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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 news of spreading weakness in the economy has not changed much from last month, although a somewhat firmer consensus on the side of pessimism emerges, if only because of the confirming character of this round of reports. Most Districts tell of further declines in consumer demand, softening employment, and increasing uneasiness about the economic outlook. And again as was the case last month, several report of business efforts and intentions to reduce inventories, to cut costs, and to reduce investment in plant and equipment. Some subsectors of the economy, such as the oil industry and parts of agriculture, are thriving amidst an otherwise general slump in business. Still others, such as home building and cattle farming, remain deeply depressed. Bank deposits and loans continue roughly flat. Additional modest inflows to thrift institutions are not expected to help home building in the near future.

The deepening recession is quite evident in this month's Redbook, as the more insulated Districts and lagging sectors begin to come in weaker. The swing in the Minneapolis report is of special interest. Ninth District directors and businessmen were still relatively optimistic last month, but this time around they joined the ranks of the worried pessimists. The reports of Kansas City and Dallas also show more concern than last month. In November, Kansas City observed that Tenth District economic conditions were somewhat better than in the nation as a whole. This month, they are said to be looking about as bad. In November, Dallas department store executives were optimistic about the Christmas season. This month, there is a strong indication of sluggish retail sales in the report from the Eleventh District.

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*Prepared by the Federal Reserve Bank of Kansas City.

Meanwhile, the Districts which have been reporting increasingly gloomy economic conditions for many months are reporting even lower depths of pessimism.

The spread of the recession to business fixed investment was indicated by the cutbacks in capital spending plans reported last month by five Districts. Three more, Boston, Philadelphia, and Minneapolis, confirm the findings this month. Current activity in capital goods industries continues high, as reported by St. Louis, but the leading indicators for this sector suggest a weakening ahead. Cleveland reports a significant reduction in buying lead time for capital equipment. Chicago and Boston note declining new orders for capital goods, although backlogs will keep suppliers busy for most of 1975.

Retailers are losing hope for either a merry Christmas season or a happy New Year's spring. Even the most optimistic store executives, those reporting to Minneapolis, do not expect much of an increase in real sales. Richmond reports a decline in the dollar volume of retail sales, and real retail sales are apparently down in the remaining Districts. With inventories considered excessive in view of expected sales, stores are heavily promoting sales of merchandise at reduced prices. The New York report suggests that some firms may have already been successful in liquidating inventories and are now operating with "lean" stocks. But inventories are reported high by Cleveland, Richmond, Minneapolis, Kansas City, Dallas, and San Francisco.

Agricultural conditions are reported to have deteriorated in the Eleventh District by Dallas, due to depressed livestock markets, and big shortfalls in crop yields of wheat, grain sorghum, hay, and cotton. San Francisco reports that the strongest sector in the Twelfth District is agriculture, although cattle producers are under a severe profits squeeze there too. Crop reports from Atlanta are mixed, with cotton poor, corn, rice, and soybeans normal, and burly tobacco good. Richmond reports a record-breaking value for a crop of flue-cured tobacco, and notes that crop receipts through the third quarter of 1974 registered a 15 per cent increase over a year ago. However, the index for prices received by farmers now is at last year's level, while the index of prices paid is up 17 per cent over a year ago.

This month's Redbook, as noted early in this summary, contains reports that confirm those of a month ago, and are therefore not repeated in a District-by-District fashion here. Suffice it to say that this month's evidence is overwhelming in establishing the weakness of the economy and in indicating its likelihood of continued decline. Virtually every indicator of general economic conditions that is reported on by the 12 Districts points to deepening recession at worst, or continued sluggishness at best. But, thanks to this, gains appear to be materializing on the price front. The pre-Christmas sales are good news for consumers. Cleveland purchasing agents report a continued slowing in the rate of price increases. Atlanta calls attention to the 30-40 per cent decline in lumber prices, and reports that some suppliers of other items once short but now long are reducing prices. Unfortunately, the good reports indicating slowing inflation are offset by the more disappointing reports such as Philadelphia's, in which businessmen relay their all-too-recent experiences with inflation, and tell of their expectations that such rapid price increases will continue at least through May.

FIRST DISTRICT - BOSTON

The directors' outlook has deteriorated, but catastrophic conditions are not yet anticipated. New England is becoming "numb to conditions being so bad; they haven't been good in so long," and, it is asserted, "to turn people's attitudes around, we require good news for a change, not merely an absence of bad news"—"positive public action," "less politics and more statesmanship" is sought. It is believed that the economy is basically weak.

The New England seasonally adjusted unemployment rate for October was 7.5 per cent; for September and October 1973 the figures were 7.3 per cent and 6.4 per cent. Massachusetts' rate of unemployment for October was 8.4 per cent. Some directors emphasize that the region never fully bloomed after the 1969-1970 slowdown: e.g., manufacturing employment has yet to regain 1968 levels. To interpret recent movements in the regional unemployment rate, it is important to recognize that the seasonally adjusted civilian labor force has grown by 0.4 per cent at an annual rate from August to October. Furthermore, a Connecticut director notes that the short work week is providing a temporary deterrent to significant outright dismissals.

According to the directors, business people in the First District are reconsidering capital budgets. 1975 outlays are being trimmed 15-50 per cent from previous projections in many cases. Reviews, cutbacks, postponements, and serious monthly reassessments are commonplace. The directors note that "these guys were formerly quite cheery" and that attitudes are now pessimistic: "it will take all of 1975 to straighten things out."

An important supplier of capital goods states that his order book is filled, but a softening has been developing for months in new orders. In 1969-1970 a profound recession crippled the machine tool business; as a result, attempts at catching-up, spending commitments on major projects, and some cost-cutting efforts maintain the stock of orders on hand for both the capital inputs and products of the machine tool industry. However, there could be a significant retrenching appearing in late 1975 and 1976.

The retail outlook is not inspiring. Pre-Christmas sales are becoming the norm. Full-page newspaper spreads attempt to lure customers with price reductions sometimes attaining 30-50 per cent.

Our three academic correspondents—Professors Eckstein, Samuelson, and Tobin—shared both the fear that the downturn could snowball into something very serious and the view that interest rates should be pushed down sharply now.

