CONFIDENTIAL (FR)

CURRENT ECONOMIC CONDITIONS BY DISTRICT

Prepared for the
Federal Open Market Committee
by the Staff

August 13,1975

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SUMMARY*

This month's Red Book District reports again suggest that the recession has come to an end and that recovery is under way. Assessments of the strength of the upswing vary, however. The majority of the respondents expect a gradual pickup in business activity. A somewhat more optimistic tone, however, emerges from some reports, particularly from those Districts where agriculture and the production of nondurable goods loom large. Retail sales, including auto sales, increased over the past month. The reduction in retail inventories apparently has largely run its course, a development that has been reflected in increased orders to and production by the consumer goods industries. The residential construction picture has improved moderately in some areas. The capital goods industry, however, remains depressed, with continued reduction in metal and machinery inventories. Crop prospects appear generally good, except in certain areas of the Midwest affected by drought or flooding. The demand for bank credit is generally described as weak, except for agricultural loans.

Regarding consumer spending, Boston reports a modest growth in such outlays, while retailers in the Philadelphia District look for a gradual upturn through the fall. Richmond and St. Louis report that retail sales continue to improve, but that sales of big ticket items remain weak. Kansas City, however, reports particularly strong sales of durable goods. Minneapolis reports that consumer spending has improved since last spring and that the outlook is for further expansion. About half of the Districts

*Prepared by the Federal Reserve Bank of New York.

report increased auto sales, with particularly good performance reported by Atlanta, Kansas City, and Dallas. Heavy tourist traffic is reported by several Banks, including Philadelphia, Minneapolis, and San Francisco.

The reduction of inventories at the retail level apparently has run its course. Indeed, several Banks including New York and Philadelphia report some actual or prospective rebuilding of inventories. Increased new orders, production, and shipments of consumer goods are reported by several Banks, including Cleveland, Richmond, Kansas City, and Dallas. And hand in hand with the increase in activity in the consumer goods sector, notably textiles and other soft goods, the employment situation in those industries has improved, as noted by Cleveland, Philadelphia, Richmond, and St. Louis, among others.

On the darker side, the capital goods industry remains in the doldrums. Chicago thus notes that the less vigorous tone in that District compared with the nation reflects the relatively greater emphasis in that area on producers' goods. That Bank reports that order backlogs of capital goods producers continue to erode, that inventory liquidation at the manufacturing level continues in full swing, and that the demand for workers remains very weak. Similar observations are expressed by Cleveland, San Francisco, and Richmond, while Philadelphia characterizes capital spending plans as less than robust.

There apparently has been some pickup in the construction of one-family homes, as reported by Atlanta and Chicago. On the other hand, commercial construction--apartments, condominiums, and nonresidential structures--remains weak in most areas. San Francisco notes that construction of all types is being hampered by high costs. Atlanta, however, reports the reactivation of several industrial building projects that had previously been shelved.

There are scattered indications that concern is mounting over the possible development of shortages and over the resurgence of inflation as recovery gets under way. Concern over the shortage of natural gas was expressed by respondents in the San Francisco, Atlanta, and Cleveland Districts. Cleveland, moreover, reports that while most of its respondents in general do not expect shortages of materials and capacity to hamper the early state of recovery, a small minority do fear such an eventuality might rapidly develop. A similar view was expressed by purchasing managers in the Atlanta District and by some retailers in the Kansas City District. Regarding the fear of inflation, Philadelphia bankers were in general agreement that inflation remains a potential problem, and St. Louis notes that inflation has re-emerged as a major concern of businessmen as demand begins to pick up. Cleveland reports that several District directors expect the rate of inflation to accelerate.

Reports from agricultural areas for the most part continue to point to good crops. However, several Districts--Chicago, St. Louis, and Kansas City--report crop damage from drought in some corn-producing areas, and Minneapolis reports flood damage to potato, sugar beet, and small grain crops. Chicago and San Francisco note that sales of grains to the USSR have put upward pressures on cereal prices. Cash receipts by farmers from sale of livestock and crops, however, were reported by Dallas to have fallen sharply.

FIRST DISTRICT--BOSTON

The directors for the First District generally feel that the "euphoria of having made the turn has worn off; we still have a lot of problems". However, the consensus receives recent monetary policy favorably. Although there is more talk of the nuts and bolts of putting things back together, New England business initiative remains fairly flat; a vigorous recovery is not anticipated. Unemployment in the region fell from 11.9 percent in May to 11.5 percent in June. Massachusetts had 12.3 percent unemployment in June, while Rhode Island and Connecticut reported 15.7 percent and 10.2 percent, respectively.

Retailing is mixed. A director who has reported excellent performance in the past continues to do so. However, he continues to outperform his trading area. He notes that only now has retailing in general begun to detect signs of some modest growth. Inventories at the manufacturing and outlet levels are lean: "It is a stupid retailer who forgets what we have gone through." As a consequence, he calculates that price pressures and delivery delays may attend a rapid increase in sales. Similar reports of mixed retail performance prevail throughout the region, and some areas feature early back-to-school promotions.

Bankers report that time deposit growth has begun to taper off, and they report that July savings bank deposit growth has slowed "drastically" in some areas. Business loan demand is generally weak, due in part to inventory liquidation and in part to business caution. Consequently, demand deposit growth has resulted in a runoff of certificates of deposit and purchases of investments. The interest in municipals is weak, since the tax shelter is not of sufficient concern to some bankers. In any case, short-term instruments are most appealing:"If I had a choice between a good yield and going short, I'd go short."

Businessmen are "hopeful about the future without any solid evidence to prove it". Conditions have not changed substantially for several months. Employment seems to have stabilized, and capital expansion plans are remaining on the table. Over the next twelve months, some increases in new orders and income are expected but the recovery will be deliberate. Since external financing remains expensive, many firms are relying on internal funds to get back into shape. Some reports indicate that expansion plans under way are relying on "blind faith without a lot of information". There are reports that excess capacity and high materials prices are squeezing earnings; a recovery in demand will afford these firms chances to increase prices. In any event, higher output prices are necessary to add to capacity.

