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CURRENT ECONOMIC CONDITIONS BY DISTRICT

Prepared for the
Federal Open Market Committee
by the Staff

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SUMMARY*

District "Red Book" reports for mid-January generally reflect the accentuation in most parts of the county of the pronounced deterioration of the economy in the recent past suggested by nationwide economic indicators. Retail sales in most areas over the holiday season were only equal or barely above last year's level in dollar terms and, given the sharp rise in retail prices over the past year, lower in volume. Moreover, this year's level was achieved only by dint of heavy pre-Christmas aggressive promotion, special sales, and price cutting in addition to the usual early January clearance sales. Against this background, a number of respondents in various Districts regarded retail inventories to be relatively high to excessive in relation to current sale prospects, with increased reports of efforts to reduce positions, both at the retail and manufacturing level. Planned business plant and equipment outlays, apart from energy related industries, on balance appeared to be weaker than had been expected, and a number of Districts report cutbacks, or outright cancellations of planned projects. The private residential construction, and to a lesser extent commercial construction, picture remained bleak, although a reported moderate reversal in the outflow of deposits at thrift institutions gives hope that the eventual bottoming of the decline in that industry may be approaching. The outlook for near term manufacturing activity other than related energy industries was further dimmed by widespread reports of declining new orders, shipments and backlogs. Against this background, virtually all Districts report a rise in the jobless rate, concentrated in the automobile and construction related industries, but also widening to other economic sectors. In addition,

* Prepared by the Federal Reserve Bank of New York.

there were increased reports of rises in payment deliquencies and in bankruptcies. On the brighter side were reports of lessened, even vanishing, materials scarcities, of price reductions of primary commodities and of downward price pressure at the manufacturing and wholesale level; apart from the possibly only temporary promotional price concessions mentioned above, however, these reductions as yet seemed to have had limited influence on retail prices generally.

Concerning retail sales, San Francisco, among other Districts, reports consumer spending in December as restrained, and while retail sales rose in dollar terms, this resulted primarily from vigorous efforts by retailers to draw down excessive inventories. Minneapolis reports that most retailers surveyed had December sales increases of only about 5 percent, in good part achieved by price cutting. Philadelphia District dollar sales in December were only slightly above last year's level with retailers relatively pessimistic regarding the outlook for January. Cleveland describes retail trade as "poor", despite a late spurt during the week prior to Christmas, while Richmond finds continued weakness in the sale of big ticket items. Atlanta characterizes pre-Christmas sales as very good in many areas of the District, largely in response to heavy promotions and price cuts. St. Louis reports that department stores' dollar sales were up somewhat from a year ago, a better performance that had been expected. Holiday sales in the New York District were on the weak side, but no more than had been expected, and reported to have been strenghtening somewhat recently.

This relatively sluggish retail sales performance for this time of year finds its counterpart in excessive inventories, and in actual and expected efforts to reduce stocks, at the retail and, in some instances, at the manufacturing level, as reported by a number of banks, including Minneapolis, Kansas City, Richmond, Cleveland, Chicago and New York. Moreover, declines in new orders and backlogs and increases in cancellations, as well as the virtual elimination of many shortages and the appearance of surpluses of some materials and finished goods, are noted by a number of banks, including Philadelphia, Cleveland, Chicago, Richmond, San Francisco and Dallas. Dallas, however, reports that firms supplying steel and fabricated metal products to energy related industries continue to be hard pressed to meet demand. Cleveland and Richmond note that sharp reductions in natural gas supplies are adversely affecting production.

The well known plight of the construction industry is mentioned in a number of reports. Atlanta notes, however, that owing to an improving inflow of dollars to thrift institutions, funds are rapidly becoming more readily available for the housing industry, while Kansas City reports that several commercial banks plan to commit funds for future construction. An improvement in inflows to savings and loan associations is also reported by Minneapolis and Chicago, but these institutions are not expected to increase loan commitments until they have reduced their large borrowing and increased their liquid assets.

Over half of the reports point to evidence of weaker capital spending picture. Among others, Boston reports that orders for machine tools have "all but vanished", while Cleveland and St. Louis report a weakening in the sale of such items. San Francisco reports more cancellations of capital projects; almost half of the manufacturers surveyed by Richmond consider current plant equipment excessive; and Chicago states that although producers of heavy capital equipment continue to operate at capacity, backlogs are declining, and in the case of heavy trucks have "dissolved".

The unemployment picture has darkened throughout most parts of the nation, although there are regional variations in the intensity of the problem, ranging from "probably unprecedented since World War II" in the Chicago and Detroit areas to the report by Minneapolis that, while layoffs have occurred in the District, they have not reached the proportions reported nationally. At the same time, there were some reports of continued shortages of skilled workers and, in the Dallas District, of unskilled labor as well.

FIRST DISTRICT - BOSTON

In New England the mood is bad, but directors note that developments are not as shocking here as elsewhere since New England has not been a growth region in recent years. The November unemployment rate for the region is 8.3 percent, up from 7.5 percent in October 1974 and 6.4 percent in November 1973. Massachusetts reported a rate of 9.1 percent for November. A Connecticut director emphasizes that further deterioration is in store: his state's rate moved from 6.3 percent to 7.4 percent from October to November, yet December's permanent layoffs were 50 to 75 percent above those of November.

The retail sales picture is mixed. Some Boston stores and large stores in New Haven-Hartford reported dollar volume up as much as 11 percent from December 1973. Promotions, price cutting , and aggressive advertising were important. Other stores, especially those in other locations, struggled to match last year's volume. A Boston director states, however, that the "real promotions are coming". Large inventory overhangs in manufacturers' and retailers' warehouses easily allay fears of shortages and set the stage for aggressive spring sales. There is also a fear that a revival of auto sales will channel budgets away from retailers.

A telephone company spokesman states that "toll calls for December were off so much, it is hard to believe". A continuation of the phenomenon means trouble. Northern snowfalls -- good by recent years' standards -- are responsible for a good skiing season to date.

Capital spending plans are undergoing serious revision. One director asserts that his spending is tied to cash flow. Other directors report that new orders have vanished for machine tools, formed metals, etc., and order backlogs are being revised and stretched out. Job printers note a decline in business.

Firms are also seeking improved liquidity positions. Those that are able are issuing open market securities; others apply for revolving and term loans. Some bankers are being selective and, when credit eases, they claim they will watch their commitments. Though the prime rate is falling, some banks are increasing compensating balance guidelines and are not reducing rates for nonprime borrowers unless there is a good reason. Insurance companies seem to be interested only in sizable, high-quality private placements, and high-grade market securities. The lack of utility finance threatens power shortages in any sizable recovery.

