CONFIDENTIAL (FR)

# CURRENT ECONOMIC COMMENT BY DISTRICT

Prepared for the
Federal Open Market Committee
by the Staff

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# SUMMARY*

The economy continues to recover but at a lackluster pace. Stepped up consumer spending is providing the primary stimulus for continued growth. Retail sales have improved, and Christmas buying is expected to be strong. In addition, new car sales are well above year-earlier levels. Industrial production has leveled off as new orders have slowed and some inventory liquidation continues, particularly in durable goods industries. Recovery, however, is evident in some nondurable goods industries. The demand for labor is generally weak, and construction is depressed except for some modest pickup in single-family housing starts. Loan demand at commercial banks remains flat, and no substantial rebound is expected in the near term. Lower grain prices have provided greater incentive to increase livestock production.

Retail sales have quickened, and merchants are generally expecting a strong Christmas season. The improvement, according to San Francisco, is attributed to a diminution in the rate of price increases for general merchandise and improved consumer confidence. Philadelphia, Atlanta, St. Louis, and Minneapolis report durable goods are selling well; but Richmond, Cleveland, and Chicago note sales of household goods remain sluggish. November sales were held down by unseasonably warm weather, according to New York and Chicago, and Atlanta reports department store sales are weak in Florida. Auto sales are up substantially over year-earlier levels but remain well below the rates of two or three years ago.

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*Prepared by the Federal Reserve Bank of Dallas

The pace of overall manufacturing has slackened, and a return to a robust rate of production is not generally expected in the near term. The inflow of new orders has slowed, and some inventory liquidations continue, particularly in durable goods industries. New orders and shipments have fallen for the first time since midyear, according to Philadelphia. Chicago reports steel shipments are off, and some major projects to expand steel capacity in the Midwest are being re-evaluated. The rise in manufacturing employment and the average factory workweek has leveled off, especially in the eastern half of the country. The recovery in capital goods production is uneven according to Cleveland, Chicago, and Minneapolis. Producers in some depressed industries voiced optimism about a turnaround early next year.

While production is off in durable goods industries, some nondurable goods industries have staged strong recoveries. Cleveland, St. Louis, and Dallas cite impressive gains in the output of petrochemicals and related products. And apparel manufacturers have experienced a sharp increase in new orders according to New York and Dallas.

The strength of labor markets differs markedly from district to district. In the Southwest, the unemployment rate has dropped below 7 percent. The jobless rates in two New England states, by contrast, are double that rate. Cleveland also reports virtually no improvement in employment since the recessionary low last spring. And job markets in Georgia and Florida continue to deteriorate.

Bankers report a pickup in deposit inflows and a flat loan demand, especially for business loans. Kansas City reports a sharp fall-off in loan requests from national accounts. Interest rates on business loans have edged downward according to St. Louis and Richmond. A slow recovery in loan demand is expected over the next three months by Philadelphia and Richmond. And Boston sees a pickup in business loan demand coming in late spring.

Residential construction remains weak in most areas, particularly for multi-family housing. Chicago, St. Louis, Minneapolis, and San Francisco note a revival in single-family starts. Home buying has picked up as mortgage rates have stabilized with a steady inflow of deposits at savings institutions. Both Philadelphia and Cleveland report active markets for existing housing. Kansas City finds no buyer resistance to present interest rates and, like Philadelphia, sees no pressures that would increase rates before March.

Nonresidential construction continues at a low level, as many manufacturers regard their current production capacities as adequate. Dallas reports the sluggish pace of nonresidential construction has curtailed the output of construction steel. San Francisco, however, notes some new projects have been undertaken recently. In addition, construction in the Atlanta area will receive a boost when work begins on a new rapid transit system.

A bumper harvest has led to a decline in grain prices. San Francisco reports farmers are complaining about the embargo on grain sales to Russia since these commodities are expected to be in heavy surplus. The reduction in grain prices, however, has provided greater incentive to increase livestock production according to St. Louis. Kansas City states the current trend in farm prices should lead to greater stability in food prices in the months ahead.

FIRST DISTRICT--BOSTON

The directors of the First District remain concerned about the recovery. The outlook for energy, state and local governments, and capital goods related industries is uncertain. However, Connecticut defense contractors are enjoying good business, and most New England retail trade bureaus are anticipating a rewarding Christmas season. The rate of unemployment for the region was 12.5 percent in October; the unemployment rates for Connecticut, Rhode Island, and Massachusetts were 11.1 percent, 14.1 percent, and 14.4 percent, respectively.

The retailing outlook is optimistic throughout New England. Despite a sluggish recovery in recent months, retailers are expecting a strong Christmas season. One retailing director reports that he had planned a 7-percent increase; however, December, so far, is more than 14 percent ahead of last year's volume. The director also contends that simple "inflation corrections" distort the gains in unit sales. Shifting consumption patterns, sales below list prices, and only modest increases in list prices in many lines have meant that business has been more active than the deflated figures might imply. Inventories are purposely thin at retail, wholesale, and manufacturing levels. So far, vendor performance has been good, and there have been no highly visible price changes. A strong season may initiate a scramble for goods.

Business investment for modernization and cost-cutting equipment may begin to increase presently; higher interest rates and sales rates expected in the future are stimulating businessmen to reconsider capital appropriations. Nevertheless, better sales rates do not necessarily mean a boom, so expansion plans remain shelved. Several directors have become highly skeptical of long-range planning in their industries. Basically, planning seems to do little more than extrapolate trends, and there seems to be no reason for these trend lines to be validated.

The carbon black industry continues to face excess capacity; and, recently, orders have been canceled. The major reason is that the tire industry has little demand for this basic pigment. The machine tooling industry has seen no dramatic changes in new orders. Manufacturers in capital goods lines are still living off backlogged orders. Lumber companies have noted a hopeful turn in business, especially in demand related to cartons, crates, and pallets.

Loan demand is still flat in New England. Businessmen are not expected to approach the banks until late spring, according to directors. And, despite the retail sales situation, consumer credit demands are modest as well. Bankers expect an 8-percent prime by the summer of 1976, increasing to almost 9 percent by year-end. Recent growth in demand deposits and savings deposits has been used to buy Treasuries and the CD's of New York and midwestern banks.

