

CONFIDENTIAL (FR)

CURRENT ECONOMIC CONDITIONS BY DISTRICT

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by the Staff

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TABLE OF CONTENTS

SUMMARY	i
First District - Boston	1
Second District - New York	4
Third District - Philadelphia	7
Fourth District - Cleveland	10
Fifth District - Richmond	14
Sixth District - Atlanta	17
Seventh District - Chicago	21
Eighth District - St. Louis	25
Ninth District - Minneapolis	28
Tenth District - Kansas City	31
Eleventh District - Dallas	34
Twelfth District - San Francisco	37

SUMMARY*

Sharp drops in residential construction and new car sales reinforced the growing conviction that the recession has arrived. Christmas spending was good throughout most of the nation and provided a welcome boost. Manufacturing activity declined in several Districts, and new orders slackened in most Districts. Input prices are expected to continue escalating. Mortgage funds are available, but high interest rates cut demand sharply. Demand for commercial and consumer loans lessened. Employment held steady despite some cutbacks.

Retail sales, except for automobiles, held their own in December. Inflation-adjusted sales were equal to or slightly better than last Christmas for New York, Philadelphia, Richmond, and Atlanta. Holiday purchases were sluggish for Boston and Chicago. Sales and promotions were prevalent. Amidst increasing concern about a recession during the first half of 1980, most retailers are keeping inventories under very tight control; none report excessive inventories.

New car sales dropped substantially, with large- and mid-size autos taking the brunt of the decline. Compacts remain popular; some sales were lost because of shortages and delivery problems. Inventories of large-size autos are high nationwide. However, New York reported promotions and markdowns helped clear out 1979 leftovers.

Residential construction, mortgage lending, and real estate sales slid markedly, except for Boston, where several directors observed a relatively high level of sales and also an increasing number of purchases in cash.

*Prepared at the Federal Reserve Bank of Atlanta.

Several Districts report an availability of mortgage funds, but reduced demand due to high interest rates. Mortgage lending is at a virtual standstill in New York and Texas because of usury ceilings. Additionally, usury ceilings imposed during December noticeably hampered lending in numerous other states. Contacts in many Districts believe real estate activity will turn down even further in several months when commitments are used up.

A resilient commercial construction sector continued to partially offset declines in residential building for most Districts. San Francisco, Dallas, and St. Louis report commercial construction proceeding at a rapid pace. However, builders in the St. Louis and San Francisco Districts are apprehensive about the smaller number of new projects in the planning stage.

Production for industries related to automobiles and residential construction is off sizably. Steel firms in the Cleveland District noted a sharp contraction in auto-related orders. A spokesman in the same District states that new-car tire production shrank 12 percent this year. Aluminum orders for automobiles fell, but notable support was provided by above-normal demand for aluminum by the canning industry and for exports.

A major manufacturer of plastics in the St. Louis District encountered a reduction in orders for all products used by automotive and residential building industries. In the First District, manufacturers of housing fixtures and other housing products noted a drop in demand. In the Second and Twelfth Districts, the slump in home building crimped sales of lumber products. Some smaller mills in the West have been closed.

Manufacturing activity leveled off for Boston, dropped for Philadelphia, declined slightly for Dallas, and remained stable for San Francisco. New orders were down broadly for Richmond and declined for St. Louis. In the

New York District, new orders eased, but shipments remained robust. New orders lag shipments in the Chicago District, and businesses have started to cut back on ordering in the Minneapolis District. However, electrical equipment industries located in the Boston, Cleveland, and Chicago Districts report a continued high level of activity. And, machine tool firms in the Cleveland and Chicago Districts are experiencing sustained growth of new business.

Input prices for materials and parts continue to rise. Some discounting in steel occurred. Nearly all manufacturing executives in the Philadelphia District predicted higher costs for raw materials by summer, and 80 percent planned to charge more for their own products by then. No input availability problems were reported.

Loan requests for the Boston and Philadelphia Districts remained at a high level. Kansas City and Dallas reported notable declines. A softening in demand was experienced in the remaining Districts. High costs of borrowing rather than the availability of funds discouraged businesses and consumers from applying for loans. Reduced inventories contributed significantly to the tempering in commercial loan demand. Many Districts observed cutbacks in consumer loans, particularly loans for automobiles and higher-priced consumer durables.