Our academic correspondents, Professors Duesenberry, Tobin, and Eckstein unanimously agree that monetary policy must ease substantially further to stop the continuing decline in economic activity and to ensure a second half upturn. They did not see any current signs of a lessening in the pace of the downslide. Indeed, they noted that we are finding more to worry about in inventories and less to derive hope from in plant and equipment and more cutbacks at the state and local level. Eckstein cited the "astronomical" rate of unemployment claims which indicate that about one million persons are being laid off during the month. All three agreed that the economy was dropping at a precipitous rate and that the role of the Fed, no matter what fiscal policy does, is crucial.

Eckstein's message to the Fed was that it would be a grievous error to attempt to achieve the larger part of the stimulus through fiscal policy. He argued that it would not work if monetary policy is not accommodative. A balanced policy, he stated, requires money supply growth of 9 percent and a Fed funds rate kept at 6 percent. However, Eckstein noted that the energy taxes in President Ford's proposal pose new problems for the Fed, because they will raise the inflation rate by 2 percent and, therefore, increase the nominal gross national product (GNP) to be supported by the money supply. If the $30 billion energy tax package is passed, Eckstein believes the M1 target must be 11 percent. There is no way, he concluded, for the economy to recover with 6 percent money supply growth.

Tobin argued that the funds rate should be 5 1/2 percent this quarter and that this is not the end of the easing that needs to be done. He also felt that a dramatic cut in the discount rate is needed for a signal effect. He was impressed by the fact that the discussion of stimulus measures both in Washington, D.C. and in the press leaves out the Fed. He felt that this is because of what he called a "differential impact fallacy". This fallacy is that it is somehow unsafe to expand the money supply because it leads to inflation, whereas expansionary fiscal policy is safer. Tobin argues that the mix of expansion between prices and output is independent of whether the driving force is monetary or fiscal policy. What matters is the speed. Another fallacy, according to Tobin, is the notion that a big budget deficit will raise interest rates and crowd out other activities. He believes that there is too much talk of crowding out at this low level of activity. While agreeing with Eckstein that the energy taxes will raise the needed money supply, Tobin argued that the real danger is that the Fed will again not discriminate between prices it can and cannot affect and that it will take the rise in energy prices as another bout of inflation requiring monetary restraint.

Duesenberry also argued that the funds rate should be 6 percent as soon as possible and that money supply growth of 5 to 6 percent cannot be consistent with any recovery in real GNP. The important thing, he felt, was to get the funds rate down to 6 percent and hold it there, even if there is some pickup in money supply growth this spring. Both he and Eckstein noted that the Fed should exert some pressure to get the prime rate down. Turning things around, he noted, required big activity.

SECOND DISTRICT - NEW YORK

Views expressed by Second District directors, retailers, and other business leaders who were contacted recently point to a further slowing in business activity over the past month. Retail sales in general have been sluggish, although strengthening somewhat recently; inventories are at, or approaching, excessive levels; and unemployment is on the rise. At the same time, there has been no lessening of liquidity pressures.

Retail sales over the holiday season were on the weak side but in many cases no worse than the relatively pessimistic expectations. A survey of the seven leading New York City department stores by a local newspaper revealed that, in dollar terms, December sales by these stores within the City had been slightly below those of December of 1973, implying a significant decline in physical volume. Sales of major appliances and other durable goods in general were particularly weak. Dollar sales at those stores' suburban branches, however, were slightly above last year's. The president of a large Rochester department store reported sales by his firm to be in line with his expectations that they would run at about the same level as a year ago in dollar terms. Similarly, a senior official of a large department store chain reported that dollar sales at the firm's western New York affiliates in November and December were about equal to those of the year earlier period, but that physical volume was about 4 percent lower than during November-December 1973.

The retail sales picture appears to have brightened somewhat in recent weeks, however, in response to both pre-Christmas and the usual post-holiday sales. Thus, the president of a nationwide retail firm stated that business during most of the Christmas buying season ran significantly below expectations, but that as a result of heavy promotional activities the season had ended on a strong note, with good traffic continuing after Christmas. A senior official of a large New York City department store similarly reported that after a slow start, business had been brisk in the final days of the holiday season, a development also reported by several other retailers. Among others, the president of another large New York department store with branches in the suburbs stated that Christmas sales had been up to his expectations and that so far his firm's January sales had been "producing business" and were heavier than in January 1973.

In the view of several respondents, the reduction in consumer demand and the accompanying more competitive selling practices have been reflected in some evidence of downward pressures on prices of finished goods. One retailer stated that price reductions for various items were legion within the retail industry, generally due to overproduction by manufacturers of dry goods, appliances and similar items, and to the desire to reduce inventories. The respondents, however, did not regard the decline in a number of raw material prices as having as yet had a significant influence on the price of finished goods.

Regarding inventory positions, the president of the nationwide retail firm mentioned above reported that his firm had been overstocked for several months and was making major efforts to get its inventories into line with consumer demand. A senior official of a multinational chemical concern stated that while inventories had not yet built to excessive levels, he expected increases during the first half of 1975. The chairman of a large New York City bank looked for inventories to rise sharply in response to falling sales. Several other respondents, however, felt that inventories remained at an acceptable level.

The District unemployment situation deteriorated further during the past month, particularly in the New York City area and in Buffalo. The November jobless rate in New York State rose to 6.6 percent, and to 7.4 percent in New York City. December figures are expected to show a substantial further rise. There have been frequent reports of layoffs by major firms in various parts of the District, and in recent weeks new claims for unemployment insurance benefits in New York State have been among the highest in the nation. However, the majority of the respondents commenting on the subject as yet discerned little or no easing of the shortage of skilled workers or of highly qualified managerial employees. Some respondents, however, did see, or expected to see shortly, some easing in the situation.

Regarding liquidity positions, none of the respondents reported any signs of easing in pressures thus far. On the contrary, the majority of the Buffalo directors felt that conditions were worsening. Several of these directors noted that in view of the unattractiveness of the bond and equity markets and the lack of access to national money markets generally, many businesses in their area were seeking commercial bank loans for working capital or to, at least temporarily, finance capital expansion. Others cited the substantial increase in delinquencies on accounts receivables, and the increase in the number of bankruptcies.