Professors Samuelson, Eckstein, and Houthakker were available for comment this month. Eckstein is very concerned about the immediate future, suspecting that monetary policy goals should be more expansionary. Samuelson is also concerned that monetary policy be flexible enough to accommodate a smooth recovery. Houthakker believes the economy is proceeding in an orderly manner, and he is content with recent policy expressions by the Chairman.

Eckstein is very concerned with the outlook for prices. He anticipates considerable problems with food, steel, and oil -- to name a few areas-- where price increases may threaten the recovery. Previously, he had hoped that the economy would be fortunate enough to get through the first year of recovery with 7.5 percent money growth; now, he feels we will not make it. The Fed has to be in sympathetic harmony with the various influences buffeting the economy, for better or worse. "The Fed cannot undo all the evils of the world, and the economy cannot stand the Fed leaning against all these hurricanes." Furthermore, "the July savings flow raises serious questions about the levels of interest rates." Policy should give a "close, steady watch to these developments; of course, we do not want an increase in the funds rate". He feels that money growth needs to be in excess of 8 percent.

Samuelson tells a similar story with less urgency. He feels that "judgments (about the strength of the economy) are premature at this point"; policy dictates are not hard and clear. However, he is concerned that the future may hold weaker housing and automobile industries and that plant and equipment outlays may be due for more downward revisions. In such an event, the money target should be lifted. No irreparable harm would be done to err on the expansionary side until we have secured a firm recovery. Also, if exogenous elements in prices are really unfavorable, a short-term loosening of policy is in order. In this event, we should let interest rates rise only grudgingly.

Houthakker feels a "mild recovery is on the way", and his belief is strengthened by recent developments. He sees this as a desirable state of affairs, leading to a firm, sustainable recovery. He believes that recent rises in interest rates may prove to be temporary by the year-end, if monetary policy adheres to the 5 to 7 1/2 percent range. The stated band is appropriate for the recovery and, in his opinion, the lower end of the target is preferable. He is not concerned with recent price behavior as long as policy does not cultivate a renewal of inflationary expectations. Specifically, farm prices worry him only a little; "they don't mean too much if the crops come in okay".

SECOND DISTRICT--NEW YORK

Recent observations by Second District directors and other business leaders indicate a continuation of the gradual improvement in business conditions noted in recent months. Retail sales in July were generally stronger than in June, and there were some indications that retailers were starting to replenish inventories, at least in a small way. There continued to be reports of excessive inventories at the manufacturing level, but the list of items in excess supply has narrowed substantially. The demand for business loans at banks has shown little buoyancy as yet, but some indications of a forthcoming strengthening of loan demand were noted. Regarding wages, the respondents generally expected this year's increases to be smaller than last year's.

Retail sales have strengthened somewhat over the past several weeks. Despite considerable rain and unseasonably cool weather through most of July, sales at most major New York City department stores were slightly higher than in July 1974, with an even stronger performance shown by stores in the suburbs. (In June, sales in the metropolitan area had been lower than in the comparable period last year.) Similarly, the retail sales picture in upstate New York was reported to be brighter than in June, with sales also running above last year's level.

Views on retailers' inventory policies were mixed. The president of a large nationwide department store chain reported that efforts to build up inventories have begun, although as yet only to a limited extent. Similarly, the president of an upstate department store stated that, to a "small extent", retailers in his area were building up inventories. A senior official of a conglomerate felt that on the basis of his firm's sales, merchants were cautiously building up inventories of apparel, automobile parts and accessories and, more aggressively, storm doors, thermopane windows and similar items. The president of a non-ferrous metal firm reported increased sales of his firm's kitchen utensils line and believed that in general retailers were relaxing their inventory policies. One director, on the other hand, stated that retailers were still maintaining a "relatively conservative" approach in their inventory policies. Similarly, the Buffalo branch directors saw no evidence of efforts to build up retail inventories in Western New York, but rather felt that the emphasis continued to be on inventory reductions and improved inventory controls.

There were some indications of continued excessive inventories at the manufacturing level. For example, the chairman of a large New York City bank stated that in some cases inventories of materials used in the production of durable goods remained excessive. The president of the metal firm mentioned above reported excessive inventories in the electrical goods industry and among aluminum producers--although not among the latter's customers. Other respondents cited instances of still excessive inventories of various items, including steel, zinc, canned food, and furniture.

The respondents in general reported little increase in business demand for bank loans, but some very tentative indications of a forthcoming strengthening of demand were noted. For example, the chairman of a major New York City bank observed some increase in requests for long-term loan commitments. On the other hand, a director observed that many companies were seeking to stretch out repayments of outstanding loans rather than enlarging their lines of credit. However, an upstate New York banker reported a "small" firming of loan demand at his bank, and a

New Jersey banker noted a modest increase in construction loans. At the same time, several respondents opined that the resumption of inventory accumulation in some lines will result in stronger loan demand before long.

Regarding the wage picture, virtually all respondents agreed that wage increases would be more moderate this year than last year, particularly, but not exclusively, for nonunion workers. Among others, an official of a conglomerate stated that workers were "dreadfully afraid" to be laid off and that this would be reflected in substantially more moderate wage demands than last year. The president of a Rochester department store "definitely" excepted weaker labor demands. Buffalo branch directors cited instances where employees have foregone wage increases to preserve jobs.

THIRD DISTRICT--PHILADELPHIA

Economic activity in the Third District is beginning to turn around. Manufacturers report increases in new orders and shipments, and inventory cuts slowed from last month. In addition, most manufacturers have stopped reducing their work forces, and a few are adding to them. On the inflation front, prices paid are up while prices received are down somewhat. The longer term outlook continues to be optimistic. Area manufacturers expect new orders, shipments, and inventories to be higher six months out, and they plan to add to their work forces and lengthen the average workweek over the period. But more inflation is anticipated, and caution prevails on plans for capital expenditures. South Jersey shore resorts generally report that business is thriving, and the rest of the season is expected to be strong. Area retailers report sales volumes holding steady and look for a gradual upturn through the fall, Bankers in the District report a slump in demand deposits, while savings accounts are growing moderately. Bankers also indicate that loan demand is weakening.