On balance, employment levels were unchanged. Areas of strength remained, but some Districts reported weaknesses. Philadelphia and Richmond noted reduced workweeks, and Atlanta reported layoffs in automotive and residential building industries. Employment levels in Michigan declined due to the slump in auto production. Labor markets were relatively strong for Minneapolis, Kansas City, and Dallas. In the Northwest, employment continued to grow in response to expansion in the electronics and aircraft industries.

Agricultural reports were generally upbeat. Grain and livestock sales, and also profits, increased in the Kansas City and Minneapolis Districts. Transportation bottlenecks in the Midwest eased. Atlanta reported that prices for broilers and hogs finally rose. A record apple crop was harvested in Washington State. An improvement in agricultural bank liquidity occurred in the Kansas City District, where abruptly higher interest rates reduced loan demand and favorable agricultural sales increased deposits.

FIRST DISTRICT - BOSTON

Respondents in the First District report growing evidence of a slowing in economic activity. Retail sales are disappointing. In the manufacturing sector, business is generally good, but most firms have some product lines for which demand has weakened. Loan demand is no longer growing but remains at a high level; all banks contacted have ample funds.

The major retailers in New England report that Christmas sales are not good. A few have seen a pick up in the past few days but others have become more pessimistic. People are said to be rebelling against higher prices, although top quality items are selling well. The head of one large department store chain says he is very worried about the first half of next year. Despite the weakness most retailers do not expect to have serious inventory problems. Most had been managing their inventories cautiously; in addition they are reacting to the weakness with more promotions and reduced prices. There are more sales than normal for this time of year.

Manufacturing activity has leveled off. More firms are reporting that particular products are becoming difficult to sell; however, these same firms usually have some divisions which are doing well. A manufacturer of cooking stoves has seen a pronounced decline in demand, competitors have been trying to maintain sales volumes by cutting prices. Housing fixtures and other housing products are not selling as well as they were. The demand for cameras is said to be low for this time of year. At the same time, the electronics and aircraft industries are doing well, sales of industrial safety equipment are picking up after a period of weakness, and military business is extremely good. No one has seen a significant slowing in the rate of price

increase for materials and parts, although a recent survey of local purchasing agents found that delivery lead times are shortening. All those contacted believe their inventories are under control.

Banking respondents claim to have ample funds and most are seeking additional customers. However, one banker from northern New England believes that some of the banks in his area are heavily loaned and do not have enough liquidity; he expects some consolidations. Loan demand has softened but is still high. Residential mortgage demand has definitely weakened. Despite this decline several directors observed that the level of real estate activity remains high. An increasing number of people are thought to be using cash for home purchases.

Professors Houthakker and Samuelson were available for comment this month. Both respondents agree that a mild recession is underway, and both expect the economy to remain sluggish beyond the middle of next year. However, they disagreed about the consequences for the real economy of the latest round of OPEC oil price increases.

Describing the economy's current performance as "obscure," Professor Houthakker nevertheless thinks that the available data indicate that a mild, but perhaps prolonged, recession has begun. In his view the recently announced OPEC price increases will have no major effect on either inflation or real output, so he argues that monetary policy need not be adjusted to the new oil price regime. While it is too early for a firm judgment on the effectiveness of the October 6 policy switch, Houthakker believes that the current rate of M_1 growth of about 5 percent is consistent with an improvement in inflation without undue pressure on employment. Houthakker is hopeful that inflation will ease somewhat next year. He notes that there has been no

acceleration in inflation as measured by the NIA deflators, and he expects a reduction in the rate of CPI increases in coming months as the extensive sales at the retail level induced by high inventory carrying costs are reflected in this index. Houthakker is concerned that recent rapid gold price increases may become "a self-fulfilling prophecy" that will contribute to the weakness of the dollar unless the nervousness in the gold market is alleviated. Since the October 6 actions were evidently not sufficient to reduce international anxiety over the dollar, he recommends that massive Treasury gold sales (perhaps as many as five million ounces) be undertaken in the near future.

Professor Samuelson also expects a mild but prolonged recession. The recession will be mild because institutional reforms have apparently reduced the effectiveness of monetary policy for a given change in interest rates; it will be prolonged because the high rates do still weaken real activity eventually and because the latest round of OPEC price increases will sustain the pressure for tight macroeconomic policies. Samuelson thinks that the new monetary policy operating procedures may bring closer control of the aggregates. However, he notes that stabilizing the aggregates will not stabilize GNP as long as money demand continues to shift unexpectedly. Thus, it is too early to tell whether the greater control afforded by the new procedure will be an advantage over the at least partial adaptability to demand shifts automatically produced by the old procedure.