The professors agreed that all the risks are on the downside. They pointed out that inventory decumulation could be $5 to $10 billion greater than now expected, capital spending could be off 6 per cent and consumer spending could be worse than forecast. A recovery in the second half of 1975, Eckstein said, requires the Fed to be accommodative. Every hesitation to ease, he argued, will be counterproductive because continued restraint will cause the primary processing industries to cut capital expenditures. He believes that the sooner the Fed funds rate is 6 1/2 per cent, the better. While he doesn't want the System to glut the economy with liquidity, he believes our goal should be an 8 per cent growth rate for M1. Since inflation won't be better than 6 per cent, and we need real growth of 5-6 per cent during the recovery to make any progress against unemployment, nominal GNP will have to grow by 11 per cent. We cannot achieve that, Eckstein and Samuelson argue, with less than 8 per cent growth in money.

Eckstein states that it is now time to fight recession, not inflation, because the inflation is in its latter stages. Lagging prices will keep the indexes advancing at a 7 per cent plus rate in 1975, but the leading price indexes have been falling for months and the causes of the commodity inflation have abated.

Eckstein concluded that the risk of a deep recession turning into an economic collapse is rising swiftly. The Fed must help assure that this will just be a recession by providing a reserve base for all reasonably qualified applicants for credit, while also allowing for an improvement in the corporate balance sheet. To Eckstein, this implies M1 growth greater than 5 per cent over the next nine months, moving to 8 per cent in the recovery phase. Eckstein concluded that anyone who continues to argue that the Fed should now be fighting inflation rather than recession is an enemy of capitalism and that if the Fed follows this course, it will be committing institutional suicide. While Samuelson and Tobin generally agreed with Eckstein's assessment of the outlook, Samuelson felt that the recession had not yet started snowballing while Tobin felt that it had. Their policy prescriptions, however, were very similar. Samuelson wanted the M1 target to be 8 per cent in 1975:I. Tobin said we should cut the discount rate another 2 1/4 points this week and then pour reserves in to bring the Fed funds rate down to 6 per cent. Tobin believes that short-term interest rates will be falling because of the weakness of the economy. But if interest rates are going to come down to effect recovery, he said, they must come down much faster and sooner.

SECOND DISTRICT - NEW YORK

The views expressed by Second District directors and other business leaders who were contacted recently in general reflected the nationwide slowdown in business activity. Department store sales have been relatively sluggish for this time of year. Business inventory policies have become significantly more cautious, with some instances of outright liquidation reported. Shortages of goods and materials have reportedly eased substantially. Despite the rise in overall unemployment, however, shortages of skilled workers persist.

Regarding consumer spending, the Buffalo Branch directors on balance felt that the sharp decline in auto sales had not been parallelled in their area by a similar fall in the sale of other major consumer items. Nevertheless, these directors generally agreed that retail sales of nonautomotive durable goods had weakened. Among other respondents, the president of a high quality New York City department store reported that his firm's sales had declined in November, which is usually a good month, and while he expected some improvement in December, he looked for Christmas sales to be only a little better than last year in dollar terms. Similar sentiments were expressed by a senior official of a large New York City department store with branches in the suburbs, who also expressed concern over the retail sales outlook over the coming months. Similarly, a survey of New York City department stores by a local newspaper revealed that November sales at many of these stores had undergone their worst year-to-year decline in four years. Business, however, has apparently picked up with the advent of the Christmas season, with observers reporting heavy crowds and good business. As noted by several respondents, however, it appears to be a "bargain hunters' market," with heavy promotion and with many stores holding at this time the usual post-Christmas clearance sales, of both soft and hard goods. Similarly, many supermarkets have been holding special sales, and running advertisements offering discount coupons for selected items.

Against the background of relatively weak consumer demand, there were indications of a re-evaluation of inventory policies. The Buffalo Branch directors thus agreed that both retail and manufacturing firms have been attempting to adjust inventory positions downward, not only because of the weak retail sales picture, but also because of the easing of commodity prices and the high cost of financing inventories. The senior official of a large Buffalo department store reported that his firm had reduced its "on-hand" inventory and future commitments of apparel about 20 per cent below last year's level, a move he felt was not unusual for the retail trade industry. Similarly, the two New York City retailers mentioned above reported that their firms were attempting to maintain a "lean" inventory position. A senior official of a nationwide metal processing firm reported his firm was no longer able to sell all it produced, a development he felt indicated that the firm's customers were drawing down on their existing inventories. The chairman of a conglomerate stated his firm was liquidating inventories, and would continue to do so. It was noted, however, that while inventories might be too high in some sectors, a number of items such as heavy machinery, electrical equipment and metal casing still required long order lead times.

District construction activity, particularly in the New York City area, remains at a low ebb, although the outlook has brightened somewhat over the past month. A survey by a trade association indicates that New York state savings banks experienced moderate net deposits inflows in November following seven consecutive months of net outflows. Several thrift institution officials in New York have suggested, however, that these funds would not flow immediately into the mortgage market but would be used initially to rebuild liquidity positions.

The nationwide advance in the unemployment rate was reflected in the reports of several respondents. Thus, the two New York City retailers mentioned above stated their firms were attempting to trim personnel as well as other costs, and the chairman of the conglomerate reported his firm was cutting down its sales force. The Buffalo directors, however, felt that with the exception of layoffs in the automotive industry, employment in general appeared to be holding up well in the upstate New York region and that the supply of skilled labor remained tight. In their views, there appeared to be no evidence as yet of major layoffs of managerial and professional employees. The directors were, however, concerned that if the economy continues to decline, layoffs in the managerial and professional ranks may well occur.

THIRD DISTRICT - PHILADELPHIA

The outlook for business activity in the Third District remains gloomy this month. Manufacturers report large declines in new orders, shipments, and unfilled orders in November. Capital investment plans remain bearish, and employment levels appear to be softening from this business decline. With the depressed economic outlook coupled with ever-rising prices, manufacturers and retailers are not overly optimistic for the next six months. Philadelphia banks continue to report flat loan levels and deposit growth rates.

