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CURRENT ECONOMIC CONDITIONS BY DISTRICT

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by the Staff

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SUMMARY*

Current conditions vary considerably among the Districts. General characterizations range from ongoing growth in the Minneapolis District to emerging recession around Boston. Near consensus exists, however, as to pervasive weakness in the automobile and housing sectors. Strength persists, nonetheless, in some other manufacturing sectors, and non-auto retail sales. There is also general agreement that inventories, in general, across the economy, pose no immediate problem, although there are underway widespread efforts to pare current stocks and reduce what have become heavy carrying costs. Financial market conditions are tending to depress the growth of loan activity in most districts. Mortgage and automobile lending are generally weak, but business lending continues to expand moderately, at least in most regions. In general, loan demand continues buoyant despite some moderation in its recent growth.

Real personal consumption expenditures are being depressed by the dearth of automobile sales, but continue to show resilience in other sectors. Only Boston and Minneapolis see general weakness in retail sales. Dallas has perhaps the strongest report, with unit sales at department stores ahead of a year-ago. In several districts sales continue to advance from earlier in the year despite being down somewhat, in real terms, from a year ago. Chicago finds consumption of durables, luxury goods, and services down, while Kansas City perceives recent strength in sales of appliances, home furnishings, and energy related home improvement items. In several regions, however, much of the recent vigor of sales is attributed to aggressive promotional activity.

*Prepared by the Federal Reserve Bank of Richmond.

In the Richmond District, where sales are up, retailers are preparing promotion programs for an expected softening in demand.

Most districts report marked slowing in residential construction and in sales of existing homes. Usury ceilings are cited as a major impediment in a number of states, but even in the states with no such restrictions, financial market conditions are not conducive to vigorous activity in the housing sector. In some areas, notably the St. Louis, San Francisco, and Atlanta Districts, commercial construction remains strong, offsetting the weakness in residential activity. Dallas reports that substantial construction in progress is propping up the volume of real estate loans outstanding. New York, on the other hand, finds construction to be "the principal exception to near-term strength in business activity."

Manufacturing activity is particularly spotty. The automobile sector is exhibiting pervasive weakness, but there exist definite areas of strength. St. Louis finds, with the exception of autos, a relatively high level of manufacturing and particular strength in several industries including most capital goods, basic metal products, aircraft, and textiles. Minneapolis reports broadly based strength in industrial production. Dallas characterizes manufacturing as flat with weakness in consumer durables being about offset by strength in nondurables and construction related areas such as primary metals and stone, clay and glass products. Meanwhile, the Third District is reportedly five months into a general downturn in manufacturing activity. Chicago reports high operating rates, but declining order backlogs at most capital goods producers. The capital goods sector in the Cleveland District is still experiencing backlogs amidst some concern that they might soon

face reductions in orders. San Francisco sees most sectors except auto and construction related ones doing well.

Despite the prevailing level of interest rates, more stringent non-price lending terms, and tighter credit standards business loan demand continues to expand in most areas. Funds apparently remain available to businesses who are taking advantage of that availability. The most common characterization of business loan activity is a moderate slowing in the rate of growth. Kansas City and Atlanta report credit demand dampened by interest rates and Boston perceives a softening in commercial loan demand, but these cases appear to be exceptions. Mortgage lending, on the other hand, seems to be severely and broadly depressed. In regions where mortgage money is available interest rates and down payment requirements have increased sharply in recent weeks. Some district report non-price rationing of funds, while other find some lenders having withdrawn completely from mortgage lending activity.

Reports on agricultural activity are generally favorable with good crops and firm prices holding farm incomes up in the Midwest and plains states and in the Far West. Atlanta, however, reports sharply higher feed costs and low market prices for broilers and hogs widening loss margins of producers. Cutbacks in production of hogs and broilers is resulting. In the Midwest transportation bottlenecks and inadequate storage facilities are impeding marketing efforts.

FIRST DISTRICT - BOSTON

More and more First District respondents are reporting signs of a recession. Retail sales are soft. Manufacturers generally report that business is fairly good but "good" seems to have been redefined over the past few months. Previously it meant that unit sales were growing, now it seems to mean that sales are holding even with last year. In the financial sector, loan demand seems to have slowed slightly although it still remains quite strong. Mortgage money continues to be available although at high rates-lenders are rationing by price.

Retail sales in New England are quite weak. There have been occasional weeks in which sales have been vigorous but these have been followed by periods in which sales have been very depressed. The erratic nature of demand is making inventory management very difficult. The head of a large department store chain with national ties believes that sales in New England are considerably weaker than those elsewhere. This same firm is reassessing its expansion plans.

Reports from the manufacturing sector are significantly less gloomy but respondents no longer question whether we are really in a recession. Thus, the head of a firm making graphics reports that business has been quite strong but that he is reevaluating capital spending plans and reassessing factory schedules in expectation of a weak first quarter. A large furniture maker notes that attendance at a major trade show was down 20-25 percent from last year; aggressive firms fared well, but the weaker companies had very little business. A manufacturer of building materials also reports that demand has fallen off. Customers who normally stock up their inventories over the winter month are not doing so this year. This firm, which sells heavily to the

rehabilitation market, believes that high interest rates will mean that much less rehabilitation will be done in 1980 than customarily occurs in recessions. Repair and rehabilitation activity is usually quite strong in recessions as contractors, who normally prefer new construction, accept less attractive rehabilitation jobs. Defense contracts continue to be a source of strength. A number of businessmen report that collections from customers have slowed.

In the financial sector, banking directors from northern New England have seen some softening in loan demand, primarily on the commercial side. However, a large bank from one of the southern states reports that after levelling off loan demand has picked up again. None of the business firms contacted was experiencing difficulties in securing funds. In addition, a survey of small businesses, conducted in the last two weeks of October by one of the area's large banks, found that most small firms were still able to get funds at or slightly above the prime rate. A majority of these firms expect funding to be more difficult to obtain in the future, but at the present time they still view inflation as the greatest problem. Home mortgage loans are still available. Institutions in the region are taking advantage of the secondary market to secure funds and are allowing the price to ration demand.

Professors Eckstein, Houthakker, Tobin, Solow and Samuelson were available for comment this month. Eckstein supports the "new monetary policy"; however, he believes the aggregates will not be fully under control until the economy itself is under control. "Having embarked on this course of controlling reserves, we should see it through, with the proviso that we watch the financial system closely. With the impending business slump there are risks of serious financial disturbances, especially for 'second tier firms'." Eckstein suspects that the "real crunch has yet to come." He hopes that the

new policy will allow interest rates to fall as rapidly as they rose when business activity declines in late 1979 and early 1980.