Manufacturers responding to this month's business outlook survey report a substantial improvement in business over last month. One third of the respondents report an increase in overall business conditions this month, compared with 15 percent last month and only 4 percent in January. They indicate that new orders and shipments are up significantly and unfilled orders are increasing. In addition, the proportion of respondents reporting lower inventories dropped appreciably from last month. The employment picture is also considerably brighter. Cutbacks in work forces slowed dramatically, with almost 80 percent of the respondents reporting no change. In addition, those reporting increases in jobs outnumber declines for the first time since August 1974. The length of the average workweek continues to hold steady, with 85 percent of the manufacturers surveyed indicating no change.

The outlook for the next two quarters is optimistic. Area manufacturers expect new orders, shipments, and unfilled orders to be higher. Furthermore, they expect projection of a net inventory accumulation to be adding to their inventories by early 1976. This is the first six-month projection of a net inventory accumulation in more than a year. In addition, over 40 percent expect the workweek to lengthen, and more than one third anticipate hiring additional employees. Capital spending plans, however, remain less than robust, with more than half of those surveyed planning no change over the next half year.

On the price front, area manufacturers report paying higher prices for their supplies and receiving lower prices for their finished products. Their outlook for the fall and winter is for prices paid and received to be up. Despite some slight easing from last month in expectations in higher prices six months out, three fourths of the respondents anticipate paying higher prices while half expect to be receiving higher prices for the products they sell. Retailers in the area report no obvious trends with respect to prices. One merchant, for example, indicates that the prices he charges are edging up slightly, but the consensus among retailers is that no significant price movements are evident.

Business at South Jersey shore resorts is good. As one contact put it, "people-wise" this season is the best we've ever had. We expected people to be here, but not to be spending the way they are. In general, merchants feel that revenues are well ahead of last year, and local officials look for a strong second half of the season. They report that hotels and motels are almost fully booked from the last week in July through Labor Day. Only one resort contact reports that business is off to some degree from last year, but he attributes it primarily to a rainy week in mid-July.

Bankers in the District report that savings accounts are growing modestly, but the comments on demand deposits range from "holding steady" to "disappointing". One banker indicates that demand deposits are in a decided seasonal slump, and no improvement is expected until late September. Loan demand is reported to be weakening further. One financial executive reports a pronounced slide in loan demand and indicates that his bank has gone out of its way to get larger customers to move any borrowing plans forward.

Most of the bankers surveyed feel that the banking industry is liquid enough to absorb stronger loan demand in a modest recovery, but several feel that this depends on the amount of pressure exerted by the supervisory authorities to build bank capital. One banker expresses the view that "At the bottom of it all, every bank has loans that are in real trouble."

Area financial executives on the whole look for interest rates to be level or gradually increasing through 1975. The majority of bankers contacted express little concern about the recent upturn in short-term rates, and feel in general that Fed policy is about on target. But one dissenter is uneasy over the attempt to hold annualized M1 growth within the 5 to 7 1/2 percent range for any given three-to six-month period. With a strong fourth quarter, he sees a real risk of absorbing the recovery by letting interest rates rise at the wrong time. In his opinion, the FED overacted and failed to assess the negative psychological impact of rising rates at this stage of the recovery.

FOURTH DISTRICT--CLEVELAND

Reports from directors, financial officers, and economists suggest an end to the recession and a beginning of recovery. Output in consumer goods industries, retail sales, and residential construction have strenthened further from lows last spring, and nonresidential construction contracts apparently reached bottom earlier in the spring. Unemployment in the District peaked in March, but little improvement has occurred since then. Steel and capital goods industries remain weak. Upward price pressures appear to be more widespread than in several months.

Conversation with manufacturers point out a dichotomy between producers of consumer goods and producers of business and industrial equipment. Production and shipments of consumer goods generally have been recovering, as the worst of inventory reduction has been completed. An economist for a tire producer reports that business reached a trough around January-February and that output has been rising since then. In the case of passenger tires, the shape of the recovery has been nearly a "V", as production has been increased in line with sales. A supplier of glass to the auto industry and an executive with a fastener firm also reported that orders and production have picked up in recent weeks. A financial officer with a household appliance maker reports a turnaround in sales of vacuum cleaners, although another producer reported plans to continue to cut stocks of electric and gas ranges in addition to the 25 percent reduction since last December. According to an economist with a leading producer of soap, detergents, and household products, sales in recent weeks have risen above year-earlier figures for the first time this year.

Chemical and plastic producers in the District also report a rather sharp recovery, owing to drastic liquidation of stocks in recent months.

A major producer of plastics stated that operations last month soared to 75 percent of capacity from the 50 percent rate in May. A petrochemical producer reports that operations have picked up to about 70 percent of capacity, compared with 50 to 60 percent during the trough in January-February.

Steel and capital goods producers continue to report weak or declining trends in orders, although steel orders in July were probably at the low for the year, according to steel economists. For one firm, orders for August delivery are slightly better than for a comparable period in July, and orders for September are stronger than for August. One economist estimates that liquidation of steel will be about as severe this quarter as last, while another estimates that the bulk of the liquidation occurred last quarter. A financial officer with a major aluminum producer reports that orders and production have been rising slowly since the March low. Several capital goods producers and suppliers report weak and declining order activity. A chief financial officer with a firm that produces farm machinery reports easing in activity, while sales of heavy trucks picked up in recent weeks from dismal levels earlier in the year. Sales of truck tires remain weak, and no pickup is expected until the fourth quarter. A major roller-bearing firm reports that orders from farm implement producers and freight car manufacturers turned down, and a director with a gear firm reports orders receded from advanced levels last year.

In general, financial officers and economists contacted do not expect shortages of materials or capacity to hamper early stages of recovery. Two directors, however, fear that capacity shortages will retard a recovery in their industries because long depreciation schedules hold down replacement and modernization of obsolescent facilities. Our contacts in the steel, aluminum, coal, chemicals, and rubber industries indicated there is ample room for expansion of output before approaching peak capacity operations that would cause bottlenecks and shortages of supplies. An economist with a steel producer reported operations were no more than 60 percent of capacity, an aluminum producer reports present utilization of 74 percent, and two chemical producers are operating in a range of 70 to 75 percent, all of which are well below the peak rates of 1974. Moreover, none expect recovery in their industries to be much higher than 80 to 85 percent by the end of 1976.