Industrial activity experienced a significant slowdown in the Third District in November, according to this month's business outlook survey of manufacturers. While only four out of ten respondents experienced a decrease in the general level of business activity in October, almost nine out of ten posted decreases in November. And in their own firms, more than 75 per cent of the area businessmen also report a decrease in new orders, shipments, and unfilled orders from October levels. Manufacturers are slightly more optimistic for late spring, however. Thirty per cent more businessmen expect increases in the general level of business activity by May than expect decreases, with 40 per cent anticipating no change. But, the weakness that has been developing in the capital investment sector is still evident. Less than a third of the respondents expect to boost capital spending in the next six months.

Employment in the Third District is absorbing much of the shock of the general business decline. Only 26 per cent of the responding firms decreased their work force in October, and 10 per cent reported increases. However, in November, over 40 per cent of the responding firms cut back in employees, and 48 per cent shortened the length of the average workweek. However, looking ahead six months, over half of the businessmen expect to stabilize their employment, with those expecting an increase just about equaling those expecting a decrease. However, small increases in area payrolls will continue to spell unemployment in the Third District, as the overall total of potential workers continues to grow.

Retailers were also dissatisfied with the November level of business activity. While the dollar value of sales was up slightly over October and over last November, the number of transactions fell below those levels. This bearish outlook promises to continue throughout the Christmas buying season. One retailer reported that with a little bit of luck and a lot of good weather, he might break even. Others were less optimistic, even through the first six months of 1975. Ready-to-wear items and toys were the biggest sellers in most stores, but big ticket items were moving at a very sluggish pace. Most retailers attributed declining sales to higher prices.

Area retailers were not the only businessmen plagued by increasing prices. Area manufacturers also report inflation woes. Sixty per cent of the respondents paid higher prices for raw materials in November, but only 18 per cent reported receiving higher prices for their finished goods. Businessmen don't see any lessening in this rapid increase in prices by late May. Three-quarters expect to be paying even higher prices by late spring, and 55 per cent expect to receive higher prices for their products.

The major Philadelphia banks have continued to curtail loan growth. Some area banks report slightly stronger loan demand, with one bank negotiating a $14 million loan to Chrysler. However, in general, loan demand remains about level, with most bankers expecting declines in February as inventories are liquidated.

Deposit growth also remains flat, with no signs of improvement. Large Third District country banks are experiencing loan and deposit growth rates similar to those of Philadelphia banks. In sum, loan levels and deposit rates continue to be flat in the area.

FOURTH DISTRICT - CLEVELAND

The deterioration in District business conditions has become more pronounced during the past month. Retail sales are weak, inventories are high, and retailers are not optimistic with regard to near-term prospects. Manufacturing activity continues to decline, and weaknesses are becoming more widespread among industries. Layoffs have risen sharply, and a number of firms are reducing employment in December. Restoration of coal mining operations will help conditions in some areas, but is expected to dampen order demand in the steel industry. There are scattered signs that business loan demand has spurted recently as businesses are burdened with heavy receivables and excessive inventories. S & L's continue to show improvement in savings inflows.

Retail sales for the holiday season appear to be off to a slow start, according to executives from three major retail concerns. Short-term prospects are generally considered to be pessimistic. Sales in the Cleveland area have been hindered in part by adverse weather and by a lack of advertising (the area's two daily newspapers have not been published for more than a month). Inventories are reported to be on the high side, especially for appliances, television sets, and home furnishings. Buying commitments have been cut back and the firms are attempting to promote sales through pre-Christmas markdowns. All concerns report that fewer part-time workers than usual have been hired for the holiday season, and some firms are allowing attrition to reduce full-time staffs. A manufacturer of men's clothing notes that their bookings from the retail sector for the spring of next year have fallen below those of last spring. Retailers have become more cautious in their ordering, and cancellations are increasing. The executive mentioned a softening in textile prices and a dramatic price weakening in the past few months in the secondary clothing market (goods cancelled and sold at close-out prices).

Purchasing agents in the Cleveland area report a further deterioration in business conditions. Production declined in November for the second consecutive month, while new orders declined for the third consecutive month. The problem of shortages has diminished considerably, and raw materials are becoming more readily available. Price increases continue to slow. Last month there was a significant reduction in buying lead time for capital equipment.

Our own monthly survey of District manufacturers reveals a progressive weakening in the new order picture during recent months, declining backlogs, a slowing in inventory accumulation and price increases, improvement in delivery time, and further reductions in employment and hours. Layoffs have been widespread among auto producers and suppliers, and in the appliance industry. In addition, the coal strike has disrupted economic conditions in those portions of the District heavily dependent on coal production. A number of machinery companies are planning to reduce employment in December. Other employment layoffs are planned this month by firms in printing, paper, housing materials, food processing, aluminum, oil refining, appliances, autos, tires, and auto supplies.

Three major machine tool companies in Cleveland are experiencing declines in new orders, but high levels of backlogs are expected to sustain strong shipments well into 1975. One firm reported that their new orders are just offsetting cancellations, and their backlogs (2-1/2 years) are being reduced. Another said cancellations for machine tools exceeded orders last month (cancellations totaled 18, orders 12). The third company is beginning to reduce employment even though its backlogs are still rising; shortages of certain materials and parts continue to hamper optimum production in that firm.

Steel producers are still allocating steel, although three major steel companies report some increase in cancellations and declines in new orders. Autos, appliances, and some construction users have cut back orders. Steel that has been cancelled has been promptly resold to oil and gas producers, railroads, mining, shipbuilding, pipe manufacturers, and other capital goods industries where demand remains strong. Several steel firms were forced to curtail operations because of the coal strike; they plan to step up production as soon as it is apparent that coal deliveries will be resumed. The steel companies also fully expect a wave of cancellations when coal miners return to work and the availability of steel returns to normal. Customer stocks are estimated to be about 10 per cent above normal, but mill stocks are abnormally low and will be rebuilt as customer demand slackens. Steel industry economists note that steel imports have soared recently and foreign steel prices have been cut dramatically to near parity with domestic prices. Accordingly, they expect the U.S. deficit in steel to increase in 1975 because imports will be higher and exports lower than in 1974.

