

CONFIDENTIAL (FR)

CURRENT ECONOMIC CONDITIONS BY DISTRICT

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Federal Open Market Committee
by the Staff

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SUMMARY*

Economic activity slowed markedly across the country according to this month's district reports. Led by a sharp falloff in automobile sales, consumer spending has weakened substantially. There is evidence of a contraction in sales of other durable goods as well as of nondurables. The outlook outside the consumer sector was generally pessimistic as well. Residential construction has ground to a virtual halt, although nonresidential building remained brisk in several districts. With a few notable exceptions, mainly the defense, energy and machine tool industries, a wide crosssection of manufacturing firms reduced their workforces in the face of declining new orders, shrinking backlogs and rising inventories. Many firms also began to reassess capital spending plans, but other than in the auto industry, there has been little actual retrenchment thus far. On the financial scene, despite lower interest rates, business and consumer loan activity remained dormant. Agricultural loan demand, however, rose about in line with past seasonal patterns.

Consumer spending weakened across the nation in April. While the largest cutbacks continued to be in big-ticket durable items especially autos, purchases of nondurable goods also slackened. As a result, there were reports of excessive retail inventories in several districts. In the Chicago area, where demand was particularly depressed, merchants offered large price reductions and discount programs to trim accumulating stocks. In contrast, inventory-sales ratios were reported as acceptable in both Philadelphia and New York. Auto stocks were generally lean. Nevertheless, many dealerships

* Prepared by the Federal Reserve Bank of New York

have gone out of business in the Atlanta, Dallas and San Francisco regions. Declining consumer credit card usage nationwide contributed importantly to weakening demand. Existing credit balances were significantly reduced according to Atlanta and Richmond, and new credit purchases were down as much as 20 percent from last April in Dallas with cash buying, as evidenced in the weak growth in currency nationally, not taking up the slack. Slower debt collection and bill payments were noted in Philadelphia, Chicago and San Francisco.

Outside the consumer sector, overall business conditions deteriorated in recent weeks. Backlogs were worked down, as new orders declined and lead times were shortened in a variety of industries ranging from steel in Cleveland and Chicago, to furniture and floor covering in Boston, to chemicals and electronic supplies in New York. Inventory liquidation was reported in Philadelphia, Chicago and Kansas City although excessive stocks are not yet a problem for New York manufacturers. As a result of decreased production activity, workweeks were shortened in Richmond, Philadelphia and Chicago, and layoffs--both temporary and permanent--have spread. Both hourly and salaried employees have been dismissed in the automobile and related industries in the Chicago and Cleveland areas, while workers in homebuilding and construction industries have been particularly hard hit in Atlanta and San Francisco. Reassessments of capital investment plans were underway by firms in Boston, New York and St. Louis, but little actual retrenchment has taken place except in the auto industry. As with auto employment, these cutbacks have been concentrated in the nation's midsection. Input prices continued to rise in Philadelphia and Kansas City although metals, lumber and paper prices have all softened in the Boston district.

In contrast to these generally bleak conditions, machine tool manufacturers in New York and Cleveland appear relatively insulated from the recession. In Boston, Dallas, San Francisco and St. Louis the manufacturing base has been strengthened by the defense industry. In Minneapolis, defense procurement contracts have grown by 30 percent in the last two years.

Residential construction continued to stagnate with activity at a virtual standstill in Atlanta, Cleveland and St. Louis. Housing starts are 50 percent below last year in Kansas City. Industries related to home building have also been especially depressed. The plywood industry in San Francisco has been operating at less than half capacity. Estimated joblessness in construction and related industries ranged between 20 and 40 percent in Chicago. At major lumber and plywood mills in the San Francisco district, one-sixth or more of the workers have been furloughed. Nonresidential building, however, remained brisk in Minneapolis, St. Louis and San Francisco.

Reflecting weakening loan demand across the nation, short-term interest rates declined sharply. Still, relatively high interest rates and growing economic uncertainty continued to discourage business and consumer borrowers alike. Moreover, nonprice lending terms were tightened in Kansas City, New York and San Francisco. Business loan demand eased in all districts although demand by energy industries remained strong in Dallas. New York reported some companies shifted to the long-term bond and commercial paper markets to meet credit needs. Although home mortgage rates are well below recent peaks, little activity was noted in Kansas City or Cleveland although in Chicago and St. Louis, a few loans were made. In Atlanta, a surge in personal bankruptcies was noted. Auto instalment loans were especially weak in Richmond.

Agricultural loan demand rose seasonally but this sector, as others, was affected by comparatively high interest rates and escalating uncertainty. Some bankers are concerned about repayment ability because of generally rising agricultural costs and declining prices for food. Farm credit was tight in Chicago but adequate in Atlanta, Dallas and Richmond. Slower repayments and increased renewals and extensions, however, became common in Richmond, while in Chicago many farmers restricted purchases, especially of equipment, in order to ease their credit needs.

FIRST DISTRICT - BOSTON

Signs of recession are becoming more widespread in the First District. Retail sales have slowed. Homebuilding is depressed although there is still nonresidential activity. Manufacturers of consumer products have seen a marked decline in demand, but firms producing capital goods continue to do well. Input prices are softening. A number of respondents commented on the suddenness of the change; sales in March were very good but April brought a decided weakening.

Retail sales have slowed. Department stores and specialty shops have experienced a falling off in demand. However, sales at discount department stores remain strong and may even have picked up. The head of a chain with both general department stores and discount operations observes that discount sales in early April exceeded expectations while sales of general merchandise suddenly fell behind. Consumers are said to be very price conscious.

In manufacturing there is a clear distinction between the experience of firms in consumer related areas and those producing capital goods. Those selling to consumer markets have seen a sharp deterioration in sales. A wide range of products has been affected, including such diverse items as appliances, handtools and hardware, silverware, and eyeglasses. The furniture and floor covering industries were said to be weak several months ago, but now they are described as "disaster areas." The weakness at the consumer level is having second and third order effects although changes at this level are not as severe as in the manufacture of the consumer goods themselves. Orders are down for motors used in air conditioners, automobile plastics and for packaging materials. The capital goods industries, on the other hand, are still doing well. However,

several firms said they are reassessing their own capital spending plans. Defense remains a source of strength. Input prices are softening. Copper, lead, tin, and zinc prices are all down from the end of the year. Lumber prices are said to have weakened a lot and there has been a softening in paper prices. Some plastics prices remain low even though plastics are petroleum based and costs have increased sharply.

