

CONFIDENTIAL (FR)

CURRENT ECONOMIC COMMENT BY DISTRICT

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## Summary\*

Although many Districts report that activity over the past month has been sluggish or flat, almost as many report that the lull in activity is over and an uptrend has been resumed. Consumer spending is anticipated to be 8 to 10 percent higher this Christmas season than last although sales will not be this exuberant in agricultural areas where income gains are low this year. Residential housing has been picking up momentum over the past three months, generating capacity operations at lumber mills. There is some doubt as to whether the recent rash of posted price increases will stick. Business loan demand remains in the doldrums but inquiries at banks have picked up. Savings flows at thrift institutions continue to set new records.

Consumer spending is not expected to be exuberant over the Christmas season, nor is it expected to flag greatly. Gains over the last year on the order of 8 to 10 percent are anticipated depending on the amount of promotional effort expended. A larger proportion of sales this year involve the use of credit. As reported by Minneapolis, Richmond and Kansas City, spending is less bouyant in agricultural areas where income is running about 5 percent over last year. Inventories of big-ticket appliances continue to be high in the Northeast. Sales of large cars and intermediates are very strong but many reports state that the rebate program was unsuccessful in moving subcompacts. The Dallas District is experiencing more robust Christmas sales than elsewhere.

The coldest winter in 80 years is draining fuel supplies in the Midwest and, in some cases, raising home heating bills by 35 to 40 percent

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\*Prepared by the Federal Reserve Bank of San Francisco.

over last year. Observers in the oil industry in Dallas expect an OPEC price increase of 10 percent which would lead to a one cent per gallon increase in gasoline prices.

Although the most recent indicators of industrial new orders, employment and the workweek are down, this trend is generally regarded as a lull and is not expected to continue. There is some feeling that capital spending plans are being held up in anticipation of an investment tax credit and other possible changes from the new administration. The strength of residential construction reported by Dallas and San Francisco is already causing tight supply situations for lumber and gypsum in those areas. According to Cleveland, steel economists have reduced their forecasts of domestic steel shipments for 1977 from 105 million tons to about 100 million tons, compared with an estimated 89 million tons in 1976. Moreover, both the textile and apparel industries are reported by Richmond to be experiencing declining activity and capacity is regarded as excessive. The factors responsible are excessive inventories and higher imports of apparel.

It is unclear whether recent posted price increases for a wide range of basic materials such as flat-rolled steel, aluminum sheeting, chlorine and chlorine solvents and synthetic textiles will hold in today's markets. Some of these increases were unexpected and are being attributed to fear of the imposition of price controls. Although the consensus appears to be that these increases will stick, discounting seems to be a widespread practice.

In agriculture, livestock feeding operations continue to be unprofitable and some crops such as cotton had a below-normal yield this year. The winter wheat crop has been planted, but farmers are very concerned

about the low level of soil moisture. Drought seems to be a real fear this year across much of the nation's farmland. Spending on new farm equipment and vehicles is down considerably and loan activity, especially refinancing, is up.

Business loan demand continues sluggish in all Districts. The Boston District reports that four noted economists interviewed by them believe that some stimulus is called for to avert an "incipient recession" and "...provide the strong financial climate for the strong investment performance which had been hoped for but not yet materialized." However, some bankers in Philadelphia, Dallas, and San Francisco have noted an increased number of encouraging conversations with corporate borrowers regarding additions to plant and equipment.

The heavy inflow of funds into thrift associations has continued and, as a result, both mortgage rates and interest rates for savers are declining. Some savings and loan institutions in Cleveland are raising the size of minimum savings certificates and withdrawing the offer of certificates with less than 2-year maturities. In some areas, mortgage rates have declined from nine percent to 8 1/2 percent over the past month.

FIRST DISTRICT -- BOSTON

The Directors of the First District report that the national pause is curtailing economic activity in New England. "We formerly used the phrase 'cautious optimism;' now we just use 'cautious.'" Furthermore, there are no indications that capacity will constrain growth in the region, since local utilization rates are high only in the paper and lumber industries. In spite of generally disappointing business conditions, new orders for machine tools have increased modestly during recent months and retail sales volumes range from "good" to "excellent."

In the paper industry, the newsprint sector almost always operates close to 100 percent capacity with Canadian suppliers taking the fluctuations. Canadian capacity at the present time is adequate, and, although little expansion is planned, conservation programs adopted by buyers should prevent shortages in the coming year. Purchasers of fine papers do not have similar conservation programs and domestic supply is much more important. However, this sector of the industry is not generally subject to the fluctuations in demand that produce shortages.

Retailing is performing very strongly in New England. November was an excellent month for many stores, and December is running well ahead of plan so far. Most retailers report that sales have increased at least 8 to 10 percent over last year during recent weeks. Officially, the outlook for spring is cautious: there is a tendency to live "hand-to-mouth" since "nobody predicts far out with any confidence."

Professors Eckstein, Houthakker, Samuelson, and Tobin were available for comment this month. Houthakker and Tobin both found the economy's 1976 performance consistent with what could have been expected from the

monetary policy followed. All expect some further deceleration in the real growth rate this quarter and little pick-up in the first quarter of 1977. This decelerating growth trajectory, Samuelson said, has undermined the animal spirits of investors and the buoyancy of consumers. Tobin describes the present circumstances as "incipient recession," and Eckstein assigns a 10 percent probability to an inventory recession. The commendable 6 percent real growth target is not likely to be achieved, Samuelson points out, under any of the policies seriously being discussed.

All favor a more stimulative monetary policy although each for different reasons. Tobin's argument centers primarily on timing and policy mix issues. He prefers a moderate, temporary fiscal stimulus combined with a strong, monetary expansion. Given the lagged impacts, fiscal stimulus can best avert the "incipient recession" and monetary policy can provide the strong financial climate for the strong investment performance which had been hoped for but has not yet materialized. This policy prescription stems from his conservative bias favoring a large investment component and a balanced federal budget at full employment. He favors a 50 basis point reduction in the Federal funds rate; if this should violate the monetary targets, the divergence can be explained as desirable in view of the state of the economy.

Houthakker finds "monetary policy still on the unnecessarily tight side." He favors a reduction in the Federal funds rate to 4 percent to achieve monetary growth near the top (but still within) the target range. He notes the progress that has been made in reducing the rates of inflation, expects further progress over the next few quarters, and sees little risk of a reacceleration so long as monetary growth remains within the target range.