THIRD DISTRICT - PHILADELPHIA

General business conditions in the Third District remain very soft again this month. Manufacturers posted continued declines in new orders, shipments, and unfilled orders in December, and the six-month outlook is equally as bearish. Unfortunately, the labor force appears to be shouldering much of the impact of this general decline. Retailers, too, experienced a poor sales month in December, while all sectors of the regional economy continue to be plagued by rising prices. The nominal value of construction contracts is up in the District, but the real value -- including both residential and non-residential contracts -- declined in the year to date. Loan levels and loan demand remain essentially flat, with few increases expected in January. Growth in demand deposits was disappointing at area banks in December. Manufacturers in the Third District, responding to this month's business outlook survey, report another bleak month for the general level of industrial activity in the Third District. Over 50 percent more of the respondents report a decrease in the general level of business activity in December than report an increase, and executives are experiencing similar conditions in their own firms. Nearly half of the respondents polled report decreases in new orders, shipments, and unfilled orders this month. In addition, the manufacturers' six-month outlook is only slightly more optimistic. Only 30 percent more of the businessmen expect increases in these indicators than expect declines. Capital investment plans still remain mixed.

The labor force appears to be hard struck by these general declines. Over 37 percent of the employers responding report decreases in their work force, and not only do fewer names appear on the payroll lists, but some manufacturers are also shortening the length of the average workweek. Job shortages appear likely into June, too, as those expecting an increase in these two indicators just about equal those expecting a decrease. Area retailers were also disappointed with the general level of business activity in December. December is the largest selling month for area department stores, and most posted sales only slightly above last year's dollar level. Hence, with inflation sweeping away marginal sales increases in retailing as in other industries, bottom-line figures were lower for this December than for last, and retailers are not optimistic for January either. Most feel that if they can merely meet last year's sales volume, they will have fared well. In addition, store executives forecast much more aggressive retailing in 1975 in an attempt to attract shoppers back into the stores. As in the retail industry, area manufacturers continue to be harassed by increasing prices. Fifty percent of the manufacturers polled report paying higher prices for raw goods in December, and 30 percent received higher prices for their finished goods. Expectations for June are for a continuation of this trend. About half of the businessmen expect to be receiving higher prices for finished goods and paying more for raw materials. The total of construction contracts in the Third District for November fell 5 percent below last year's value. However, the total for the year to date is 1 percent above last year's, but, with inflation taking a big bite, the real value of construction in the region fell below that of 1973. Residential construction contracts are down by 31 percent (as reported so far in 1974), and nonresidential contracts are down by 2 percent.

Loan levels at area banks rose slightly in December, but most bankers attributed the small increase to seasonal variations and increases in existing credit lines. In general, loan demand remained flat. The majority of bankers polled forecast little change in loan levels or demand in the first quarter. However, one large Philadelphia bank is forecasting an increase in the general level and demand for loans in the first quarter of 1975 and a decrease in the second quarter. Bankers were somewhat disappointed with demand deposit levels in December, as most remained flat and few customers failed to dress up end-of-year balance sheets. Time deposit levels experienced essentially no increase over November levels.

FOURTH DISTRICT - CLEVELAND

Comments from our directors and other executives in the District reflect the deepening recession. Retail trade has been poor, and consumers are extremely pessimistic. Layoffs have been widespread and widely publicized. The underlying situation in the capital goods sector is deteriorating. The steel industry which has been a major source of strength, says a decline in demand is imminent.

Retailers in the Cleveland area generally experienced a late spurt in sales during the week just prior to Christmas (when the two daily newspapers resumed publication following a seven-week shutdown). Sales for the holiday season as a whole were considered poor. Some major department and discount stores reported the dollar volume of sales on a par with the previous year's sales. Retailers noted a change in buying patterns as consumers bought more functional gifts (e.g., pocket calculators) and did much more comparative shopping than usual. A director with a national retail concern said that both low-priced items and high-priced luxury goods (e.g., furs) sold well, while middle-priced items moved sluggishly. Their inventories are in good shape. This director expressed the view that consumer confidence is at the lowest level since the mid-1930's; he also believes that consumers' real purchasing power will continue to decline for three or four more quarters. Another director noted that gloom and pessimism among consumers in western Ohio is thick. Farm implement dealers are said to have heavy inventories of goods, although there are selectictive items in tight supply.

In the industrial sector, economic conditions are deteriorating rapidly. The December report of Cleveland purchasing agents shows the largest decline in new orders since December 1957, accelerated declines in employment and output, continued reduction of raw materials inventories, and the beginning of inventory liquidation of finished goods. On the encouraging side, purchasing agents reported a further slowing in the rate of inflation; many are paying lower prices. Early returns from our survey of manufacturers also reflect a deepening of recessionary forces, with declines in new orders and employment spreading among industries throughout the District. Layoffs have been pervasive, particularly among the auto companies and suppliers. (Widespread publicity given to the depressing situation in the auto industry may be contributing to adverse consumer psychology.) However, one of our directors in the automotive supply business stated that the effects of unemployment in the auto-related areas are cushioned because of supplemental unemployment benefits.

Sharp reductions in natural gas supplies to industrial firms throughout the District are contributing further to cutbacks in employment and output. Truck component manufacturers are cutting employment in response to an increasing number of cancellations of heavy truck orders. All the tire companies in the District have cut their work forces in an attempt to reduce heavy inventories of tires, estimated by one industry source to be seven months' supply. But sales are falling faster than output can be reduced. One major tire firm said their tire replacement sales in December were off 25 percent from the depressed year-earlier volume. Tire dealers say customers are postponing purchases and wearing tires down to the bare bones. Tire sales for trucks plummeted in December; the only strength remaining in tires stems from farm machinery and mining equipment producers. Despite weakness in the tire market, manufacturers are holding list prices, but consumers are negotiating with dealers at below list.

Two major steel firms say the recession thus far has had little impact on their order rate. The companies are shipping everything they can produce. However, a sharp drop in demand is expected this quarter. Raw steel output recently has been below capacity because of shortages of coke and coal, but deliveries are returning to normal. Steel output during 1975 is not expected to decline as much as shipments, because steel-mill inventories have been depleted and will be rebuilt. One industry source expects a surge in steel imports this year to a record level.