SECOND DISTRICT - NEW YORK

Scattered signs of a slowdown in business activity in the Second District have emerged in December, according to comments of District directors and business leaders contacted recently. The major element of strength remains department store sales, which posted a healthy gain for the month as a whole. Outside of retailing, however, business activity appears to have lost momentum. New orders for capital goods have weakened and some order backlogs have declined. Inventories are generally in line with sales expectations, although some accumulations were reported developing among housing industry suppliers. On the financial scene, the prospective suspension of state-imposed mortgage rate ceilings is expected to have a major impact on mortgage markets in New York and New Jersey. Overall credit demands appear to have steadied.

Retailers in the Second District generally were satisfied with the holiday shopping season. Traditional department stores appeared to fare somewhat better than mass merchandisers. Among particular goods, especially strong sellers were electronic toys, apparel and other soft goods. Appliances and other large ticket items also sold well in the downstate region, but the strength failed to spill over into the Rochester-Buffalo area. The directors of the Buffalo Branch reported that big ticket item purchases were weak. There was a sharp pick up in holiday activity during the five days before Christmas at New York City stores when the surge in sales often outpaced the gains at suburban counterparts. While virtually all of the merchants seemed satisfied with retailing activity, one major discount chain reported an especially disappointing season. This chain blamed its sluggish sales on its own policy of sharply restricting the availability of customer credit. Inventories, for the most part, are at planned levels

as a result both of conscious efforts by merchants to keep stocks lean and of relatively good December sales. Indeed, spot shortages of some items were reported by a few respondents.

Automotive dealers in the District also seemed satisfied with new car sales activity in December. Indeed, area dealers report that with help of promotions and markdowns, virtually all leftover 1979 models have been cleared out. As a result, local dealers judge overall inventories to be at acceptable levels. Still, because of the strength of small car sales, dealers report some sales have been lost because inadequate stocks did not allow timely deliveries. Part of this inventory leanness was attributed to the high cost of financing. One dealer noted his daily interest charges per car were twice what they were fourteen months ago. Used car sales were mixed, while truck sales have begun to pick up in the downstate region.

Outside the consumer sector, there is increasing evidence of a slowing in business activity. Although business shipments have remained robust, there has been an easing in new orders. One manufacturer noted that the slowdown in home building had crimped sales of new lumber products and, as a result, inventories were beginning to build up. For now, this company prefers to absorb the costs of the supply buildup rather than to reduce mill operations and then have to play catch-up when demand and prices recover. Other than the mild accumulation in the home building supply industry, inventories appear to be generally in line with sales. Indeed, sales of paper products remain strong and the markets were described as tight. The chairman of a major chemical firm indicated his industry was beginning to see a downturn in demand across many product lines. He noted that major customers were ordering smaller quantities, and thereby foregoing

the discount for larger quantities, in order to avoid the high interest rates involved in financing larger quantities. For the most part, upstate manufacturers have not adjusted their capital spending plans, nor have there been reports of worker layoffs. None of the respondents have encountered any financing problems. In fact, several contacts noted that cash flow positions were so good that no outside financing has been required. Nonetheless, a noticeable slowdown in payments from customers was noted by virtually all respondents.

On the financial scene, mortgage lending remains at a virtual standstill. Many respondents expect the prospective legislation suspending state-imposed mortgage rate ceilings to have a major impact on mortgage markets in New York and New Jersey. Currently, mortgage usury ceilings are 10 1/4 percent in New York and 10 1/2 percent in New Jersey. It is expected that the suspension of these ceilings will increase the availability of mortgage funds. At this point there is confusion over some of the legal aspects surrounding the legislation. In New York, one of the uncertainties is whether the law will override the state's "120-day rule," which prevents lenders from charging a higher rate than the rate prevailing when a mortgage application is completed for 120 days.