Shortages in natural gas supplies represent a potential obstacle to recovery in steel and other industries dependent on this energy source. Three steel economists report that curtailed supplies of gas -- as little as 40 percent of normal usage beginning November -- would impede a recovery in steel. One major steel producer said limited supplies would force shutting their plants one week each month during this winter and that his firm is beginning to stockpile propane as an alternative energy source. Another has begun to stockpile gas supplies and is also drilling wells in northeast Ohio in areas close to steel-producing locations. A third producer will attempt to substitute oil for natural gas if allocations are as severe as now indicated. A large forging producer in northern Ohio plans to drill forty wells for his own use rather than convert to oil.

Employment in the District has not yet shown any improvement from the latest low in March. Nonmanufacturing employment has risen gradually in recent months, but employment in durable goods industries, especially steel, is still weakening. There are only isolated cases of recalls among firms contacted, mainly related to consumer goods industries. A producer of household goods in recalling 400 workers, and a producer of flat glass for automotive is recalling 145 workers. For most firms that have reported a recovery under way, employment has stabilized, and no plans for large-scale recalls are in prospect until sustained improvement is experienced. Steel firms continue to lay off workers, and one large producer furloughed 1,000 workers on August 1.

Upward price pressures have surfaced, especially in those industries where recovery has been under way. Several directors expect that the rate of inflation will accelerate. One fears "roaring inflation" will slow a recovery, and another expects resumption of double-digit inflation in 1976. A small producer of copper products raised prices 2 to 3 cents per pound, and a major producer of aluminum raised prices 2 cents per pound to offset labor and materials cost increases that occurred when their markets were weaker. An economist with a coal company remarked that coal prices are likely to increase later this year or early next year as demand strengthens. A steel economist justified the publicized increases on steel because of higher prices for materials (ore, nickel, chrome) and labor costs; he expects competitive forces will hold the overall increase down to 4-5 percent.

Residential construction contracts continued to recover in June. Deposit inflows to savings and loan associations slowed somewhat more than seasonal in July, while mortgage loans closed rose to the best level for any month in the past two years, according to a financial economist at the Federal Home Loan Bank of Cincinnati. An executive with a savings and loan association reports a slower growth in deposits, coupled with strengthening in commitments, will sharply reduce their liquidity by the end of August and may result in some need for borrowing. Another official reported an unusually good volume of deposits occurred in July and August, with the bulk in certificates. Mortgage rates in the Cleveland area rose about 1/4 percentage point and averaged about 9 percent for an 80 percent loan.

FIFTH DISTRICT--RICHMOND

Business activity in the Fifth District appears to have picked up further in recent weeks, although there is as yet little evidence of any significant momentum in the recovery. The diffusion of responses in our latest survey of manufacturers suggests an increase in order backlogs for the first time in over a year, with further recent increases in new orders, shipments, and employment. Retailers report additional sales gains, although big-ticket items continue to move sluggishly relative to total sales. The inventory adjustment in the trade sector appears to have been completed, but manufacturers continue to pare down stocks of both materials and finished goods. Business loan demand at District banks appears to have increased lately, and consumer loans have definitely picked up. Meanwhile, the flow of time and savings deposits into banks and other thrift institutions has abated. Our latest survey shows a further significant improvement in business confidence. More than two thirds of the respondents now expect business conditions to improve both nationally and locally over the next six months.

Responses to the latest survey of District manufacturers show continued improvement in most areas of activity, but the improvement is by no means general. The latest increases in orders and shipments reflect, for the most part, growing strength in textiles, furniture, and a few other lines. Activity in the primary metals and machinery industries remains sluggish. While inventories of both materials and finished goods continue to decline, nearly half the respondents still view current levels as excessive. Employment in manufacturing has apparently improved significantly, and this has contributed to a general improvement in District labor market conditions. Manufacturing respondents reporting increases in employment outnumber those reporting decreases by two to one. State unemployment rates are continuing to fall as layoffs are terminated and new hires are resumed at a more normal rate. It now appears that unemployment has been declining since April or May. Survey respondents, as well as other District sources, also continue to report increases in the length of the workweek.

The price picture has deteriorated lately. In the latest survey, a large number of manufacturers reported paying and receiving higher prices than have done so at any time this year. About one half paid and almost one third received higher prices. Meanwhile, almost one half report higher average hourly earnings by their employees.

Manufacturing inventories remain well above desired levels. Over 40 percent of the manufacturers surveyed view present inventory levels and current plant and equipment capacity as excessive. Nevertheless, an overwhelming majority felt current expansion plans are about right. Concerning the outlook for the next six months, almost three fourths of the respondents expect improvements in the level of production in their own firms as well as in the level of business activity nationally. Almost as many foresee an improvement in business activity in their respective market areas.

The July survey of District retailers shows little change from recent months. Sales continue to improve, but big-ticket items remain weak relative to total sales. Inventories at the retail level showed little change and are apparently at satisfactory levels despite the third consecutive month of improved sales. Employment at retail establishments was essentially unchanged. Price increases at the retail level seem to have resumed, and employee compensation is continuing to rise. Retailers seem to be satisfied with the current number and size of their outlets, although 60 percent expect business conditions to improve generally over the next six months.

Fifth District bankers now anticipate that loan demand will soon begin to recover from its protracted decline. In recent weeks these expectations appear to have been realized, particularly in the consumer loan area. Commercial lending officers still see signs of a potential resurgence in business loan demand, but this potential has not fully shown up on bank ledgers. District banks are nonetheless preparing for this intensified demand by structuring their investment portfolios in favor of short-term securities. Commercial and industrial loans increased at an annual rate of over 9 percent in July, with working capital loans to the textile industry playing an important part in this increase. Bank real estate loans have not shown signs of recovery, and it appears that much of the increased activity in mortgage lending has been concentrated at savings and loan associations. Meanwhile, the flow of time deposits into District banks and other institutions dropped off significantly.

District farmers' demand for both short- and long-term credit appears to have grown substantially during the first half of 1975. The volume of loans outstanding as of June 30 was 20 percent above a year ago at PCA's and 31 percent larger at the Federal Land Banks. With farm income estimates for the first quarter revised upward, the District's January-May cash receipts from farm marketings were only 4 percent below a year earlier.