On the financial side, several large banks in Cleveland noted a spurt in business loan demand in recent weeks. Customers are said to be heavy on receivables and inventories and in need of cash. One bank also reported that in recent months they have significantly scaled down the proportion of auto dealer loans accepted because of a deterioration in quality and lengthening in maturities. Thrift institutions continued to experience an improvement in net savings inflows in November. An official with a FHLB expressed the view that if gains in deposits continue, the S & L's will first pay their debts and rebuild liquidity before seeking mortgage loans more aggressively. An executive for a $150 million S & L noted that their net gain in deposits during November-December has about equalized losses during the summer months. They recently lowered their variable rate mortgage to 9.6 per cent.

FIFTH DISTRICT - RICHMOND

The most recent survey of Fifth District businesses indicates that the general economic weakness is becoming more pervasive. District manufacturing remains in a depressed condition while retailers report further deterioration in sales. Reports of layoffs and plant closings have become more common, particularly in lines of production such as textiles and consumer electronics, e. g., color televisions. Our survey of manufacturers reveals further declines in shipments, orders, backlogs, and employment, with inventories of both materials and finished goods remaining in excess of desired levels. District retailers reported the first decline in the dollar volume of sales this year, as sales of big ticket items continue weak. Fifth District banking aggregates for November reflect the general slowdown in business. The results of our November survey of changes in bank lending practices seem to indicate that bankers expect this slowdown to continue over the next three months. In the agricultural sector, tobacco prices rose to record levels and, along with an increase in marketings, pushed the value of the flue-cured tobacco crop to an all-time high.

The December survey of Fifth District manufacturers indicates further substantial declines in activity. Over 75 per cent of those surveyed report declines in the volume of new orders and in backlogs, and over 60 per cent reported a lower level of shipments. Twenty-four of fifty manufacturers reported increases in finished goods inventories, and over 50 per cent view current inventory levels as excessive.

The relative volume of orders and of inventories is beginning to impact heavily on the employment picture as more firms try to reduce inventories and bring production into line with new orders. In one state alone, 20 firms laid off more than 100 employees each while 17 more laid off between 50 and 100 during November.

In that state, Virginia, preliminary estimates are that unemployment may have risen by over 20,000 since October. In North Carolina, one week in November showed 47 plants laying off a total of almost 5,000 workers. The largest numbers of layoffs are occurring in such areas as textiles, furniture, and color televisions, but unemployment is now reaching into other segments of the District economy as well. Layoffs have been announced by firms in trucking, paper production, tire valve stems, and aluminum siding, among others. Survey responses suggest the slowing of economic activity is leading to a softening of the price situation. There are fewer reports of higher prices and more of lower prices than in any recent month.

Respondents indicate little optimism over the outlook for the immediate future. More than 45 per cent view current plant and equipment capacity as excessive and only 8 per cent feel current expansion plans should be enlarged. A clear majority expect the level of business activity nationally and in their respective market areas to worsen over the next six months, while almost half expect the level of production in their own firms to decline during the same time period.

Responses to the survey of District retailers suggest a decline similar to that being experienced by manufacturers. For the first time this year the survey indicates a drop in the dollar volume of retail sales. Sales were reported as flat in May and July, but had been strong during other months of 1974. The diffusion of responses showed the sixth consecutive monthly decline in sales of big ticket items relative to total sales. Fifty per cent of the retailers reported increases in inventories during November and the same number view current levels as excessive. With the exception of a few large national chains, prices at retail do not yet appear to have come under downward pressure although the responses indicate that upward pressures may be subsiding. Six-month expectations of the retailers are similar to those of the manufacturers; 50 per cent foresee further declines in the level of business activity nationally and in their own market areas, while one-fourth expect sales within the firm to worsen.

In the banking sector, seasonally adjusted bank credit at District member banks rose $10 million in November. Total loans and holdings of U.S. Government obligations increased by $75 million and $5 million, respectively. Other securities, however, declined by $70 million. Commercial and industrial loans at weekly reporting banks declined, while real estate loans remained relatively stable and consumer instalment loans declined. The November loan survey reveals that price terms on bank loans have eased while non-price terms remain quite restrictive. District banks are not actively pursuing asset expansion in any of the loan categories surveyed. Member bank borrowings at the Federal Reserve Bank of Richmond declined to the lowest level since March. Outstanding CD's declined slightly, another indication that credit demand is easing.

Value of the 1974 flue-cured tobacco crop was the largest on record, topping last season's by 27 per cent or $246.8 million. Tobacco prices that soared to history-making levels and a slightly larger volume of marketings combined to produce most of the gain in value. Cash receipts from farm marketings through the third quarter of 1974 registered a 15 per cent increase over a year ago. Crop receipts, reflecting the larger tobacco income, accounted for all of the upturn. November 1 crop conditions indicated that output of some of the major field crops—especially cotton, peanuts, soybeans, and flue-cured tobacco—will be somewhat smaller than had been expected earlier.

SIXTH DISTRICT - ATLANTA

Reports from businessmen and directors continue to point to a softening in the economy, easing of most shortages and faster delivery time, sluggishness in pre-holiday sales, and some price reductions. Plant closings and layoffs are reported from many parts of the District, with the textile industry most severely affected. Directors in the Birmingham area still rate inflation as the country's number one economy problem, however. Despite all the gloom, some favorable signs were noticeable, with several announcements of new industrial projects, as well as strong possibilities of new business contracts for some District firms. The latest crop reports are mixed, but the picture is generally better than that of a year ago.