The machine tool industry continues to experience a weakening in demand, according to three large producers in the Cleveland area. New orders and backlogs are declining, while cancellations have risen sharply (largely from auto firms and suppliers to the auto industry). One producer reported that cancellations in December again exceeded orders (orders fell to two units while cancellations rose to 38, about equal to one month's production). Another firm, which does not rely heavily on the auto market, said it has a large enough machine-tool backlog for producers of agricultural and oil-drilling equipment to sustain operations through this year. But new orders have slowed; if there is no pickup soon, the firm will cut employment in 1976 (reflecting the long engineering lead time).

Virtually all of our industrialist directors report that their firms are experiencing a deterioration in business. This is being reflected in new orders, prices, and some easing in materials costs,but rising labor costs, coupled with poor productivity, is a major problem. Some directors expressed deep concern over the lack of capital formation (particularly among utilities) and the long-run inflationary implication of this situation. In general, the directors believe a fundamental economic correction is under way. In their view, anti-inflationary policies are wrong and the Fed should not move to provide massive stimulus to offset unemployment. The likely outcome of too stimulative a policy would be a rekindling of inflation.

In the financial sector, one of our Bank directors noted a sizable decline in consumer and business loans at the year-end. Another said that reports from their loan officers indicated that auto dealer customers had large loan losses in December.

FIFTH DISTRICT--RICHMOND

The latest survey of Fifth District business conditions shows further declines across a broad range of economic activity. Reports from across the District reveal growing unemployment, numerous plant closings, cutbacks in capital investment plans, and widespread weakness in shipments and in the volume of new orders. Survey responses lend little in the way of encouragement, although what optimism there is involves the expectation that inventory runoffs will eventually lead to a resurgence of new orders as inventory levels fall below minimum required levels. While the responses indicate a decline in inventories of materials, finished goods inventory levels remain firm and a majority of the survey respondents view current inventory levels as excessive. In the banking sector, a review of Fifth District banking aggregates for December suggests that the general slowdown in lending activity we observed during the previous two months is continuing.

The survey of District manufacturing firms suggests further declines in most measures of business activity. Over 85 percent of the manufacturers surveyed reported declines in the volume of new orders during December, and a substantial majority indicated lower levels of shipments and of backlogs of orders. In the case of new orders and of backlogs, the declines represent the continuation of trends which originated before midyear. The inventory picture is unclear, although the diffusion of responses suggests some decline in the level of materials inventories but little change in inventories of finished goods. Over 50 percent of respondents consider current inventory levels excessive, while only 3 of 56 respondents described current levels as too low. On a brighter note, for the first time in over a year reports of lower prices received outnumber those of higher prices. On the other hand, over one third of the manufacturers report paying higher prices during December.

The responses concerning employment were indicative of a rapidly growing problem in the District. Almost 58 percent of the manufacturers surveyed reported declines in the number of employees, while 65 percent reported shorter workweeks. The very low level of activity in several of the District's major industries is creating pockets of severe unemployment and pushing state unemployment rates up rapidly. Among the industries experiencing the greatest slowdowns are the textile and furniture groups, each of which represents a significant element of the Fifth District economy. December figures for North Carolina put unemployment in the textile industry, the state's largest, at over 17 percent. Unemployment is rising rapidly across the District, and is reaching into a broader range of industries, impacting heavily on numerous localities. Several cities and counties are experiencing unemployment in excess of 10 percent, and some state rates may now fall in a 6 to 8 percent range.

Almost half of the manufacturers surveyed consider current plant and equipment capacity excessive, but almost 80 percent feel current expansion plans are about right. One major electric utility company in the District announced its second major cutback in construction plans, citing slowing demand for electric power and difficulty in attracting the necessary investment funds.

Our survey of District retailers reveals an increase in the dollar volume of sales over the previous month, but continued weakness in the sale of big-ticket items. Responses indicate little or no change in the retail inventory picture, although 50 percent of the retailers reporting now view current inventory levels as excessive. The responses further indicate that price increases, while less pervasive than in recent months, remain prevalent.

In December the level of seasonally adjusted loans outstanding at District member banks was down significantly from the November level. At the same time, bank investments have been increasing, holdings of United States

Government obligations rising by $24.7 million, and holdings of other securities rising by $49.0 million. Thus, seasonally adjusted bank credit at District member banks registered a net decline of $390.3 million during the month. Commercial and industrial loans fell in December, while real estate loans showed signs of recovery, and consumer instalment loans continued weak. Member bank borrowings at the Federal Reserve Bank of Richmond have declined for six straight months, and net purchases of Federal funds by District banks declined to the lowest level since June 1973. Sales of large negotiable time certificates of deposit by weekly reporting banks increased sharply in November, while savings flows into savings and loan associations continued.

Farmers' cash income from farm marketings registered during January-October 1974 an 11 percent gain over a year earlier. The upturn was much larger than that recorded nationally and resulted entirely from sharply higher crop receipts. North Carolina's fertilizer industry is among those hit hard by the cutback in the state's supply of natural gas. Because of the gas shortage, one of the largest fertilizer producers in the state has halted production, and several other major industries may be forced to close.

SIXTH DISTRICT - ATLANTA

While the Sixth District economy remains below par, several bright spots have appeared. Pre-Christmas retail sales were reported as very good in many areas of the District because of successful sales campaigns and advertising. Tourist activity was very brisk during the holiday season. A number of Government contracts have been awarded to District industries. Some savings and loan associations indicate that they now have mortgage money available. Jacksonville, Florida, and the Mobile, Alabama, area have maintained strong economies during the present economic sluggishness. However, layoffs and a sharper than national rise in unemployment continue in the region, and loan deliquencies and bankruptcies remain at high levels.

On the bright side, retail sales responded to pre-Christmas sales and did well. In Jacksonville, Florida, sales turned around completely in the pre-Christmas week; heavy advertising, promotions, and price cuts worked. In Tennessee, retail sales also did better than expected, as retailers held their January sales before Christmas. Only furniture and large appliance sales did not respond to price cuts. Louisiana retail sales did very well, except for New Orleans where a strike of bus and street-car personnel a week before Christmas depressed sales. Whether the strong Christmas sales will take away from early 1975 sales is still an unanswerable question.

Besides pre-holiday price reductions on many retail items, there is evidence of price pressures easing in other areas. Price cuts of 10 to 15 percent have been passed from cotton to worsted and synthetic fabrics into wholesale apparel and finished goods; it remains to be seen whether retailers will pass these cuts on to the consumer. A Florida director reports that at the wholesale level, there are widespread and significant "deals" on tires and other items, which are not represented as a price decrease. Fleet purchases of trucks are also encountering substantially lower prices in the form of grossly inflated trade-ins. In central Florida, apartment complexes are lowering rents because of an oversupply of apartments.