This season's flue-cured tobacco prices, by belts, are averaging from 3 to 7 percent below a year ago. Quality of the crop is lower than in 1974, yet leaf firms are apparently being more discriminating over quality tobacco. Tobacco growers, meanwhile, have a large investment in the 1975 crop, with production costs estimated to be at least 7 cents a pound greater than in 1974.

SIXTH DISTRICT--ATLANTA

Economic conditions in the Sixth District have definitely moved into the recovery stage. Most businesses now report rehiring of workers laid off over the past year. Capital spending plans, curtailed during the recession, are now being taken off the shelves. Construction activity in single-family housing is showing definite signs of improving. There is concern over a shortage of skilled labor in specific occupations, and a natural gas shortage could cripple the District's important chemical industry.

A pickup in new orders has stimulated rehiring by many District businesses. Genesco, in Nashville, Tennessee, reports a jump in new orders at the wholesale level. Other Tennessee manufacturing industries which are tied to construction have recently reported increased orders. Several wood products plants have reopened, after being closed for several months. The outlook for this industry, according to local businessmen, is good, and most plants are now at full production. In Alabama, new jobs and rehiring are proceeding more slowly, largely because of the lagging steel industry. One Alabama steel manufacturer closed an entire plant for the first week in July and still remains well below full operating capacity. However, a Goodyear tire plant in Gadsden, Alabama, has rehired most of its employees. The plant is now operating on a six-day week and expects to continue to operate at this rate through the summer. In Louisiana, the Uniroyal Tire Company, as well as several other local plants, is rehiring workers previously laid off. The Mobile, Alabama, area reports rehiring in the shipbuilding, paper, and chemical industries. Several employment agencies in the District indicate a turnaround in the past two months. A representative of Snelling and Snelling in Jacksonville, Florida, indicates that there has recently been in improvement in the "quality" of job orders they are receiving from local businessmen, as well as in the number of firms that are looking for people. This representative reports that their firm will begin advertising on television in August. Car dealers are also reportedly now anxious to restock their staffs of car dealers. But they are now looking for a new breed of car salesmen, college-educated men who want to make a career out of selling cars.

The two areas of greatest weakness-- autos and housing-- appear to be picking up. A regional Ford representative reports July sales in Georgia and Florida up sharply from June. The new high-fuel economy (MPG) models are given a good deal of credit for the pickup. Sales of imports and luxury cars, as well as used cars, are still the strongest. The high trade-in price of used cars may be stimulating some new car sales.

Evidence of a recovery in the single-family housing market became more evident. Inflows to District savings and loans association were strong throughout the first half of this year. This, along with the housing tax credit, has finally begun to stimulate sales and new construction. Single-family home sales in Florida are booming, according to one Florida banker. Throughout the state, even in south Florida, sales and new starts are moving ahead. The condominium glut remains a problem. Even condominium sales are beginning to show some strength in the Tampa-St. Petersburg area, but a tremendous glut still remains. The condominium glut is also a problem in Atlanta, Knoxville, and Nashville.

Capital spending plans are apparently being taken off the shelves and dusted off by several District industries. New contracts were also announced by several area companies. In the Mobile, Alabama, area, some of the large industrial developments and expansions shelved in late 1974 are now being put into action. One of the largest is the Ow Badische $100 million chemical plant. Union Carbide is planning to build a plant employing 750 workers in

Columbus, Georgia. In Tennessee, pollution-control projects costing about $78.5 million were approved by the Tennessee Valley Authority. Most of the projects are for modifications of their twelve coal-fired steam power plants to meet state and Federal water-quality standards. The United States Air Force announced a $24.7 million C-130 Hercules contract for the Lockhead-Georgia Company, pushing the total C-130 contract announcements in July to more than $100 million. This will stabilize employment at the huge aircraft manufacturer.

Most area businessmen appear to have calmed their fears of shortages, but some conflicting evidence was also noted. In Jackson, Mississippi, the supply of materials for manufacturers is not anticipated to be a problem, but energy costs and natural gas availability are much more of a concern. An east Tennessee chemical manufacturer also expressed concern over the shortage of natural gas. A furniture manufacturer reports a drastic change in supply and delivery recently. Several types of wood have recently been more difficult to obtain. He indicates that the problem stems from large orders for these woods placed by the Japanses. Upholstery fabric prices have also gone up. A representative of the Georgia Purchasing Managers Association reports that delivery lead times have increased from thirty days to between forty-five and sixty days in the last two months. Twenty-eight percent of the purchasing agents surveyed expected higher prices on materials purchased in the next three months. The Alabama Purchasing Managers Association characterizes most purchasing managers as "nervous" about the return of shortage conditions.

SEVENTH DISTRICT--CHICAGO

Although signs of economic revival are much less clear in the Seventh District than in the nation as a whole, an improvement is expected in many sectors in the next few months. Demand for workers remains very weak. Order backlogs of capital goods producers, very important here, continue to erode. Most companies are still cutting inventories. Consumers remain cautious, especially for purchases requiring extensions of credit. Construction of single-family homes has revived somewhat, but prospects for apartments and commercial projects are poor. Crop projections are very good in District states east of the Mississippi, but parts of Iowa have been hurt by drought. District experts believe that the Department of Agriculture has underestimated foreign demand for United States grain, mainly because foreign production is being curtailed by adverse weather.

Purchasing managers' reports for Chicago and Milwaukee show further declines in output and new orders for June and July, in contrast to the improvement noted in the national reports. Nevertheless, there is greater confidence of a general pickup as the second half proceeds. Inventory liquidation continues in full swing. Employment at reporting firms continued to decline in July but at a slower pace.

The generally less vigorous tone in this District, compared with the nation, reflects the relatively greater emphasis on producer goods and consumer durables. Order backlogs of most producers of equipment for agriculture, construction, transportation, and industry have declined sharply since the turn of the year. Because no near-term improvement in demand for their products is expected, many equipment producers have been cutting inventories, reducing employment, and stretching out expansion and modernization programs.

Sales of autos and light trucks have increased somewhat, but there are large differences among makes and models. With strenuous efforts to reduce stocks of 1975 in process, evaluation of the basic strength of the car market probably will not be possible until late October or November. Sales of recreational vehicles have improved slightly, but sales of mobile homes remain very poor, partly because of reduced availability of credit. Inventories of furniture and appliances are now in line because of reductions in output rather than increased sales.