Loan demand has slowed although two large banks in southern New England report that demand remains surprisingly strong. Banks are looking carefully at loan requests.

Professors Samuelson, Houthakker, and Eckstein were available for comment this month.

Samuelson believes that "the medicine has worked--we are certainly in a recession." He is not confident, however, that this recession will be deep and long. Although the demand for domestic autos may remain depressed for some time, consumption spending generally showed "special signs of resilience" until a month or two ago. "The consumer has not learned a permanent lesson;" so even though the saving rate may rise in the next two quarters, it is too soon to say that consumers are now adopting more conservative spending habits. This fundamental strength in consumption demand and the general lack of "excess inventories" may limit the size of the impending slump.

Samuelson believes the large increase in April's unemployment rate "may contain some noise, but there is still plenty of message for the Fed." "This is precisely the time for easing off." The declining money stock coupled with the larger-than-expected drop in interest rates implies that money demand is very weak. Unless interest rates drop further, money

growth will fall short of the Fed's targets. The Fed allowed interest rates to rise sharply in 1979 and early 1980 so that money growth would not exceed the target. Unless it is a "foul weather friend," the Fed must now allow rates to fall to keep money growth on target and build credibility for its new operating procedures.

Houthakker sees no radical surprises in the latest economic data. He still believes real output at the end of this year will equal output for year-end 1979. His research suggests that consumption and investment demand will not collapse during 1980.

Houthakker supports the current targets for M1 growth. The Fed, however, should be prepared to allow interest rates to fall enough so that money growth does not fall below target. Even if the slump is more severe than he now foresees, Houthakker encourages the Fed not to revise its money growth targets.

Eckstein believes real GNP will decline about 8 percent at an annual rate this quarter led by falling consumption spending; over the course of the coming recession, output will decline 3.5 percent; and the unemployment rate will peak at 8.5 percent. Eckstein believes that "the recent credit controls confused and frightened people," and the lesson he draws from this experience is that the "government should not play with the psyche of consumers."

Eckstein believes that the Fed should try to achieve its current M-1A growth targets. This is a better policy than any other the Fed might now endorse. "With this monetarist principle, interest rates should decline sharply and then rebound abruptly later in the year, a V-shaped profile."

SECOND DISTRICT--NEW YORK

Business activity in the Second District continued to lose momentum in April. Consumer spending weakened at major department stores across the district at the same time that automobile sales were lethargic. Outside the consumer sector, the outlook was generally pessimistic. Manufacturing firms in many industries have started to reduce their workforces in the face of declining new orders and shrinking backlogs. Cautious inventory policies, however, appear to have kept stocks from growing excessive. Many firms also have begun to reassess capital spending plans, but there has been only limited retrenchment thus far. On the financial side, business loan demand at major New York City banks slowed as some companies shifted to the long-term corporate bond and commercial paper markets to meet credit needs.

Consumer spending in the Second District weakened in April. The eleven-day transit strike in New York City contributed to the downturn at metropolitan stores, but a similar slackening occurred throughout the region. While monthly sales comparisons are distorted by the effects of the transit strike and timing of the early Easter selling season, merchants voiced concern that the recent poor performance of sales was indicative of a more prolonged economic slowdown. Credit financing of sales fell at a major department store chain, while another store reported a shift from credit to cash transactions. This downturn is occurring although relatively little reportedly is being done by these respondents to directly discourage credit card usage. In spite of lagging sales, conservative inventory policies have kept stocks at acceptable levels.

Domestic car sales fell sharply in April. With few exceptions, dealers in the Second District reported a severe falloff in new car and truck purchases. In some instances, sales declined by as much as 40 to 50 percent. In the last 10-day selling period in the month, floor traffic at one dealership reportedly ceased and as a result, no new orders were being booked. Demand for used cars, however, has remained relatively strong and their prices are rising sharply due to the increasing scarcity of supply as potential buyers postpone the replacement of their old models until they are no longer serviceable. Dealers in New York State were concerned that the state's usury ceiling on automobile loans was restricting financing. All of the respondents felt that local financing problems were being exaggerated by media coverage, which was scaring away even those customers still eligible for finance company loans. Dealer stocks are lean, however, reflecting dim sales prospects and the high cost of financing inventories.

Outside the consumer sector, overall business conditions also have deteriorated in recent weeks. A sharp, dramatic falloff in new orders and a shortening in lead times was reported by manufacturers in such diverse industries as paper products, chemicals, consumer and industrial metals, electronic and photographic supplies and steel. Several firms have begun to reduce their staffs both through attrition and layoffs. In some divisions of a major metals manufacturer, layoffs have affected 30 percent of the workforce. In contrast to other District producers, machine tool manufacturers so far have been relatively insulated from the downturn. Backlogs at these firms are still growing as new orders remain strong. While some raw material prices have abated, cost pressures remain intense. Both labor and energy costs have continued to rise. Despite the uncertain economic

conditions and the high cost of financing, however, relatively few firms have marked down their capital investment plans. With the exception of a major chemical firm, which reported excessive inventory stocks, inventories remain at acceptable levels.

In general, the industrial outlook became more markedly pessimistic during April. Expectations of a longer and deeper recession have grown. Upstate business leaders note widespread layoffs in construction and auto-related industries. Downstate, further economic dislocations are imminent with the planned closing of a major New Jersey auto plant in June. This shutdown will result in direct permanent job losses to 3,700 workers in addition to the 800 already laid off. Further job cutbacks and losses in income are expected as the ripple effects of this plant closing work through the local economy. Most respondents do not anticipate a recovery in national business activity until the first half of 1981. But, with the exception of a steel industry spokesman who feared the effects of continuing inflation and foreign competition, the long-run outlook for the 1980's remains positive with strong growth in demand expected for all products.

The weakening in business activity has been reflected in credit demands. New York City banks have experienced a sharp easing in business loan demand, which they expect to continue over the remainder of the year. While there has been some tightening in non-price lending terms, senior loan officers attribute most of the weakness to a combination of the recessionary environment, the lean inventory situation, and some shifting to long-term financing. Moreover, given the current spread between the prime rate and commercial paper rates, some firms apparently have recently turned to the commercial paper market for short-term funds.