Houthakker is pleased that the Fed is now concerned more about controlling reserves than controlling interest rates. He believes, for example, that a 15 percent funds rate is appropriate given today's market conditions, but the rate should be free to change when conditions change. He cannot fully endorse the new procedures, however, until he knows which concept of reserves is now under control and what reserve target the Fed is trying to achieve. Houthakker believes we have been in a recession since the beginning of 1979; the recession will be lengthy, but not deep. He expects the growth of GNP in the early 1980s will be much like that in the late 1950s--business activity will expand slowly and unevenly. Because the current consumer price index temporarily exaggerates the true inflation rate, fiscal and monetary policy could reduce inflation to 7 or 8 percent by the end of 1980 "without undue damage," but the unemployment rate may have to rise as high as 7.5 or 8 percent. In any event, Houthakker thinks the eradication of inflation will take years.

Tobin believes the benefits of the new control procedures have been exaggerated. Because his research shows little or no connection between short-term movements in reserves and money aggregates or total credit, he is not convinced the Fed's control of the money stock is now more reliable. Tobin believes that there is now a high probability of a recession in 1980 and that it is dangerous "to keep tightening until we see the whites of the recession's eyes. We should get our bearings before embarking on another round of restraint." The high inflation is not the fault of monetary policy, in his opinion. If OPEC raises prices again, he hopes the Fed realizes it

cannot costlessly offset the inflationary shock. In the event of an oil price increase attainment of a satisfactory unemployment rate and inflation rate is impossible: higher real oil prices must either depress production or increase domestic inflation.

Solow has mixed feelings about the October policy. The higher marginal reserves on banks' "bought funds" is "unambiguously a good step." He believes the sharp increase in interest rates was exaggerated, however, perhaps to defend the dollar at the October 6 parity. He is not sure that this particular exchange rate is an equilibrium rate. He questions whether maintaining the exchange rate with high interest rates best serves our domestic needs or best serves the interests of German exporters and German monetary policy, a policy whose objectives certainly are not very sensitive to our domestic problems. Before Solow can fully evaluate the new control procedure, he must see it in action. To the extent that wider tolerance bands for the funds rate reduce wide procyclical swings in the money stock, the new policy is to be commended. To the extent that smoother growth of the aggregates destabilizes GNP and employment growth, however, the new policy is a "destructive step backwards." Solow argues that stable money growth may not be consistent with stable GNP growth; "the Fed needs to take a broad view in forming policy, especially now that the money demand function may have come loose at the seams."

Samuelson also has mixed feelings about the new monetary procedure. Now that interest rates may "float," in theory, the Fed may have more success in attaining its money targets. In practice, however, he notes that contemporaneous reserve accounting, among other reforms, must be adopted before the Fed can achieve this goal. Samuelson believes there are substantial dangers

in any procedure that has no "safety-valve": the old policy, though it had its faults, could accommodate shifts in money-demand without disturbing GNP. Samuelson is worried that the Fed may make stable money growth--rather than high employment with low inflation--the ultimate goal of policy. Our experience of rising inflation does not prove that counter-cyclical monetary policy has been a failure, rather it suggests the trend rate of money growth has been too high. Now that the consensus forecast anticipates an imminent recession, it is prudent and rational to avoid further monetary restraint. "If our goal is zero growth, we have overshot the target, not by accident, and it is hypocritical to be surprised if we have a recession."

SECOND DISTRICT - NEW YORK

Business activity in the Second District continues to expand moderately according to directors, business economists and business leaders contacted recently. At the same time, however, there is growing concern and anxiety over the prospects of a national economic downturn. Consumer spending remains fairly strong, although there is evidence of a weakening in the automotive sector. Inventories generally appear to be in good balance with sales. Nevertheless, in view of the economic uncertainties, businesses are concerned over the level of inventory stocks. At least at this point, it appears that the October 6 policy initiatives have had little affect on the behavior of non-financial corporations. On the financial front, the demand for business credit has slowed at large commercial banks. At the same time, banks and finance companies appear to have become more selective in their lending, tightening nonprice terms and standards of credit worthiness.

Department store sales continued to advance in the Second District in October and early November. Indeed, most merchants reported that sales were ahead of plan throughout the region. As one executive of a leading national chain put it, "if this is a recession, we [retailers] need more of them." There were some reports of extra promotional activity, but these were not widespread. Retail inventories are generally in good balance with sales, but as an executive noted, the upcoming Christmas seasons is critical. None of the retailers contacted perceived any evidence of a recession in their recent sales figures.

In contrast to the strength at department stores, sales of new cars were mixed in the District. Sales of small, foreign cars were very strong in October, running well ahead of last year; but some of these purchases were

thought to be the result of lagging deliveries in September. While order backlogs are sizeable for selected smaller models, at the dealers contacted inventories have generally been restored to adequate levels. With respect to larger domestic makes, there appears to have been a considerable falloff in sales.

Outside of consumer spending, business activity appears to be fairly strong. While most companies are convinced that a downturn will occur in 1980, shipments have continued to expand. With a few exceptions, inventories are generally reported to be adequate and in good balance with sales. One respondent noted some hedging in raw materials inventories which was more than usual, but this appeared to be an exception. Inventories of paper products are below desired levels due to a strike at the beginning of the year.

The principal exception to the near-term strength in business activity is the construction sector. Homebuilding is at a stand still in New York according to one director. State usury ceilings on mortgage loans, which are far below market rates, have led most thrift institutions to abandon the mortgage market. Construction financing has also become less available. One director reported that shopping center development plans have been deferred due to the limited availability of credit. At the same time, many businessmen also report a noticeable increase in their accounts receivable as their customers have become tardier in paying their bills. Along these lines, the chairman of a major conglomerate noted that food chains were passing up the discount for early payment of their bills, which is very unusual. There is widespread concern among business economists, directors and business leaders that the Federal Reserve's October 6 actions will lead to a credit crunch. As yet, however, no serious borrowing problems have been reported. Although

large corporations are not expected to experience difficulty in obtaining financing, it is anticipated that small companies may face problems in obtaining funds.

Respondents from several major commercial finance companies, which are headquartered in the Second District, noted that the recent jump in interest rates has had little effect on borrowing demand by businesses. In their view, the high interest rates have, at least at this time, not led to adjustments in inventories and receivables. A few lenders have, on a highly selective basis, reduced rates on a temporary basis to those borrowers whose income statements appear particularly vulnerable to current high interest costs. The commercial bankers contacted indicated the October 6 policy initiatives had led to a tightening in lending terms. They indicated they were evaluating requests for credit very carefully, and tightening of standards of credit worthiness.