This month Professors Eckstein, Houthakker, Solow, and Tobin were available for comment. Each was concerned about the prospects for recovery and the Federal Reserve's position. Eckstein reports that the fourth quarter is weak and the current data are worrisome. He is pleased to see signs that the recovery has spread to the housing and capital goods industries, but the near-term engine of growth is consumption. High savings rates and a slower growth of personal income could frustrate a continuation of the recovery. Eckstein does not see much merit in cutting the funds rate further. The uncertainties of how this short rate influences GNP are such that a "wait-and-see" posture is appropriate. However, he stresses that the Fed ought to encourage credit markets to welcome businessmen; the financial community is scared of everything but "superpaper." The capital adequacy spectre should be consigned to the closet, and banks should receive more encouragement for making term loans to lower-quality borrowers. Eckstein is not happy with the money targets as they stand; they would frustrate economic growth by mid-1976. So, he would like to see the funds rate near its current level for some time.

Houthakker is still disturbed by the many wobbles in money growth. He feels that the funds rate should not be smoothed and made to move in such narrow ranges--such smoothing causes erratic money growth and harms the economy. It is a curious monetarism that leads to interest rate targets, in his view. He feels the consumer and the trade balance are carrying the economy; and he, too, perceives a critical weakness in investments. But he still firmly believes that there is little the Fed should do other than maintain a steady 5- to 5.5-percent rate of money growth. His reading of recent price data leads him to believe that inflation may be less than 4 percent by year-end 1976. The dollar is clearly overvalued, in his opinion; so gearing monetary policy to stabilize the current exchange rate may be unhelpful, both to the domestic economy and to our trading partners.

Solow foresees a year-over-year growth of 6 percent for 1976, even under the most favorable conditions. He sees a fourth-quarter deceleration of growth, but it seems to be more than one should expect. The economy is softening in a critical manner. If there were ever a period when rapid growth is welcome, appropriate, and may be accommodated, it is now. He would like to see the Fed hold the funds rate at its current level for some time to permit more rapid real growth and attendant money expansion. Money growth may need to attain rates of 9 to 10 percent for a time.

Tobin also sees his fears of an anemic recovery being supported by recent data. The strength in final demand is lacking, and inventories cannot do everything. His belief is that the funds rate should be reduced; holding it steady will not provide the necessary spur to investors' incentives or to the credit market's spirits. He, too, feels that once things get rolling, we may wish to permit money growth to exceed 9 percent for a period. He feels that velocity is very volatile and that the Fed should expect neither a continuation of its recent spurt nor a surge in money demand to return velocity to previous levels. He, too, questions recent monetarism: "Set interest rates to stimulate an investment recovery and let the money numbers fall where they will." Arbitrary rates of money growth are misleading targets for recovery at this time.

SECOND DISTRICT--NEW YORK

Consumer spending, notwithstanding its sluggishness in recent months, is expected to provide the principal near-term stimulus to the economy, according to the views expressed recently by Second District directors and other business leaders. Business capital spending remains lethargic, although a number of respondents felt the longer-term need for such outlays might well be building up. The respondents on balance looked for a continued modest improvement in residential construction. Loan demand was generally characterized as weak.

The retail trade industry continues to provide the brightest element in the economic outlook. The president of a large nationwide chain of department stores thus characterized the outlook for the Christmas buying season as "glowing." He reported that after a slow start in November, which he attributed to unfavorable weather conditions rather than to a lack of consumer confidence, nationwide retail sales had risen sharply in the recent past and that he was "very" optimistic regarding the prospects for the post-Christmas season. He stated that while retail sales in New York City were not doing as well as nationally, he felt that even there the outlook was relatively favorable. A survey by a local newspaper indicated that November sales by large New York City department stores were only 3.5 percent higher than during the comparable period a year ago, with merchants attributing this relatively poor performance to the adverse effect of the threat of a City default, the 11-percent unemployment rate in the City, the City's generally troubled economic conditions, as well as unseasonably warm weather through much of November. Sales by the suburban branches of these same stores, however, were substantially higher; and the combined sales of these stores and their branches were nearly 7 percent higher than in November 1974. The chairman of the City's largest department store reported that his firm's sales in the metropolitan area remained "strong" and was generally optimistic regarding the outlook over the coming months. New York City apparel manufacturers, moreover, reported a strong pickup in orders, associated not only with the Christmas season but also with the spring and Easter season. Observers reported the outlook for the Christmas buying season in Western New York to be favorable, citing a "healthy" consumer attitude toward spending, adequate savings, and an increase in real disposable income as contributing to this favorable outlook. One exception was the Buffalo area, where a retailer reported sales trends to be "spotty" and the outlook "not encouraging."

Regarding business capital spending, most respondents saw little evidence of a near-term pickup in that sector. Among others, the chairman of a multinational oil firm stated he had not noticed any change in the conservative attitude toward plant and equipment outlays in the petroleum industry, and the president of a nationwide retail firm reported that, in general, retailers continued to act cautiously toward the opening of new branches or the expansion of existing facilities. The president of a multinational nonferrous metal concern indicated that his firm's customers were planning only the absolutely essential capital expenditures. He felt that businessmen's generally conservative spending intentions were linked to the uncertainties surrounding the 1976 economic outlook and the vigor of the current recovery. Several respondents, however, indicated that underlying pressures for capital outlays might be building up. A senior official of a large paper firm thus stated that he placed "little faith" in official capacity utilization data, which he felt incorporated a great deal of obsolete facilities. Moreover, he noted that over the coming years the paper industry would be obliged to invest $1 billion or more to meet the requirements of the Environmental Protection Act. Several other respondents, including senior officials of utilities, metal container manufacturing, and chemical firms, expressed concern over the magnitude of the outlays their firms and industries would have to undertake to comply with this Act. The chairman of a large New York State utility thus stated that while there might not be an immediate demand for capital expenditures in the public utilities sector, the eventual expenditures for environmental control facing the industry were a "real sleeper." A number of respondents also expressed concern over the high and rising cost of replacing existing facilities, and the adverse impact of this development on their firms' cash-flow positions.

With respect to residential construction, several respondents viewed immediate prospects as relatively poor, or only slightly improved, reflecting the high cost of construction and maintenance, the continued availability of existing houses and apartments, and the uncertainties regarding the economic outlook. The president of a manufacturing firm, however, expected further moderate gains in single-family home construction and a "considerable" comeback of apartment buildings over the next 15 months. And a senior official of a thrift institution in a resort area reported that construction activities in his area had picked up in recent weeks.