THIRD DISTRICT - PHILADELPHIA

Reports from the Third District indicate that business activity is mixed in December. Manufacturers report another drop in activity this month, continuing a six month trend, and foresee more of the same in the first half of 1980. Retailers, on the other hand, were experiencing large sales gains through December 19 when a major unexpected snowstorm hit the area. They, too, fear a major slump early next year, and are planning accordingly. Area bankers say loan volume has been unexpectedly strong recently, but will probably taper off in January. Interest rates are expected to remain fairly stable through spring.

Respondents to this month's Business Outlook Survey have indicated another major drop in local industrial activity in December. Business at area manufacturing establishments alternately faltered and recovered in the first half of 1979, but has been slipping steadily now for about six months. Consistent with reports of the continuing slump, both new orders and shipments are down again this month, and backlogs continue to shrink. Inventory cutting is becoming more widespread, with stock levels down from November at half of the firms surveyed. Working hours have been cut at several area plants in response to the slowdown, but the number of workers on the job has not been affected as yet.

For the longer term, executives polled in December again foresee a worsening of the regional business climate over the coming six months, but still do not anticipate any real dip in specific indicators of regional business activity. Survey respondents do not expect new orders, shipments, or

backlogs to be significantly different in June '80 than they are now. Their cautiousness is reflected, though, in plans to trim inventories and payrolls fractionally, and in the fact that about 2 out of 3 of the manufacturers responding to the survey this month plan to hold the line on capital spending throughout the first half of next year.

On the price front, industrial costs are up again in November. Input prices are up from last month at two-thirds of the responding firms in December, while prices charged for finished products have been raised at about one-third. As for the future, 9 out of 10 executives surveyed forecast higher costs for raw materials by summer, while 4 out of 5 plan to be charging more by then for the goods they sell.

Area department stores report strong growth in December, an increase over year-ago sales even after adjusting for inflation with the LIFO price index, which most consider appropriate for their purposes. Current dollar sales are reported to be 8 to 12 percent over December '78 volume. Christmas got off to a late start last year though, so these figures may overstate any real underlying buying strength. Moreover, an unexpected snowstorm hit the area on December 19th, and may have put a damper on sales from that point on. So, late season sales may prove to be less than hoped for.

Center city stores are once again leading the pack in terms of sales, but not at the expense of suburban stores which continue to do well also. Retail inventories are trim, although few merchants expect shortages. Department stores report strong sales of gold jewelry and energy-related

items, but most big-ticket items, such as home appliances, are not selling well.

As for the future, local retailers are pessimistic. After such strong Christmas sales, most expect consumers to cut back considerably as the U.S. slips into a recession in early 1980. Only very modest increases in nominal sales are expected in the first half of the year. Merchants say they are adopting defensive inventory positions and planning cautiously.

In the financial sector, loan volume at area banks is up over year-ago levels, with most of the increase being attributed to commercial loans. Consumer loans are not suffering either, though. Bankers contacted were unable to give specific reasons why loan demand is so unexpectedly strong. However, they do say that neither seasonal factors nor inventory problems, either manufacturing or retail, are being considered as the source of the unusually brisk borrowing. Looking ahead to the first half of 1980, bankers are anticipating a drop-off in loan volume.

The prime rate at all of the banks contacted in December is currently $15\frac{1}{4}$ percent. Projections of the prime indicate a plateau through June, followed by large cuts, leaving the rate 300 to 400 basis points below its current level by the end of 1980.

FOURTH DISTRICT - CLEVELAND

Business conditions in the Fourth District continue to be relatively strong, except for the slump in the automotive industry and housing. Steel production and shipments have weakened while aluminum orders and production have held up relatively well. Orders and shipments in capital goods industries, except for trucks, remain strong, but appliance production continues to decline gradually from its spring peak. Retail sales during the holiday season appear better than expected. Retailers, however, are bearish over sales prospects next quarter. Most officials believe that inventories are currently about in line with sales and few are adjusting inventories because of higher interest rates. Bankers report that C&I loans are expanding very slowly and consumer loans have slackened in recent weeks. The real estate market has virtually dried up because of a lack of demand rather than a lack of mortgage credit.