Major retail chains report that their sales in the Midwest are weaker than elsewhere in the nation. These companies complain of lack of customer response to sales promotions. Various sources indicate substantial strength in demand for auto and truck parts for replacement purposes, as owners delay purchases of new vehicles.

There are no procurement problems for standard material and components. Delivery times are very short for most items, and price competition is widespread, at least compared with a year ago. Prices on some types of steel products, e.g., rebars and cold finished bars, have been reduced. Price competition in metal fasteners is said to be "fierce", although demand has picked up modestly in the past two months after a sharp decline that lasted six to eight months. In most sectors, however, price concessions have been much less than might have been expected in view of the extent of the recession. Plants have been closed, permanently in some cases. Prices of residential building materials have remained at high levels or have increased further in the face of much lower demand.

Construction of single-family homes has increased somewhat in the Chicago area, but merchant builders are proceeding cautiously with a few homes at a time. Development of new subdivisions has not revived. Apartment construction remains very depressed, as financing for new projects has been closely restricted and a large inventory of unsold or unrented units is still on hand. Announcements of new office buildings and shopping centers are rare, and work on projects under construction has been slowed or stopped in some cases. A recent survey finds that several major buildings scheduled for the downtown areas of Milwaukee have been postponed or canceled because of lack of financing or because of reduced estimates of demand.

Crop prospects in most of the District remain very good, although estimates for Iowa have been reduced because of drought. District analysts believe that crops in Europe and other areas will fall far short of earlier estimates. Foreign demand for United States grain is now expected to approximate 1972 levels, with resulting upward pressure on prices. Our survey of farmland values showed a surprising 4 percent rise in the second quarter, following more moderate increases in the previous six months. Values at midyear were up 15 percent from a year earlier. Farm credit conditions have eased, as rural banks have become more liquid and Federal funds transactions have been less profitable.

EIGHTH DISTRICT--ST. LOUIS

Area businessmen continue to report that a modest upturn in economic activity is under way in the District. Sales at both the retail and manufacturing levels have improved over the past couple of months. Accompanying the increased activity are improvement in the employment picture and renewed concern about inflation. Funds continue to flow rapidly into thrift institutions, while demand for most types of loans is reported to be up only slightly. Reports concerning the condition of agricultural crops are mixed.

Retail sales continue to make moderate gains. Department store representatives report continued strong sales of soft lines but sluggishness among certain big-ticket items, such as refrigerators and air conditioners. An appliance dealer, however, reported some pickup in overall appliance sales from the levels of last April and May. Automobile dealers report some improvement in sales in the past couple of months, but are quick to point out that sales are still about 20 percent below a year ago. They also report that the trend toward purchase of small economy-type cars, as opposed to full-size cars, continues.

Manufacturing activity continues moderately upward. Manufacturers reporting an upturn in sales include representatives of chemicals, aluminum, lumber, paints and coatings, and certain construction items. A major aircraft manufacturer reported that the outlook for this industry is good. Foreign sales of military aircraft plus United States defense contracts have more than offset the declines experienced in the commercial aircraft market. Commercial aircraft sales are 10 to 15 percent below the 1974 level. This market is expected to recover somewhat as the economy picks up strength, although some excess capacity in the industry may keep it depressed through the rest of the year.

Inflation has reemerged as a major concern of businessmen as demand begins to pick up. Several businessmen noted large price increases recently or expected sizable price increases in the near future.

The employment picture has improved somewhat in the District, and the unemployment rate has generally declined. Reports indicate that firms are continuing to recall workers. Also, isolated reports have been received of firms having difficulty in hiring labor in some areas despite sizable numbers of people drawing unemployment benefits. Latest data indicate that the pickup of employment in the District, however, may be lagging the nation as a whole and that the decline in District employment during the past recession was somewhat more severe than the nation.

No surge in loan demand was reported by banks and savings and loan associations, although demand is expected to pick up as the recovery develops. Savings and loan associations report their loan requests are primarily for financing older homes, although some slight pickup in new home loans was reported. Funds continue to flow rapidly into thrift institutions. The sharp increase in savings deposits in June was followed by another substantial but smaller increase in July. The smaller increase in July was attributed to competition from higher yielding Government and other securities as well as to increased spending by consumers.

All interest rates have increased in recent weeks. Mortgage rates in the St. Louis area are now in the range of 8 3/4 to 9 percent on an 80 percent loan, compared with 8 1/4 to 8 1/2 percent a few months ago.

Crop conditions in the District are mixed. Some areas are suffering from lack of rainfall which is expected to affect crop yields seriously. Other areas, however, report crops in excellent condition. Overall, a large harvest is still expected this fall, and some concern was expressed that rice production may exceed existing storage facilities.

NINTH DISTRICT - MINNEAPOLIS

Crop conditions in the Ninth District are still good despite damage inflicted by flooding as well as a lack of moisture. Agricultural banks have experienced little difficulty in meeting the attendant strong farm loan demand; weak loan demand from nonfarm sectors apparently has helped boost funds available for farm lending. Despite greater fund availability, interest rates on farm loans have decreased only marginally since last winter. Consumer spending has strengthened during the summer, reflecting heavy tourist traffic and improved auto sales.

Crop conditions vary widely across the District but, on balance, they are good. Excellent crop conditions exist in the western region. Wheat yields in parts of Montana are expected to be considerably above normal; hay production in the western Dakotas has been good to excellent. On the other hand, a flooding of the Red River Valley in early July has caused large losses to potato, sugar beet, and small grain crops in eastern North Dakota and northwestern Minnesota. Moreover, prospects for bumper corn crops in Minnesota have been trimmed sharply by lack of moisture during July. Soybeans have not been seriously damaged by dryness, but continued lack of rainfall in August would spell trouble for that crop too.

The July survey of Ninth District agricultural banks indicated that first-quarter trends continued to midyear. Farm loan demand, especially for farm operating loans, remained strong in the second quarter. The factors cited for strong loan demand are familiar: High-priced farm inputs, reduced supplies of merchant-dealer credit, continued storage of some 1974 crops, and refinancing needs of some farmers. Banks appeared increasingly able to meet farmers' credit needs as evidenced by a less than seasonal increase in loan-deposit ratios. Weak nonfarm loan demand and strong deposit inflows accounted for the increased funds available for farm loans.