Regarding loan demand, loan officers at large banks in general reported a weaker demand than they had anticipated late last summer and did not look for any significant pick-up over the near term. The

Buffalo branch directors characterized the current and prospective state of loan demand as "stagnant" and unlikely to improve significantly until mid-1976 at the earliest. The president of a retail firm, however, expected loan demand in the retail industry to increase as retailers rebuilt inventories. Similarly, the president of a nonferrous metal firm felt that corporate loan demand has begun to show signs of reviving as inventory accumulation and capital outlays in certain sectors recover.

THIRD DISTRICT--PHILADELPHIA

Economic recovery in the Third District has slowed further. In manufacturing, new orders and shipments are down this month, employment is off marginally, and the workweek is unchanged. At the same time, prices paid and received in manufacturing are both higher, although the rise of prices paid for supplies may be moderating. The outlook for the next two quarters is less optimistic than in recent months. Residential construction is weak, but the market for existing housing is active. Retailers report that sales are equal to or above last month's and they are looking for a strong Christmas season. Area bankers report that demand deposits are level and savings accounts are up slightly. In addition, loan volume is reported to be flat.

Manufacturers in the Third District, responding to this month's business outlook survey, report that economic activity is only fractionally greater than it was last month. In each survey from August through November, 40 percent of the respondents reported gains over the previous month. This month, however, only 17 percent indicate improvement, while 69 percent report no change. New orders are down for the first time in seven months, and shipments are off for the first time since July. At the same time, additional inventory liquidation is occurring, with 40 percent of the respondents reporting fewer goods on hand compared to 31 percent last month. Jobs in manufacturing are down slightly, and the workweek is unchanged from last month.

The outlook for the next six months in manufacturing is somewhat less optimistic than in recent months. Of the manufacturers polled, 66 percent anticipate a higher level of economic activity by June. This is the smallest proportion of respondents expecting improvement over the next half-year since last February. The peak was in June when 93 percent expected improved conditions six months out. Nonetheless, manufacturers still look for new orders and shipments to be higher, and a net accumulation of inventories is expected. The workweek is expected to be longer, and more than half of those surveyed plan to add to their work forces over the next two quarters. At the same time, capital expenditures are expected to grow, with more than a third of the respondents planning increases over the period.

Retail executives report that sales are level or up slightly from last month. The majority report that durable goods are selling well. All the merchants contacted are optimistic about Christmas sales, and one expects sales for the month to be 2 percent higher in real terms than last December. Most of the retailers surveyed feel that inventories are in line with sales, but one merchant notes that inventories at his store are above desired levels.

On the price front, manufacturers report that costs of supplies are higher this month, but the pace of the inflation in this sector has moderated since last month. Twenty-nine percent of the respondents to the current survey report paying higher prices for their supplies compared to 52 percent last month. Prices received for goods sold are also higher, with 23 percent reporting increases. The outlook for the next half-year is for additional increases; 94 percent of those surveyed expect to be paying higher prices by June, and 71 percent expect to be receiving higher prices for their finished products. Area retailers report that, in general, the prices they pay and the ones they charge are both moving up but at a slower pace than in recent months.

The market for existing housing is active, but residential construction remains weak. One MSB official notes that the brisk pace in the resale housing market in the Philadelphia area has resulted in mortgage rates that are 15-20 basis points above the U.S. average. Given the current savings inflows, however, he expects no further rise in mortgage rates through March. Another contact cites high unemployment along with little population growth as factors helping to discourage new construction. None of the contacts surveyed expect any recovery in residential construction in the area for at least six months.

Area bankers report that demand deposits are about even with last month, and savings accounts are up slightly. They also indicate that loan volume is essentially flat, and the general outlook is for it to increase gradually through the first quarter. Interest rates are expected to climb moderately next year, and inflation is expected to average around 6 percent. All the bankers contacted indicate that the Federal plan to help New York City will have no effect on the attitude at their bank toward lending to municipalities. But one executive feels that some fiscally sound municipalities have been hampered in their efforts to borrow money by the uncertainty surrounding the situation in New York City. As a result, he feels that the plan may help by removing part of that uncertainty.

## FOURTH DISTRICT--CLEVELAND

Recovery in the Fourth District continues to be spotty, with virtually no improvement in employment from last spring's low. Capital goods and steel remain weak, although signs of pickup are noted. Retailers are cautious in their predictions for Christmas sales. Deposit flows into savings and loans were again at high levels, according to some associations.

Nondurable goods producers continue to report strong recovery, and conditions in capital goods industries are mixed. Recovery in petrochemicals has been rapid, according to one producer, and sales have almost returned to pre-recessionary levels. A producer of plastics also reports a fast recovery, as sales in October and November rose more than expected. Production for this quarter is expected to be 15 percent greater than last quarter. An economist with a tire producer reports passenger tire sales continue to recover. Retail inventories are 15 percent below a year earlier, but manufacturers' inventories are still a little high.

Machine tool orders continue their gradual climb. One firm expects a 50-percent increase in orders during 1976, compared with a 60-percent drop experienced this year. Two mining machinery producers report a good order book; one has backlogs stretching into 1978. Orders for farm implements are also holding at high levels. A national producer of electrodes and welding equipment reports it is still allocating orders because of high demand from pipelines, mining, and shipbuilding. Its welding business this quarter is expected to be at least 5 percent higher than last quarter. Recovery from the slump in heavy duty trucks has been slow. A producer reports that truck sales for the first 10 months of this year were off 40 percent from the same period last year and that orders have been picking up slowly since last spring. He expects that uncertainty over government regulations on braking devices will hamper recovery. Demand for other types of capital goods, especially from construction and electric utilities, remains weak. One producer reports that orders for generators fell 50 percent during the recession and that little pickup is in sight. Construction machinery continues to weaken, and prospects are for continued weakness into 1976. A producer of lighting fixtures for streets and highways reports that public construction is also weak.

Steel orders have been picking up a little, although heavy inventory liquidation is holding down recovery in orders and production. Orders for January delivery are somewhat better than for December, and steel economists expect shipments for the first quarter of 1976 will rise 10 to 15 percent over the fourth quarter of 1975. Steel inventory liquidation next quarter is expected to be about half as large as in the present quarter. One economist reports that the October 1 steel price increases are holding despite some discounting from published prices.