THIRD DISTRICT - PHILADELPHIA

Indications from the Third District in May point to a slowdown that is gaining steam and spreading to a variety of sectors. Manufacturers in the District say industrial activity has taken another large dip this month, and retailers report sluggish, but still better than anticipated, sales. Representatives of both sectors say the future holds only bleak prospects. District bankers say C&I loan volume is up from a year ago, but has virtually dropped off the board since March. Further declines are expected as the U.S. slips into a recession.

Area manufacturing activity appears to have slowed quite a bit this month, according to the most recent Business Outlook Survey. About half of the manufacturers polled in May say general business conditions are worse than they were in April, continuing the slump in the industrial sector that began nine months ago. Recent trends in specific indicators of business activity have been consistent with this general decline. Both new orders and shipments are down again and producers' backlogs have diminished substantially. Inventory liquidation has continued. On the employment front, almost a quarter of the respondents to the survey have trimmed their payrolls and cut working hours.

For the longer term, survey respondents are projecting only a marginal increase in overall business activity in the next six months. New orders are expected to increase, with shipments rising as well, but inventories will remain tight. Employers still foresee some cuts in the average workweek, with fewer predicting layoffs.

Prices are up again in May in the industrial sector. Input costs are higher this month for about two-thirds of the surveyed manufacturers, while prices of finished goods they sell have been increased by about half. As for the future, 71 percent of the respondents expect raw material costs to be higher by November and 62 percent plan price hikes for their products.

Area retailers report only slight growth in sales in April, with hard goods bearing the brunt of the slowdown. Current dollar sales are running 1 to 6 percent over year-ago figures, which is better than was generally anticipated. Most retailers surveyed had expected a decline in nominal terms of 1 to 2 percent, but balmy summer weather has bolstered sales to some degree. Having anticipated a slowdown, retailers cut inventories accordingly, so inventory-sales ratios are in good shape. All retailers contacted said collection of debt had slowed somewhat, but responses were mixed regarding consumer willingness to continue to buy on credit.

Local merchants are projecting a continued decline in sales through the next two quarters, with a possible pickup in December. They feel the election in November should help, as consumers have traditionally been optimistic after Presidential elections, and that the overall economy may start to show signs of recovery by year-end.

In the financial sector, bankers report mixed activity in May. Commercial loan volume is up 10 to 13 percent over a year ago, but activity in the last month has dropped off sharply. Consumer loans are down, as bankers continue to discourage retail borrowing. Looking ahead to the next six months, projections indicate that loan volume will continue to drop as the economy slips deeper into a recession.

Bankers in the Third District are currently quoting a prime rate of 17 1/2 percent. Projections of the prime show a continued drop, leaving the rate 300 to 600 basis points below its current level by the third quarter, and even lower by year-end.

Deposit flows at commercial banks are "not dangerously tight" at this point, and bankers anticipate improvement as interest rates fall. Many consumers are starting to move out of money market certificates, as yields drop, and into the longer-term thirty month certificates in order to lock in a higher return on their money.

FOURTH DISTRICT - CLEVELAND

Respondents in the Fourth District generally agree that the economy is in the early phases of a deep recession, but opinions vary on the depth of the recession and the extent of the recovery. Perhaps the most optimistic comments came from the machine tool officials who still report better-than-expected strength in new orders. However, the business sector as a whole is apprehensive amid signs that the slump in automobiles and auto-related products is spreading to other consumer goods. District banks have experienced declines in consumer loans, mostly concentrated in auto loans, and a dramatic decline in the growth of C&I loans as a result of high interest rates and credit restraints. Housing continues to slump despite declining mortgage rates.

The economic outlook continues to deteriorate, with rising prospects for a worse than "average" recession. An auto industry economist states that April figures will show that the recession is no longer concentrated in autos and housing. A durable-goods producer is concerned that the sharp decline in April may be a harbinger of a recession rivaling 1973-1975. He, along with several other economists, expects the second quarter decline in economic activity to be about the worst of the recession. However, the decline is so sharp and so sudden that several respondents now see a recovery to be sluggish. An economist for the steel industry states that firms have not had time to adjust to the collapse in orders, so that no firm or industry will be in a position to lead a recovery. A bank economist notes that even the decline in interest rates is unlikely to provide much stimulus because the decline has been so sharp that it has raised expectations of further declines in the near term. A few economists, however, expect a sharp rebound in response to the

rapid decline in interest rates, a tax cut, and completion of inventory liquidation.

The machine tool industry has not exhibited any major softening in orders in recent weeks, according to several industry spokesmen. Orders in nominal terms have held up better-than-expected. Effects of the recession on the industry will be delayed until the profit squeeze among customers is intensified and evidence of the severity of the recession is apparent. A capital-goods producer reports that capital spending plans have not yet been cancelled. However, a major auto producer recently announced plans to cut back capital spending over the next few years, except for retooling, and a steel producer is petitioning the EPA to allow stretching of compliance deadlines until cash-flow improves. Nevertheless, an economist for a machine tool builder states that a decline in machine tool orders (in nominal or real terms) is unlikely to be as serious as in 1974-1975 because of continued need for retooling in the automotive industry, strength in the aerospace industry, a buildup in defense spending and a tendency for some companies to look beyond the current recession.

Some retailers are uncertain over where the trough in consumer spending is, and see little happening to build consumer confidence in the near-term. Among nondurable goods, consumers are reacting to high prices by reducing usage and shifting to generic names, according to a producer of household products. Several retailers note a majority of consumer purchases since February has concentrated on sale items. A spokesman for a major food chain reports that consumers are shifting to fresh rather than prepared foods, although frozen food discount stores are thriving. The decline in retail

business is not expected to result in layoffs, but will lead to a reduction of hours worked, according to an area retailer.

Automobiles and auto-related products continue to be the hardest hit consumer goods. Spring car sales, according to an industry economist, are dismal. One official blamed high interest rates, credit restraints, and shift in consumer preference to 4 cylinder cars for the drop in domestic new car sales. Some improvement is expected by fall because of new small cars by Ford and Chrysler. If interest rates drop further and credit restraints are lifted, auto dealers are not expected to carry large inventories and are unlikely to discount as heavily as in recent weeks. Several auto dealers report that the slump in sales also includes used cars, which is unusual for recessions. Tire shipments, which are 30% below year-ago levels, reflect the slump in auto sales, although an industry economist states that inventories are at a two-month level, compared to a nearly three-month supply in 1974-1975. Gasoline sales are off as much as 10% from year-ago levels as a result of a shift to more fuel-efficient cars and higher prices, according to a petroleum economist.