A recent meeting of leading District businessmen indicated that in most areas, business has weakened substantially. As reported last month, the situation in the lumber industry is bleak. There has been a 30- to 40-per cent decline in lumber prices. Many lumber mills have closed down, and concern was expressed whether they would ever reopen if and when construction activity picks up. Retail representatives reported that people are now more sensitive to bargains than they have been in nearly 30 years. The items moving best are necessity and utility items, not luxury goods. Both retailers present at the meeting expect a good toy season; the sales declines will be in adult items. The representative for one of Atlanta's largest shopping centers indicated that the retailers who rely heaviest on credit sales are now having trouble. Apparel sales are reported as very weak. An apparel manufacturer indicated a softening in bookings after seven straight years of increases. Fall sales were disappointing, and Christmas sales are turning out equally bleak. He reports that bookings for spring are terrible; this appears to be the situation for most apparel manufacturers. Textile mill business is also off substantially. One businessman noted that only about 6 of 35 Georgia textile mills are operating full time. Textile prices are now falling sharply. The apparel manufacturer stated that by the middle of next year, apparel prices will be below this year's prices. An executive for a large soft drink company indicated that the surge in sugar prices and consequent product price increases have not severely affected their unit sales. He thought that the current pricing policy in the food industry was based on anticipation of price controls. In other words, food retailers are hedging in order to be in the most favorable price situation if controls should be enacted. This soft drink representative also indicated increases in slow payments of accounts receivable, particularly by large supermarket chains.

Reports of letups in shortages and quicker delivery time continue to trickle in. A Louisiana businessman reports that materials are now readily available, particularly for housing materials. Steel may be still in short supply; but, even in the case of steel, a Tennessee steel executive believes that inventories were built up in anticipation of a prolonged coal strike. He indicates that some steel inventory liquidation is now taking place at a price less than the original purchase price. Another Louisiana businessman said that past slow deliveries and rapid price increases on hard goods, hardware, and plastic items because of shortage conditions have ended. Some suppliers are now reducing prices to entice the wholesaler to purchase. A representative of a large oil company, however, indicated that they were still experiencing difficulty in ordering steel pipe, fittings, valves, structural steel, and electrical supplies.

The textile industry, as mentioned above, heads the list of plant closings and layoffs. Two carpet mills recently closed their doors in North Georgia; two carpet mills in Chattanooga have also closed. A yarn-spinning plant has closed down in Columbus, Georgia. Chemical plants have also been laying off workers. A Knoxville, Tennessee, plant furloughed 300 workers. Nashville's Dupont plant recently laid off 250 workers. This plant makes dacron, which is used by the slumping textile industry. Union Carbide recently announced a layoff of about 300 workers at a plant in Oak Ridge, Tennessee. Magnavox (electrical equipment) has laid off 1,400 employees in plants in Tennessee and North Carolina.

All the economic news wasn't bad, however. Central Florida's sagging economy will get a much needed shot in the arm, as Occidental Chemical Company increases phosphate production to meet domestic and foreign demands; 3,325 new jobs will be created. It is also estimated that 5,540 supportable new jobs will be created by the company's expansion. Lockheed-Georgia's future is looking up. The Marietta, Georgia, plant may move into full-scale production of the C5A cargo transport if the deal with Iran goes through. South Alabama is experiencing an oil boom. They anticipate the discovery of some 15 to 20 new oil fields over the next 5 to 10 years. Several new and expanded plant announcements were made. U.S. Steel Corporation is pouring another huge sum, estimated at $100 million, into its Fairfield works in Birmingham, Alabama, to help supply the south's steel market, now recognized as the fastest growing in the nation. The Atomic Energy Commission gave the go-ahead for construction of a $445 million nuclear power plant in St. Charles Parish, Louisiana.

Latest crop reports are mixed. Mid-November saw the first weighing in of the burley tobacco crop in Tennessee; the yield per acre was up 75 pounds from last year. Tennessee's cotton crop prospects are very gloomy this year, but corn harvesting is at a normal pace. Louisiana's agricultural production, going into November, indicated a drop in cotton and sugar cane, while rice and soybeans remained unchanged.

SEVENTH DISTRICT - CHICAGO

The general economic picture in the Seventh District has continued to deteriorate in the past month, and at an accelerating pace. General forecasts publicized in this region commonly see no revival before next spring, even after midyear in some cases, and then only of a moderate degree. The capital goods boom continues, but it now includes a narrowing group of sectors. Employment is declining and unemployment is rising in virtually all industrial centers in the District—although to varying degrees, depending on specialization. Retailers are pushing contra-seasonal special promotions very hard, but they complain of a "deep recession psychology." More business and financial executives have become disturbed over the capacity of their creditors. There are no bright spots.

Procurement problems on purchased materials have now been reduced to a few items, such as heavy forgings and heavy castings needed for capital goods, and certain chemicals. Some shortages disappeared "overnight," e.g., bearings, fasteners, and brass mill products—all very tight a few months ago. Almost half of the purchasing managers in Milwaukee (the preeminent capital goods center) reported shorter lead times in November, compared to 85 per cent reporting longer lead times a year earlier. In addition, deliveries are more dependable, more prices have declined, and there are fewer complaints about poor quality. Remaining tightness in lighter steel items doubtless reflects "precautionary" buying. Finally, imported items, such as steel and bearings, are more available.

New orders for most capital goods have leveled off or declined. Apparently firm backlogs indicate capacity operations well into 1975 for equipment for railroads, water transport, mining, chemical processing, oil-well drillings, steel mills, foundries, environmental control, and certain types of agriculture and construction. Specific categories include heavy farm tractors, large bulldozers, overhead cranes, mobile cranes, large mining shovels, and "cutting type," numerically-controlled machine tools. In general, the weaker capital goods sectors are the "lighter" types of equipment, along with machinery used in producing finished goods, as opposed to basic industries. Order cancellations have been significant in equipment for residential construction, equipment to produce consumer goods (not just autos), and for trucks of all types. Perhaps the most abrupt downturn has occurred in heavy trucks where net new orders have been about zero for three months. Heavy truck shipments are still at high levels, but melting backlogs suggest, to one expert, a drop of at least 27 per cent in physical units next year.

Layoffs have occurred, and are continuing, in a wide variety of industries, but the largest cutbacks have been in autos, auto parts, appliances, television sets, furniture, and most recreational equipment. In the case of recreational vehicles, one observer expects a 25 per cent decline in 1975, following a 50 per cent decline in 1974, and he believes that few producers will survive.

Many executive and professional types are in the job market, often willing to take positions for which they are "overqualified." State and local governments also are reducing staff, partly to meet higher salary requirements.

In the auto industry, concern exists over the adequacy of supplementary unemployment compensation funds, which were never intended to handle layoffs of the present magnitude and duration.

Retail sales were significantly below expectations in November in virtually all lines. A surprising exception is luxury autos, with some models in short supply.