Though fund availability at agricultural banks appears to have improved since early 1975, credit remained costly for farm borrowers in the second quarter. Interest rates on farm loans in July were nearly the same as in April and had declined only marginally from the peak levels reached last winter. The constancy of rates is not surprising, however, since rates on farm loans have generally been less responsive to changing supply and demand conditions than have rates in other markets.

Consumer spending has strengthened since spring, and the outlook for fall and winter is for continued expansion. Retail sales are on an upswing. A large national retail chain, based in the Twin Cities, reports a steady expansion since May, with July volume 16 percent above the comparable period in 1974. Tourist spending has generally matched or exceeded expectations over the summer months. Resorts in the northern Minnesota lake country have been filled. Tourism in the Black Hills is reported to be the strongest since 1971, with traffic at Mount Rushmore up 17 percent from a year ago. Auto sales have improved in the past two months: Upper Midwest auto sales in June and July were reported to be up 5 percent over the comparable periods of 1974.

TENTH DISTRICT--KANSAS CITY

Retail sales in the Tenth District continue to show improvement, with durable goods particularly strong. Impulse buying is sharply down, as consumers either shop for bargains or seek quality at the top of the line. Inventories are now reported as balanced, and expectations are for a moderate expansion in both inventory buying and retail sales. Automobile dealers also report an improvement in both sales and inventories. While the production of winter wheat appears to have met expectations for a record harvest, corn conditions in some areas are rapidly deteriorating due to extremely dry weather. Loan demand at Tenth District commercial banks continues to decline as the gap between commercial paper rates and the prime rate widens.

Retail sales in the major urban areas of the Tenth District have continued to improve since May. Sales managers generally report that they are "very pleased with the rebound in sales" and that sales are "better than expected". Two major department stores note, however, that the Kansas City area is not doing so well as other Tenth District locations. Durables in general and furniture in particular are mentioned as showing marked sales increases. All retailers surveyed stressed that people are shopping for price and concentrating on necessities. Little "impulse buying" was noted. One knowledgeable source stated that people seem to be buying in two markets. The first market is extremely responsive to sale items, though discounts of 20 to 30 percent are now required to draw in the traffic. The second market is buying top-of-the-line goods, shopping for quality instead of price. "There seems to be a lack of buyers in the middle areas", he reported. All respondents foresee a slow and steady increase in sales as more and more people get back to work.

Inventories are generally reported as "balanced", "at the right level", and "in the best shape they've been in four or five years". Plans call for a modest inventory expansion by retailers for the rest of the year. One interesting development, however, was stressed by the majority of respondents. Whereas last year vendors were responding quickly to new inventory orders, deliveries are now lagging. Two respondents expressed concern that some shortages may develop, that they could not respond to a rapid increase in sales, and that the situation might not correct itself by the holiday season, leading to a below-potential sales volume.

Tenth District automobile dealers all reported either "greatly improved" or "steadily improved" car sales in May, June, and July. While each dealer stressed a "bread and butter" or "hot" selling model, there was no general agreement on the size or type of car which was doing especially badly. Sales expectations for the remainder of the calendar year were basically for a steady increase in line with a slow economic recovery. Most auto dealers reported balanced inventories, though some added that they had plenty of cars to sell, while others stressed a shortage of their "hot" selling models. A major observation was that consumers now seem to be resigned to higher fuel prices. "Uncertainty appears to be disappearing and is being replaced by cynicism.

Production of winter wheat in the Tenth District appears to have met earlier expectations for a record crop, but a larger than normal proportion of yellow kernels has decreased the export value of this year's crop. The wheat marketing year has gotten off to a slow start, as farmers seem determined to hold their wheat until the local price reaches $3.50 to $4.00 per bushel. In general, wheat farmers appear to be in a financial position that will allow them to delay marketing this year. Corn conditions in western Missouri, eastern Kansas, and eastern Nebraska are deteriorating rapidly due to extremely dry weather. Corn conditions throughout the remainder of the District are about normal, but some areas have reported insect problems.

The smallest number of cattle on feed for any July 1 since 1967 was just reported by the United States Department of Agriculture. Placements continue to exceed year-earlier levels, however and, if this trend continues as expected, the number of cattle on feed should about equal year-earlier levels by the end of 1975. The midyear cattle inventory showed a 1 percent increase in cattle and calves on farms since July 1, 1974. This is a smaller than expected increase, and is good news for cattlemen since it now seems possible that the buildup in cattle numbers may be halted by the end of this year. Additional good news for farmers came with the announcement that prices received rose 3 percent during the month and ended July 15, the fourth consecutive monthly increase after sharp previous declines.

A survey of Tenth District bankers revealed a decline in the demand for loans, including a slack demand for business loans, as the gap between commercial paper rates and the prime rate widened. These results were supported by data for all Tenth District reporting banks showing that the volume of most types of loans increased less than average, or fell contraseasonally, during July.

The exceptions to this pattern were loans to farmers, which were unchanged during July on a seasonally adjusted basis, and consumer installment loans, which rose slightly more than seasonally during July. Total deposits and large negotiable certificates of deposit (CDs) at Tenth District reporting banks also fell more than the seasonal average during July. Bankers contacted in the survey indicated sharply differing flows of CDs, however, with some reporting substantial runoffs and others indicating that they had attracted more CDs.

ELEVENTH DISTRICT - DALLAS

Industrial output in the Eleventh District turned up in June after trending down since last November, and a recent survey of the largest manufacturers in the District indicates gains in output are continuing. New orders have picked up this summer, and since inventories of most finished goods are at low levels, this firming in demand is translating into stepped-up production. For example, output in the chemical industry, the District's largest, is on the upswing. Chemical users, having worked off the high level of stocks accumulated in the last half of 1974, are beginning to replenish inventories, and production has now turned up after declining sharply since last fall.

A big influx of orders has also prompted apparel and textile firms to increase production schedules. Manufacturers claim inventories at all levels of the garment industry--retailers, suppliers, and distributors--are very low. As a result, one of the District's largest garment makers said his goods are being shipped as soon as they are produced.