Weakness in consumer spending has led to sharp production cutbacks among consumer-goods manufacturers and their suppliers. A major producer of household appliances reports that a weak replacement market, coupled with the housing slump, has contributed to a widespread decline in consumer durable goods orders. Order books for steel, according to an industry economist, have collapsed, with order entries now 50% below month-ago levels and cancellations well above normal. Except for oil field drilling equipment, the decline in orders is pervasive and would sustain only 50% of existing steel capacity.

Although still relatively strong, orders in the aluminum industry also dropped substantially in the last two weeks of April, according to an industry economist.

District bankers report little problem staying within credit restraint guidelines. High interest rates have finally discouraged C&I loans, according to a bank economist. Several bankers report that funds are available and an area manufacturer reports that some banks are initiating offers of expanding credit lines. An economist in the capital goods industry notes that declining interest rates have resulted in replacement of old debt, but not much new borrowing. Several auto dealers report an inability to sell commercial paper to banks because of bank restrictions on the growth of credit. A bank economist reports that credit card purchases have also declined and bank credit card cash advances are off 5% from a January peak.

Mortgage lending rates by S&Ls dropped sharply in recent weeks. Several S&Ls report lowering mortgage notes from a 16-17% range to a 14-15% range, with some to 13%, because of weakening demand and declining marginal cost of funds. However, some officials feel that a 12-13% range may be insufficient to stimulate housing demand. The severe slump in new housing sales continued through April and a major regional builder of new houses reports net sales are 25% of year-ago levels and cancellations have been heavy.

FIFTH DISTRICT - RICHMOND

Most indications are that business activity in the Fifth District slowed during April. Manufacturers surveyed report declines in shipments, new orders, and order backlogs. Retail sales also weakened, although much of the decline may be attributed to durable goods, particularly home furnishings and appliances, which often involve credit sales. A number of retailers note significant reductions in credit sales. Despite lower interest rates, commercial and industrial loan activity has weakened considerably in recent weeks. The weakness in consumer credit, especially auto instalment loans, and home mortgage loans continues. On balance, the high interest rates and increased costs of other farm inputs have combined to reduce demand for farm loans at banks well below a year ago. Much slower loan demand than a year earlier was also in evidence at production credit associations and Federal land banks.

Over half of the District manufacturers surveyed experienced declines in new orders and order backlogs over the month. Shipments were reported down by more than a third of the respondents. Inventories of materials were unchanged and stocks of finished goods rose only very slightly in April. Nonetheless, more manufacturers find inventories excessive now than a month ago. Manufacturing employment has shown little change in recent weeks, but the length of the workweek has fallen at a number of establishments. The decline in manufacturing activity has been, to date, more remarkable for its breadth than for its depth. Industries experiencing softness in their particular markets include textiles, building materials, chemicals, primary metals, and furniture. This weakness does not seem to pervade any industry, however, but is affecting individual plants. One sizable plant formerly producing synthetic fibers and employing over 900 workers has closed permanently.

Recent retail sales activity may be best described as spotty. According to our directors and retail respondents sales activity in home furnishings, home improvements, and appliance lines has been very weak. Activity in other non-auto lines, however, seems to have held up well in most areas. On balance, retail respondents experienced month-to-month declines in total sales and in relative sales of big ticket items. Inventories at the retail level also fell over the month but remain somewhat above desired levels.

Expectations of District respondents deteriorated sharply over the past month. An overwhelming majority of retailers and manufacturers expect the level of general business activity nationally to worsen over the next six months. A majority of manufacturers also expect business in their respective market areas and individual firms to weaken over that time period. Of retailers surveyed half foresee declining activity within their market areas and individual firms.

Declines in market interest rates are showing up in consumer loan markets and mortgage interest rates have fallen 1 to 2 points in many areas. Large Fifth District banks have kept pace with the money center banks in lowering their prime lending rates. Nonetheless, commercial and industrial loan activity has weakened considerably in recent weeks. The weakness appearing now partly reflects a movement to cheaper, nonbank sources of funds by large national customers of area banks, especially utilities and nondurable goods manufacturers. The weakness in consumer credit, especially auto instalment loans, continues. Outstanding instalment loans at weekly reporting banks have actually declined over the past month, reflecting reductions in auto loans and personal cash loans. These declines seem largely related to changes in consumer attitudes toward borrowing and to

the high price of credit. It has also been reported that consumer attitudes toward use of credit cards is becoming more conservative, with usage falling and repayments rising. Delinquencies on consumer loans have not become a problem to area banks.

Our first quarter survey of farm credit conditions suggests that District farmers, by and large, have been hard hit by the effects of inflation, the sharply higher interest rates, and recent monetary policy actions. The supply of production credit seems adequate to meet demand in most sections of the District. On balance, higher interest rates and increased costs of other farm inputs have combined to reduce demand for farm loans at banks, production credit associations, and Federal land banks well below a year ago. Bank supplies of loanable funds declined during the quarter but remained only slightly below year-earlier levels. While there is some evidence that liquidity pressures are greater than in the same period last year, loan-to-deposit ratios of surveyed banks averaged only fractionally above a year ago. Loan repayment rates have slowed and are sharply below a year earlier, while renewals or extensions are significantly higher. Moreover, collateral requirements have risen to a new high.

SIXTH DISTRICT - ATLANTA

District economic conditions were decidedly recessionary. Consumers retrenched, and real sales for merchants contracted. Automobile dealers continued to face reductions in unit sales. Residential construction and real estate sales crept along at a snail's pace. Although nonresidential construction was vigorous in some areas, many developers are postponing construction starts until interest rates recede. Layoffs advanced sharply at automotive and building materials establishments. A considerable rise in personal and business bankruptcies occurred.

The normal spurt in spring sales failed to materialize for most retailers. Excluding automobiles, reports of shrinking retail sales volumes were typical and represented activity in nearly all parts of the District. Appreciable reductions in restaurant traffic and credit card purchases were frequently mentioned. Many retailers observed a pickup in repayment rates for charge accounts. After a 25-percent decline in credit report requests, a credit bureau director believes consumers are in a state of shock and are now sitting on the sidelines.

Automobile dealers struggled with the falloff in sales. Unit sales were below March figures and sharply below year-ago levels. Numerous contacts believe potential customers are waiting for automobile loan rates to descend, and, until then, an upturn in sales is not expected. Inventories remained at lowest possible levels. The most striking comment came from an Alabama director who said 21 auto dealers in the state closed their doors during April.