Tourist activity turned unexpectedly brisk during the holiday season; Florida's tourist trade was the biggest in history. Disney World had to close its gates twice because it was too full. The highways to the Florida keys were "bumper to bumper". It was theorized that with the economy turning down, a lot of tourists came because they were not sure how long it would be before they could make it back again. The economy of central Florida has some other bright spots. The citrus crop is expected to be good, and the industry is hiring many additional workers from the ranks of the unemployed. The large phosphate industry is also booming, with the demand for fertilizer and other phosphate products at high levels.

Reports indicate that funds are rapidly becoming more readily available for the housing industry. Florida's largest savings and loan association, located in Miami, plans to accelerate its mortgage lending in response to an improving inflow of savings dollars. A Tampa-Saint Petersburgh savings and loan association is running advertisements indicating that it has a million dollars of mortgage money to lend. In Georgia, the loan picture is looking up, the director of Georgia's Savings and Loan League notes. If the present trend toward savings continues, loan applications will be taken on a fairly normal basis by the year's end.

The Mobile, Alabama, area economy has remained healthy as a result of construction on several new plants. Some more good news for the area was recently announced: favorable tests were received on a new oil well in southeastern Alabama. It is expected to be the largest producer on the Gulf Coast in twenty years. The new well was confirmed as producing 1,425 barrels of crude oil and 4.38 million cubic feet of natural gas per day.

Job layoffs continue to be reported around the District. Magnavox has laid off 5,000 workers for one month in Tennessee. Ingalls Shipyards in Pascagoula, Mississippi, is laying off 500 of its 5,500 salaried employees; 13,000 workers are out on strike at the shipyard. Utilities throughout the District have laid off thousands of workers; Florida Power Company has laid off 1,350 people and cut their 1975 construction budget by $189 million. In Florida and Southern Georgia and Alabama, more than 8,000 lumber mill workers have lost their jobs in the prolonged home construction slump, which has hit the South harder than any other region. Lumber production has been cut 30 percent, and 50 mills have closed. Several District apparel manufacturers recently have closed their doors.

Alabama bankers report a continuing rise in loan delinquencies, and new loan applications are being screened more closely. Contractors and suppliers note that payments are slow. An upward movement in delinquencies on instalment credit was reported in the Nashville, Tennessee, area. In the past five months, bankruptcy filings have increased sharply in eastern Tennessee. An Atlanta-based credit counseling agency has seen an increase in requests for its services since last May. At first, new clients, came mainly from households affected by the inflationary squeeze on their budgets. Since last October, however, increased counseling has been attributable to the effects of layoffs and increased unemployment. The director of the agency mentioned that requests for assistance are coming from people of all economic and social levels, including professional people, and that the people waiting for counseling "looked like Kiwanis Club meeting".

A survey of 318 Georgia industries indicates that only 67 expected profits to improve this year; two thirds of those surveyed were either putting off or cutting back on capital-spending plans.

SEVENTH DISTRICT - CHICAGO

The economic situation in the Seventh District has continued to worsen rapidly. Most companies and governmental units are laying off workers or are pursuing a very tight policy on new hirings. With heavy capital goods still an exception, output is declining in most manufacturing sectors. Inventory-reduction programs are now widespread, as shortages of many materials and components have turned into surpluses. Many consumers have cut spending of big-ticket items and are using credit less extensively. Firms selling in Canada report that demand continues to be relatively strong there, both for consumer and capital goods. There are no early prospects for a revival in construction, either residential or nonresidential. Farmers intend to plant very large acreages this year. Hog and poultry production is being reduced very substantially. Most analysts expect real gross national product (GNP) to decline further in the first and second quarters, perhaps with industrial production bottoming-out in the third quarter.

The rapid rise in unemployment compensation claims to record levels has swamped official agencies, especially in the Detroit and Chicago areas but also in many smaller centers. The extent of the unemployment problem in both the Chicago and the Detroit areas is probably unprecedented since World War II, with no early turnaround in sight.

In recent days, thousands of people have jammed Chicago's City Hall to apply for 977 "public service jobs" alloted under the Federal program. Most consumer goods producers and some capital goods producers have laid off workers. Some have substantially extended normal Christmas or January "vacations", with salaried workers often included. Various state and local governments have either reduced staff or have frozen hirings, pleading budget restraints. No important employers appear to be hiring actively.

A substantial majority of firms are cutting inventories, often hoping to cut their total by 20 percent or more in two or three months. Inventory reductions are dictated, in part, by financial stringencies, but more commonly by the return to a "full-fledged buyers' market". Lead times have been reduced very rapidly, and vendor dependability has improved. Prices are "being negotiated again", and prices of many materials and components have softened.

Virtually all types of steel are now available, despite production problems associated with shortages of coal and other materials. Plates and structurals for capital goods, however, are still on allocation. Fabricators of steel for industrial structures are still operating all out, but little new business is being booked. A producer of farm equipment says it may have to lay off workers because it has depended on steel from the Gary open hearth furnaces, shut down on January 1 by EPA order. One steel company expects total mill shipments to be off 10 percent in 1975 from last year. The first quarter may be off 17 percent, partly because of unexpectedly large imports of high-priced foreign steel in recent months. Raw steel output will be fairly well maintained as mills rebuild depleted inventories.

Inventories of all major petroleum products are "very comfortable". Most companies are pushing exploration at full speed, but no new refineries are planned and some projects have been stopped in midstream. The problem is availability of crude. Refineries are operating at 85 percent of capacity, including imports of natural gas liquids, compared with virtually 100 percent prior to the oil embargo. The President's desire to cut oil imports by 1 million barrels a day is regarded as unrealistic, because domestic crude output is still declining.

Producers of heavy capital equipment for basic industries continue to operate at capacity, but backlogs are declining. A very large producer of earth-moving equipment says lighter equipment is now off allocation, and all but the very heaviest machines will be off allocation by midyear. Reported declines in net new orders for some capital goods are exaggerated because firms have deliberately "purged" or"dried out" these backlogs.

Order backlogs for heavy trucks "dissolved" in the fourth quarter. One expert believes sales of heavy trucks will be off by one third in 1975. Inventories in the field turned out to be much larger than had been thought, and some fleet owners purchased many trucks that have not been operated. Some orders had been duplicated, and substantial advance buying had occurred to beat the brake standards set for March 1. Postponing these standards again could hurt sales, because truck producers have been stocking the necessary components.