This Bank's monthly survey of manufacturing for November suggests that the rate of increase in manufacturing activity in the District has flattened in the last two months. A preliminary report indicates an equal number of manufacturers had increases and decreases in new orders and shipments during November. For the first time in a year, more manufacturers built inventories than depleted inventories. Manufacturers also report no improvement in employment, and price increases were as pervasive in November as they were in August and September. For December, manufacturers expect another month of inventory buildup, virtually no gain in employment, and no abatement in upward price pressures.

Retailers are cautious in their appraisal of holiday sales. A financial officer for a large department store reports that sales in November were somewhat stronger than a year earlier, except for household goods, and that their inventories have been built in the hope of a better selling season this year than last year. An economist with a large national department store chain reports moderate improvements in unit sales of soft goods in recent months while sales of household goods remain weak. Both expect markdowns to be no greater than usual for this time of year, and both express concern that retail sales will not recover if income tax cuts are not extended into 1976.

Employment in the District has hardly improved from the low of last April. Scattered layoffs in the steel and machinery industries have offset a gradual pickup in some other industries, especially rubber, fabricated metals, and glass. A supplier to the automotive industry reports his firm laid off 5,000 workers during the recession and has no immediate plans to rehire them. A tire producer reports some recalls have occurred in response to strengthening production but that additional layoffs may be necessary in those lines that still have excessive inventories. Supplemental unemployment benefits funds are depleted for some tire company workers. One retailer reports it will hire more part-time help for the holiday season than it did a year ago but still less than normal, and another reports hirings will be about normal.

Net deposit inflows at savings and loans were strong in November. One association reports a record for the month, and another reports inflows were strong but below their record in October. Mortgage terms eased in recent weeks. The bulk of loans are for existing dwellings. Liquidity is generally well above requirements, although one association will borrow funds in order to finance its aggressive mortgage lending position.

FIFTH DISTRICT--RICHMOND

Once again the monthly survey of Fifth District businesses has failed to confirm any strong trends. Manufacturers' new orders and shipments continued to increase during the past month, but in neither case were the increases as widespread as in the three previous months. Backlogs and inventories showed little change in November, with inventories apparently remaining somewhat higher than desired. Employment and weekly hours were also unchanged among manufacturing respondents, while price movements continued on the up side. One-third of the respondents view current plant and equipment capacity as excessive, but nearly all feel current expansion plans are about right. Among retailers surveyed, sales increased in November, but sales of big-ticket items relative to total sales declined. Retail inventories showed little change during the month, and all respondents now feel current levels are about right. Fifth District banks experienced healthy deposit flows and reduced their reliance on borrowed funds in November. Asset expansion was centered in the lending area, with seasonal demands for business credit continuing to account for most of the activity. There is evidence of a greater willingness to make loans of various types, and investments are being concentrated in the shorter maturity ranges. The November 1 crop report indicates that there will be no record harvests in the District in 1975. The cotton crop, in fact, promises to be the smallest since records began in 1866.

The December survey of manufacturers suggests an overall increase in shipments from a month earlier, but reports of increases were less common and those of declines more common than in November. Much the same picture emerged in relation to the volume of new orders, a general increase but less widespread than in recent months. Little change is apparent in the level of backlogs or of inventories. In fact, survey responses suggest greater stability in inventory levels than in any of the last six months. Increases in the number of employees and of hours worked per week also seem to have tapered off in the past month. On the other hand, reports of price increases became more widespread last month than at any time this year.

Most of the manufacturers surveyed feel current inventory levels are about right, but approximately one-fourth continue to view current levels as excessive. One-third of the respondents feel plant and equipment capacity is currently in excess, but none believe that current capital plans should be cut back. Fewer than one in ten think current expansion plans should be enlarged. Expectations for the level of business activity remain essentially optimistic. A majority of respondents expect business activity nationally and in their respective market areas to improve over the next six months, while one-half expect the level of production in their own firms to improve.

Among District retailers surveyed, sales were up over the month, while inventories showed little change. Sales of big-ticket items relative to total sales declined somewhat after increasing in October. Employment in retailing declined in November, but increases in employee compensation were reported by all but one of the respondents. Price increases were also reported by most. Inventory levels have apparently been brought into line with desired levels, and 80 percent of the retailers view the current number and size of their outlets as about right. Once again, optimism is widespread as most retailers expect the level of business activity nationally, locally, and in their own firms to improve over the next six months.

In the banking sector, demand deposits of weekly reporting banks increased substantially during the month, and lesser but still significant gains were posted in time deposits. Purchasers of CD's also increased, and outstandings are now 3 percent above the year ago level. Reliance on borrowed funds is far below the recent norm, with discount window borrowings of member banks falling close to zero. Average daily net purchases of Federal funds by member banks over the first three weeks of November fell by 30 percent from the previous month and are now at their lowest level since June.

Business loans at weekly reporting banks increased at an annual rate of about 6 percent in November, reflecting advances to retailers and agricultural processors and increased purchases of bankers' acceptances. Commercial and industrial loans are now about 6 percent below year ago levels. Small increases in consumer loans were offset by declines in the real estate area. The November survey of changes in lending practices indicates that a third of the reporting banks expect moderately stronger business loan demand over the next three months. Business lending terms remain pretty much unchanged at District banks, except for some easing of interest rates. Interest in and willingness to make all types of loans has increased, especially in the consumer area. Investment assets of weekly reporting banks declined by 1.3 percent from the previous month, as substantial increases in U.S. Government securities were more than offset by reductions in municipal portfolios. Investment in Treasury bills has been particularly strong.

District cash farm income continued to improve during September and for the first three quarters of the year recorded a 4-percent gain over the same period last year. The biggest improvement occurred in livestock receipts. Marketing of the 1975 crop of flue-cured tobacco was highlighted by lower prices and poorer quality than in 1974. The season average price dropped 5 percent, or $5.47 per hundred, below last year's record. Volume was up sharply (17 percent), however, so the value of gross sales was 11 percent or $126.3 million above a year ago.

## SIXTH DISTRICT--ATLANTA

An economic recovery is in progress throughout most of the Sixth District, although the pace at which individual states are moving remains very uneven. Rapid growth is most evident in Tennessee, while Florida continues to lag behind the other states. The pattern of recovery in nonagricultural employment reveals the principal areas of strength and weakness in each state. In Florida, the depth of the construction industry decline is clearly reflected in retail sales. Sales of department stores in other states indicate a broadly based upturn in holiday sales. Inventories are fairly well balanced except for highly advertised goods or those for which raw materials inventories are in short supply. Two recent developments are contributing a much needed stimulus to construction activity in the Atlanta area.