The residential real estate sector remained in the doldrums. Housing starts were at very low levels across the District, even in Florida, and ubiquitous drops in residential building permits did not augur well for the future. Also, home sales slid drastically in southeastern Florida and were off significantly in Birmingham. In a small northeastern Tennessee city, the inventory of unsold houses was at its highest level in many years.

Nonresidential construction activity and plans were still fairly brisk. Numerous announcements regarding hotel, office, and/or retailing complexes were made; however, most developers were expected to postpone the commencement of construction until relatively favorable financing terms can be arranged. The announcements included a large hotel, office, and retail shopping complex intended to revitalize downtown Mobile, two substantial complexes in New Orleans, and one in Tampa. Also, six large-scale projects, including a 50-story World Trade Center, were in progress or are planned for Miami. The projects in the planning stages will be delayed until QIV:1980 or QI:1981 due to the lower interest rates anticipated at that time. Jacksonville and Baton Rouge reported good nonresidential construction activity. On the other hand, commercial construction was judged to be at a low ebb in Birmingham and in Tennessee.

Layoffs dealt a resounding blow to automotive and building materials firms throughout the District. The shortfall in auto sales caused the indefinite layoff of nearly 350 workers at two Mississippi Packard Electric facilities where automotive wiring harnesses are assembled, 200 employees at GM's Saginaw Steering Gear Division in Decatur, Alabama, and about 750 workers at the Nashville Ford Glass Plant. Also,

cutbacks at tire manufacturing firms in Alabama, Georgia, and Tennessee were abundant.

Work force reductions in construction-related industries peppered the District. ITT-Rayonier laid off about 90 employees at a lumber mill near Augusta, Georgia, and almost 200 combined at two Florida lumber mills. St. Regis Paper Company curtailed operations at three lumber mills in Georgia and one in Florida. Weyerhaeuser shut down a lumber mill in central Alabama, placing 150 workers on unemployment. Georgia-Pacific closed indefinitely four plywood mills in the District-- one in Alabama, two in Georgia, and one in Louisiana. The construction downturn also caused the laying off of 700 workers at a central Alabama foundry due to a reduction in pipe orders. An Augusta, Georgia, brick manufacturing concern closed one of six plants, displacing about 100 workers.

Several contacts commented on a surge in bankruptcies. A southern Alabama contact, who predicts a disaster in the consumer borrowing field, reported an accelerating rate of bankruptcies in his area. In one central Alabama city, personal bankruptcies jumped from March to April, and in a northeastern Tennessee city business and personal bankruptcies advanced markedly over year-ago levels. Business loan demand was very soft in central Alabama despite prime rate reductions. In central Florida, a banker reported sagging loan demand in all sectors. Consumer loans were down for a Miami bank and showed no growth at a large Atlanta bank.

The District's agricultural sector was burdened with widespread uncertainty created by high interest rates, escalated production costs,

and an unstable, mostly declining, price structure for farm products. Many encountered a credit crunch and will have a difficult time breaking even. Hog prices, which have fallen for many months, reached an eight-year low and, consequently, have depressed prices of broilers, a close substitute for pork in consumers' diets. Numerous hog producers are considering leaving the business. Cotton plantings grew by almost 12 percent due to anticipated higher prices, 30 percent above year-ago levels. Recent periods of dry weather encouraged the rapid planting of various crops.

SEVENTH DISTRICT - CHICAGO

The business decline that developed on a broad front in March, spread to additional sectors in April and May. Retail sales have slumped, especially for large items and luxury goods. Reports of layoffs and short weeks are frequent from manufacturers of a wide variety of consumer and producer goods. Residential construction activity already has dropped much more than in 1974-75, and nonresidential activity is expected to weaken in the second half as existing commitments are worked out. Easing credit conditions of the past several weeks will have a salutary effect on some of the businesses, consumers, and farmers who have been hardest pressed. While gloom prevails in agricultural areas because of poor income prospects, plantings are off to a fine start.

Economists have been revising economic forecasts downward. For example, one of Chicago's best-known bank economists told reporters on Friday that conditions have deteriorated faster than expected, and that the recession may be the "longest and most severe since the 1930s." Among the industries that have made new cuts in sales estimates for 1980 are motor vehicles, steel, building materials, farm equipment, and construction equipment.

We have no evidence of an upswing in defense procurement in line with the Administration's statements. Defense contractors located in this district say that any acceleration has been in R&D contracts, mainly in New England.

Purchasing managers in Chicago and Milwaukee report that the March declines in output, employment, new orders, backlogs, and inventories accelerated in April. In Milwaukee, where capital goods predominate, April's drop was described as "precipitous," and reflected preparations dating back 12 months or more when recession fears were first expressed. For Milwaukee,

58 percent reported shorter lead times on purchased items in April, while only 2 percent reported longer lead times, an almost exact reversal of the report for April 1979. Price increases have moderated with bids reflecting more competitive markets.

National retailers report sales depressed everywhere, but with major areas of the Seventh District particularly bad. Consumers have been holding back on big-ticket items and have restricted credit use. One retailer expresses regret that it will not have to establish a special deposit under the credit restraint program. Before March, consumer credit was being restricted mainly by lenders. Now, restraint appears to be more from the demand side. Inventories that had appeared slim now seem excessive, and reduction programs are underway. Many retailers have been offering unusual price concessions, to stimulate sales, e.g., 10 percent store-wide discounts, substantial reductions on men's clothing, special cuts on multiple purchases, etc. Air travel has declined since February, and is now expected to be off 6 percent for the year. Consumers are said to be delaying payments on bills owed to professionals, and postponing new obligations, especially in the case of dentists.

Prospects for the motor vehicle industry continue to deteriorate. Further layoffs--temporary, indefinite, or permanent--are reported for parts and materials plants, as well as assembly plants. Deep cuts, probably permanent, are underway for salaried workers. Capital spending programs for subsequent years are being scaled down, mainly by reducing the number of new models requiring retooling. So far, regular jobless pay and SUB payments, increasingly supplemented by "trade adjustment assistance," are helping to maintain worker incomes. But the longer-term picture is grim for Michigan, which has almost 40 percent of vehicle employment. Michigan concentrates on

the hard-hit big cars and trucks, it has most of the redundant overhead personnel, and it has most of the obsolescent plants to be closed.