Virtually all the manufacturers surveyed said that raw materials are readily available, but input prices continue to climb. Because final demand remains weak, prices of finished goods have held steady, and in some cases have fallen. Profit margins, consequently are being squeezed, and in some cases production costs are not being covered. Producers of structural metals, for example, have been particularly hard hit. A large manufacturer of reinforcing steel bars, reported a 20 percent increase in the cost of steel scrap--his principal input--this summer. Meanwhile, the market for construction remains weak and, as a result, most shipments have been priced below production costs.

Once demand firms, however, many manufacturers say they will try to regain their traditional profit margins. Therefore, as economic recovery gathers momentum, prices of manufactured goods are expected to climb substantially.

Auto sales in the District have turned up sharply. New car registrations in the four largest metropolitan countries of Texas were 14 percent higher in June than in May. A survey of new car dealers suggests July sales were even better. An upswing in consumer confidence contributed to the upturn in sales, but dealers believe the announcement of higher prices for next year's models was also a major factor in spurrring sales. Moreover, dealers say consumer expectations of higher prices should keep demand for 1975 models strong.

In anticipation of increased auto sales at the close of the current model year, dealers have placed large orders to replenish their inventories. But, largely because of plant closings, new cars have been, and will likely remain, in short supply. As a result, dealers claim a significant volume of sales is being lost. A Fort Worth dealer, for example, says the maximun order Ford allowed him is well below what demand warrants. This lack of inventory, he maintains, is holding down sales at least a third.

District banks have increased their holdings of municipal securities about 5 percent this year, or over four times the national average for commercial banks. Net additions to municipal portfolios are expected to continue, at least through the remainder of 1975, as the New York City situation is having only a minimal impact on municipal markets in the District. Although buyers have become more conscious of the creditworthiness of issues, municipalities in the Southwest are generally on sound financial footing. In fact, issues by District cities are currently being oversubscribed.

Farm and ranch income in the District states has fallen sharply this year. Cash receipts from sales of livestock and crops for the first five months of 1975 were 19 percent less than for the corresponding period last year, compared with a 9 percent decline for the nation. But costs of producing food and fiber have continued to climb.

The resulting financial squeeze was reflected in a midyear survey of agricultural credit conditions in the District. Repayments of outstanding bank loans have been sluggish, and the number of renewals and extensions of loans has risen substantially. As a result, bankers are much more selective in their lending, and many have increased collateral requirements on loans.

Narrow profit margins are making it increasingly difficult for farmers and ranchers with limited equity to meet more stringent credit requirements to finance this year's production. Consequently, bankers report the turndown rate on new agricultural loans is up significantly. Areas where cotton and cattle are the principal agricultural enterprises have been the hardest hit, as evidenced by the high number of referrals of loan applicants to nonbank credit agencies. Moreover, many of these referrals have been to various emergency programs of the Farmers Home Administration, reflecting the severity of the cost-price squeeze facing producers.

TWELFTH DISTRICT--SAN FRANCISCO

Our directors believe that the recovery will be gradual, and they are viewing economic developments cautiously. Consumer demand is still sluggish, although automobile sales have picked up slightly. Manufacturing output is being maintained at recent levels, with increases in new orders still being satisfied through inventories. There is no indication of increasing job opportunities. All construction is being hampered by high costs. The grain sales to the USSR and light spring plantings are expected to result in increased food prices at the consumer level over the next six months. Business loan demand remains weak, and delinquencies are on an uptrend.

Consumers have not yet stepped up purchasing to a significant degree. Although department store sales are up about 7.5 percent over last year, this barely covers the inflation premium. Auto sales, however, have shown some spark over the past month, reflecting a pickup in consumer confidence. A large manufacturer of sportswear and apparel is optimistic about 1976 spring and summer lines, although sales currently are "flat". Tourist travel has exceeded expectations, with entrants to national and state parks exceeding last year.

On the whole, District manufacturing activity is steady at below-peak levels. New orders have picked up but are still largely being filled from inventories. Aircraft manufacturers in both southern California and the Pacific Northwest seem particularly discouraged about the pace of new orders, considering the long lead time before actual production is affected. The largest electronics firm in Oregon reports that orders recently have exceeded last year's volume by 10 percent, but company planning remains cautious. In the same state, machinery manufacturers anticipate declining inventories over the next six to nine months.

Demand for aluminum products has been increasing slowly. Inventories in the hands of users have declined sharply in recent months, although producers' stocks have remained high. Similarly, in the steel industry, orders have firmed but sales have come out of swollen stocks. The copper industry in Utah is benefiting from revived automotive demand.

The inventory adjustment appears to be completed in the forest products industry, but production will be directly tied to sales levels and the recovery is expected to be very gradual. Pulp and paper demand has increased slightly in the past month.

Natural gas supply shortages are becoming serious. A 10 percent decline in available gas for each of the next four or five years is anticipated. Utilities are unable to buy more gas, and new customers are not being sought. Customers with interruptible service may have to switch to propane fuel which is also in short supply.

Although real estate activity is bouyant, demand for new housing construction is generally very weak. The view is reiterated that: "We have almost priced outselves out of single-family housing, with an average home costing $35,000 to $38,000."

It is an increasing problem to devise methods of amortization. New labor contracts have boosted construction worker wages 11 to 12 percent. Except for road building, nonresidential construction has not increased, and job opportunities have remained constant. In some cases, stretch-outs in environmental protection-control studies have delayed new plant construction, and the costs of pollution-related nonearning assets have amounted to 40 percent of construction outlays.

As a result of the Soviet purchase of large quantities of wheat, corn, and barley last month, prices of cereal crops have risen, in the case of wheat from approximately $2.95 a bushel to $4.00 net to the farmers. The inventory of fresh potatoes is near an all-time low, and the spring crop planted for summer harvest is below average. Although some farm costs have been going down (e.g., nitrogen fertilizers, which sold at $320 a ton in the spring, were recently quoted at $146 a ton), there will be strong pressures for food price increases over the next six months.

Bank loan demand has remained unchanged over the past month, with business loan demand the softest. In line with the increase in rates on certificates of deposit, other rates have been moved up to cover costs. Profit margins of the banking industry are expected to narrow as the year progresses, with more losses, delinquencies, bankruptcies, and more work out in commercial loans. Savings flows are down.