THIRD DISTRICT - PHILADELPHIA

Reports from the Third District indicate that business activity is mixed again in November. Bankers are reporting strong loan volume, and expect interest rates to level out as the nation enters a recession. In the industrial sector, manufacturers continue to report production cutbacks and expect overall business conditions to continue to deteriorate. Retail sales, however, are up, with much of the increase being attributed to heavy promotional efforts. As for the future, representatives from all three sectors predict that the next six months will bring a substantial drop in business activity.

The downturn in local manufacturing activity has continued into its fifth month, according to respondents to the November Business Outlook Survey. New orders at the firms polled have dropped again, while shipments remain stable. Hence, producers' lead times continue to grow shorter, and manufacturers have once again pared inventory levels. Factory employment remains unaffected by the slowdown, however, with neither payrolls nor working hours being cut at local plants.

For the longer term, manufacturers surveyed in November foresee a continuation of present trends. Further deterioration in general business conditions is expected to occur over the next six months, with no improvement anticipated in either new orders or shipments. Consequently, no inventory rebuilding is forecast between now and late spring. And, while there should be no significant reduction in the size of work forces at area factories, a shortening of working hours is expected.

On the price front, inflation continues in the local industrial sector in November. Three out of five of the firms surveyed this month report paying more for raw materials than they did in October, and two out of five are charging more for the goods they produce. As for the future, 87 percent of the respondents expect to be facing higher costs for inputs in six months, and 68 percent plan to be charging more for their finished products by that time.

Retail sales in the area are reported to be "surprisingly strong" at this time. Current dollar sales at local department stores are reported to be 5 to 6 percent over year-ago levels, and generally slightly better than had been anticipated for this period. Merchants say this is because the long-awaited recession they had been planning for has failed to materialize thus far. Another factor, however, has been heavy promotional efforts on the part of many retailers in the area. Aggressive promotion and pricing policies have been pursued recently in an effort to trim inventories somewhat. Inventory carrying costs have become prohibitive with recent interest rate hikes, according to merchants contacted, and the cost of financing stock now outweighs the income that stands to be lost should they be caught in an inventory-short position. Retailers emphasize that fear of a recession is not their primary reason for cutting inventories.

Looking ahead to the next six months, local merchants are moderately optimistic. Sales should pick up somewhat with the coming of the Christmas season, but year-over-year comparisons for December will be misleading, according to one source, because last Christmas was such a boom. Sales are expected to be sluggish to moderate in the first half of 1980 with increases over year-earlier levels of 2 to 5 percent anticipated.

Bankers contacted say corporate and consumer loan demand is still strong. Business loan volume is on target or higher at most commercial banks, while consumer

borrowing is up more than 10 percent over last year. Area bankers, in response to the events which occurred in early October, have tightened credit considerably and are not aggressively pursuing corporate or consumer loans at this point. Speculative loans are being avoided, and maturities are being reduced where possible. Mortgages are still being made by commercial banks, but some nonprice rationing is observed. The rate being charged for mortgages is close to the usury limit at most banks and downpayments required are in the 25 to 50 percent range.

Looking ahead, most contacts are forecasting a dip in loan activity over the next six months, as the economy moves into a downswing. Projections for the prime rate (currently 15 1/2 percent at all of the banks contacted) indicate a slight increase, followed by a plateau through the first quarter of 1980.

FOURTH DISTRICT - CLEVELAND

Most bankers and economists in the Fourth District believe that October 6 policy changes have virtually ended prospects for a soft-landing and have increased prospects for a deeper than previously anticipated recession. While the capital goods sector is still experiencing backlogs, economists are concerned that the higher cost of financing inventories will cause inventories and hence new orders to be reduced. However, some abatement in inflation is expected in 1980. Banks have generally tightened credit and raised interest rates for mortgage, instalment and C&I loans. The housing market is now expected to be slow through the first half of 1980.

The 26 economists who attended the Fourth District Economists Round Table meeting held at this Bank on November 9 generally agree that the economy has already peaked. All but two expect a decline in real GNP in the fourth quarter of 1979; the median forecast of the group indicates a 2.1% decline in real GNP from the third quarter of 1979 through the third quarter of 1980, considerably deeper than they expected last June. However, at least three scenarios emerged with respect to the outlook. Despite weakening auto production to 9.7 million in 1980 compared to 10.4 in 1979, an auto industry economist expects a brief, mild recession in the first half of 1980, followed by a mild recovery in the second half. Mortgage markets have improved because of structural changes, inventories are more tightly controlled, and money stock growth will likely remain at about the same rate as 1979. However, a bank economist feels that classical business cycle adjustments will override the structural changes. Thus, the need to rebuild savings and reduce debt levels as employment declines will tend to weaken the recovery. Several

economists point out that stepped-up consumer spending during the third quarter of 1979 to avoid higher prices may have been a form of savings for consumers. Finally, an economist for a durable goods producer expects a sharp recovery after mid-1980, based largely on a 350 basis point decline in short-term interest rates by spring 1980 and a substantial tax cut for businesses and consumers late next year.

Auto producers and suppliers have scaled down their estimates of domestic car sales and production for this quarter and for 1980. A group of eight economists now expects domestic new car sales this quarter of about 2.1 million units and 8.1 million units next year. Dealers claim carrying costs of new car inventories have jumped to as high as \$150 monthly per car, and assert that dealers will trim stocks and orders.

Capital goods producers continue to be relatively optimistic, with one official in specialized machinery expecting backlogs to carry plant and equipment expenditures through the first half of 1980. However, a bank economist notes that nonresidential spending and real nondefense orders have already peaked. An economist with a transportation equipment firm considers the truck cycle to be in an early contraction phase that will continue through the third quarter of 1980, followed by a strong rebound in truck sales. Thus, the recovery should be lead by capital expenditures.

Several economists state that businesses have pursued cautious inventory policies and perceive little inventory problems, except for automobile and auto-related industries. However, one major tire producer reports no serious inventory accumulation either at the plant or among its dealers. Steel inventories are believed to be excessive, and one steel economist expects steel consumers will begin to liquidate stocks this quarter and continue well into 1980.

