for the qualified buyer. A Kansas City official comments that "raising the Missouri usury ceiling (from 8 percent to 10 percent) did not have the immediate effect we thought it would, but sellers seem to be finding out they can now sell and not be charged points".

Savings and loan officials view the construction picture as rather cloudy. One man in Oklahoma City notes that construction has been slow but is picking up, with most activity in single-family homes. Apartment building has dried up, however. An interviewee in Omaha reports that the main market is in old houses and thinks this may be due to the energy scare, with people wanting to live near the center of town.

Representatives of home builders associations and builders themselves stress that while current sales are small by past standards, they do appear to be on an improving trend, and this is encouraging. Low inventories were widely reported, a situation achieved by design due to uncertainty. One builder in metropolitan Kansas City notes, however, that he is holding back on building at this time because some 1,500 newer resale homes will be coming on the market soon due to the Richards-Gebaur Air Base transfer.

The president of a Nebraska home builders association comments that, while labor and materials costs have stabilized, "we builders worry about what will happen once the economy gets going again". A major Kansas City builder states: "We are quite optimistic about 1975, judging from our activity and work load so far this year. We realize it is early in the year to predict, but that is really a plus for us in that conditions are easing and we have most of the year to benefit from it."

Employment at the three automobile manufacturing plants in the Kansas City area has improved significantly in the past two months. The Ford Claycomo plant has recently returned to full production. While the two General Motors plants continue to have workers on indefinite layoff, this number is smaller than was the case in January.

Among department store retailers, sales have continued to soften since January 1, although some strength has been seen in the past week. Inventory levels now appear to be generally stabilized, with little need seen to cut back further from current levels.

Although the prospects for the District's winter wheat crop are still regarded as good, some concern is being expressed about the very dry conditions that exist from central Kansas and Nebraska westward into Colorado. A continuing deterioration of farm prices could pose serious financial problems for District farmers faced with steadily advancing production costs. During the past year, crop prices have declined 14 percent while meat animal prices have fallen 28 percent. A reversal of the present price trends is not likely in the near future, according to current projections. Production of most 1975 crops is expected to exceed last year's levels, and livestock prices are expected to remain in a depressed state during the coming months as the oversupply of cattle is worked down.

A survey of large Tenth District banks reveals a further decline in total loans outstanding during recent weeks. This change contrasts with an expected seasonal increase and is indicative of the weakness reported in business and consumer loans. The less than seasonal increase in commercial and industrial loans is due, in part, to desired reductions in inventories by firms which, in turn, also reduce new loan requests. Consumer instalment credit continues to fall in response to increases in unemployment and to postponement of durables purchases. Nebraska banks, however, report that automobile rebates have raised consumer loan demand to a level comparable to a year earlier. Farm and real estate loans are relatively stable, with grain and fertilizer loans showing some growth among Nebraska banks. On the supply side, several banks stated that their loan accommodations remain highly selective.

Deposits moved slightly upward over the last few weeks, with strength in demand deposits and consumer time deposits offsetting weakness in large negotiable certificates of deposits (CDs). The large inflow of consumer-type time and savings deposits reported by many banks has not reduced their efforts to solicit these deposits, which continue to yield the maximum allowable rates. Large negotiable CDs declined sharply, as banks adjusted their offering rates relative to reduced yields on most short-term financial assets. A withdrawal of United States Government demand deposits prompted several Oklahoma banks to liquidate Treasury securities pledged against such deposits. Many banks that are experiencing a net inflow of deposits but a reduction in their loan portfolios are taking the opportunity to augment their cash positions.

ELEVENTH DISTRICT - DALLAS

Savings and loan associations in the District report the rate of net savings inflows, which quickened in the fourth quarter of 1974, has continued to accelerate since the first of the year. An influx of large deposits--$100,000 and over--has accounted for a major portion of the increase. The cost of these funds, however, has been high. As recently as mid-February, large associations in the District were paying 8.5 percent annually on large certificates of deposit (CDs). As a result, portfolio costs have risen sharply. A large savings and loan association in Houston, for example, reports CDs with rates over 7.25 percent comprise 60 percent of their portfolio, or double that of a year ago.

With higher portfolio costs, lenders have been reluctant to reduce mortgage rates, which now average more than 9 percent on conventional loans. Some institutions, however, have reduced the number of points charged to customers and have cut the charges of other services to stimulate loan demand.

Nevertheless, loan demand has continued weak. Few new commitments have been made this year, and inventories of new unsold homes in metropolitan areas are still close to the peak levels of 1974. Indicative of the continued slump in residential building, housing starts in Texas are only slightly higher than their lowest level last year.

Increased deposit inflows and the sluggish demand for mortgage loans have left savings and loan associations flush with funds. Concerned that another round of disintermediation will result from the Treasury financing of the budget deficit, lenders have increased their liquidity to unusually high levels. In addition, they have had ample funds to pay off much of the borrowing they undertook in the period of disintermediation last year. Several of the largest associations in the District report borrowings from commercial banks have been completely repaid. Moreover, other lenders are considering repaying borrowings from the Federal Home Loan Bank early, even though a prepayment penalty would be incurred. With increased liquidity, savings and loan associations have increased their participation in the Federal funds market. In Houston, for example, several savings and loan associations are selling Federal funds for the first time in eighteen months.