Retailers have been advertising special promotions extensively. In some cases sales of clothing and household goods started before Thanksgiving, rather than after Christmas. Retailers complain that "price sensitive" consumers respond to bargains, but do not do the normal amount of "impulse buying."

More and more companies are engaged in strenuous efforts to cut costs and reduce borrowings. Many firms have placed restrictions on travel and other marginal expense. Commonly, new hiring has been stopped, or closely restricted, and attempts are underway to cut inventories and receivables, and to slow capital spending programs. Bankers and businesses, increasingly, are concerned about the ability of established customers to meet scheduled payments, and there are suggestions of impeding insolvencies far beyond the scale of anything experienced in recent years.

S & L's in Illinois and Wisconsin continued to show a net outflow of savings in October. The November figures may be positive, but no significant revival in residential construction is expected before later spring. S & L's will want to rebuild liquidity and repay debt. Even then, they are expected to remain very cautious. Some builders with "money available" complain that customers are very reluctant to make decisions, fearing the economic climate. Many builders have abandoned projects, and widespread bankruptcies are feared. New Federal programs are not expected to do much good. The mobile home industry is as bad off as "on-site" housing. Nevertheless, vacancies of rental units are low and rents are rising. In the Chicago area, rents are expected to rise 15 to 20 per cent per year for at least two years.

EIGHTH DISTRICT - ST. LOUIS

Business activity in the Eighth Federal Reserve District has weakened further in recent weeks. Consumer spending on appliances, automobiles, and some other items has declined considerably, resulting in cutbacks in manufacturing activity and employment. The current slowdown, first observed in the automobile and residential construction industries, has recently spread to a large number of activities. However, businessmen representing several sectors of the economy including capital goods, steel, commercial construction, industrial and farm chemicals, and pharmaceuticals report a continuing high level of activity. The reports indicate, however, that activity in some of these areas may be weakening.

Consumer spending has slowed further in recent weeks. Retailers report considerable slackening in sales of durable items such as automobiles, television sets, and electrical home appliances. In addition, sales of shoes and some clothing items are reported to be off on a seasonally adjusted basis.

Manufacturing activity has declined in several areas and the businessmen interviewed expect some further deterioration. Most notable is the sharp curtailment of operations at automobile assembly plants. Numerous layoffs have occurred in all such plants in the Eighth District. Slowdowns have also occurred in the manufacture of a large number of other items such as television sets, electrical appliances, synthetic fibers and plastics, home furnishings, and paper and boxboard products. One result of these slowdowns has been the rapid disappearance of material shortages. Some manufacturers believe that part of the precipitous decline now occurring in factory orders for some basic products such as plastics and synthetic fibers reflects the adjustments following the shortages and inventory buildup of these items in the early part of the year. Hence, a decline in inventory demand, coupled with some decline in final demand, has led to major adjustments in production.

In contrast to the sharply reduced activity in these industries, capital equipment manufacturing remains relatively strong. Some postponements and cancellations have been reported, but no major turnaround has occurred. Steel manufacturing also remains fairly strong although reports indicate steel producers in the U. S. are beginning to face increased competition from cheaper imports. Industrial and farm chemicals are also holding up well. Demand for fertilizer continues up and some further price increases are expected here.

Residential construction in the District remains in a deep slump. Commercial construction has held up considerably better but it is off from the levels of a year ago. Low usury ceilings, especially in Missouri, have hampered the flow of funds into residential construction. A special session of the Missouri legislature is reviewing the usury laws and businessmen report that the prospects are good for raising the ceilings.

The cutbacks in manufacturing activity have led to employment declines and increased unemployment in the District. Although some areas continue to maintain high levels of employment, others, such as St. Louis and Louisville, where the hard-hit industries are concentrated, are beginning to experience considerable unemployment. So far the major employment cutbacks have occurred in construction, motor vehicles and appliances. However, reports of other plant closings, layoffs, lengthening of the holiday season, or shortening of the work week were reported by representatives of several other industries including shoe, paper, electric motor, paint, plastic, and fiber manufacturers.

Saving flows into financial intermediaries in the District are beginning to increase. Some savings and loan associations report larger net inflows for November than in earlier months and passbook savings at large commercial banks have increased slightly, reversing a downward trend in the summer. On the other hand, "other time deposits" at commercial banks have declined somewhat in recent weeks after a gradual increase during the summer and early fall.

NINTH DISTRICT - MINNEAPOLIS

District businesses, according to bank directors' responses to this month's redbook questions, are very concerned about the economic outlook. Reports indicate that District businessmen have cut back on operations to avoid unwanted inventories and that supply shortages have disappeared with the slackening pace of business activity. Also, District businessmen are becoming more cautious in their plant and equipment spending plans. Nevertheless, District manufacturers and retailers continue to expect their sales to increase. Despite some pickup in savings inflows, mortgage money continues very tight, and no immediate improvement in District housing construction is foreseen.

The feeling was expressed that businesses are more pessimistic about the economy than several weeks ago. Bank directors reported that supply shortages have disappeared and that many District businessmen are concerned about accumulating unwanted inventories. Thirty-four per cent of the manufacturers responding to our quarterly industrial expectations survey taken in November considered their inventories excessive in light of anticipated sales. Last August, 25 per cent expressed this view, and 12 months ago only 12 per cent held this opinion. A number of large Twin Cities area manufacturers have either laid off workers or reduced working hours to bring production and sales into line. Also, many businessmen are experiencing faster delivery times than in recent months. A director associated with the construction industry stated that most supply shortages in his industry have literally disappeared. As a result, he foresees the prices of these materials remaining at their current levels with the possibility of a decline next year. Another director reported that prices in some commodity lines are beginning to weaken and expressed concern about inventory accumulation at the retail level. A director associated with the gas and electric utilities industries, however, reports that shortages have not disappeared in these industries. Nevertheless, no director expressed any concern about the adequacy of his area's winter fuel supplies.