Retail sales of general merchandise are reported to have improved just prior to Christmas. Most consumers are buying cautiously, but sales of high-priced items, e.g., autos, furniture, and houses, have been relatively well maintained. Widespread price cutting by retailers, starting in November, may not be adequately reflected in the consumer price index. Real volume has been higher for some major chains. Retailers are trying to cut inventories as much as possible by January 31, the end of their fiscal year. Some banks and retailers report a rise in consumer delinquencies, but not of alarming proportions.

Inventories of new autos are very heavy relative to sales, especially for subcompacts and imports. Nevertheless, reduced first-quarter output schedules are probably firm for all but one producer "who has no schedule". The atmosphere in Detroit is almost desperate. Sales of used cars have been very good, prices have been strong, and "independent" dealers have been prosperous.

Sales of houses and apartments have remained very slow. Inflows to savings and loan associations have improved, but most of them wish to pay off high-cost debt. Illinois savings and loan associations are not making commitments past June 30, when the usury rate reverts from 9.5 percent to 8 percent. Land development of all types "collapsed" in the fourth quarter.

EIGHTH DISTRICT - ST. LOUIS

According to a selected group of Eighth District businessmen, the recession has deepened in the past few weeks. Those firms reporting slowdowns and layoffs far outnumber those reporting expanding operations and rehiring of workers. Consequently, substantial declines in output and employment in the District were indicated. However, some activities continue to operate at relatively high levels. Christmas retail sales were better than expected, but sales of big-ticket items continue to drop off sharply. Crop farming, on average, was profitable last year, while livestock farming is currently udergoing a sharp contraction.

Opinions expressed by businessmen about current economic conditions ranged from concern for a worsening recession to perhaps increasing concern about the impact of current and future public policies on inflation. Some felt that monetary actions should be immediately and drastically eased. Most of those interviewed, however, expressed concern that remedies for the recession may bring on even worse evils than the recession itself, such as higher and higher rates of inflation. In general, considerable pessimism was expressed about the long-run possibilities of reducing the inflation, although there was general agreement that price increases would moderate some in 1975 from the very rapid increases last year.

Retail department store sales in December were reported to be up somewhat from a year ago, while some discount-type stores reported substantial sales increases. Both department and discount stores reported better Christmas sales than had been expected. Sales were slow during the pre-Christmas season but picked up considerably in the final days of shopping, boosting the dollar totals to above year-ago levels. Strong selling items included sportswear, accessories, decorative home items, silver, jewelry, and fine gifts. Sales of appliances, television, automobiles, and big-ticket home furnishings items, however, continue to be severely depressed.

Cutbacks in production and employment at manufacturering establishments continued to spread throughout the District in recent weeks. Durable goods manufacturers, which have been hardest hit, include producers of automobiles, lumber, furniture, and appliance. Among the nondurable manufacturing categories, textiles and apparel, shoes, rubber and paper, and other products have undergone the sharpest contractions. In nonmanufacturing activities, construction has undergone by far the sharpest contraction. Housing has been hit, but road and commercial construction has also slowed. Construction of both single and multi-family dwellings in St. Louis was off about 35 percent in 1974 from a year earlier. On the other hand, nonresidential construction in the city of St. Louis was up during 1974, due to a number of large downtown projects. Most other parts of the District reported commercial construction off from the year-earlier pace.

Several product sectors continue to report fairly strong activity. Energy-producing activities, including petroleum and coal mining, continue strong. Farm supplies including fertilizer, pesticides, and machinery continue to experience strong demand as do suppliers of medical and health products. Service industries and government employment have generally continued to increase.

Many capital goods firms still report a high level of activity, but weakness in new sales is now beginning to be felt. Some firms are currently working off past order backlogs, which are quickly dwindling as new orders subside. Railroad car manufacturers, steel mills and foundries, environment equipment manufacturers, and suppliers of oil and gas drilling equipment are among those operating at relatively high levels.

Loan demand has subsided, and interest rates have fallen in recent weeks. Total bank loans rose less than seasonally during December, reflecting weakened consumer and business loan demand. Savings inflows at banks have remained level in recent weeks, but some pickup was reported in the volume of savings and loan institutions in November and December. Usury ceilings in Missouri were recently raised from 8 to 10 percent, a change which is expected to aid the state housing market.

Crop farmers in 1974 fared well though crop yields were often down. The relatively high incomes reflected substantially higher crop prices. In general, rice, wheat, soybean, and tobacco producers experienced a good year, and with relatively high crop prices farmers are expected to plant large acreages in 1975. Cotton producers, on the other hand, suffered from both lower yields and lower prices. A sharp drop in demand for textiles participated the decline in cotton prices. A considerable portion of the wheat, cotton, and soybean crops is reported to be stored on farms, and in some cases harvesting has not been completed.

Livestock producers are sharply curtailing operations, particularly egg, poultry, and hog producers. Cow-calf operators are also experiencing losses as a result of the sharp curtailment in cattle feeding, the large cattle inventories, and sharp declines in feeder cattle prices.

NINTH DISTRICT - MINNEAPOLIS

In the recent weeks the spreading slowdown in the national economy has increasingly affected the District. Labor market conditions have softened, and District employers are laying off workers. Retail sales gains in December were below those reported earlier in the year, despite sizable sales increases just before Christmas. Price cutting has made District retailers concerned about their profit margins and cautious about the 1975 outlook. Savings inflows have improved in the District, but no immediate increase in home building is foreseen since savings and loan associations are using these funds to improve liquidity rather than to expand lending operations. One encouraging factor, however, is that District farmers should benefit from high prices, at least through the first half of the year.

Although the District has not experienced the sizable layoffs reported nationally, job opportunities are shrinking. Recently, the number of job orders to state employment offices in the Twin Cities metropolitan area has declined noticeably. Help-wanted advertising in the District has also been dropping since August. Three of the District's largest manufacturers have reported some work-force reductions. A large computer manufacturer, headquartered in the Twin Cities, announced that declining business forced it to reduce operations in the last half of 1974, and further reductions in the first quarter of 1975 are planned.

Three other District computer manufacturers recently announced that they were also curbing operations. Also, District manufacturers of home-building supplies and television components have let workers go. The slump in auto production is beginning to be felt in the District, and several manufacturers of auto components have had to lay off workers.