The steel and aluminum industries have experienced a sharp contraction in auto-related orders but only steel producers report low operating rates. Steel shipments have weakened and backlogs have been nearly depleted, according to a steel official. A steel economist reports that steel production over the next three months is not expected to change much from this quarter, but seasonally adjusted, production will decline as the steel industry feels the impact of the fuel-related auto slump and as steel customers cut back inventories. Support for aluminum orders has come from above normal demand from the can industry and exports, which more than offset the drop in auto orders. Strength in aluminum orders may be partly related to a hedge against an expected price increase in January and a possible strike next May when the existing labor contract expires. Aluminum shipments are expected to decline

slightly over the next three months, and about 7% in 1980 because of the expected economic slowdown.

Capital goods producers of industrial and electrical equipment report a continued high level of incoming business and some capacity constraints. An official with an industrial equipment firm states that new orders remain strong, especially because of auto-retooling commitments, and that backlogs are expected to remain firm, at least for the near-term. A machine tool economist reports that orders have continued very strong in recent months, although domestic orders in current dollars are off slightly from the September peak. Machine tool backlogs are currently at 18 months and could reach 24 months, as orders press against capacity. An economist for an electrical equipment producer states that orders for motors and telecommunications equipment are still rising faster than shipments because of limited capacity, although orders from small distributors have slowed because of high borrowing costs.

Consumer goods producers, excluding automotive, report a slight decline in durable-goods orders, but a leveling of nondurable goods orders. A supplier to appliance producers states that backlogs are strong. Appliance-related orders are holding steady and are not expected to drop as sharply as auto-related orders. An economist for an appliance manufacturer reports that orders did not increase in October from year-ago levels, but are not yet showing signs of declining. However, substantial reductions in auto production schedules have contributed to a cutback in tire production. Production of new-car tires is down 12% this year, while replacement tire output has held steady, according to a tire official.

Department store officials and other retailers report that holiday season sales are better than expected, although in some cases "real" sales are apparently off from a year-ago. Many explanations are given for the reported increase in November retail sales, including an extra shopping week after Thanksgiving and a "last-gasp" of consumers who are taking advantage of month-long sales promotions. However, several officials are skeptical over a November sales increase, and are unable to corroborate the reported increase from their own experience. Most department store officials expect weakness in retail sales after Christmas, followed by a very slow recovery.

Inventories at the producer and retail level are generally regarded as being in balance, even where sales have weakened. Exceptions include automotive and steel inventories. Steel inventories being depleted because of ample availability of steel since automotive customers cut back orders. Several retailers state that inventories are in line with current sales, but continued strength in sales during the last two weeks of the holiday season is needed to avoid an inventory problem. Although the high cost of financing inventories has been a factor in controlling inventories, several respondents note that the cost effect has been mitigated by some product prices rising faster than interest rates and by contract provisions that protect a manufacturer with lengthy delivery times from rising interest rates. Nevertheless, the high financing costs for inventories, along with weak sales, have contributed to several auto-dealer closings in the District and could, according to one banker, begin to affect smaller retail stores if interest rates remain high.

Bankers report that C&I loans have been edging up slightly in recent weeks, but consumer loans were off in November. High cost of borrowing, rather than lack of availability, has discouraged many businesses and consumers from

applying for loans. Banks have generally become more cautious in making loans. A bank economist reports that speculative loan applications, especially broker and collateral loans, are being rejected and low-margin loans are being reduced to shift funds to more profitable centers. Some banks report greater reliance on borrowed funds, such as money market certificates and repurchase agreements, because core deposits have been very weak.

Mortgage demand is weaker than normal for this time of the year, although lenders typically report that mortgage funds are available. Credit terms tightened following October 6 policy changes, but an S&L economist states that mortgage market conditions have not tightened further in recent weeks and may soon show signs of a little easing. High interest rates and sizable monthly financing costs are said to inhibit loan applications. An FHLB economist in this District reports that S&Ls have cut back borrowing from year-ago levels, even though deposits have not grown. Housing prices have stabilized, and according to a major realty association, prices are now virtually unchanged from a year-ago. They nevertheless expect a rise in prices by next summer. In Pennsylvania, usury ceilings, although recently adjusted upward again, continue to hamper lending by some S&Ls. One official believes S&Ls are facing an intense squeeze on profit margins that will result in a step-up in merger activity in 1980.