Revival of the motor vehicle industry will be made more difficult because of the demise of numerous large dealers, some located in prosperous areas, who are essential for maximum sales. Auto companies also complain that dealers are not carrying adequate stocks to take advantage of sales opportunities.

Substantial layoffs have occurred, or are scheduled, in the farm and construction equipment industries. This is significant because the three largest companies had strikes in the current fiscal year that lasted 18, 79, and 172 days, respectively.

Orders for steel dropped abruptly in late March and have remained depressed. Cuts by motor vehicles producers continue, and new weakness has developed in farm and construction equipment, structural steel, and prefab buildings. A local steel company has reduced its estimate of second quarter shipments by 15 percent in recent weeks.

Paperboard orders in physical units, which had leveled off in the spring of 1979, were 6 percent below last year in March, and probably by a similar margin in April. Many customers have cut back on paperboard orders as they have reduced workweeks. Production of household appliances, lawn equipment, outboard motors, and other large consumer goods shipped in boxes is down more or less sharply.

Home mortgage rates have been dropping rapidly from the 16.5-17 percent peaks posted in mid-April. More important, some new loans are actually being negotiated again, in contrast to the virtual halt in the March-April period. The decline in new residential construction will not be reversed

quickly. Too many builders have called off plans for 1980, and some buildup in finished properties has occurred. In the Chicago area, only 700 permits for single-family homes were issued in the first quarter. This is off 84 percent from 1978 and 61 percent below the depressed period of 1975. Apartment permits are down almost as much. Reports from other large district centers are similar. Estimates of the jobless rate for construction workers range from 20 to 40 percent--with many on short weeks. Demand for ready-mix concrete, gypsum board, hardboard, lumber, plumbing fixtures, built-in appliances, and carpeting is way off with accompanying layoffs in manufacturing, distribution, and installation. Layoffs by realtors and title companies are also significant.

Tight credit conditions and bleak farm income prospects continue to have an adverse impact on Seventh District agriculture. Our survey shows farmland values down in the first quarter. Since 1960 these values dropped in only one other quarter--in 1977. Average rates on farm loans at rural banks rose from 13.5 percent in January to 17 percent in April. While bankers have been rationing credit, they also report a steep decline in demand. Farmers are restricting purchases of all types, especially equipment. Recent evidence suggests that rural credit conditions may be easing as outflows of funds associated with high market rates slow down. Spring plantings have an excellent start, but scanty rainfall and low topsoil moisture raise concern about seed germination.

EIGHTH DISTRICT - ST. LOUIS

Business conditions in the Eighth District continued to deteriorate in April. Consumer spending for durable goods, such as cars, trucks, appliances, and home furnishings, declined further and some softening in nondurable goods, such as clothing, was also noted. New home sales are reported to be at the lowest rate since the 1974-75 recession. Manufacturing has slowed further in a number of industries, including automobile assembly and related industries and home building product industries. On the positive side, manufacturing activity remains fairly strong for some capital goods products, particularly defense-oriented and energy-saving equipment. Nonresidential construction has also held up well, but fewer new projects were reported. In the financial area, loan demand has declined rapidly in recent weeks, and most interest rates have dropped sharply.

Consumer spending is reported to have slackened further in recent weeks. There has been a sizable reduction in consumer credit demand as reflected in credit card use. Consequently, retailers report a downturn in charge balances. Sales of big-ticket items are quite sluggish, and some soft good sales have also deteriorated, but not to the extent of durable goods. Sales of both domestic and foreign-built automobiles have continued to decline in recent weeks, although the decline has been most severe for large domestic cars. Automobile dealers point to higher interest rates as a major factor discouraging sales. On the other hand, dealers in auto parts and repair materials are reportedly doing well. Gasoline dealers indicate

that sizable decreases in gasoline sales have occurred in recent months and that inventories are at relatively high levels.

Representatives of the manufacturing sector reported further declines in unit sales in recent weeks. With decreases in automobile and truck sales, assembly plants have announced additional layoffs of workers and so have industries supplying parts for the manufacture of new automobiles. With the sharp decline in sales of new homes, building materials industries, such as manufacturers of lumber and connector plates, as well as manufacturers of appliances and furniture are experiencing a decline in new orders. A representative of a major chemical firm reported that depressed sales of automobiles and homes are beginning to affect the sales of plastics and fiber products.

Nevertheless, manufacturing activity of industries producing energy-efficient and defense-related equipment remains quite strong. Foreign demand for a number of products, such as chemicals and plastics, likewise remains strong. While demand for capital goods appears to be holding up well in general, several firms are reported to be currently reviewing their capital expenditure budgets in view of the decline in economic activity.

Residential building activity remains at a virtual standstill throughout the District. Most homebuilders have cut back a substantial portion of their work force, and some are reported to be near bankruptcy. Reports of falling interest rates are encouraging, but some feel that the decline in rates will not generate sales in the immediate future because of the expectation that rates will fall still further. Nonresidential building

remains fairly strong, reflecting large backlogs of projects. General contractors report that major projects continue to be funded, but that many small jobs are being postponed or cancelled.

Loans by major commercial banks in the District to business, consumers, and real estate developers have declined sharply. Only agricultural loans have posted gains, reflecting seasonal increases in these loans at planting time. Savings and loan associations are also making very few mortgage loans. As a result of the drop in loan demand, interest rates have begun to fall rapidly. The prime commercial bank rate has declined from about 20 percent to 17 1/2 percent, and the mortgage rate from about 16 1/2 percent to 15 percent. Some savings and loan officials indicate that the mortgage rate is likely to fall even more in the near future, and one association has already reduced the rate to 12 3/4 percent. In St. Louis, two savings and loan associations have instigated the new "rollover" mortgage (which permits an adjustment in the rate charged), but they have not been successful in marketing this type of loan. Savings and loan industry representatives are more optimistic about the prospects for improved profit margins with the decline in money market rates, but point out that they are still being squeezed by the continuing shift from passbook savings to higher yielding CD's.

Demand for farm credit is reported to be up from a year ago, but bankers report that this credit is being supplied at competitive rates. In a number of communities, bankers are lending to farmers at lower rates than to others in order to avoid the loss of their customers to the Production Credit Association.

NINTH DISTRICT - MINNEAPOLIS

The Ninth District economy is closer to a recession than it was a month ago. Since last month, a decline in farm income, combined with reduced lending and spending, has increased the number of firms curbing production and laying off workers. The recession hasn't arrived, though, because investment spending, manufacturing output, and planting intentions indicate district output is still increasing.