Samuelson argues policy "should err, if necessary, a little on the expansionary side because there is still some breathing room." Despite the revisions in capacity utilization indices, there is still ample capacity in the aggregate. Admittedly, on a disaggregated basis, there are very few industries which could be expected to reach "capacity" before the labor force becomes fully employed. Good policy, however, does not seek to prevent full utilization in all industries: to the contrary, the purpose of an expansion is to put some price and profit pressures on those industrial sectors where capacity expansion is necessary. To accompany the fiscal stimulus -- which should be shared by everybody, households and business, taxpayers and nontaxpayers -- monetary growth should proceed at or above the upper limits of the target range until the perilous corner has been turned. Once the system "gets its second wind," monetary growth could be reduced in order to average within the target range over a period of perhaps a full year.

To Eckstein, "the situation is clear. The economy needs stimulus. The burden of stimulus rests on everyone, including the Fed." Short-term rates should be held at or below current levels to accommodate the fiscal stimulus. Without monetary accommodation, the effects of fiscal stimulus will be nil or even negative.

SECOND DISTRICT -- NEW YORK

Business activity in the Second District appears mixed, but the outlook remains favorable according to directors, business leaders, and analysts contacted recently. Retail activity apparently slowed in late November after strengthening progressively since Labor Day. This pause in momentum caused merchants to temper some of their holiday optimism, but nonetheless a good sales picture was expected for December as a whole. At the same time, automobile sales were expected to be higher in coming months as inventories of popular models increase. Respondents in this district pointed to a few inventory excesses but generally felt there was a good balance with sales. On the price scene, while discounting is common in a number of industries and product lines, respondents generally felt that the recent price increases on certain metals and fibers probably would hold.

District merchants reported a slowing in the growth of sales in November after two months of strong gains. Nevertheless, retailers generally remained optimistic about December. A vice president of a leading New York City department store termed November sales as rather disappointing but said he expected the Christmas season this year would be "late." Another City retailer agreed that sales were not up to expectations, but he too was hoping for a "substantial Christmas." One department store executive predicted that his company would post a record fourth quarter in sales. In upstate New York as well, there were signs that retail sales slowed toward the latter part of November. Compounding this slowing was a severe snowstorm in Western New York that immobilized retail activity in early December. Reports on new car sales suggest that the district developments reflect national conditions. Sales of small cars appear to be relatively weak and

inventories are still high. On the other hand, consumer demand for large cars remains strong. Indeed, Buffalo observers, as well as metropolitan New York City and northern New Jersey automobile dealers, cited insufficient inventories of large cars as limiting sales. Retailers' reports on inventories were mixed -- viewed by some as a bit high while considered by others as about right -- suggesting that imbalances were not widespread. One senior retail executive stated that disappointing sales in November had resulted in inventory imbalances but that they were not so burdensome as to warrant any special adjustments. Another retailer reported that inventories were up, but he saw no cause for alarm since part of the buildup reflected a decision to carry over some of their surplus of hard goods. At the same time, several department store officials reported that their inventories were in line with sales.

In most other industries, inventories were generally viewed as in balance with sales although exceptions, most notably in metals, were cited. One director considered inventories of both ferrous and nonferrous metals to be high. Another director felt that steel inventories were being cut back, and an official at a Buffalo steel plant agreed. Beyond these areas, inventories were generally felt to be in good balance. The purchasing manager of a major industrial firm noted a more conservative materials inventory policy, reflecting an easing in concerns over shortages. In view of the generally good balance of inventories to sales, one business planner predicted that inventories would move up moderately in 1977 as the recovery continues.

On the price front, respondents generally felt increases recently posted on various materials and products would probably stick. One analyst

specializing in the steel industry stated that he had been expecting the steel industry to raise prices before year-end because of their rising costs. Unlike the aborted earlier attempt to raise prices, the recently announced price hike was scheduled to take effect almost immediately, giving steel customers little time to undertake defensive manoeuvres. Because of the accelerated timing, the recent price increase was given a good chance of sticking. A steel company official agreed that the higher prices would probably hold because, in his view, the demand for flat-rolled products was strong. A Buffalo director thought that steel companies, wanting to pass on their higher product costs, would refuse to relent on the price hike irrespective of the level of demand. Less sure that the price increase would stick was a steel economist for a major chemical company. According to him, a key determinant was whether or not the demand for automobiles holds up. He expressed surprise at the timing of the price increase and suggested that the possibility of price controls might have been a factor.

While discounting is a widespread practice in the aluminum industry, the price increase on aluminum sheet is likely to hold, in the view of a metals analyst. He termed demand in the aluminum sheet lines as strong relative to rolling capacity, and felt there was very little discounting in rolled sheet aluminum. Synthetic textile producers are reportedly following the industry leader in raising prices. Even though there is excess capacity throughout the industry, a marketing analyst for a major textile company thought the price increase would hold.

THIRD DISTRICT - PHILADELPHIA

Economic activity in the Third District is faltering in some important sectors. Retail sales are expanding, but conditions in manufacturing have softened. This weakness is primarily in the durable goods sector. While inventory levels in area factories are higher, other major indicators of activity are lower. New orders, unfilled orders, and shipments are each down slightly from November, and employment has dropped for the third month in a row. Nevertheless, the six-month outlook both in retailing and manufacturing is for some strengthening. Capital spending plans show no signs of softening despite the current slowdown. Price pressures on manufacturers are about the same as last month, and prices received are only marginally higher. Bankers report that business loan demand is still weak, and they anticipate only a moderate pickup in 1977.

Manufacturers responding to the current Business Outlook Survey report that overall business conditions are not as good as they were last month. Only 12 percent of the businessmen polled report any improvement this month while 24 percent report a worsening of business conditions. New orders and shipments are down fractionally, employment has fallen, and the factory workweek is shorter. This is the third month in a row in which work forces have been reduced to some degree, and the second month in a row for a shorter workweek. Inventories are slightly higher after being flat since August.

The weakness in new orders, shipments, and employment, as well as the increase in inventories is concentrated in the durable goods industries. To some extent, the buildup in stocks results from slow sales, but this is

not the case across the board. A producer of agricultural machinery indicates that much of the increase in his inventory is seasonal, and a manufacturer of specialty steel products notes that he has increased his inventory of nickel and chrome to take advantage of price protection clauses. His firm supplies steel to capital goods industries, and he is looking for a pickup in orders by June.