The prevailing attitudes about the business situation have also caused District businessmen to alter their plant and equipment spending plans. One director stated that businessmen are now much more conservative in their capital spending plans than they were six months ago. In November, 11 per cent of our quarterly industrial expectations survey respondents considered their plant and equipment inadequate in light of anticipated sales as contrasted to 34 per cent 12 months earlier. A Twin Cities area banker indicated that several large firms have recently reviewed their capital spending plans—some for the second time. A western Montana director indicated that no capital spending is anticipated in his state's depressed timber industry. A western South Dakota director stated that the cost and availability of capital, rather than the current business outlook, has been the important factor in curbing investment spending. One director foresees both financing difficulties and lower estimated future demand causing capital spending reductions by gas and electric utilities. However, he believes some of these utilities may have overstated that extent of their cutbacks.

Despite the concern about the business outlook, manufacturers and retailers expect their sales to continue to advance in dollar terms. After increasing 22.0 per cent from a year earlier in the third quarter, respondents to our latest quarterly industrial expectations survey look for their sales to expand 17.9 per cent in the fourth quarter. Looking ahead to 1975, sales are anticipated to increase 15.5 per cent in the first quarter and 12.9 per cent in the second quarter. Price increases undoubtedly account for a large part of these anticipated sales increases. The strength in District manufacturing sales continues to be centered primarily in the electric and nonelectric machinery industries where respondents look for sizable sales gains. However, in the lumber and wood products and stone, clay, and glass industries, which are closely associated with construction, year-to-year sales declines are expected. Most major retailers in the Twin Cities area have been pleased with their sales since Thanksgiving and are hopeful that their business will remain good for the remainder of the Christmas season.

Although several directors reported some pickup in savings inflows at their area's banks and thrift institutions, no immediate improvement in housing construction is foreseen. The recent increases in savings inflows have been modest, and in the Twin Cities area, S & L's have used these funds for paying off indebtedness rather than for expanding loans. Consequently, loan commitments have not increased, and in general, no easing has occurred in mortgage terms and interest rates. Once mortgage money becomes available, however, several directors anticipate a pick-up in their areas' housing construction. In the Twin Cities metropolitan area the housing vacancy rate is at a low level, and a North Dakota director reported a shortage of homes in his area.

TENTH DISTRICT - KANSAS CITY

Generally speaking, economic conditions in the Tenth District increasingly are coming to resemble those of the nation at large. At the retail level, many of the larger retailers in a number of the District cities report a growing weakness in the physical volume of sales, particularly for hard goods. In addition, evidence of involuntary inventory accumulation appears to be increasing, and the Christmas sales prospects are quite muted relative to a year ago. The cattle industry remains in a depressed state, and while total cash receipts from farm marketings in the District for the January-October period are about equal to the same period a year ago, the rising cost of farm inputs has adversely affected net farm income. Loan volume is reported as steady or declining by many of the District's large commercial banks, and deposits have declined in a number of banks, with lower demand deposits reflecting a softening economy and continued response to high interest rates.

On the retail front, large department stores in major Tenth District cities were asked to compare sales so far in 1974 with the same period a year earlier. Although an improvement in dollar volume has been seen in most cases, all stores reported a falloff in physical units. Stores in suburban areas, however, were generally felt to have performed better than those downtown.

Hard goods were the most frequently cited area of weakness, though the degree of weakness varied widely. In most cases, inventories were reported as being larger than desired. Various methods are being pursued to reduce them. These include reducing purchases, cutting prices, and where possible, either returning slow moving items to manufacturers or cancellation of existing orders.

Sales expectations for this Christmas season varied among the stores surveyed.

Few merchants anticipated any marked improvement over last year in dollar volume, and even where some increased nominal sales were expected, real sales were viewed as lower than last year's. Shopper consciousness of bargains and response to advertised specials was repeatedly mentioned. One controller reported "People are more selective in their purchases. They're buying what they can use and watching their dollars more."

Led by decreases in the prices of cattle, corn, and soybeans, prices received by farmers fell 1.5 per cent in the month ended November 15. Compared to a year ago, the index was virtually unchanged. However, prices paid for production inputs continued their upward trend, rising another 1 per cent from mid-October to a level 17 per cent above November 1973. Despite a year of downward trending prices —especially for livestock—and poor weather for crop production, total cash receipts from farm marketings in the District during January-October are nearly the same as in 1973. However, the distribution of receipts has changed in the past year as crop income is up about 18 per cent while livestock receipts are 8 per cent lower. The cattle industry continues in a depressed state with cow-calf operators now facing many of the same financial problems as the feeder a few months ago.

Loan volume is reported as steady or declining by many of the District's large commercial banks. Virtually no new construction loans are being made, with the Denver banks in particular noting cancellations of previously scheduled projects. Decreasing numbers of cattle on feed and sales of previously stored grain are depressing the demand for agricultural loans. In the consumer sector, increases in bank credit card loans are partly offsetting a sharp drop-off in loans to finance durables purchases. Business loan demand has been mixed with some strength derived from energy-related industries, the involuntary accumulation of inventories, and the stretching out of accounts receivable. These last two factors, which threaten the profitability of business borrowing, coupled with the generally gloomy outlook for the economy, have caused many banks to intensify their efforts to restrict credit and upgrade its quality. Credit standards have been tightened for business and consumer loans and business customers have been urged to improve their liquidity and reduce their inventories. Banks are turning away new customers, refusing to loan for such nonproductive purposes as business mergers and stock or commodity speculation, and are confining new loans to their local areas. In line with this policy, several banks were eliminating some national credit lines or trying to limit borrowing against them—especially for finance companies.

Deposits have declined in many banks, with lower demand deposits reflecting a softening economy and continued response to high interest rates. In part, cautious loan policies are being matched by less aggressive marketing of large CD's. Many banks reported they were attempting to stretch their time deposit maturities to take advantage of the lower reserve requirements.

ELEVENTH DISTRICT - DALLAS

Large commercial banks in the District report that overall business loan demand has eased in recent weeks. Loan requests associated with capital spending projects, for example, are running well behind the pace of last summer as many firms have postponed or scrapped expansion plans. Moreover, a growing number of firms are obtaining additional capacity by acquiring the manufacturing facilities of hard-pressed competitors. This trend has been responsible for a sharp increase in business acquisition loans.