Sixth District nonagricultural employment in October stands at 98 percent of the November 1973 level, having recovered somewhat from the low point of 96.3 percent reached last June. Nonagricultural employment in Alabama, Louisiana, Mississippi, and Tennessee has regained the November 1973 level. In Georgia and in Florida, where employment is still declining, employment lags by about 5 percent. Construction and manufacturing employment have been fairly stable in Alabama and Louisiana, with the remaining deficit from the November 1973 level limited to less than 4 percent. In Florida and Georgia, the pronounced weakness in construction employment has been a major depressant for business acitivity, with declines from the base period level of 41 and 22 percent, respectively. The effects of these reductions are echoed by lower wholesale and retail trade employment and by fewer jobs in the financial, insurance, and real estate category. Employment in these two states has also weakened in the transportation, communication, and public utilities category. Manufacturing employment has fallen about 10 percent in Florida, Georgia, and Tennessee, mainly reflecting reductions in durable goods manufacturing employment. In Florida, greater stability in nondurable manufacturing cushioned a larger decline in durable goods industries. Tennessee's weakness in durable goods manufacturing has been largely offset by much more rapid growth in Federal Government employment and in services, which reflects the vigor of the tourism industry.

The declines noted in employment in Florida have noticeably affected that state's retail sales. Unlike other states in the District, Florida has experienced a leveling of the decline rather than an appreciable upturn. This pattern is reflected in directors' reports that October auto sales remain substantially below 1974 levels and that yearly increases of retail sales continue to lag behind the rate of price increase. Limited evidence of a revival appeared in November auto sales in certain areas. Results of holiday season retail sales lack any clear pattern. Where strong sales are reported, they are sporadic. The bright spots in the Florida economy are tourism, which is strong in Central and Eastern Florida, and a citrus crop, which is large but not excessive in relation to the expected level of demand. Conditions in South Florida are less encouraging. The tourist business slackened in late summer, and retail sales have been flat. A director commented in November that "no recovery can gain sustainable momentum without participation of the construction and tourist industries, and neither appears too strong at the moment." Only limited improvement is reported in the overstocked inventory of condominiums in many areas of Florida.

Many large department stores in the Sixth District, excluding Florida, have experienced a marked improvement in sales since Thanksgiving, a telephone survey indicates. For certain stores, improving sales began as long ago as May, and gains from last year run in excess of 25 percent. A much more relaxed and confident consumer mood is reportedly the source of this improvement, although some consumers retain an attitude of uncertainty. None of the retailers contacted report an appreciable increase in the proportion of credit sales, while one stated that the ratio of credit sales has continued to decline. Most stores report improved sales across the board without noticeable weaknesses in specific types or price ranges of goods. However, some reports were received of improved but still below normal sales of more expensive furniture, appliances, and electronic equipment. The outstanding area of strength is found in fashion goods. Price resistance is not a noticeable problem; medium- and high-priced goods are expected to show the sharpest sales increases.

Some difficulty is reported in obtaining delivery of previously ordered merchandise, particularly for the most popular new styles in soft goods and for nationally advertised toys. Most retailers regard these shortages as a usual seasonal characteristic, although the decision of some apparel manufacturers to operate on a strict "cut-to-order" basis is mentioned as a source of longer lead times. A related factor is the increasing number of yarn varieties, which creates a difficult inventory problem for textile raw materials manufacturers in view of more volatile shifts in demand for particular finished goods styles. Retail inventory levels are well-balanced on the whole, although some remaining excess is reported in expensive furniture lines and to a lesser degree in appliances and other big-ticket items. Retailers expect continued gains in 1976, although some concern is noted regarding the depth of the post-holiday season downturn in consumer durable goods.

Construction activity, which has been weak in the Atlanta area, will receive a boost in the near future when work begins on a new rapid transit rail system. Two recent developments are paving the way for the beginning of construction. First, the Urban Mass Transit Administration is expected in the near future to announce the awarding of a $160 million grant, primarily to finance construction during fiscal 1976. The second development contributing to initiation of construction on the project is the recent settlement of a dispute concerning minimum wages between the public transportation authority and 14 building trade unions. This agreement has ended a seven-month postponement of construction work. The first phase of the system is scheduled for completion in late 1978.

SEVENTH DISTRICT--CHICAGO

Economic activity appears to be improving very gradually despite many uncertainties. Layoffs are less frequent, but few employers are hiring actively. Retail sales were held down in November by unseasonally mild weather, but most merchants contend that Christmas volume will be good, at least compared with last year's depressed level. Many manufacturing companies are continuing to reduce inventories, but others have completed adjustments, and retailers' stocks generally are on the low side. All goods and services are in ample supply and most markets are competitive, but prices of manufactured goods continue to rise. Various companies are reevaluating capital spending plans because of ample capacity and high costs of equipment and new construction. Developers of new residential subdivisions are active again after a long period of hibernation.

Retailers complained that warm weather during most of November held down sales of seasonal merchandise. Sales of nonseasonal items were also hurt because of the adverse effect of weather on customer "traffic." Colder weather and snow in recent weeks has had a salutary effect. A revival in sales in December could easily offset the November performance as it has so often in the past. Producers of appliances and television sets have been disappointed by the level of demand for their products. Retail inventories are generally low and could limit total Christmas volume because most buying commitments were made in October.

Sales of autos and small trucks are much improved from last year's depressed level but remain well below the rates of two or three years ago. Most auto industry analysts do not expect that new peaks in sales will be achieved until 1980 or later. Some analysts of markets for appliances and televisions hold similar views.

Sales of heavy trucks remain depressed despite a pronounced pickup in freight movements since last spring. The new brake systems required since March 1 are said to be holding down sales because of fears of malfunctions and resulting heavy damage suits.

Virtually all goods and services are readily available from suppliers. One exception is quality shoes and boots. No significant supply problems are anticipated for petroleum products. Gasoline prices weakened in early November, but part of the decline has since been restored. While markets for most goods are competitive compared with the period prior to the fall of 1974, most prices are holding up or rising further because of cost pressures resulting from boosts in wages and benefits, and rising costs for utilities, insurance, and other needs.

Fourth-quarter steel shipments will be the lowest for the year and somewhat below earlier expectations. Heavier steels for equipment have weakened further while demand for steel for consumer products has picked up. Some major projects to expand steel capacity have been halted or are being reevaluated. One steel company says its expansion program is going ahead full steam, but this statement appears to apply to projects already started.