Despite the current weakness, manufacturers are looking for improvement over the next two quarters. By June, better business conditions are foreseen by two-thirds of those surveyed--about the same as last month. New orders, shipments and inventories are expected to increase over the period, and higher levels of employment are projected as well. However, the proportion of firms planning to hire additional employees six months out is down to 24 percent from 40 percent in November.

Over the next half-year, capital expenditures are expected to increase at 42 percent of the firms sampled--a figure that has held steady for the better part of this year. In general, producers of durable goods are less bullish than those of nondurables. A manufacturer of commercial air conditioning systems reports that his firm is currently spending only for capital replacement, and he foresees no increase in such expenditures six months from now. That firm is currently producing at 70 percent of capacity, and he notes that capital spending over and above replacement would not occur until utilization reached 80 percent. This would require a 15 percent increase in real demand in 1977, but his projection is for no increase in real terms next year.

Retailers in the area report that while competition is unusually intense, sales are performing just about as expected. Most indicate that

November turned out to be a strong month, but few are expecting nominal sales this month to show any sizeable gain over the relatively high levels of December 1975. For the fourth quarter, expected gains over last year range from 0 to 8 percent in real terms with most of those contacted looking for 0 to 5 percent. Merchants note, however, that while performance is strong thus far, they are less than certain about their anticipations for the rest of December. While a few are bullish, several are "cautiously optimistic." There is no excessive buildup of inventories reported despite the lull in retail sales earlier in the year. For the longer term, most retailers anticipate moderate real gains in sales in 1977, but this outlook is accompanied by an attitude of caution. As one merchant puts it, "We're not yet ready to commit ourselves to large advertising expenditures or orders for merchandise."

Inflationary pressures in manufacturing appear to be the same as in November. Prices for supplies are moving upward and those for finished products are only marginally higher. About a third of the manufacturers surveyed report paying more for supplies and less than one-fifth indicate higher prices for their own products--both the same as last month. By June, 9 out of 10 expect to be paying more for their inputs, and 2 out of 3 anticipate higher prices for the products they sell.

Bankers in the area report that consumer loan volume continues to increase, but business borrowing is virtually flat. One banker notes an increased number of encouraging conversations with corporate borrowers regarding additions to plant and equipment. This executive feels that these inquiries may be the beginning of a more confident attitude on the part of business borrowers. However, all of the other bankers contacted say that

any increase they see in such conversations is below the normal seasonal upswing. With the continued softness in business loan demand, bankers report that lending competition is intensifying.

Looking to 1977, bankers expect consumer loan volume to continue to increase, and they anticipate the beginning of a modest pickup in business loan demand, although not before the second quarter. Local bank projections of business loan volume (current dollars) by year-end '77 range from 6 to 15 percent over year-end '76 levels. At the same time, a moderate increase in interest rates in '77 is anticipated, with the prime projected to be 7-7 1/2 percent by the end of the year. Before the upward movement begins, however, most bankers anticipate a further drop in the prime to 6 percent, and, according to one executive, possibly lower.

FOURTH DISTRICT -- CLEVELAND

Economic activity in the Fourth District remains sluggish. Inventory corrections in the steel and chemical industries apparently are nearing completion, but manufacturers stocks of major appliances remain excessive. Among materials producers, only the rubber industry is rebounding strongly and rebuilding stocks. Recovery in capital goods is still not pervasive. Reports from retailers remain cautious. Savings and loan executives expect downward pressure on mortgage interest rates as well as rates paid on deposits.

Inventory adjustments continue to curtail production in the District. An exception is the rubber industry, where production is rising rapidly as an aftermath to the long strike that slashed inventories of tires and of industrial rubber products. An economist with a major tire producer expects capacity operations for conventional tires through the first quarter of 1977, after which inventories are likely to be either adequate or too large. Capacity operations for radial tires are expected for most of 1977. Liquidation of steel inventories is apparently nearing completion, according to economists with major steel producers in the District. Operating rates fell below 70 percent of capacity in recent weeks, but a moderate pickup in steel orders for December and January delivery suggests an end to the 6-month slide in production and shipments. Steel economists reduced their forecasts of domestic steel shipments for 1977 from 105 million tons to about 100 million, compared to an estimated 89 million tons in 1976. Chemical and plastics producers report operations have steadied in recent weeks at about 82 percent of capacity. Inventory correction for some products, including polyvinyl chloride, has apparently ended, and orders for December are higher than for November. Another producer, however, expects

some further decrease in stocks in December as users trim stocks for balance sheet and tax valuation purposes. Excess stocks of major appliances held by manufacturers are likely to carry inventory correction in that industry into the first quarter of 1977, according to an economist with a major appliance producer. Its stocks at the end of November were 20 percent higher than planned and 10 percent higher than for the same month a year-ago. The producer commented that without a \$10 to \$15 billion permanent tax cut and further improvement in new housing starts, the inventory adjustment could carry into the second quarter of 1977.

Recovery in capital goods remains selective. Machine tool builders continue to report steady improvement in orders and backlogs, which will be reflected in a sharp improvement in shipments in 1977. Orders for motors have also picked up; and one manufacturer reports a sharp boost in orders for industrial equipment during November, especially for international and defense-oriented business. Its trend in orders has been climbing somewhat faster than suggested in the latest Department of Commerce plant and equipment survey. On the other hand, an official with a construction machinery producer reports irregular improvement in orders for construction machinery, especially hydraulic cranes and excavators. Inventories held by dealers are still judged about twice normal size. Business this year will be about 50 percent below its peak in 1973, and a projected 14 percent increase for 1977 implies capacity utilization will not be much higher than rates that prevailed in the early 1970's.

Reports from retailers continue mixed. A director associated with a department store chain notes that sales gains over a year earlier continue to narrow and that it may take longer than one quarter to work off excess inventories. Another director associated with houseware products describes

business as good and backlogs as rising. November retail sales hold about even with October, according to an economist with a major retailer. He expects aggressive promotional selling during the remainder of the Christmas season if merchants are to realize an expected 10 percent gain from last year.

Preliminary results of this Bank's latest monthly survey of manufacturers show the highest proportion of respondents reporting price increases since late 1974, with little indication of let-up expected for December. The recent 6 percent increase in flat-rolled steel prices is expected to hold, according to several economists associated with major steel firms. Among reasons for this expectation, they cite the following: flat-rolled steel products are still the best selling products; relative prices of flat-rolled products have not increased as much as other steel products since wage-price decontrols; major users, especially auto producers, have not resisted the increases. Chlorine and chlorine solvent prices were increased December 1 in response to strong demand, but a financial officer with a chemical firm was uncertain if the increases will stick. He indicated that discounting from list prices is most prevalent now than 3 months ago. A major plastics resin producer also reported that transactions prices for its products have weakened in the last 3 months.