The Recession Is Getting Closer . . .

Our last report stated that the district had been moving toward a recession, and in April it moved even closer.

In April farm income fell again. Our last report indicated that a combination of falling prices and rising costs was reducing farm income. Farm income fell further last month, as farm prices decreased 4.5 percent between March and April.

In addition, lending declined further in April. Although interest rates decreased, they were still very high, and district consumers and businesses continued to reduce their borrowing. Home loan applications at Minneapolis/St. Paul S&Ls, for example, declined 60 percent from April 1979, following a 30 percent decline in March.

With farm income and lending still falling, spending and production continued to be curtailed in April. Directors report a further decline in the sales of general merchandise, autos, homes, and farm implements. In a large central Minnesota community in April, for example, department store sales were down 10 to 15 percent from a year ago, whereas in March these sales were down 5 to 10 percent. With less consumer and farm spending, some manufacturers' new

orders are still falling, and some manufacturers continue to curtail production and lay off workers. Partly as a consequence, Minnesota's initial claims for unemployment insurance in both March and April were up about 50 percent from a year ago.

. . . But It Still Hasn't Reached The District

Despite the declines in lending, spending, and farm income, the district still isn't in a recession. For a recession to occur, investment spending and manufacturing output would probably have to decline, and they are still expanding. Businesses, for example, are still investing, as directors report considerable nonresidential building, both inside and outside the Minneapolis/St. Paul metropolitan area. Although growth has slowed, directors also report that district manufacturing output is still increasing. One director attributes this growth to the district's large number of rapidly growing high technology firms. Another cause of this growth could be that the district's biggest manufacturers are defense contractors, and district defense spending has increased 30 percent in the last two years.

On the farm, output is also still expanding. District farmers intend to plant 4 percent more acres this spring than a year ago. So far, dry, sunny weather has been helping them achieve this goal. In Minnesota, for example, normally 20 percent of the corn planting is completed by May 4, but this year 36 percent of the corn was planted by that date. With their planting nearly completed, district farmers are now hoping for rain to get the growing season off to an excellent start.

TENTH DISTRICT - KANSAS CITY

Economic activity in the Tenth District is beginning to slow markedly. Retailers report declining sales and slower increases in prices. Purchasing agents report a recent slowdown in the rate of increase of input prices. Inventories in retail and manufacturing are being reduced. Savings and loans report reduced savings inflows and mortgage commitments, and homebuilders report significant declines in the building and sales of new homes. The winter wheat crop is in fair-to-good condition, while supplies of fed cattle will be tight in coming months. Bank loan demand has continued to weaken, particularly for construction and real estate activity. Deposit growth remains generally steady, though demand deposits are declining at some District banks.

Retail activity in the Tenth District is weakening. Some retailers report only slight gains in January-April dollar sales over a year ago, while others report significant declines. Appliance and furniture sales have been particularly weak. All retailers contacted report declines in sales since mid-March, and all expect continued declines throughout the remainder of 1980. Most retailers report slower price increases in recent months, along with declining profit margins. Inventory levels are generally considered too high for current sales expectations and are to be trimmed throughout the remainder of the year.

Most purchasing agents report that input prices have risen by 10 per cent or more over the last 12 months, although many report that prices have recently begun to stabilize. Input availability is not a problem,

with lead times decreasing throughout the District. Materials inventories are cautiously being held down. Over half the firms contacted have excess plant capacity, and about one-third of the companies have either idled some workers, or plan to do so soon.

Savings and loan associations contacted in the Tenth District report that savings inflows are down substantially from last year. Mortgage commitments are down significantly, due to a shortage of funds and high mortgage rates. However, mortgage rates in the District have recently fallen to below 16 per cent, and are expected to fall further throughout the year.

Tenth District homebuilders' associations report that housing starts are down about 50 per cent from last year, with single-family housing starts leading the decline. Many association spokesmen believe that homebuilding activity will begin to improve within the next three months. Although sales of new homes have been off considerably, there is not a critically high inventory of unsold homes, and builders are not reducing home prices significantly. Building materials are readily available throughout the District at stable prices.

The winter wheat crop throughout the Tenth District is reported to be in fair-to-good condition at the present time. Commodity groups are forecasting a large crop for 1980. The Wheat Quality Council has projected a 362 million bushel crop for Kansas, 12 per cent below the record crop of 1979. However, area bankers are less optimistic in their projections, observing that crop conditions are much more variable than last year. Wheat prices have shown an increase in recent days reflecting concern about the lack of rainfall necessary for continued crop development in the winter

wheat area and very dry conditions in the spring wheat areas of the U.S. and Canada. Total U.S. wheat acreage is expected to be up 11 per cent over 1979.

Supplies of fed cattle will be tighter in coming months, probably producing some increase in cattle prices. Cattle currently being quarantined in feedlots because of DES implants will start coming on the market in about a week. That may result in only a short-term increase in slaughter weights and numbers marketed.

A survey of bankers in the Tenth District indicates a marked decline in loan demand in the last two months. Most bankers believe the decline in loan demand is primarily the result of high lending rates, but they also report that uncertainty about the current recession is contributing to the softening of loan demand. While the demand for all types of loans is generally weak, the demand for construction and real estate loans appears to be virtually nonexistent. Several bankers report continued strength in the demand for consumer loans. However, these bankers also report that they are discouraging this demand because of the Federal Reserve's Special Credit Restraint Program.

In the past month, the prime rate in the Tenth District has declined from the 19 to 20 per cent range to the 17 to 18 1/2 per cent range. However, the majority of bankers on this month's survey have tightened their nonprice lending terms, primarily because of the uncertainty regarding the effects of the recession.

Most bankers report their deposit growth to be generally stable. However, demand deposits are still declining at some banks, as customers continue to shift their funds into interest-bearing accounts. Money market certificates and large CD's continue to account for most of the deposit growth, although some bankers are no longer bidding aggressively for these deposits.

ELEVENTH DISTRICT--DALLAS

Evidence continues to accumulate to suggest the Eleventh District economy is sliding into recession. Department store sales adjusted for inflation are declining, and auto sales continue to deteriorate. Residential construction is well below the year-ago level, and S&L's report a continued net outflow of savings. Bank loan demand has softened perceptably. Factory output is leveling off, and production cutbacks and layoffs are reported in a growing number of industries. The brightest spot in the southwestern economy is oil field activities, which continue to expand.