While inflation continues at a strong pace in October, the median forecast of the Fourth District Round Table economists shows a decline in the GNP implicit price deflator from a 9.3% annual rate in the fourth quarter of 1979 to a 8.0% annual rate in the fourth quarter of 1980. One bank economist believes that interest rates and inflation are at secular peaks. Several economists point to somewhat larger productivity gains in 1980 to help offset increases in labor costs. An agricultural economist expects food price increases to slow in the first half of 1980, assuming no supply constraints, but to rise sharply by the end of the year. Several economists expect oil prices to rise sharply again in 1980, as a higher proportion of world supplies is shifted to the spot market. A housing slowdown is generally expected to provide relief for the home ownership component of the CPI in 1980.

Housing prospects have been scaled down as a result of October changes in policy actions. While several S&Ls in Ohio report little change in lending policy other than higher mortgage lending rates, the effect of credit rationing by price has substantially cut the number of low downpayment loans and eliminated many potential buyers from the market. In western Pennsylvania, many S&Ls apparently curtailed lending. Although most S&Ls are expected to be able to honor commitments already on the books, one S&L economist expressed concern about the shift of S&Ls back to short-term markets for funds which could become costly in the near future and could create serious roll-over problems. Still, several S&L officials report that every attempt is being made to continue lending activity. Housing starts, according to a FHLB economist in this District, are still expected to reach their earliest forecasted level of 1.8 million in 1979 despite the latest surge in mortgage rates. However, starts may fall to 1.3 or 1.5 million units in 1980, as net outflows

of deposits restrict the availability of funds to S&Ls. If the market is threatened by such steep declines, one S&L economist expects FHLB and other housing agencies to institute programs that will support an additional 0.3 million starts in 1980.

District banks apparently have tightened lending activity, especially among consumer and C&I loans. One bank economist states that large firms so far are unaffected by high interest rates and some are taking advantage of rates by being net suppliers of funds. However, middle-sized firms will be in serious trouble if high rates continue for 6 to 9 months. Two large banks note a decline in C&I loans, which may be the result of anticipatory borrowing in previous months. According to a capital goods producer, banks have showed greater reluctance since October 6 to buy secured paper of small job shops, which is making it difficult to finance machinery sales. Auto dealers complain that banks have tightened credit terms and have sharply curtailed lines of credit. Finally, some banks report that the rejection rate for consumer loan applications has risen since early October and new borrowers without much credit experience must now obtain co-signers.

FIFTH DISTRICT - RICHMOND

The latest survey of Fifth District business conditions reveals a mixed pattern of recent developments. Manufacturers, in general, continue to report declining levels of new orders and order backlogs, but also indicate increased shipments, some extension of the average workweek, and reduced inventories over the past month. Retailers surveyed report a pickup in overall sales, but some weakness in relative sales of big ticket items. Responses suggest inventory reductions in this sector as well. Bank credit growth appears to have moderated. Except for mortgages, however, funds are available to qualified borrowers willing to pay high rates. Some large banks seem eager to make business loans and are actively seeking new customer relationships. Richmond directors see recent events in financial markets beginning to affect adversely real estate markets and residential construction.

Manufacturers continue to report slowing of new orders and reductions in order backlogs. But respondents increased their shipments in October and were able to reduce both materials and finished goods inventories from September levels. Inventories remain above desired levels at about one-third of the responding firms, but have apparently been generally well controlled over the past three months. Employment among manufacturing respondents declined slightly over the month, but hours worked per week increased. Current plant and equipment capacity is near desired levels at two-thirds of the responding firms and there remains virtually no sentiment for altering current expansion plans.

The weakness in new orders suggested by our survey results has not become generalized among manufacturing sectors. Much of the slowing has taken place in apparel, furniture, and building materials industries. Meanwhile,

such industries as textiles and non-electrical machinery continue to show basic strength.

Retailers responding to our latest survey experienced an increase in total sales during the past month, although relative sales of big ticket items were reported down in most cases. Several respondents noted that better quality merchandise is still selling well. Some retailers are prepared to initiate promotional activities to maintain sales should they begin to weaken. Most retailers responding this month were able to reduce inventories, bringing them somewhat closer to desired levels. Forty percent of these retailers still feel current stocks are excessive, but all are satisfied with the present number and size of outlets. Total employment among responding retailers was also down over the month.

Our respondents remain overwhelmingly pessimistic about the near-term outlook for the national economy and most expect the level of activity in their respective markets areas to weaken over the next six months. Manufacturers, in particular, are much less negative about the prospects for their individual firms, but a slim majority of retailers expects little or no change in their own sales over the next six months.

Richmond directors are seeing widespread evidence of slowing in the real estate and residential construction sectors. Nearly three-fourths of them report housing starts in their areas down substantially from earlier in the year. They also report a decided slowing of home sales. About one-third of our directors report disproportionate effects of recent changes in financial market conditions on small businesses.

Bank credit growth appears to have moderated in the last month, but lenders indicate that the results of recent tightening are only beginning to show up. Business loans have been expanding moderately, but much of the

increase in recent weeks reflects deals negotiated in September. Applications for new loans are down, and lenders report that the record prime rate is discouraging borrowing. Large banks indicate that the liquidity of their commercial customers is generally good and that there is little evidence of distress borrowing or unusual inventory financing. Credit standards have tightened on both installment and credit card applications, with large down payments required on auto purchases and higher income/debt ratios required for revolving credit approvals. There has been a fairly sharp drop in new loan applications. The mortgage market is experiencing the tightest conditions. Rates are up sharply with the typical 80 percent conventional mortgage contract now bearing an interest rate in the 12 1/2 to 13 1/2 percent range. Moreover, many thrift institutions have either withdrawn from the mortgage market or are rationing credit.

Results of the third quarter survey of farm credit conditions in the Fifth District were highlighted by somewhat weaker--but still relatively strong--farm loan demand, sharply higher interest rates, and continued pressures on liquidity at some banks. Loan-to-deposit ratios of banks reporting rose to an average of 68.2 percent, up from 66.8 percent a year ago and equal to the record level set in June 1978. Many bankers continued to report problems with availability of farm loan funds, although the proportion was not quite as large as in the previous quarter. Bankers who said they were actively seeking new farm loan accounts remained at roughly three-fifths of those reporting. While some slowdown in loan repayment rates was evident, loan renewals or extensions continued at about the same level as in the second quarter.

SIXTH DISTRICT - ATLANTA

A serious downturn in the District economy has not occurred, but weaknesses are becoming increasingly evident. Generally, retail sales have remained steady; however, auto sales declined. In many areas, new home construction decelerated abruptly. Presently, commercial building is proping up the construction industry, but record interest rates will likely have a severe dampening effect on future projects. Across the board, inventories are expected to remain low because of nearly prohibitive financing charges. Delinquencies on consumer credit are rising, but unemployment remains relatively low.