Thrift institutions are adopting different strategies in response to continued strong deposit flows and easing in interest rates. Some are concentrating on controlling costs of funds while others seek to stabilize future flow of funds. One S&L raised the minimum on savings certificates from \$1,000 to \$5,000 and withdrew offering certificates with less than 2-year maturities, which they consider hot money. Another association lowered rates on 1-year certificates to 6 1/4 percent and on 6-year certificates to 7 percent. It

discontinued offering certificates of less than one-year maturity and will limit deposits on certificates over \$10,000. A third association also lowered rates to a maximum of 7 percent for a 6-year certificate, and reduced its mortgage rate to 8 percent for a 29-year loan. None of the associations changed their rates on passbook savings. Officials at these associations took as a sign of further downward pressure on both mortgage rates and rates paid on savings the recent actions of two large Cleveland banks that reduced interest on corporate savings to 4 1/2 percent.

FIFTH DISTRICT -- RICHMOND

Our November survey of business conditions suggests a continued lackluster performance in the Fifth District economy. Responses of manufacturers surveyed indicate rather distinct softness, with shipments, new orders, employment and weekly hours all declining from a month ago. Reports of reduced volumes of new orders outnumbered reports of increases by better than two to one. Materials inventories were unchanged while stocks of finished goods increased somewhat, and remain above desired levels at many firms. Retail sales apparently showed no change, while sales of big ticket items relative to total sales weakened slightly. Inventories at retail were unchanged, but remain above desired levels. Retailers report no change in prices paid during November, while manufacturers experienced further increases. Retailers and manufacturers, on the other hand, received higher prices. Manufacturing respondents expect improvement in the level of business activity nationally and in their respective market areas during the next six months, but retailers are less optimistic, expecting no significant change. Both groups, however, expect improvements for their own firms. District farm income improved slightly in September and October and is now running 5 percent above a year ago -- about the same as the increase for the nation as a whole.

While over one-third of our manufacturing respondents reported new orders running below a month ago, much of this weakness seems to have been concentrated in the textile and apparel industries. Activity in the apparel sector has fallen since early in the year, a trend which a prominent trade publication attributes to excessive inventories at the retail level and

to higher imports of apparel products. Whatever the cause, over one-half of textile respondents experienced a reduced volume of new orders in November and now view current plant and equipment capacity as excessive. At the same time, 80 percent of apparel industry respondents also experienced lower volume of orders and feel current capacity is in excess. Some weakness was also reported in the furniture industry while reports from chemicals and primary metals producers were mixed. Manufacturers of electrical machinery and equipment seem to have done somewhat better in November, at least in terms of new orders.

Lower levels of shipments were also reported by more than one-third of the manufacturers, while over one-half report reduced backlogs of orders. Nearly 20 percent experienced increases in materials inventories, but a like number report reductions. Stocks of finished goods apparently grew somewhat, although even here nearly 20 percent of the respondents report declines. In addition, almost one-third indicate reductions in employment in November and almost as many operated fewer hours per week. Prices, including employee compensation, moved up rather broadly, as has been the case in most recent months. Almost 40 percent of the manufacturers surveyed feel current inventory levels and current plant and equipment capacity are excessive and 10 percent now feel current expansion plans should be cut back.

Among retailers surveyed, sales and inventories showed little change last month although sales of big ticket items declined slightly in relative terms. Employment was also unchanged, but employee compensation rose as did prices received. Prices paid held steady. Forty percent of our retail respondents view present inventory levels as excessive, but all say the current number and size of outlets is about right.

The retailers are unanimous in expecting the level of business activity nationally and in their respective market areas to remain unchanged over the next six months, but 40 percent expect some improvement in the level of sales of their own firms over that time period. One-half of the manufacturers, on the other hand, expect improvement in each of these areas.

Results of a recent survey of district banks failed to yield a clear-cut picture of business loan demand. The borrowing needs of business are increasing moderately, with both short-term and long-term demands represented. It is clear, however, that borrowers are leaning toward longer maturity, fixed rate loans, and that lenders are resisting this movement.

Record high prices on all flue-cured tobacco belts highlighted the 1976 marketing season. With prices averaging 11 percent higher than in 1975 and quality of offerings better on the eastern North Carolina and border belt markets, the total value of sales was up about 5 percent even though volume of marketings was down. Reports from South Carolina indicate that farmers are still holding free cotton and that some are asking 80 cents per pound.

SIXTH DISTRICT -- ATLANTA

Further strengthening occurred in the Southeast. Despite concern about natural gas supplies, a number of steps are being taken to maintain adequate supplies of energy. Consumer spending has increased, although rural areas are feeling the pinch of energy costs. Inventories may be inadequate if vigorous holiday sales continue. Auto sales are spotty, with some signs of price resistance to new models. The winter tourist season has been boosted by cold weather, investments in convention and tourist facilities are increasing, along with major plant investments or expansions in paper, rubber, and transportation. In contrast to this cheerful picture, payment problems and the termination of some major ventures echo the effects of the recession. Savings and loan associations are enjoying rapid growth in the Southeast.

Energy resources remain a key influence on economic activity. Concern continues in parts of Tennessee that industrial use of natural gas will be curtailed, causing unemployment. This outcome appears likely in some areas if the abnormally cold winter persists. Looking toward the future, an immediate decision by the Federal government is expected on construction of the Louisiana Offshore Oil Port, a facility to receive oil shipments from supertankers. Several nuclear power plants are under construction in the Southeast, including one north of Baton Rouge, Louisiana, and another in Southeastern Florida. Construction of a third plant on the Southeast Florida coast has been halted by environmental interest groups. Seven to eight hundred construction workers have been laid off. A highly promising new oil and gas strike off the Louisiana coast illustrates the possibility of further development of offshore oil resources. Extraction of methane from salt water in deep-drilled oil wells is

being investigated as a potential source of additional natural gas supplies.