Recent District retail sales also reflected a letup in economic activity. Retailers surveyed by this Bank indicate that their sales had been running around 10 percent ahead of a year ago until about mid-November when sales deteriorated markedly. In December, most reported sales increases of only about 5 percent, despite very strong sales gains Christmas week. However, since December's gains in many instances were achieved by price cutting, several retailers expressed concern about their earnings. District automobile sales also weakened during the final months of 1974. Resort owners in the District reported that neither the dollar volume of business nor attendance increased as much as through the fall of last year.

With regard to 1975, District retailers were cautious. One respondent indicated that the large number of people taking advantage of Christmas sales may have hurt his firm's January business; another described his business so far this year as "lousy". Still another termed his early January business as encouraging but indicated that warmer than normal weather through December and early January had adversely affected the sales of some seasonal merchandise. Retailers are apparently cutting down inventories and trying to be as liquid as possible in order to take advantage of buys later in the year. Regional automobile sales offices, responding to a survey last month, were uncharacteristically conservative in their 1975 outlook.

Savings inflows to District savings and loan associations improved in the final months of 1975, but no immediate improvement in home building is foreseen. Loan commitments have not yet increased and will probably not rise significantly during the first quarter of 1975. One reason is that savings and loan associations have had to reduce their large volume of borrowing and increase their liquid assets before expanding their lending operations. However, there was a slight easing in interest rates on Government-insured mortgages in the final months of 1974.

Agriculture helped insulate the District from the downturn of the national economy last year, and many District farmers are starting 1975 in a generally good financial condition. Conditions in the livestock sector exerted somewhat of a drag on last year's farm income, and weather conditions cut crop yields. But higher prices offset the short-fall in crops, and cash farm receipts for last year are expected to be up slightly from a year earlier. Consequently, District farmers with crops to sell at the beginning of 1975 are in a strong cash flow position.

Crop prices are expected to remain good at least through the first half of 1975 for several reasons: Supplies are tight, domestic demand remains strong, export buying is good, and farmers have been holding crops, hoping to obtain higher returns.

TENTH DISTRICT - KANSAS CITY

Purchasing managers at Tenth District firms are applauding the return of a "buyers' market" for most industrial materials. Materials prices are reported to have generally stabilized, and allocations and long lead times have virtually disappeared. Materials inventories are being worked off in the face of weak demand for output and easier availability of supplies. Farm prices have been declining recently, but expected reduced output of poultry and meats suggests higher prices in the spring and summer. Total loan volume at Tenth District banks has grown at about the expected seasonal rate, while deposit growth has been strong.

Purchasing managers in the Tenth District report that the easing in availability and prices of materials, which was becoming apparent last fall, has gained momentum. From their point of view, there has been a dramatic change for the better since October. With very few exceptions, allocations are now a thing of the past. Lead times are now generally described as ranging from normal to "overnight deliveries", if requested. As a result, larger than normal stocks of materials are no longer necessary. In most instances, inventories are being worked down. Even those firms keeping inventories at relatively high levels are no longer buying all they can get, as they did earlier.

The aggressiveness in purchasing policy that was formerly directed simply at getting the materials is now being devoted to bargaining on prices. Raw materials prices generally are seen as "fairly well stabilized", with some reductions and such increases as occur being "smaller and less frequent". Several purchasing managers go so far as to call the present situation a "buyers' market". Not only is competition among suppliers reappearing after a long absence ("..even have some salesmen around now..."), but purchasing managers are successfully resisting price increases in many instances. As one said: "Personally I feel that I have better control over prices in 1975 than in 1974 -- since supplier competition is again becoming a factor, I can now put some pressure on suppliers about prices." Other purchasers speak in terms of refusing to accept price increases and going after price cuts on big items.

The preceding discussion does not include steel, where problems of availability and lead times continue to exist for some items. Part of this situation is attributed to the effects of the coal strike and some to the steel mills' continued emphasis on production of high profit items. Two buyers, noting the close ties of steel availability to the production of new automobiles, suggested that a turnaround in new car production could well make for a return to tightness in steel supplies.

Winter wheat acreage in the District's three biggest producing states is 5 percent larger than last year. Presently, the condition of the crop throughout the District is generally quite good and, if yields should return to 1973 levels, 1975 production will be up sharply. Total demand is expected to continue strong not only in the current period but also in the 1975-76 marketing year. A bumper crop in 1975 would be required to meet these demands, while rebuilding carry-over stocks to some extent. But, if output falls considerably short of expectations, the supply situation will remain tight for another year, and wheat prices will likely stay relatively high.

Farm prices as a whole have been declining recently. During the month ended December 15, 1974, the index of prices received by farmers fell 3 percent to a level 4 percent below a year earlier. Grain prices have continued to show weakness since them, but livestock prices have perked up somewhat. Recent information shows that sharp cutbacks in poultry and pork production are in store for the coming months; beef output will also be seasonally lower in the first quarter but above the reduced levels of a year ago. These production adjustments suggest that live animal prices may strengthen rather significantly this spring and summer, causing likely increases in food prices, especially if processors and retailers try to maintain or widen their margins.

A survey of large Tenth District banks reveal total loan volume increasing at about the expected seasonal rate, with strength in business loans offsetting weakeness in the consumer sector. Commercial and industrial loans are up partly, due to seasonal requests to finance inventory, working capital, and accounts receivable. Demand for cattle, feed, and grain loans has also increased. Real estate loan portfolios are relatively inactive, although several District banks plan to commit funds for future construction. Denver banks reported a strong market for commercial real estate. Consumer instalment loans are weak because of furhter declines in auto and mobile home purchases, while bank credit card loans remain strong. For the first time in several months, banks have been able to adjust their loans to a volume consistent with their desired loan-to deposit ratios. Accordingly, they now feel in a better position to accomodate loan requests over the upcoming period. The demand for loans is expected to remain strong, especially if the prime rate is reduced to around 8 1/2 percent by midyear -- as many Tenth District bankers anticipate.

Deposits moved sharply upward in recent weeks. The increase in deposits, to some extent, reflects the attempt of corporations to show a highly liquid position around the year-end. Also, an increase in large negotiable certificate of deposit has been achieved by keeping CD rates comparable to commercial paper.