Some diversified capital goods producers who had been cutting output say that the decline has about ended and that recalls of workers are probable after the turn of the year. New orders for railroad equipment are at very low levels, but shipments have declined only moderately as substantial order backlogs are worked off. Demand for small construction equipment will revive if the expected improvement in home building materializes. Farm equipment sales are expected to rise next year because of higher than expected cash receipts and anticipated heavy plantings of crops.

The dollar volume of transfers of existing homes and apartments has been very high in recent months while prices have been maintained or have increased further. Residential developers are "starting the process" once again after about 18 months of inactivity but mainly for single-family home projects. Construction loans are available at about 10 percent, compared to 14 percent or more during the crunch, but lenders are very careful in evaluating new risks. Inventories of unsold apartments have been reduced substantially, but it is unlikely that new apartment building will rebound vigorously. A large new hotel was started recently in downtown Chicago, and some shopping centers are still being completed. But commercial building prospects remain poor. Office vacancy rates are about 14 percent downtown both in Milwaukee and in Chicago and are even higher in outlying areas. This compared with an "acceptable" rate of 5 to 7 percent.

Auto insurance companies are pushing for large rate increases, 12 to 20 percent, to eliminate underwriting deficits, although increases of similar magnitude had already been posted this year. Soaring claims for property damage and personal liability are responsible. Increases in rates on homeowners' policies also have been very large. Costs of mal-practice insurance for doctors, hospitals, and other professionals and for manufacturers' product liability have multiplied in recent years and are still rising rapidly. There is also a push for shorter-term insurance policies, perhaps to a half-year for auto insurance.

EIGHTH DISTRICT--ST. LOUIS

Economic conditions in the Eighth Federal Reserve District continue to improve according to latest reports from area businessmen. However, the pace of the recovery is still described as moderate. Christmas sales have been at a brisk pace so far, and retailers are optimistic about continued strong sales. Automobile sales in the District appear to be keeping pace with the national upturn, and total sales are reported to be moving ahead of the production schedules. On the financial side, savings inflows have accelerated somewhat in recent weeks. Commercial banks, however, continue to report no increase in the demand for business loans. In agriculture, an expansion of livestock production is under way as farmers respond to the improved profit incentive.

Retailers in the survey expressed more enthusiasm about sales and prospective sales than in recent months. They reported that Christmas sales are proceeding at a rapid pace. A representative of a large department store noted that televisions, radios, digital watches, and many other big-ticket items were selling well. They cautioned, however, that boom conditions were not present. For example, it was noted that sales of some home-related items were still sluggish. Automobile sales were reported good throughout the District, with October and November sales considerably above 1974 levels. These months, however, were only average when compared to earlier years. Reports from automobile dealers indicated a longer lag in obtaining cars, with sales a month or more ahead of deliveries.

Manufacturing activity continues moderately upward in the District, with the advances widespread among most industries--both durable and non-durable. Manufacturers of chemicals, appliances, boxboard, processed foods, and certain home-construction items reported improvement in sales in the past several weeks. On the negative side, one car assembly plant announced a closedown in operations for one week early next year. Also a manufacturer of tailored clothing for rural markets reported that orders for the spring season were below expectations.

A few firms have announced increased capital spending budgets over last year. Also, single-family residential construction has improved somewhat. On the other hand, the amount of commercial construction is generally slow in the District.

With the decline on short-term market rates from the August and September levels, savings inflows have picked up at financial intermediaries. Banks reported increases in all categories of deposits including passbook savings and negotiable CD's; also, savings and loan associations had larger net inflows. Loan demand, especially business loans, continues sluggish at commercial banks. Some smaller banks reported increases in consumer and installment loans, although total District data do not confirm this trend. Rates on bank loans to business in the District have generally declined, along with interest rates nationally. Mortgage rates, however, have risen at some institutions in recent weeks.

One St. Louis savings and loan association representative noted that nonmortgage lending is becoming more important as an outlet for funds. He reported a doubling in his nonmortgage loans in the past year.

Banks, particularly in rural areas, are reporting lower loan-to-deposit ratios, fewer bad loans, and generally lower profits in recent months. A year ago rural bankers were placing significant amounts of funds in the Federal funds market at relatively high interest rates, thereby boosting profits. But currently there is little opportunity for such investments.

Improvement in livestock product prices relative to feed costs in recent months has provided greater incentive for livestock feeding. Expansion of livestock production is under way; however, major increases in output of most livestock products are not anticipated before mid-1976. In contrast to the favorable prospects for livestock producers, some crop farmers, particularly soybean producers, are experiencing considerable downward pressure on prices. Some shifts in acreage from soybeans to other crops is expected to occur next spring.

NINTH DISTRICT--MINNEAPOLIS

The Ninth District is currently experiencing solid, though not spectacular, economic gains. Consumer confidence is rising, and retailers are having a good Christmas season with sales perhaps stronger than had been anticipated. Manufacturers have also revised their sales expectations upward, and inventories at both the retail and manufacturing levels are at more satisfactory levels than a year ago. Some improvement is occurring in residential construction.

Trends in farm income in the District are mixed. On balance, net income in the District may be down from 1974, though actual year-to-year changes vary widely depending on local weather conditions and on local product mixes. Directors from Wisconsin, Michigan, and Minnesota say that higher dairy prices have added to farm incomes. Directors throughout the District say that cow-calf operators probably have better incomes than a year ago but are still not operating at break-even points. Incomes of other livestock producers are most likely up from a year ago, while the incomes of grain farmers are down in many areas due to lower prices. Spending remains strong in rural areas throughout the District.

Ninth District directors feel that consumer spending may provide a basis for a firm recovery in the first half of 1976. Most directors report that fourth-quarter retail sales are good. Sales of big-ticket items are improving. Car sales are up from a year ago, and used cars are moving especially well, according to one director. Farm spending on machinery and equipment remains at high levels. One director, noting that retail sales during Thanksgiving week were very strong, says that fourth-quarter sales appear quite good when compared with 1974's fourth quarter but also cautions that the gains are less impressive when compared with sales of two years ago. Many directors observe that consumers remain extremely "value-conscious" in their selection of merchandise.

According to most directors, residential construction activity in the District has shown some improvement in recent months. However, as one director noted, the gains thus far have not been very substantial, and the demand for home loans remains light. Directors from many rural areas of the District indicate that housing construction has been fairly steady throughout the recession.