Rising energy prices in connection with abnormally cold weather are reducing consumption outlays in rural areas. Rural residents who depend on liquefied petroleum gas for heat have recently experienced a doubling of their fuel costs in some areas. A brighter consumer spending picture emerges elsewhere in the District. Most department stores report enlarged post-Thanksgiving sales volume, although some expect to do no better than last year. Last month's suggestion of a bifurcated consumer market has been confirmed by current reports that strength is concentrated in the more luxurious lines of boats, automobiles, and department store goods. Inventories of retailers and wholesalers are unusually low. If the present sales growth persists, sales volume will be lost due to unavailability of goods. Especially strong sales are found in eastern Tennessee, which benefits from the high incomes of coal miners in neighboring states, and in central and south Florida, where tourist traffic has been boosted by abnormally cold weather elsewhere in the country.

Sales of automobiles are spotty. Buyers rejected the smaller cars but are now responding to the rebate offers in some areas. Large models, especially luxury cars, are enjoying the strongest sales. However, several areas report disappointing sales in November for dealers unaffected by the recent strike. There are also some reports of resistance to the higher prices on 1977 models.

Tourism promises to remain the District economy's bright spot. The winter season in Miami and Fort Lauderdale is off to a fine start as a result of severe weather elsewhere. Tourism continues to lead central Florida's recovery. New Orleans's restaurant population is growing rapidly; new hotels and motels are adding to the city's dining facilities, established hotels are renovating,

and several new restaurants are also being built. A new hotel and convention center is under construction at Opryland in Nashville. The circus world theme park in central Florida will double the present size of its operation during 1977. International flights have been approved for the Orlando Airport.

Some additional strength is evident in capital spending. In Tennessee, announced spending for new and expanded plants through the end of September exceeded the 1975 total. Industrial power usage reported by TVA has shown an upward trend and is close to the pre-recession level. In Georgia, new capital investment announcements through October are two-thirds greater than in the first ten months of 1975.

Demand for paper products remains weak, with several mills taking down time. Backlogs of orders have dropped. Still, a bleached kraft market paper plant, with an investment of \$286 million, is being built in Alabama.

The Goodyear facility in Gadsden, Alabama, will undergo a major expansion, becoming the largest tire plant in the world. Employment will expand by 400. Surface transportation facilities are also rapidly expanding. A large trucking company is building freight terminals in three Florida cities for service to cities in the far West. In Atlanta, a long delayed \$50-million super truckstop will be built on a 280-acre site.

Less favorable developments include indications of slowness in payments to milk producers in Florida. In Atlanta, an innovative high-rise amusement park located in a new downtown office-hotel-retail-condominium complex has ceased operations; a six-month trial period failed to achieve profitability. a major hotel chain has decided to withdraw from managing a luxury hotel in another multiuse complex located near the downtown area.

Strong savings and loan activity is reported throughout the District. Healthy gains in savings inflows and in lending activity are widely reported. In Florida, over a five-year period, deposits at savings and loan associations have almost tripled; they have risen during this period from about one-half the level of total commercial bank deposits to approximately equal bank deposits.

SEVENTH DISTRICT -- CHICAGO

Confidence that the expansion will continue appears to have strengthened in the Seventh District in the past month. Most observers believe that the recent slowdown is about to give way to renewed growth. Fears of price and wage controls are causing some companies to post price increases earlier than had been anticipated. Large retailers are very pleased with recent levels of sales. Output is expected to be significantly higher in virtually all industries in 1977. Abnormally cold weather has sharply boosted sales of natural gas. The outlook for capital goods is somewhat brighter. Apartment construction is expected to rise substantially next year. The financial picture in the district is generally excellent, but farm credit conditions have deteriorated in some areas.

Most business and financial executives and analysts accept the standard forecast that both real GNP and the price level will average about 5 percent higher in 1977. Most expect some acceleration as the year proceeds. Moreover, most believe that their own businesses will show gains approximating those foreseen for the general economy. There is a sharp divergence of opinion on the need for tax reduction. All agree that a tax cut would be stimulatory, but many believe that activity will improve without such stimulus. Confidence is judged to be of crucial importance, particularly for capital spending. Most business executives do not believe that an increase in the investment tax credit from 10 to 15 percent would have a significant impact on demand for capital goods.

Supplies of all goods and services appear ample at the present time. However, gypsum board and lumber will be in tight supply if housing starts

reached the 1.8 million level, which is commonly accepted as a reasonable guess for 1977. Late in 1977, shortages of gray iron castings, forgings, raw steel, and certain chemicals are possible and even predicted by some analysts.

Although prices of various materials -- e.g., nonferrous metals and paper-board -- are soft currently, many producers of components and finished goods are posting increases in prices to "catch up" with rising costs. Partly, this reflects fears of new price controls, despite assurances to the contrary. Some increases in list prices may not hold up in the marketplace.

Despite talk of "inventory congestion," we are unable to find significant examples of excessive inventories. Small cars are a notable exception. Production was adjusted rapidly by steel, appliance, chemical, and paperboard companies when demand lagged expectations.

Major retailers report that their total sales showed excellent increases in November and early December. Credit sales have increased relative to the total and collection experience has been good. Consumers are said to be "loosening up." In contrast to experience of the largest merchandisers, some smaller companies report little or no increase in sales from a year ago.

A major airline reports that passenger travel, measured in seat miles, rose significantly in November, seasonally adjusted, following a flat trend from the spring through October. For 1976 as a whole, traffic is expected to be up 10 percent and a 6 percent rise is projected for 1977.

Forecasts of auto sales have been reduced for both 1976 and 1977 by most analysts, but a rise of about 5 percent still is expected for next year. Sales of compacts and subcompacts have been even poorer than ex-

pected, while most intermediates have done very well. Saturday and even Sunday overtime is scheduled for components of the most popular models. Sales of RVs have been excellent. Sales of heavy and medium trucks are expected to rise about 25 percent next year, but sales of light trucks may decline.

Demand for capital equipment continues slow, but some improvement is discernible overall. Sales of most types of heavy construction equipment remain very poor with no signs of a revival. Farm equipment sales are expected to be down 5 to 10 percent next year. On the upside, orders for electric motors, controls, materials handling equipment, overhead cranes, hoists, and some types of mining and construction equipment have strengthened recently. Overall, demand for capital equipment is expected to be significantly higher in 1977.

Output of industrial chemicals has been about flat since last spring following a strong upsurge early in the year. For 1976 as a whole, unit output of various major groups of chemicals is expected to be up 10 to 20 percent, and increases of 3 to 10 percent -- at least 5 percent overall -- are forecast for 1977. Although capital expenditure programs of chemical companies have been scaled down, further gains are predicted for 1977. The chemical industry is operating at about 80 percent of "capacity." At the time of the worst shortages in 1973-74 operations were at 87 percent of capacity. Partly because of the reduction in capital spending plans, some analysts predict a return of important shortages in late 1977 or in 1978.