Retail sales gains were moderate, but retailers are becoming less optimistic about future prospects. Retailers at a major mid-Tennessee shopping mall report that sales are not meeting expectations. In south Alabama, most soft goods merchants report very slow sales, while a major Birmingham retailer indicates extremely strong sales in the first half but weak sales in the second half of October. Comments from Florida were still upbeat; however, two south Florida directors see signs of sluggishness. As with automobiles, the pleasure boat business has turned sharply downward because of abruptly increased financing costs. Also, high financing costs for retailers' inventories will keep these inventories to a minimum. Many contacts report that consumers are becoming very price and quality conscious and that credit buying is being curbed. Consumer credit delinquencies continue to increase at many banks.

With the expiration of Chrysler's initial rebate program and the jump in auto loan rates in October, auto sales turned down. Increasingly strict credit requirements by lenders for auto loans are further dampening

sales. Dealers are keeping inventories to a minimum because of drastically increased floor plan expenses.

The two GM plants in the Atlanta area, which heretofore have not experienced large-scale, indefinite layoffs, recently announced that the entire Doraville night shift of 2,200 workers and the truck assembly line of 650 employees at Lakewood will be laid off near the end of November.

Declines in residential construction are prevalent throughout the District except in Florida, which so far has experienced unchanging resiliency. Comments from northeast and central Florida indicate continued buoyancy. Housing starts in Nashville and Knoxville are down sharply. In northern Alabama, one contact reports that very few starts are expected for the rest of 1979, while another says new construction activity is at a "virtual standstill." Residential mortgage funds in most of the District are becoming scarce. Nonetheless, some S&L's report adequate funds, together with drastically reduced demand and a dearth of qualified applicants.

Commercial and industrial construction continues to prop up local economies throughout the District. However, contacts caution that ongoing projects were funded long ago. Present commercial construction levels are providing relief for some building materials suppliers who would otherwise be faced with declining orders resulting from a drop-off in residential construction. Record interest rates and decreased availability of funds do not augur well for a continuation of healthy nonresidential construction activity. Additionally, a northern Alabama contact reports that new orders at architectural firms, the initial step of a construction project, have slowed markedly.

The sharp spurt in interest rates has had pervasive repercussions. The sophistication of savers is evidenced by a noticeable flow of funds from

banks to higher-yielding money market instruments. For most District banks, loan demand is down, and an increasingly cautious attitude is being taken regarding borrowers and liquidity. One commercial banker reports he is making loans to preferred customers in the interest of goodwill. An Atlanta credit union has stopped loans entirely for furniture, appliances, and furnishings. It is their intent to seriously curtail all lending activities, but they have not forbidden all loans because of a concern for customer relations. In Tennessee, it is reported that large institutional investors, such as Prudential and Metropolitan Life, have taken their money out of the long-term market and placed it in short-term commitments.

District-wide, employment remains firm. Unemployment is expected to nudge steadily upward in coming months. However, contacts from localities with a diversified, service-oriented economic base repeatedly express confidence regarding the ability of their area to perform better than the nation in the event of adverse economic developments. Atlanta, New Orleans, Nashville, and most metropolitan areas of Florida are the most noteworthy examples.

The Tennessee Valley Authority plans to construct a coal gasification complex valued in excess of one billion dollars in eastern Tennessee or northern Alabama. This facility is projected to supply one-third of the TVA region's energy needs by the mid-1980s, and will be the world's second largest coal-gas plant. The diversified paper products firm, Kimberly-Clark, which recently divulged plans to construct a division headquarters and research facilities near Atlanta, announced an initial construction commitment of \$300 million for a manufacturing plant and distribution center in the Augusta area. This commitment is the largest ever in Georgia. In another forest-

industry development, the United Furniture Workers of America made public a plan to relocate its headquarters from New York City to Nashville. The movement of most of the furniture industry to the South and lack of unionization of southern furniture workers are the primary reasons.

Sharply higher feed costs and very low market prices for broilers and hogs are significantly widening loss margins for most producers. These losses are causing hog farmers to cut back planned production, and the number of eggs incubated for broiler chick placements has declined dramatically. Soybean yields are up this season. Prices have dropped from early summer levels, but compare favorably with prior harvests.

SEVENTH DISTRICT - CHICAGO

The recession in the motor vehicle and residential sectors appears to have deepened in the Seventh District with no early reversal in sight. Some major unions have gone on strike over disputes involving work scheduling and other problems not related to compensation offers, which are substantial. Consumer purchases of durables, other than vehicles, and luxury goods and services also have slowed. Sales of some capital goods, including farm and construction equipment, have turned down. Backlogs of many companies are said to be eroding, while shipments remain strong. Most companies are attempting to reduce inventories, but there is little evidence of serious gluts. Price inflation continues with undiminished virulence. Record corn and soybean crops have been harvested, but storage and transportation facilities are seriously inadequate. All classes of lenders are tightening standards because of reduced inflows of deposits and the high cost of purchased funds.

The overwhelming majority of consumers, business executives, and lenders believe the nation is in a recession which will run well into 1980. Many observers are puzzled by the strong performance of government data on employment, retail sales, new orders, and "leading indicators." Nevertheless, there is virtually no evidence of panic, such as occurred in late 1974.

A surprising number of executives, even in S&Ls, have publicly supported the Fed's tougher policy stance even though they believe painful adjustments lie ahead. However, builders, realtors, labor leaders, and certain politicians are openly hostile.

The deep and involved problems of Chrysler are unique among well-known companies headquartered in this District, insofar as we can determine.

Chrysler's difficulties are of concern to its suppliers and dealers who employ more people than Chrysler itself.

The slump that hit the auto and light truck industries early this year shows no sign of abating. Sales of big cars were helped by heavy rebates on 1979 models in August and September, probably at the expense of 1980 models. Inventories of large cars and light trucks remain excessive and new production cutbacks are announced periodically. Deliveries of heavy trucks have begun to slide, and new orders are far below factory shipments. Huge order backlogs are reported for popular small cars, but many people are believed to have placed multiple orders, and some have placed orders with a view to immediate resale at a profit upon delivery. Under these conditions some dealers refuse to quote expected delivery dates.

Despite periodic scares, supplies of gasoline and diesel fuel appear adequate currently. Demand for motor fuel continues well below year ago. Reduced use of vehicles is associated with lower recreational expenditures, and reduced demand for tires, parts, and maintenance.