District bankers believe that the demand for inventory loans has peaked. Although stocks are currently at record high levels for many customers, most of these firms have cut purchases sharply as sales have fallen. The result has been a softening in demand for loans to increase inventories. But the high level of inventories has resulted in substantial increases in the number of loan renewals and credit line extensions for short term commercial accounts. Moreover, several suburban banks report that delinquencies on commercial accounts, especially those of small retailers, are up sharply. Many of these retailers have been severely hurt by defaults on past-due accounts. If Christmas sales are sluggish, these bankers maintain, a number of retailers and manufacturers will probable face serious liquidity problems.

Loan demand for interim construction financing has fallen sharply since last summer. The greatest cutbacks have been in residential building, both for single-family and multi-family units, and in construction of suburban office buildings. However, bankers admit that part of the slowdown in interim construction lending has been due to increased selectivity on the part of loan officers. The largest bank in Fort Worth, for example, is not taking on any new builders as customers. In addition, old customers must have performance insurance and complete long-term financing arranged for a project before their loan requests will be considered.

Consumer instalment loans have been flat since September, reflecting, in part, fewer requests for new car loans. In addition, most lenders complain that many loan applicants are badly overextended. This has led to a substantial number of new car loans being turned down, as well as increased delinquencies on existing instalment loan and credit card accounts. Heavy consumer indebtedness has also resulted in a marked jump in requests for debt consolidation loans. However, bankers report that the majority of these requests are denied due to the poor credit worthiness of the applicants.

The labor market in the District states is considerably stronger than for the nation as a whole. The unemployment rate is currently 4.9 per cent, down from 5.0 per cent in September. Increased drilling for oil and gas in Texas and Oklahoma has contributed significantly to the stable job market. The number of workers presently engaged in mining activity in the five southwestern states is 6 per cent greater than at this time a year ago. However, while the job market generally remains "tight," there are reports of layoffs in several sectors. The electronics industry appears to be the hardest hit with a few large firms announcing layoffs. Also, there are widespread reports that many retailers will not hire additional Christmas help and are terminating most of their part-time workers. Moreover, store managers report that layoffs following the first of the year will probably be greater than normal. Some other retailers, especially national chain stores, have cut workweeks from 40 hours to 30 hours. In the construction sector, a number of firms have indicated that employees will be dismissed as present contracts are terminated. An El Paso firm, for example, with more than 100 workers plans to maintain only an office staff and one or two maintenance personnel after the completion of current projects.

District agricultural conditions have deteriorated as a result of poor crop yields and depressed livestock markets. The production of rice, corn, and soybeans, advanced in the five District states this year; but a big shortfall in the harvest of wheat, cotton, grain sorghum, and hay has cut the expected total crop output by about 18 per cent. In Texas, the nation's largest cotton-producing state, unfavorable weather conditions during the growing season reduced the cotton harvest to 2.8 million bales this year from 4.7 million bales in 1973.

The livestock industry in the southwest has been severely squeezed by the sharp rise in feed costs and the rapid decline in beef prices at the producer level. Large supplies of calves, continued financial losses at feedlots, higher feed grain prices, and rapid increases in other operating costs are cause for deep concern as to the financial stability of the cattle industry. Since costs of production often exceed livestock prices, many cattlemen are renewing existing loans that normally would have been fully repaid by this time. And with the number of cattle on feed reduced by more than a third from year-earlier levels, commercial cattle feedlots are experiencing serious financial difficulties. As a result of the slowdown in agricultural sales and much higher production costs, farm incomes this year are expected to drop sharply from the record levels in 1973.

TWELFTH DISTRICT - SAN FRANCISCO

In the opinion of our directors, economic conditions appear to be worsening and recovery is not expected until late 1975. Both businesses and consumers in the Twelfth District are cautious in their spending plans. The major exception is in agriculture where incomes have continued to rise and 1975 is expected to be a good year. The most depressed industries remain residential construction and the timber industry.

Our directors do not expect any major improvement in general economic conditions until late 1975. They are concerned about inflation and the probable course of economic policy. Some directors think companies are putting up prices in expectation of the imposition of price controls.

Housing shows no sign of recovery and prospects are gloomy. In consequence, demand for builders' materials and timber is low. The cutbacks in timber and plywood production have resulted in more mill closings and are a major factor behind rising unemployment in the Pacific Northwest. On the other hand, pulp and paper producers, who are more dependent on general demand, are maintaining production although signs of weakness are beginning to appear.

The strongest sector in the Twelfth District is agriculture. Farm incomes are high and farmers are optimistic about their long-term prospects. The only weakness is in cattle where the high cost of feed has put feed lot operators under a severe profits squeeze. Until grain prices fall, no relief is expected for this situation. Otherwise, because of strength in agriculture, regions such as eastern Washington, central California, Idaho, and Utah have escaped most of the downturn experienced elsewhere. Utah is also benefiting from the strong demand for minerals and particularly from efforts to increase coal production.

Consumers' attitudes are shifting toward greater caution in the face of prediction of a recession. Sales of consumer durables have fallen and wholesale distributors are facing a serious inventory liquidation problem. Retailers are pessimistic except in agricultural areas. The demand for automobiles has fallen even more, as higher prices of new cars have reinforced consumers' reluctance to spend. Sales for some dealers are reported to be 40 per cent below the same period a year ago, although the average decline seems to be nearer 20 per cent. Large to medium-sized models are experiencing the greatest sales declines. Sales of compact and luxury cars show considerable local variation and some dealers report satisfactory sales. Small cars, loaded with extras, are selling moderately well, and truck sales are reported higher. Nonetheless, the overall automobile picture is unfavorable.

In contrast, there are industries which are doing better than average. Production at Boeing is a major source of support for the Seattle-Tocoma economy. This area is also benefiting from activity in shipbuilding and in shipping connected with the construction of the Alaska pipeline. Food processing was strong in California in the past several months and, given normal seasonal patterns, 1975 should be a good year. Electronic component industries are experiencing an easing of demand from recent highs but they should do reasonably well in the year ahead. Capital goods suppliers for electronics, pulp production, and energy-related industries are carrying substantial back orders, but in view of the overall economic prospects for 1975, these producers are not expanding capacity.