Thus far, the winter has been the coldest in 80 years or more in most areas of the district. Sales of gas by one utility are up 20 percent from last year, but supplies appear to be adequate. Electricity sales are also

up with December recording the peak load this year, above the usual summer peak. Gas bills for home heating are expected to be 35 to 40 percent higher this year, because of both higher usage and higher rates.

Construction of single-family homes in 1977 is expected to match this year's high level. Increases in apartment construction will provide most of the expected rise in total starts. Rising rents are improving prospects for apartment construction. Home mortgage rates have declined with a major lender announcing a reduction from 8.75-9.00 percent to 8.5 percent. Private mortgage insurance is being used increasingly to reduce risks on loans with relatively low downpayments. There are signs of a revival in industrial construction, but mainly smaller projects to be located in "semi-rural" sites.

An exception to the general improvement in the financial situation is related to lower prices for farm commodities and drought-stricken harvests in some areas. Many district bankers report slower farm loan repayments and increased renewals. The greatest incidence of deterioration appears concentrated in Iowa, Wisconsin, and Michigan.

EIGHTH DISTRICT -- ST. LOUIS

Reports from Eighth District businessmen suggest that the economy has expanded at a somewhat faster pace in recent weeks than during late summer. Strengthening in the economy was evidenced by reports from both retailers and manufacturers. Department store representatives indicate a pickup in sales in November, and manufacturing representatives report rising orders for paper and boxboard, processed foods, refrigeration equipment, apparel, paints, coatings and chemicals. As a result of this increase in manufacturers' orders and retail sales, inventories, which had been somewhat higher than desired in certain industries, are now approaching desired levels. Several firms report planned increases in capital spending next year, and in some cases, the increases are substantial. Savings flows into thrift institutions continue relatively strong. Mortgage rates are again moving downward.

Department store sales have increased in recent weeks. Leading department stores in St. Louis report a sizeable gain in November sales on a seasonally adjusted basis, and the higher sales volume is generally expected to continue through the Christmas season. Department store sales are up 10 percent from a year ago in several areas of the district, a somewhat greater increase than for retail sales in general. In Louisville, however, retailers avoided the usual Christmas inventory buildup, and are having some apprehension about Christmas sales.

Manufacturing activity in the district has increased in recent weeks. A representative of the paper and boxboard industry reports orders are coming in more rapidly now, after a lull last summer. Operations were

reported at near capacity and backlogs are beginning to build up. A representative of a food processing firm noted that some softening in food sales occurred in September and October, but that sales have expanded more rapidly again in the last four weeks. The uniform apparel industry, which also experienced some softness in sales in earlier months, was reported to have picked up starting in September. Sales of certain industrial coating and chemical products have gained strength in recent months after a period of sluggishness during the summer. A representative of a paints and coating firm reported a 15 percent increase in sales in 1976 over the previous year.

A number of other manufacturers report excellent business conditions. One firm noted an upsurge in sales for refrigeration equipment used primarily in food stores. A firm manufacturing industrial cutting and do-it-yourself tools reported more orders than capacity to fill. The prospects for a pickup in the aircraft industry next year are quite bright according to a representative of a large aircraft manufacturer. An upswing in both military and civilian aircraft production is expected. On the less optimistic side a representative of the stone and cement industry reported a substantial decline in business in mid-June and no upturn yet.

Inventory stocks in the late summer period of slower economic activity reached somewhat higher levels than desired in some industries. A representative of one large supplier of software goods stated that inventories began to get out of hand six weeks ago, but recent sales gains were alleviating this problem. An apparel manufacturer noted a very cautious attitude on the part of retail store buyers to increase inventories. A representative of a major manufacturer of appliances and capital goods stated that lack of inventory building had contributed to the slower growth of the economy in recent months.

Announcements of capital spending plans indicate that moderate to large increases in such spending will occur next year. One major food processor announced a substantial increase in investment spending next year, while another expects only a normal increase. Investment in the paper industry is being increased somewhat, but mostly by the addition of machines to existing facilities. A paper industry representative reported that this industry will probably experience a "shortage" of capacity by late 1977 or early 1978.

The liquidity of thrift institutions and banks continues to increase. Funds are flowing into these institutions at a rapid pace, and despite the fact that mortgage loan demand is described as strong, there is downward pressure on mortgage interest rates. Rates on an 80 percent loan in the St. Louis area are currently 8 1/2 to 8 5/8 percent, down from 8 3/4 percent a few weeks ago.

Livestock feeding operations continue to be unprofitable, and according to one observer, this situation is not expected to improve materially in next 6 to 8 months. Reports also indicate that in certain drought-stricken areas farm income is down substantially. In Southeast Missouri, for example, where cotton yields were generally only 50 percent of normal, banks report some increase in problems of loan repayments. On the other hand, in other sections of the District such as southern Illinois, west Tennessee and Kentucky, crops were generally excellent, and the financial conditions of farmers have improved significantly.

NINTH DISTRICT - MINNEAPOLIS

District sales activity in the final weeks of 1977 appears to be satisfactory. Retailers are reporting good holiday business and auto and truck sales are holding up quite well. Also, district manufacturers are enjoying large sales gains. However, loan demand at district commercial banks is only "steady" or "flat," and many bankers in agricultural areas are having to extend loan maturities. Despite colder than normal weather, fuel supplies are adequate, but shortages could emerge if colder weather persists. Looking ahead to 1977, agricultural prices and moisture conditions are sources of concern and will significantly influence this region's economic activity.

Recent retail sales have been quite good, and retailers are optimistic about holiday sales. Minneapolis and St. Paul retailers have been quite pleased with their holiday business so far and are looking for a good December. However, they are uncertain as to whether this buoyancy will carry over into 1977. South Dakota and Montana retailers also look for good holiday business. And a bank holding company official states that recent reports received from around the district are generally quite positive regarding consumer spending--but not quite as optimistic as a month earlier.

In communities that are primarily orientated toward agriculture, however, the drought has begun to cut into spending. A representative of a rural Minnesota clothing store chain, for example, would be delighted with even a modest increase over last year. Spending by farmers on

autos and trucks is off in North Dakota, though holding up quite well in most other areas of the district. In addition, farm implement sales are down in several areas.