Department store executives report real sales are declining as consumer buying is drying up in anticipation of a deepening recession. Nominal retail sales fell 2 percent in April. Credit purchases have declined as much as 20 percent below last year's levels, and cash purchases are not taking up the slack. An increasing number of customers are reported to be paying down their credit balances instead of purchasing new goods. Inventories have begun to bulge. As a result retailers are stepping up price discounting and are placing fewer new orders.

New car sales continue to decline. Sales of domestic models are estimated to be 40 percent below last spring. Demand for some models, particularly imports, remains strong but is restricted by high prices and a limited availability of credit. Dealers report closing only a third of their potential sales. Many dealers are pushed to their financial limits by the decline in sales and high inventory costs. Layoffs are on the increase, and several dealerships have closed in the last month.

Residential construction activity is 20 percent below the level a year ago, and no indication of a turnaround is in sight. Further declines in interest rates are expected to restimulate mortgage demand, and several cities are providing funds for home mortgages with municipal bond issues. However, builders indicate it will take an estimated nine months for the market to fully recover when the turnaround comes.

Most savings and loan associations continue to report net outflows of savings. Overall loan demand continues to decline as most customers remain priced out of the market. Demand for home improvement loans continues to increase, but a majority of associations do not offer such loans.

About one-half of the large monthly reporting holding companies and banks appeared to exceed the 9-percent growth in their March reports, but commercial banks generally report no problems in complying with the guidelines for loan growth. The situation has eased with the option of selecting a base period for covered consumer loans and an increased volume of loan participations. Loan demand by the energy and real estate industries remains strong, although the lack of long-term financing has reduced the supply of interim construction financing by banks. Consumer loan demand is slowing and usage of bank credit cards is down significantly from a year ago.

While agricultural loans are readily available at District banks, bankers express concern over the ability of farmers to repay borrowings. Some loan carryovers from the last two years have been absorbed by federal programs, leaving banks in a better position to meet rising credit needs in agriculture. But rising production costs and falling commodity prices are creating concern over the outlook for farm credit.

While most District manufacturers continue to report high levels of capacity utilization and normal order backlogs, conditions are considered bleak for suppliers to the residential construction industry. Significant cutbacks in employment prevail in the fiberglass and aluminum extrusion industries, and more layoffs are expected in 30 to 60 days. Apparel manufacturers also report a rise in layoffs and factory closings. Producers of construction steel and cement are allowing attrition to reduce employment levels. However, the capital goods and defense industries are proceeding with expansion and hiring plans. The decline in autos and housing has put chemical producers in a squeeze. Shipments of chemicals are down, inventories are up, and prices of feedstocks are rising, reflecting the ongoing increases in prices of oil and gas.

Drilling activity in the District states is up a third over a year ago and at a 24-year high. Both major and independent oil producers are reported to be cutting back production levels to take advantage of preferential tax rates under the windfall profit tax.

TWELFTH DISTRICT -- SAN FRANCISCO

Sluggish retail sales, a slumping forest-products industry, and a very weak housing market have led to a general softening of business activity in the Twelfth District. Most analysts agree that a recession has finally overtaken the Western region, especially in the timber area stretching from Northern California, across Oregon, and into Washington and Idaho. However, sharply falling mortgage interest rates in early May provide some hope that the housing industry will come out of the doldrums. Rail shipments of autos and lumber are declining, and the downturn is now spreading to other types of rail traffic. On the farm front, good growing weather has been apparent in most areas except California's Central Valley, but farmers are complaining about low prices for their products as well as the high cost of labor, materials and money.

In Southern California, the signs of an economic slowdown have included a softening of supermarket and department-store sales, significant personal savings withdrawals to finance purchases, a downturn in credit-card transactions, continued weakness in consumer-durable sales, bankruptcies among established auto dealers, and a marked lateness in utility-bill payments. Major Southern California department stores recorded a sales decline of one percent between April 1979 and April 1980, which means a substantial decline in real terms. Thus, nondurable-goods sales are now showing the same weakness that has been apparent in durable-goods sales since last fall. Other sections of the District all report similar developments.

The lumber industry remained very weak in April, with 54,000 lumber mill workers and at least 13,000 plywood workers out of jobs or working a curtailed workweek. The plywood industry has been operating at less than half capacity. About 55 lumber and plywood mills in Oregon have curtailed operations, and some have even shut down permanently, partly because of the recession but also because of the erosion of their timber base. Some major installations have furloughed one-sixth or more of their workers. On the other hand, two major forest-products firms reported record first-quarter profits, reflecting heavy export demand and strong domestic demand for pulp, paper and packaging materials.

Real-estate activity has remained very soft throughout the West. Small builders in particular have been hit hard by the downturn. Builders regained some of their optimism in early May, however, when major lenders retreated rapidly from their 18-percent prime mortgage rate. The nation's largest savings-and-loan association went all the way to 12 3/4 percent. In the nonresidential sector, a major contractor says that demand, while still strong, may decline later because of a lack of long-term financing.

Some areas of strength still remain visible. Defense procurement schedules are continuing to support the Southern California economy. The Puget Sound area remains strong because of Boeing's substantial order backlog. Military business is strong, especially because of Boeing's contract for the cruise missile. Civilian-aircraft production will be reduced next year, however, as a reflection of weakness in domestic-airline orders. As a result, Boeing's workforce is scheduled to stabilize later this year.

Meanwhile, Alaska's state finances are in good shape because of a \$3.5-billion surplus resulting from its oil boom. The legislature has disposed of part of this surplus by making subsidized mortgages available to residents, and also by boosting legislative salaries.

On the agricultural front, California's San Joaquin Valley has been plagued with freak weather, ranging from high-90's temperatures to snow and rain, during the critical spring-planting period. Dairy producers are suffering from soft sales and from high operating costs. Northwest grain farmers continue to feel the after-effects of the Russian wheat embargo. But crop prospects in the Northwest look good for apples, cherries, hay and seed crops. A deep snow pack and high water tables promise southern Idaho farmers their best prospects of the past four years, especially by allowing crop production in non-irrigated areas.

In the financial sector, most lenders are continuing to tighten consumer-credit terms. Many credit-card lenders have increased the annual interest rate, and some have begun to charge annual fees for card use. Some smaller rural banks report satisfactory operating results because of a stable deposit base. But a Southern California banker reports limited availability of funds to lend despite continued heavy demand for loans.

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