The Deere labor pact covering 30,000, concluded after a three-week strike, parallels the auto industry agreement. Wages will rise 36 percent in three years, assuming 8 percent additional per year for COLA--more if the CPI increases at a faster pace. Workers also will get 12 additional days off for a total of 46 paid days off annually. Since late October, strikes have been in progress at Caterpillar (40,000) and International Harvester (35,000). The main issues are said to be grievance procedures at "Cat," and mandatory overtime at I-H.

Analysts believe these strikes, which affect suppliers of steel and other items, will last for some time. Demand for the farm and construction

machinery, and heavy trucks made by these companies had begun to decline in late summer. Production continued at a high level in order to build inventories of finished goods as a bargaining lever. A decline in output would have occurred whether or not labor negotiations were concluded without a strike.

Most capital goods producers continue to operate at high rates. The Milwaukee area, which concentrates on capital goods, appears to be the most prosperous of all large District centers. However, most companies report order backlogs declining, particularly if allowance is made for 10 percent inflation in the past 12 months. (We do not hear reports of cancellations, such as occurred in late 1974.) Slackening in the equipment sector is also suggested by a slump in orders for heavy castings.

Record crops of corn and soybeans are assured. Transportation and storage facilities are stressed taut. Fitful service on the bankrupt Rock Island and Milwaukee Road railroads, both vitally important to Iowa, is being maintained with federal guarantees and court-ordered expedients. Motor transport is also strained. The bottleneck dam and locks on the Mississippi near Alton impose a 4-day wait on barge traffic moving South. Storage capacity for grain is full. Transport and storage problems have resulted in a substantial adverse price spread for grain held in the western portion of the District.

Liquidity pressures on rural banks, apparent all year, intensified in October. Interest rates are pressing against usury ceilings in some states, especially in Iowa.

According to our survey, District farmland values rose almost 6 percent in the third quarter, double the pace of the second quarter. On October 1, prices averaged 17 percent above last year.

Mortgage money has "dried up" throughout the District in the past 6

weeks, even in Indiana and Michigan where usury ceilings have not been a problem. Because of outflows of funds, high borrowing costs, and the temptation to keep funds in high-yield money market instruments, lenders have cut new commitments to a trickle. But past commitments are being honored. Some S&Ls have stopped taking loan applications entirely, while others have reduced activity by restricting loans to customers, raising down payments, and lowering loan maximums. Mortgage rates are at 13.5-14 percent in Michigan where they are free to move. On November 8 Illinois suspended its mortgage usury rate which had restricted loans to 11.5 percent for November. The largest S&L immediately announced rates of 13.5 to 13.75 percent, plus 2.5 to 3 points, with down payments of 25 to 35 percent.

Housing has been hit harder in the District than elsewhere. Permits for single-family homes in the Chicago area were 59 percent below last year in September, and down 51 percent for 9 months. The situation is similar in other areas in the District. Transactions in existing homes are very slow. People desperate to sell houses are being counseled to use land contracts, a generally unfamiliar and unpopular device. Housing in the District probably has been affected more than in the nation because of the relative unimportance of speculative building, lack of growth in many areas, and some exodus of weaklings oppressed by three successive severe winters.

EIGHTH DISTRICT - ST. LOUIS

Economic activity in the Eighth District remains near the level of a month ago according to district businessmen. Manufacturing activity with the exception of automobile production remains about unchanged, but at a relatively high level. Residential building continues down, largely offsetting the rising commercial construction. Sales at department stores have declined in real terms from a year ago, but are about the same as a month ago. Inventories generally remain at moderate levels. Farmers remain relatively prosperous with net incomes expected to approach record levels.

Most manufacturing operations continue at about the same level as a month ago. Output of basic metal products, aircraft and aircraft parts, electric motors and parts, most capital goods, boxboards, and textiles remains at a high level, and in some cases these industries have large backlogs of orders. One woodworking plant reported the largest backlog of orders on record. Automobile production, however, has declined sharply and all of the Eighth District plants have laid off workers. Also, output in automobile-related industries has declined.

Construction activity in October remained at about the same level as in September. Commercial building remains relatively strong. Residential construction has been about 25 percent below levels of a year-ago for most of this year and is beginning to slow further as new home sales have virtually come to a halt over much of the District. This

reduction in new home sales largely reflects local usury laws which have generally failed to allow mortgage rates to rise in step with market interest rates.

Retail sales at major department stores are above year-ago levels in nominal dollars, but less in real terms. Reports on sales changes in recent weeks are mixed and no significant change in overall volume is apparent. Sales of some software are down, but sales of home improvement items are good. Retail inventories remain at desired levels with a few minor exceptions. One major chain of stores reported a 16 percent increase in shoe inventories from year-ago levels which must be worked off. A common complaint among retailers is that consumer debt is excessive and that new credit to consumers is expected to level off for six months or more.

Credit demand in the District has continued up during the past month. The volume of loans outstanding at commercial banks has increased despite the higher interest rates. Savings and loan associations report that they have been making very few mortgage loans in Missouri since the maximum legal interest rate in October, under the floating rate formula, was only 11.4 percent or well below the market rate; and for new commitments a down payment of 40 percent or more is required. Mortgage lending has come to a standstill in Arkansas and Illinois for similar reasons. In Tennessee, where the usury rate floats with national mortgage rates, such lending continues but at a reduced volume. The restrictive usury rates have led to some special lending arrangements in Missouri.

Some mortgage lenders, for example, have agreements with some large companies to finance home sales or purchases of the company's transferred employees provided the company deposits sufficient funds with the lender to cover the loan. Another result of usury restrictions is the sharp increase in older homes for sale. In St. Louis the number of used houses on the market is three times the number a year ago.

The agricultural situation in the district is generally good. Harvesting weather has been favorable; large crops were harvested and prices received were generally above year-ago levels. Hence, an increase in net incomes of farm operators is projected for this year.

NINTH DISTRICT - MINNEAPOLIS

Lending has been curbed by usury ceilings and by customers' reluctance to pay higher interest rates. Reduced lending, though, has not changed our Bank directors' assessment of district economic activity. Due to strong industrial activity and generally favorable agricultural conditions, the region's economy is still growing.

High Interest Rates Have Reduced Bank Lending

District banks are having to pay higher rates to attract funds. As money market rates go up, for example, banks have had to sell more money market certificates in order to retain deposits. In fact, one director reports that his area's bank customers are cashing in lower-yielding certificates and taking interest penalties in order to take advantage of the more favorable rates on money market certificates.

These higher interest costs are curbing bank lending. In areas and markets where banks' interest costs are approaching or exceeding usury ceilings, lending is no longer profitable. Directors indicate usury ceilings have recently dried up mortgage credit in South Dakota and Wisconsin with their 12 percent usury ceilings. Consumer and agricultural lending in some areas has also been curtailed by usury laws.