A Reserve Bank director from the Upper Peninsula of Michigan expects holiday spending to be down substantially from last year due to a strike and layoffs in that area's paper and copper industries. Also, depressed economic conditions are curbing auto sales in the Upper Peninsula.

The Ninth District manufacturing sector continued to experience strong sales gains in the third quarter, according to our November Industrial Expectations Survey. Total manufacturing sales advanced 15.1 percent between the third quarters of 1975 and 1976. This followed a surprisingly strong second quarter in which sales gains reached 20.3 percent above a year earlier. Furthermore, district manufacturers expect strong, though somewhat more moderate, sales gains through the first half of 1977. Advances of 11.5, 11.6, and 10.5 percent over a year ago are anticipated for the current and next two quarters.

Although district manufacturers anticipate continued sales advances, survey respondents are generally satisfied with current levels of inventories and plant and equipment. Also, manufacturers are not expanding their payrolls, as indicated by Ninth District manufacturing employment, which has remained relatively unchanged since early 1975.

Loan demand at district commercial banks is generally characterized as being "flat" or "steady." One banker reports that most increases in lending have been either seasonal or extensions of existing loans; according to another, commercial lending has not been strong. And in agricultural areas, it has been necessary for many bankers to refinance or extend existing loans. However, improved prospects are anticipated

for mortgage lending in the district; and an unusual number of loan losses is not foreseen as a potential problem.

Colder than normal temperatures in November and early December have started to strain energy supplies. The demand for natural gas has been much higher than normal, and interruptible natural gas users have substantially increased fuel oil consumption. However, according to industry and government officials, the situation will be manageable, if the below normal temperatures don't continue.

In large part, prospects for the Ninth District's economy in 1977 depend on agricultural developments. Several Reserve Bank directors are of the opinion that livestock prices may be turning around, although recent prospects for wheat prices are not very heartening. And next year's poor moisture prospects are causing a considerable amount of anxiety around the district. In addition to these concerns is the awareness that the full economic impact of this year's drought will probably not be felt until the first half of 1977.

TENTH DISTRICT - KANSAS CITY

The sluggish pace of economic growth is reflected in the soft markets for basic materials used by major manufacturers in the Tenth District. Purchasing managers expect only modest price increases on continued plentiful supplies in the months ahead. In keeping with these expectations and the general mood of caution, they are holding their inventories at low levels. Winter wheat is off to a fairly good start, but the size of the harvest next year is still in doubt because of the deficiency in subsoil moisture. Meanwhile, expecting price increases, farmers are borrowing to finance carryovers of inventories of cattle and grain. With this exception, loan demand is weak, although within the business loan category, petroleum companies are a bright spot. The slow pace of lending is putting downward pressure on interest rates paid and charged by banks, but most bankers expect rates to rise in a few months.

Purchasing managers for major manufacturers in the district report a buyer's market. There are no shortages of materials. Agents expect this softness to persist well into next year. On balance, manufacturers are holding their inventories of materials at levels near last year's. They consider these levels to be low but justifiably so, citing better control and the favorable materials supply and price outlook. More specifically with regard to prices, most buyers do not foresee any acceleration in the rate of increase experienced this year. Opinion is about evenly divided as to whether or not the steel price increase will stick. Discounts on steel currently are common, but not on other materials used by the manufacturers surveyed.

The district's winter wheat crop is rapidly moving into dormancy for the winter months. This is the period when reports begin circulating about impending disasters in the wheat belt because of late plantings, no rain, wind erosion, and the like. The condition of this year's crop can be best described as hanging delicately in the balance. The planting process was conducted under generally favorable conditions; the seed germinated well and the wheat got off to a good start. However, very little moisture has been received since then, so new growth has been limited. Oklahoma is about the only area with wheat pasture available for livestock grazing. Elsewhere, the plants are too small.

The chief concerns at the moment focus on moisture and protection from the winter elements. Root development through fall was retarded by the lack of moisture, thus increasing the susceptibility of the wheat to wind erosion and winterkill unless a protective blanket of snow is present. At the moment, this snow cover does not exist. Furthermore, subsoil moisture is in very short supply throughout the district, and without this backup reserve, the new crop will have to rely on rains next spring and summer for growth and development. In summary, next year's wheat harvest has the potential to be very large if weather conditions are favorable from this point forward. But if the adverse conditions of 1975-76 are repeated, production may be affected more significantly than a year ago because the subsoil moisture reserve has been largely depleted.

Loan demand continues to languish in most areas of the Tenth District. Bankers are particularly disappointed in the weakness of construction and commercial loans. There is some speculation that business customers are delaying capital spending decisions in hopes that the investment tax credit

will be increased. Bankers from agricultural regions doubt if construction activity will pick up much until agricultural prices rebound. Bankers in Colorado and Kansas are pleased about increases in loans to the petroleum industry to finance capital expenditures. Otherwise, apart from the seasonal increase in consumer credit, the only major area of strength is their correspondent's loans to finance inventories of cattle and grain. These inventories are being held on the bet that prices will rise after the first of the year.

In the face of slack loan demand and the downward trend of interest rates nationally, bankers here are thinking of reducing their prime lending rate. They are reluctant to do so, however, because of the high cost of deposit funds. While many bankers want to lower rates paid on savings accounts and consumer CD's, all seem unwilling to initiate such a move, fearing deposit losses that they may not be able to recapture. Then, too, most believe that the current decline in interest rates will be reversed by the spring or summer of 1977 with the anticipated rejuvenation of the economic recovery. If the present imbalance between market rates and time deposit rates and the attendant influx of deposit funds continue, however, some bankers doubt if they will be able to maintain rates paid on business savings accounts and CD's.

ELEVENTH DISTRICT - DALLAS

Most regional economic indicators point to further strength in the Southwest economy. Business loan demand at large District banks, however, is expected to continue weak, with further downward pressure on interest rates. Oil and gas production continues to decline, but drilling activity and employment and income in the industry continue to rise. Demand for labor continues to grow. Unemployment is declining, and the unemployment rate for the five states of the Eleventh District is down to 6.0 percent. A recovery in construction activity appears to be taking hold in multifamily housing and nonresidential building. A survey of department stores found Christmas sales to be strong, and auto dealers reported further growth in new car sales. Moreover, manufacturing output should continue to grow at a moderate rate next year.