Seasonally adjusted department store sales in the District have risen since the first of the year, reversing a downward trend that began last summer. Sales of big-ticket items, in particular, have moved well ahead of their sluggish pace of recent months. Retailers attribute much of the increase in sales to promotional campaigns designed to reduce unusually high post-Christmas inventories. According to a survey of the larger department stores in the District, most outlets have generally been successful in reducing stocks. In fact, the regional manager of one of the largest retail chains in the District says his inventories are in excellent shape.

Attempts to run off inventories have led to a marked change in the relationship between many retailers and their suppliers. Faced with shortages and rising prices during much of 1974, retailers generally accepted overshipments and late arrivals without complaint. Now, however, they are charging suppliers penalty fees for such deliveries. In addition, the controller of a big department store in Houston says his store has recently received merchandise at bargain prices from wholesalers that are anxious to lower their own inventories. This has prompted aggressive price cutting at the retail level--particularly by large national chains--in an attempt to recover lost market shares.

Commercial banks in the District continue to pay maximum allowable rates of interest on consumer-type time and savings deposits. However, since most banks already have relatively high liquidity positions, they are not aggressively seeking these types of deposits by advertising consumer savings programs. District bankers are generally opposed to lowering interest rates on these deposits, since they expect money market rates to rebound after midyear.

Bankruptcies in the Eleventh District rose nearly 40 percent in 1974, with much of the increase coming late in the year. The rate of bankruptcies so far in 1975 is about a tenth higher than last year's pace. Business reorganizations under Chapter 11 of The Bankruptcy Act are accounting for a growing number of filings. In Dallas and Houston, for example, nearly a third of the cases filed in February were under Chapter 11, up from 10 percent in January. According to Federal district courts, much of the increase in filings has been by construction firms.

TWELFTH DISTRICT - SAN FRANCISCO

Our directors are looking to government for a restoration of confidence in the economy and an indication of the long-run direction that the economy will take. The hardest hit industries in the current recession continue to be construction, lumber, and transportation equipment. However, the directors connected with these industries are now expressing the belief that the situation has stabilized, but they foresee little change in employment over the next six months. In the absence of a very basic surge in demand, however, the outlook is for a rise in the overall unemployment rate, as new entrants into the labor force are not likely to be absorbed. Many anticipate beneficial results for their own businesses if the declining rate of inflation persists.

In manufacturing, the picture remains mixed, with energy- and petroleum-related companies operating at high levels, while construction materials and consumer goods producers are experiencing a decided but decelerating decline in demand. On the positive side, several directors mentioned the intensity of petroleum exploration activity in their areas. A director in charge of a broadcasting network reports that advertising expenditures are higher than a year ago, and another director states that demand for mobile homes is still good.

In many instances, such as lumber, residential housing, and transportation equipment, activity appears to have stabilized, but at very low levels. Commercial aircraft orders are not expected to rise substantially until a strong economic recovery is under way. The Boeing Company's optimistic forecast of February, when early 1975 sales exceeded expectations, was based for the most part on foreign orders, and this source of strength has since waned. The company is now making lower projections on the basis of weaker domestic demand. Automobile sales, after being stimulated by the producer rebates, have again met with consumer resistance, while in the area of nonresidential construction, intensified competition is evident in a sharp rise in the number of bids per project.

Agriculture, which has been one of the mainstays of the Western economy, remains strong, but is beginning to develop some weaknesses. The potato crop, for which contracts were available at $75 per ton in the spring of 1974, is now selling in the open market at $20 per ton. On the positive side, one director reports that, although California dairy farmers have been in a loss position for the past three months due to high grain and low beef prices, improvement may now result from falling feed prices. Reduced consumption of dairy products, which this director claims is recession induced, however, continues to affect the industry adversely.

In response to a specific question regarding business loan expectations over the next six months, our banking directors leaned on the side of optimism. However, this is not attributable to a belief that this six-month period will witness a sharp upswing in loan applications, but rather that such an upswing might occur toward the end of the year. Currently, retailers are working off inventory, and loan demand is practically nil. At the same time, one director states: "We are starting to see some home building in small tracts, and borrowing by small timber operators for log inventory and some commercial construction ... is active among the smaller custom manufacturing shops." The larger corporations appear to be getting their liquidity positions in order and conceivably might unshelve some expansion project as soon as the outlook is propitious.

In response to a related question, which asked whether the volume of loan demand was dependent on interest rates, the replies mostly were negative. However, one response commented that "business credit demands are sensitive to the behavior of interest rates, but when rates are falling there is a general tendency to postpone borrowing to await still lower rates. When rates begin to turn up, it can be expected that loan demand will pick up as well."