And where higher interest costs can be passed on, bank customers are becoming hesitant to borrow. Directors report that commercial loan requests have slackened in response to recent interest rate increases. Many merchants, auto dealers, and farm implement dealers would now rather pare inventories than pay higher interest costs.

But District Economic Activity Has Not Felt the Effects Yet

This letup in lending activity has yet to change our directors' assessment of the district economy. This Bank's previous Redbooks reported that the district economy was not in a recession, despite problem areas. Industrial activity had been strong, and agricultural conditions had been generally good, despite troubling weather and transportation bottlenecks. Our reports, however, did indicate some softness in consumer spending, especially for automobiles and housing. This assessment is still valid in early November. District industrial output is expanding. Directors from the Upper Peninsula of Michigan, Minnesota, and Wisconsin state that manufacturing in their areas is expanding briskly. While in Montana, industrial production related to energy supplies is increasing.

This greater production is reflected in the region's strong demand for workers. Several directors indicate that employers in their areas are seeking additional workers. One large Minneapolis/St. Paul manufacturer, for example, is trying to hire 180 production workers. These observations are confirmed by the district's recent high volume of help wanted advertising.

Complementing the district's strong industrial activity are the region's generally good agricultural conditions. According to our latest Agricultural Credit Conditions Survey, most agricultural producers' current incomes are either the same as or greater than they were last year.

Some developments, however, are troubling two sectors of the district economy. First, poor weather and transportation bottlenecks are restricting some farmers' incomes. Wet October weather is retarding the corn harvest. In southwest Minnesota, for example, about 89 percent of the corn crop is still in the fields. But even if farmers could have completed the harvest, a lack of

rail transportation would have made getting it to market difficult. Second, some difficulties are being experienced by retailers. Modest October sales are reported by a large Minneapolis/St. Paul area retailer. Also, directors describe their area's recent retail sales as "soft," "mixed," or "spotty." And they describe their area's home and automobile sales as "weak."

TENTH DISTRICT—KANSAS CITY

Continued inflation and a slowing economy, but no excessive inventory accumulation, characterize the Tenth District economy. Purchasing agents report that quarterly price increases have now become standard. They continue to hold inventories under tight control as do retailers. The latter group seems to be experiencing money illusion, as increases in nominal dollar sales at a rate less than the rate of inflation are viewed optimistically. In District agriculture, a larger seeded acreage of winter wheat than last year is expected. Commercial banks have significantly tightened their credit policies in the past month.

Purchasing agents in the Tenth District report input price increases of at least 8 per cent over last year, with almost half citing price rises of 15 per cent or greater. The large majority have experienced price gains in the past three months, and anticipate further hikes in the very near future. Many report that quarterly price increases have become standard. The input availability problems experienced earlier in the year have been alleviated, and the consensus is that inputs will continue to flow smoothly in the coming months. Materials inventories in the Tenth District have been trimmed and are being held under tight control due to the uncertainty concerning sales and to high interest rates. Over half the companies contacted report a moderate amount of excess plant capacity, with just one company expressing a need for plant expansion. District firms do not appear to be having any problems due to labor shortages.

The majority of retailers contacted in this month's survey report gains in year-to-date sales of approximately 5 per cent to 12 per cent.

Appliances and home furnishings have been selling best in recent months, while energy related home improvement products have also been strong. Most retailers are satisfied with current inventory levels and anticipate no major adjustments during the coming Christmas buying season. With little feeling of inventory overhang, almost all retailers expect clearance sales to follow the same timing as last year. Sales expectations for the remainder of the year are basically optimistic, paralleling strong gains in the most recent three months. Some retailers, however, do expect sales to flatten out this Christmas season. Prices are expected to rise as cost increases are passed along, but these anticipated increases do not include any increases in profit margins. Retailers will try to maintain current profit margins in the uncertain months ahead by continuing to exercise tight control over inventory levels.

Recent rain and snow over much of the Southern Plains hard red winter wheat belt brought some relief to generally dry conditions. While additional moisture is needed, farmers are completing final seeding—delayed because of dry weather. A larger seeded acreage than last year is expected, since there will be no 1980 required acreage set-aside for farmers to be eligible for wheat target price protection and Commodity Credit Corporation grain loans. Late seeding and dry weather mean there will be only limited amounts of wheat pasture available for fall and winter grazing of stocker cattle. This, coupled with the high interest rates on cattle loans, has caused farmers to delay stocker cattle purchases. As a result, the demand for, and the prices of, cattle to be placed on pasture this fall are somewhat lower than would otherwise be true. Prices for most raw farm products important to Tenth District producers registered declines in October. An especially sharp

drop of 4 per cent in meat animal prices was recorded. Prices for cattle, hogs, calves, soybeans, corn, and broiler chickens declined, while the only Tenth District farm commodities showing increases were wheat and milk.

Tenth District banks surveyed this month report a significant tightening of credit policies since October 6. In addition to raising interest rates where not prevented from doing so by usury ceilings, banks report that they are being much more careful in their credit evaluations. There is a widespread fear that some potential borrowers may not have sufficient cash flow to make repayments at current levels of interest rates. Several banks specifically mentioned that they are trying to avoid loans to finance speculative activity. District banks have become especially restrictive in the consumer lending area, particularly in Kansas, Missouri, Nebraska, and New Mexico where state usury ceilings are holding down rates. In these states, many banks appear to have completely abandoned automobile lending. Banks throughout the District report that they are becoming more restrictive in credit card lending. High interest rates appear to have significantly dampened credit demand, except for loans to firms in the energy industry. District banks with significant energy-lending activity report little if any decline in the demand for credit. Mortgage lending appears to be rapidly grinding to a halt in the District. In states where usury ceilings are a factor, both banks and savings and loans have virtually stopped making commitments. In other states, a shortage of funds has caused many mortgage lenders to deliberately set interest rates at levels that they feel will choke off demand.

ELEVENTH DISTRICT - DALLAS

The Eleventh District economy continues to expand sluggishly. Manufacturing activity is flat, although some nondurable goods industries report continued recovery from a first quarter decline in output. Auto sales are running well below a year ago with little recovery likely under the current tight credit conditions. Unit sales at department stores are also lackluster although maintaining an edge over a year ago. Higher interest rates are slowing loan demand only slightly, and banks are raising credit standards. Financial institutions caught by usury ceilings are bearing the brunt of the rise in interest rates.