Department store sales are showing strong improvement. Almost all retailers interviewed are optimistic about the prospects for robust Christmas sales, and early indications seem to support their optimism. Only at stores in border cities that cater to Mexican nationals is business off substantially. Sales of both hard goods and soft goods are reported to be strong. High-priced merchandise is moving extremely well. Retail inventories are at desired levels and in line with the anticipated volume of Christmas sales. A major Dallas retailer stated that his inventories are at their best level in three years. A director with a large nationwide group of department stores reported a very conservative outlook for first quarter 1977 with improvement in the second quarter.

Automobile sales in the District are up moderately, but sales in Houston are at the highest level in three years. Demand for small cars

remains weak, while sales of intermediate- and full-size cars continue to strengthen. Also, fleet demand remains strong, and sales of vans, trucks, and jeeps are brisk. GM and AMC dealers indicate that the rebate programs on subcompact models increased sales only marginally. Dealer inventories of full- and intermediate-size models are low, while stocks of small cars remain high. But nearly all dealers report that inventories are gradually being brought into balance. Some Houston dealers, however, cite overall inventory levels are 30 to 50 percent lower than they would like.

Manufacturing output in Texas continues to increase in most major industries. However, output of petroleum refining; paper products; and stone, clay, and glass products has weakened. A Houston economist notes that durable goods production has been gaining momentum in that area. And coupled with the high level of output of nondurables, further gains in production should stimulate increased capital spending in a few months.

The future increase in production by the Southwest's largest industrial complex, petroleum refining and chemicals, could be influenced by the anticipated price increase by OPEC. Most observers expect an increase of 10 percent, which would lead to a one cent a gallon increase in gasoline prices. However, there are differences on the anticipated timing of the price hike. Some respondents expect no immediate increase in oil prices but felt the increase would certainly be imposed in the next six months. In any case, output by the complex is expected to rise next year and may push existing production capacity in some product lines.

Recovering from a slump earlier this year, the number of active oil drilling rigs in Texas has risen to the highest level in 17 years. Despite the high level of drilling activity, production of oil field equipment has

weakened. New orders have fallen as drilling contractors, faced with higher equipment prices and increased financing problems, are content to work their current inventory of rigs more intensively. As a result, production of oil field equipment next year probably will be geared largely to the replacement of older equipment.

Production of primary metals is rising on relatively strong demand for aluminum. Demand for steel and copper remains weak. Output of steel, however, is expected to increase by next spring, but copper production will remain little changed for most of next year. Moreover, a high level of copper inventories will have to be run down before production can be stepped up. Aluminum producers see a gradual increase in product prices, while a Fort Worth steelmaker expects prices of ferrous metals to remain soft. Another steel producer thought the recently announced 6-percent increase in prices for sheet steel would not hold.

The recovery in construction activity is beginning to spur the demand for lumber in Texas. Current inventory levels of lumber range from "adequate to low." And lumber prices have climbed to the high levels that prevailed four years ago, according to a lumber brokerage firm. A Houston company anticipates that the demand and prices for lumber will continue to move up in the next six months.

In mining, production of oil and gas continues to decline, but drilling activity has rebounded sharply from a low last June. Drilling in Texas has surpassed the peak level of output attained a year ago. In uranium mining, one District state--an important producer--is considering a large increase of its tax on "yellow cake."

Grain sorghum prices have fallen substantially in recent months. And in response to lower feed costs, the number of cattle placed on feed is up in the District's major feeding areas. Pressured between high production costs and low prices, grain farmers are reported to be "in trouble" and may press vigorously for higher price supports.

TWELFTH DISTRICT -- SAN FRANCISCO

According to this District's directors, there was little change in the pace of the economy over the past month. Retail sales continued to show small gains in both durables and nondurables categories. Demand has been strong for large cars and pickups, but sales of small cars have been disappointing. Industrial strength has been spotty with new orders for steel, aluminum and paper products flat while orders for lumber products and electronic equipment were reported to be very strong. Residential construction activity is rising fast with new housing starts in some areas doubling last year's rate. Plans for new plant construction remain on the drawing boards while manufacturers await firmer assurance of the economy's direction. Reports from the agricultural sector are mixed. Fall planting has been completed, but there is widespread fear of drought.

On the evidence of reports from Twelfth District directors, the trend in consumer spending is sloping upward in small increments. Large automobiles and pick-ups are selling well, but small car sales have been disappointing on a broad geographic front. Personal loan activity has been soft except for home improvement loans and loans to consolidate debt. In those areas where personal loan volume is rising, the number of loans has generally remained level with last year, but the amount borrowed has increased indicating the effect of inflation.

Producers of aluminum, steel and chemical coatings report that orders have been flat over the past month and operating rates unchanged; new orders have been reported as slipping by a large saw chain and power tool manufacturer, a sportswear manufacturer, producers of consumer paper

products and agricultural machinery. On the other hand, the newsprint business has been working at capacity and domestic orders have surged in the electronics industry. Moreover, forest products companies are reporting heavy order inflow with momentum gathering for the past two to three months; the plywood and lumber industry has been operating at capacity for the past 90 days. Inventory accumulation is not adding substantially to the thrust of the recovery as manufacturers continue to pursue cautious policies.

Most of the strength in the lumber industry is attributable to the current surge in residential construction. In some areas, housing starts have doubled from the year ago rate. Savings flows at Western savings & loan associations continue very heavy and banks are showing renewed interest in granting mortgage loans as a result of the creation of a strong secondary market.

Loans for plant expansion are reported to have picked up slightly over the past five months relative to the previous fifteen months, but large outlays have been postponed in order to assess "the Carter effect." "There is an attitude prevalent among businessmen that it is less risky to be a little late coming on with additional capacity than it is to be caught with a low level of capacity utilization and the added burden of new capacity in progress. Plans for significant capital expansion exist, but they are tightly controlled and are highly susceptible to constraint at the slightest negative turn in economic news." Nonresidential and heavy construction awards in District states are running 12 percent below last year.

In agriculture, the fruit crop has been harvested and farmers acknowledged a good crop and "pretty good prices this year." Potato processing is enjoying strong demand with large orders from Japan for potato

flakes. Sugar beet processing is "in full-swing and the run is considerably ahead of 1975." The dairy business is making a comeback with milk sales "magnificent." Turkeys bought at 48 cents per pound in August are selling in a price war at 43 cents per pound in national and regional supermarket chains. Due to the raisin crop failure, prices are up to \$1,050 per ton from \$647 per ton last year.