The Ninth District industrial sector is expected to show slight improvement in the fourth quarter and should score stronger gains through the first half of 1976, according to the latest quarterly industrial expectations survey taken in early November. The 164 manufacturers responding to the survey are expecting current-dollar sales to increase 7.0 percent in the fourth quarter but anticipate sales gains of more than 10 percent during the first half of 1976.

In addition, manufacturers are becoming more optimistic, and it now looks as though fourth-quarter gains will be greater than had been anticipated in the August survey. The 7.0-percent anticipated increase in manufacturing sales represents an upward revision from the 4.8-percent gain which was forecast in the August survey. In real terms, after allowing for a moderate rate of inflation, sales in the fourth quarter may still be somewhat above last year's fourth-quarter levels. However, 1976 should bring a more substantive pickup in real sales--provided that current expectations are borne out and that inflation does not accelerate from its current pace.

Stronger fourth-quarter sales gains are expected in the nondurables sector than in the durable goods industries. For instance, fourth-quarter sales in food and kindred products are expected to rise by 12.1 percent and to be followed by a 14-percent sales gain in the first quarter of 1976.

The outlook for most durable goods producers is less promising if manufacturers' expectations are correct. Sales in the primary metals and nonelectrical machinery industries are expected to lag year-earlier levels in the fourth quarter, though a turnaround is expected in the first half in these industries. On the other hand, manufacturers of lumber and wood products foresee strong sales gains beginning in the fourth quarter and continuing through the first half. Recent gains in housing starts have perhaps, in part, been responsible for the brighter outlook in that industry.

The District's rural areas currently appear stronger than the Twin Cities' economy. Manufacturers in the Twin Cities Metropolitan Area expect fourth-quarter current-dollar sales to remain below last year's level. In the areas outside the Twin Cities, sales are expected to advance at rates of nearly 10 percent throughout the fourth quarter and should maintain slightly higher rates of growth through the first half of 1976. However, the prospective first-half recovery is expected to be somewhat stronger in the Twin Cities than in rural areas of the District due to a sharper upturn in the Twin Cities' durable goods sector.

Results of the November industrial expectations survey indicate that producers still appear cautious in expanding inventories, though the ratio of inventories to sales appears to be attaining more normal proportions following the inventory reductions of recent quarters.

TENTH DISTRICT--KANSAS CITY

Tenth District savings and loan associations report that they are satisfied with their current liquidity. Mortgage demand and deposit inflows have been steady or slightly increasing in recent months. A small decline in mortgage rates is expected before next spring. Mid-November auto sales in the Kansas City region were considerably stronger than in the same period in 1974. Farm prices have declined sharply in the last two months, and pork and beef supplies soon should be rising. Tenth District banks report a still weak, though improved, demand for loans.

Tenth District savings and loan associations reported either a steady or slightly increasing deposit inlfow during the past two to three months. In general, they now consider their liquidity "about right where we would like it to be." Almost half of the respondents reported that mortgage demand was good or stable, while the other half noted a recent slackening in demand. Similarly, while some respondents stated that "we are making as many loans as we would like to make," other associations noted a (possibly seasonal) slackening in traffic.

Conventional mortgage rates generally ranged from 9 to 9 1/2 percent, though two associations quoted an 8 3/4-percent rate and one in St. Joseph, Missouri, an 8 1/2-percent minimum. Respondents were unanimous in stressing that they have encountered no resistence to present mortgage rates. On the other hand, no respondent expected rates to rise, and the great majority expected a decline to about 8 3/4 percent by the end of the first quarter of 1976. Considerable internal debate on rates and competitive pressure were often mentioned.

Comments by respondents indicated that the attitudes of businessmen toward the economy varied by geographic area. In Wyoming and New Mexico, businessmen were "all satisfied" and "think it's great." In Nebraska, the emphasis was on an excellent outlook for consumer spending during the holidays and in early 1976. "Guarded optimism" was expressed by one Missouri respondent and "gloom among builders" by two others. A concern about inflation and a confusion as to why it cannot be stopped was noted in Denver.

General Motors and Chrysler Corporation reported that in mid-November, car sales in the Kansas City area improved significantly over the same period last year. From November 10 to 20, GM noted a 52-percent increase in sales in the region compared to a 36-percent national gain. Similarly, Chrysler said its sales in the Kansas City region for the first 20 days of November rose 22 percent over the 1974 period. This compares with a 23 percent year-to-year national gain in the mid-month period.

After rising for six consecutive months, farm prices have declined sharply in the last two months. For the month ended November 15, the index of prices received by farmers was off about 4 percent due to lower prices for hogs, cattle, and most of the major grains. However, the index remained 2 percent above the year-earlier level.

Farm price trends in recent weeks have increased the likelihood that retail food prices may show greater stability in the period ahead. In view of the likely increase in hog farrowings in the period ahead, together with confirmed evidence of larger placements of cattle in feed-lots, red meat production should soon be on an upward path. Although output will likely continue below year-earlier levels for several more months, the prospects for potentially larger meat supplies will probably dampen any tendency for livestock prices to return to the very high levels realized last summer.

Banks contacted in the December survey said that while loan demand continues weak, some improvement has occurred. Respondents also reported that local customer demand is much stronger than demand from national accounts. Seasonal increases were reported in retailing and leisure-activity loans, while a few banks reported some improvement in auto loans. Above-normal gains were reported in loans to cattle feeders. Bankers who were surveyed indicated that retailers expect a significant increase in real sales over their 1974 levels. Current prime rates range from 7 1/4 to 7 3/4 percent.

ELEVENTH DISTRICT--DALLAS

Industrial output in the Eleventh District has risen steadily since last spring. The recovery in production, however, has been uneven among District industries. Those industries tied to the production of oil field equipment, such as fabricated metals and nonelectrical machinery, continue at boom levels. The output of chemicals has rebounded strongly. And apparel makers, deluged with new orders, are running at full production. This has meant strong demand for textiles and those chemical products used in synthetic fibers. But output in construction-related industries--most notably, primary metals--remains depressed.

The recovery in chemical production has been due, mostly, to rebuilding of stocks by users. This follows a period of heavy inventory liquidation. But now, producers report that new orders are being pushed up by widespread inventory speculation as price pressures mount in that industry. Prices of some basic plastics, such as monomers, were raised 25 to 30 percent in the summer and fall. As a result, users would like to build stocks further before the next round of price hikes, expected in January. But, they add, producers are largely preventing this by deliberately delaying shipments.