ELEVENTH DISTRICT - DALLAS

Industrial production in the Eleventh District continues essentially unchanged, as gains in energy-related industries have offset declines in most other sectors. A record-high rate of construction by utility companies, for example, has spurred orders for building materials such as structural steel and concrete pipe. One materials supplier, a fabricated steel manufacturer with plants in Dallas and Houston, reports a threefold increase in new orders in the past twelve months. Meanwhile, the boom in drilling activity continues. Manufacturers of oil field equipment -- including offshore drilling platforms -- are generally operating at peak capacity, while enjoying record sales and profits. Moreover, most of these firms continue to be deluged with new orders; backlogs in excess of two years are common. *Attempts to increase production*, however, are being hindered severely by shortages of both skilled and unskilled labor and steel products. Petroleum refineries are also pushing capacity. In Texas, crude oil refining has increased in eight of the past nine months and currently is running 8 percent ahead of a year earlier.

While companies engaged in supplying steel and fabricated metal products to energy-related industries are hard pressed to meet demand, firms supplying materials primarily for residential and commercial construction are experiencing cancellations in orders, production cutbacks,and layoffs. For example, the District's largest producer of prestressed concrete reports that several firm contracts have been canceled recently. The largest manufacturer of reinforcing steel bars indicates that shipments are off two thirds from last October, and production has been cut to four days a week as finished goods inventories have climed to their highest level in two and a half years.

The apparel and textile industries -- which account for nearly a tenth of all manufacturing jobs in the District -- are experiencing a softening in demand. A survey of buyers attending recent markets at the Apparel Mart in Dallas indicates new orders are off as much as 20 percent. The decline in orders has resulted in some layoff of apparel workers and is forcing firms to trim costs in other areas. For example, to hold down finished goods inventories, many apparel manufacturers are accumulating a sizable number of orders before making production runs. Although fabric supplies are readily available, apparel firms are reluctant to build up materials inventories. Fabric purchases, therefore, are being made just before each production run.

Textile mills report that they began receiving cancellations in new orders in the early fall. However, production schedules were not affected until November, when workweeks were pared from six to five days. Further cutbacks were instituted by extending holiday vacations, and one mill is now closing down every other week so that employees can receive maximum unemployment benefits. In addition, construction of several new mills in Texas has been either delayed or canceled by the decline in demand for textiles.

Other industries, including electronics, paper, and transportation equipment, also are experiencing substantial reductions in new orders. Declining orders in the electronics industry, especially for semi-conductors, have resulted in the largest layoff by any District industry. A Houston producer of paper board reports that his company had a three-month backlog of new orders last October, but outstanding orders have now dwindled to one month's production. Producers of truck and utility trailers say that in addition to a slowdown in new orders, they have had heavy cancellations of existing commitments.

Widespread production cutbacks have resulted in the increased availability of many industrial materials. In fact, large backlogs of copper and aluminum products forced three primary production plants to close in December. Chemicals and plastics are also more readily available, with one of the largest manufacturers in the District reporting that customers were taken off allocation last month. The improved supply situation has lessened the upward pressure on raw materials prices. Most producers report the cost of materials has leveled off. Moreover, prices of some items -- including timber, copper, resin, reinforcing steel bars, and scrap metal -- have, in fact, declined in recent weeks.

TWELFTH DISTRICT - SAN FRANCISCO

The effects of the economy's slowdown are being felt strongly in this District. Residential construction continues to be stagnant and, with it, forest products. Industrial production is falling in most states, and more cancellations of capital projects are reported. Consumer spending in December was up in dollar terms, but in most areas retailers had been holding sales to reduce inventories. Agriculture, with the exception of cattle and dairy products, remains strong. Our directors show considerable variation in their views on economic prospects for 1975.

Residential construction through most of the District remains weak. In southern California, coastal developments have been stopped for environmental reasons and developers are taking losses. Lack of housing activity has contributed to falling production of lumber and plywood and increasing layoffs. One director associated with the timber industry describes the situation as very bad, with the bottom yet to come. A further problem for this industry has been the recent fall in exports, particularly to Japan.

Even the pulp and kraft industry, which until recently has been operating near capacity for two years, has been experiencing reduced orders. In the last six months, one firm reported that volume dropped about 25 percent. Because paper containers are ordered to meet current production -- containers are not stored -- a drop in orders is a fair indication of current trends in the industry.

Consumer spending was described as restrained in December. Sales in dollars were up approximately 10 percent on the average. Much of this performance was accomplished through vigorous sales efforts by retailers to draw down excessive inventories. Retailers appear to be entering 1975 with great emphasis on inventory control. Sales of durables are described as good in some areas and poor in others. Consumer purchases of automobiles are weak, an exception being luxury cars, and are reported to be down approximately 20 percent over the same year period a year ago.

Most agricultural areas in the Twelfth District are prospering. Encouraged by the high prices obtained in 1974 and with good prospects for 1975, farmers are maintaining investment plans, although they are becoming more cautious in view of the slowing national economy. Weaknesses are apparent in cattle and, to some extent, poultry. California milk producers are facing problems in trying to maintain existing price levels in the face of declining consumption. In Idaho and eastern Washington, inventories of processed and frozen potatoes are rising because of falling orders. Fresh fruit, vegetables, and grain are in good condition, although there is concern reported by several directors about the possibility of grain export controls being imposed in order to drive down prices.

In industry, shortages in some basic products -- steel and copper -- have disappeared. Companies report increasing numbers of order cancellations and layoffs are becoming more widespread. Postponement of investment plans and stretching of current projects are more common. The aerospace industry companies in California are gradually laying off personnel due to cutbacks in military and commercial orders, and these reductions are not expected to be reversed soon. Unemployment in southern California is above the national average, with the exception of San Diego which has escaped large layoffs. Utah is one state where industrial expansion is continuing with high levels of copper production and increasing coal production.

Banks are continuing efforts to control lending with varying success. A large Utah bank reports that a careful handling of loan demand has reduced its loan-deposit ratio from 80 percent at midyear to 72 percent, but a large California bank had much less success in achieving a planned reduction in lending because of a lack of alternative sources of finance for its customers. Consumer credit is described by one banker as sluggish, and other banks are also concerned about signs of increasing consumer deliquencies, even though actual losses are low.

Considerable variation exists in the views of our directors about the prospects for 1975. The president of one large California bank thinks that the financial environment in 1975 will be tougher than 1974, and this situation will apply to the other sectors as well. In contrast, another director, president of a large manufacturing company, thinks that the present recession will not be protracted. Similarly, views on inflation are divided, with several directors feeling that the elimination of shortages will reduce the rate of inflation to a 6 percent annual rate by the end of 1975. On the other hand, the directors of our Los Angeles branch agreed that inflation is still the number one problem.