Total factory output has been flat all year, with durable goods production declining and nondurable goods output on the rise. Demand for labor remains high with shortages of a wide range of skills persisting in large urban areas. The unemployment rate in Texas is 4.5 percent. There appear to be no major material shortages among manufacturers.

Primary metals and stone, clay, and glass remain among the strongest regional industries because of the high level of construction in progress. Furniture manufacturing is at a much reduced level from a year ago, while machinery output has recently shown signs of weakness. Printing and publishing is off slightly from a year ago. Area newspapers report no easing in the shortage of newsprint. The shortage was aggravated by disruptions in rail traffic. Newsprint inventories are currently running at about a seven-day supply compared to the desired 30-day supply. Despite the shortage, newspapers are expected to be able to meet the growing demand for advertising space as Christmas approaches.

Retail sales are mixed. Department store executives report that unit sales are running slightly above the level a year ago. However, to maintain that level of sales retailers are cutting prices and advertising heavily. Department store sales, although generally described as lackluster, are nevertheless ahead of many store executives expectations. Auto sales remain 20 to 25 percent below a year ago, despite strong sales of foreign models.

Retail inventories volumes are down from a year ago and are near planned levels for most goods. However, low apparel inventories prompted buyers from throughout the country to order heavily at the recent Dallas apparel market. Auto dealers are stocking approximately one-third fewer cars because of higher carrying costs and the decline in sales.

Sharply higher interest rates since October 6 are clearly affecting those financial institutions bound by low usury ceilings. Credit unions substantially reduced the availability of credit by increasing interest rates and limiting the size of loans. Conventional mortgages from savings and loan associations have once again all but dried up in Texas as the state's two and one-half month old floating rate has reached the maximum allowed by law. An interim legislative committee is currently debating alternative changes to the current usury law, but no action to raise the ceiling rate is likely before spring.

Demand for most types of loans remains high, but banks have tightened credit standards and commitments to lend are being made much more cautiously now than prior to October 6. Most areas of lending are experiencing a moderate slowdown in growth. Commitments to speculative residential builders, in particular, have taken a noticeable decline in recent weeks. Slower auto sales are contributing to a reduction in consumer lending activity. The high level

of construction in progress within the District is keeping real estate loans outstanding from declining significantly.

Except for money market certificates deposit inflows are very sluggish at banks, savings and loans, and credit unions. Savings and loans are experiencing marginal net savings inflows, and credit unions report a sharp upturn in the number of deposit account closings. Money market certificates remain the major source of funds for banks and S&L's.

TWELFTH DISTRICT - SAN FRANCISCO

The tightening of credit caused by the Federal Reserve Board's policy initiatives of October 6, 1979, has been felt strongly throughout the Twelfth District. Residential construction and resales have been particularly affected, with new lending and building activity off sharply in this area. There have been repercussions in the District's lumber and plywood industries despite continued significant non-residential construction activity. Automobile sales are extremely weak, except in the case of small (particularly foreign) cars. There are few other signs of weakening in the economy; retail sales remain quite strong, harvests have been good, and "boom" industries such as electronics continue to stimulate labor demand. However, there is widespread uncertainty about the future, and considerable pessimism about employment conditions in the near future.

The major change in the economic picture of the Twelfth District from last month is in the housing and mortgage credit areas. The prime mortgage rate is as high as 14% and, in many cases, mortgage money is not available at all. Realtors in most areas report fewer listings and fewer sales in the resale market and new residential construction has fallen off sharply. The usury laws that are in effect in several states in the District have significantly reduced new mortgage commitments at savings and loan associations. In Washington, for example, a 12% usury limit has caused the two largest savings and loan associations to stop making home loans altogether.

Commercial construction has not been adversely affected as yet because of previous construction commitments. Estimates of the length of the "pipeline" of such activity range from 3 months to a year. Demand for new commercial and industrial space remains very strong in the southern California, Portland, Seattle

and Salt Lake City areas. A new 653,000 square foot mall in Salt Lake City, for example, already has 95% of its lease commitments.

Automobile sales are extremely weak in the District, except among small foreign car dealers. The high cost of floor credit and consumer financing is squeezing dealers between increased costs and reduced demand. One dealer of Cadillacs and Buicks feels as if he is "giving the cars away" in order to reduce inventories and avoid \$200 per month flooring costs. Some dealers report "half of normal" sales volumes in October. There appears to be little interest in the 1980 domestic models.

In contrast to the gloomy picture in automobile sales, retail sales of soft goods remain strong. A Sears and Roebuck official in Salt Lake, for example, reports sales "way ahead" of last year. Shopping malls in Washington report good business volumes as do merchants in the southern California area. There are signs of caution, however: Seattle merchants are keeping trim inventories and are going into the Christmas season with only 75% of traditional inventories.

Industrial production and employment had fallen off primarily in those sectors affected by developments in the housing and automobile markets. The plywood industry is reported to be "badly off" and lumber mills dependent on housing grade studs and dimension lumber are expected to be hit hard. The Ford Motor Company is laying off 25,000 workers in Los Angeles county in order to work off inventories. A number of bankers in the District expect small and medium sized companies to be in trouble in the near future as high credit costs "reach the bottom line." In the Northwest, the strength of the aerospace and electronics industry is expected to offset the weakness in other industries.

There were scattered reports of reduced capital spending in the District; a major food processing firm, for example, reports holding back on plans to add

to its distribution facilities. However, other industries report continuing with previous capital spending plans. A major aluminum manufacturer for example, expects to increase its rate of capital spending by 25 percent in the next few years. The primary effect of this activity will be to gain efficiency and energy savings, however, rather than increase gross capacity.

The agricultural picture in the District is quite bright. Wheat, apples, and poultry production were reported as being particularly high. The dairy business is indicated to be "strong," with good feed availability. Seafood prices are currently high, but the effects of high interest rates on the cost of frozen seafood inventories may encourage some liquidation of these inventories with concomitant softening in prices.

The financial markets have displayed a sharp response to the changes in credit conditions. New non-commercial loan demand is sharply down. The commercial loan demand picture is mixed; some bankers report steady demand and other indicate a decline. Similarly, some lenders report strong deposit outflows and others report no net outflows but considerable shifting of deposits to interest-sensitive accounts (MMC's and CD's). There is widespread concern about the future of lender profitability and some evidence of problems. The Idaho State Employees Credit Union, for example, will not be paying a dividend this quarter (for the first time in its history).

A survey of the District's directors indicate that many expect a reduction in inflation in the near term (several months to a year) as a result of the new monetary policy initiatives. Most also forecast a downturn in economic activity in the months ahead.