Recent price increases have resulted in a severe cost-price squeeze for plastics user firms. Demand for their products has not strengthened enough, thus far, to allow these firms to pass the bulk of higher costs on to their customers. Consequently, a number of smaller firms are being pushed out of the market and are looking for larger firms to buy them out. The treasurer of one of the District's leading producers of plastic pipe said that in one week recently he received three such overtures.

Apparel manufacturers continue to step up production in response to a backlog of orders. Payrolls are being expanded and new plants are opening. And several garment makers are seeking sites for additional manufacturing facilities. Some clothing lines are sold out until February. And District firms generally feel retailers will continue to build inventories from current levels. An El Paso manufacturer, for example, reports that brisk sales at the retail level are forcing his customers to abandon the cautious ordering policies they had been practicing. One indication that retail stocks are still too low is that retailers are now accepting late shipments.

Steel production at District mills is severely depressed. Output is down roughly 25 percent from a year ago. The largest steel mill in the District reports business is "horrible," with new orders running at the slowest pace of the year. The falloff has been centered in structural steel and has been due, primarily, to the steady decline in nonresidential construction in the Southwest in 1975. Manufacturers do not expect a substantial recovery in demand until, at least, mid-1976. And there is concern that when the recovery comes, a large part of the business will go to foreign producers. Today, foreign mills, particularly Japanese producers, are undercutting domestic steel prices by 20 to 25 percent.

The sluggish pace of construction activity has led to extremely aggressive bidding by manufacturers of building materials for new projects. A Fort Worth manufacturer of reinforcing steel bars said mills are engaged in the most aggressive price-cutting that he has seen in 25 years in the industry. Many jobs are actually being bid below cost as mills try to keep their share of the market and attempt to hold on to the backbone of their work force.

A survey of independent oil producers reveals a consensus of opinion that the proposed energy legislation before Congress would be a disaster if enacted. The respondents feel changes are due but not in the direction of those proposed. Not only would changes now being considered roll back crude oil prices from an average of $8.75 per barrel to $7.66, but legislation would tighten the rules expensing intangible drilling costs. The latter change would reduce funds available for drilling and impact most severely on small independents, who account for much exploratory drilling. Passage of the legislation would not affect current drilling commitments, but thereafter, new commitments could fall off sharply.

New car sales have firmed at District dealerships. Compared with a year ago, sales in Dallas and Houston were up 54 percent and 32 percent, respectively, in the mid-November reporting period. The market, however, is two-tiered. Demand is strong for the smaller economy cars and the large luxury models. In addition, customers are much more willing to buy optional equipment than a year ago. Inventories of new cars have been tight this fall. In one case, a leading dealer in North Texas sold 253 new cars in November, out of an inventory of 270 units. But factory shipments are expected to catch up with sales by year-end, and dealers are looking for continued improvement in sales in 1976.

On balance, labor markets in the District states continue to improve, as the rise in employment is outpacing the growth in the labor force. The number of jobholders is 2 percent above the level of a year ago, and the unemployment rate has dropped to 6.9 percent. Growth in employment in nonmanufacturing is faster than in manufacturing. Factory payrolls are up, bolstered by the increase in workers in nondurable goods industries. The average workweek in Texas also continues to edge upward, but employment in durable goods manufacturing in the District states is slow to recover. The number of construction jobs has increased but only with the ending of a series of strikes, and employment in the building trades remains substantially below the level a year ago.

TWELFTH DISTRICT--SAN FRANCISCO

In general our directors report that business continues to improve but at a very moderate pace. Retail sales gains over the Christmas season are expected to be about 10 to 11 percent higher than last year, which should generate some momentum as the new year begins. Many directors report a slowing of price increases and project a more stable price situation over the next six months. Industry voices little interest in plant expansion and appears to be extending the time horizon for a strong business revival. Residential construction is reported to have increased rather strongly in the last few months, while commercial and industrial activity remained weak. A significant increase in construction is not anticipated over the next six months.

Although estimates vary from gains of 7 to 20 percent, most of our directors believe that the Christmas retail sales volume will exceed the 1974 season by 10 to 11 percent. Since this volume will involve lost sales due to conservative stocking, some impetus to new orders might carry over to the new year. Retail merchants have noticed a decided diminution over the past few months in the rate of price increases for general merchandise and a rise in the level of consumer confidence. A large department store representative states that store prices "should trail the consumer price index by a couple of points." There is general support for the view that prices at the retail level will tend toward stability over the next six months.

On the industrial level, prices have been weak for metals and forest products. A director in the nonferrous metals business anticipates no significant change in aluminum prices over the next few months but believes that prices will rise in the spring as business expands. A large manufacturer of paper products states that "prices of our industrial paper products have been very stable in spite of increasing costs. Volume has picked up, and we expect prices to rise over the next six months in response to cost pressures." In the aerospace industry, a director states that price trends have, to a large degree, been influenced by the cost of labor as determined by cost of living escalation clauses. "The general expectation is that labor costs will rise at about 8 percent per year for the next couple of years." Petroleum refinery product prices have had mixed trends. There has been softening in the wholesale and retail prices of motor gasolines. Prices of distillates, diesel fuels, and natural gas liquids have been very strong; and residual fuel is in heavy oversupply with "no market at any price."

Except for beef and hogs, farm product prices have declined gradually since last summer. Bumper crops this fall have led to this development, and farmers are complaining about the embargo on wheat and feed grain sales to Russia since these commodities are expected to be in heavy surplus.

Residential construction is reported to have increased rather strongly in the last few months, while commercial and industrial activity remained weak. A siginificant increase from current levels is not expected over the next six months for either residential or commercial and industrial construction; multiple-housing starts are expected to remain especially weak.

In some areas, the outlook for construction activity is brighter than in others. The Seattle area continues to benefit from work connected with the Trident Project and Alaska pipeline construction. New office buildings, warehouses, and shopping centers are under construction. There has been steady growth in residential and commercial construction in the Greater Bakersfield Area over the past eight months due to the successful attraction of new industrial firms, and Idaho claims not to have been affected at all by the recent recession.

In many areas of the Twelfth District, vacancy rates are at relatively low levels, and thrift institution deposits continue to increase insuring sufficient mortgage funds to meet demand.