FIFTH DISTRICT - RICHMOND

Fifth District business activity, at least in some major sectors, has apparently slowed in recent weeks. New orders are down broadly among manufacturers. Shipments are also down and order backlogs are being worked off. Manufacturers' inventories are unchanged to slightly lower over the past month but seem to cause no great concern. The picture is somewhat more positive in the retail sector. Prior to the last minute Christmas buying spree sales were steady with only isolated reports of softness in big ticket lines. Fragmentary reports suggest, however, that sales picked up momentum in the days immediately before Christmas. Impressions now are that the seasonal activity was quite strong. Credit conditions in the business loan market have eased recently. Reports are that commercial loan demand remains weak. Also, there has been a substantial decline in demand for financing purchases of consumer goods, particularly automobiles.

Nearly half of the manufacturers surveyed report declines in shipments, new orders, and order backlogs from a month ago. Inventories of materials were reduced further while stocks of finished goods were essentially unchanged over the latest survey period. Total inventories remain somewhat above desired levels, but are apparently not a source of major concern at this time. Manufacturing employment also showed little change on balance, but there were scattered reports of reductions in the length of the workweek. Current plant and equipment capacity remains in line with desired levels as do current expansion plans.

Through the third week in December retail sales were steady and most retailers seemed to be encouraged, if not enthusiastic, about the prospects for Christmas sales. A major lender to the retail sector reported that, based on

sales activity through mid-December, the Christmas season would be quite successful. Inventories at general merchandise outlets are unchanged to down slightly from recent periods, and are generally in line with desired levels. Indications are, however, that building materials dealers are trying to turn inventories, fearing that current stocks may be excessive. Employment in the retail sector has changed little over the past month.

A small sample of retailers contacted after Christmas indicated that sales activity picked up dramatically in the few days immediately preceding the holiday. Several retailers feel that last minute buying has made December a very good month for sales and profits. Some softness persisted in such big ticket lines as furniture, but quality merchandise of other types provided offsetting gains. One respondent noted a pickup in cash business versus charge business. Consumers are showing increased interest in high quality goods which will retain their value or provide lasting service.

The outlook among manufacturers remains basically negative. Pessimism is somewhat less pervasive among retailers. Even before the recent surge in buying their outlook had improved from a month ago. Some now feel that the present momentum of sales will carry through into 1980.

Credit conditions in the business loan market have eased recently, the prime rate falling to 15 1/4 percent at major area banks. Reports are that commercial loan demand remains weak, especially from national accounts. The demand for inventory financing appears to have increased only in a few isolated cases. There has been a substantial decline in demand for consumer credit, particularly for financing automobile purchases. Lenders generally feel that the steep decline in auto sales is due not only to the higher cost of credit, but also to concern about the outlook for gasoline availability and prices. Small car sales are strong, while large car sales are quite weak.

Most lenders have put a cap on the amount of wholesale financing they will provide to automobile dealerships for new car inventories. One large floor plan lender, for example, has told his customers to cut orders of new cars for inventory to half the normal amount. At the same time, concern about business failures among automobile dealers is not great, except Chrysler dealers. Bankers in this area are optimistic that their customers by and large will weather the storm.

A majority of our directors perceive a softening in nonresidential construction activity, but their comments do not suggest any pervasive weakening to date. There are signs that nonresidential construction, while down, is still fairly active. Nonresidential construction activity is centered among smaller projects, i.e., those up to \$750,000. There is virtually no speculative construction underway, but banks remain willing lenders for projects where lease or purchase commitments are firm. Reports are that unsold homes are moving slowly. Lenders suggest that home builders will feel a much greater impact in several months when mortgage commitments are used up.

SIXTH DISTRICT - ATLANTA

Moderate gains in Christmas spending provided welcome support to the District economy during the past month. The slump in housing and automobile sales continued. Loan demand slackened. Consumer delinquencies moved upward. So far, unemployment rates have not risen. The tourist industry was strengthened by the announcement of huge investments in the New Orleans area and Orlando. Orange growers face a reduction in revenue because lower prices are expected to more than offset increased yields. Prices for broilers and hogs have finally risen, improving prospects for producers.

Initial reports for the entire Christmas season indicate retail sales levels, in real terms, commensurate with or slightly better than comparable year-ago figures. A property management contact described real sales at his various malls and shopping centers in southern Louisiana as even with levels established last Christmas. Inflation-adjusted sales for a major Atlanta-based retail firm were better than expected, registering a moderate increase. However, this firm's officials share in the prevailing concern regarding sales for the first quarter of 1980. Its bad checks and credit card delinquencies have worsened. A company spokesman believes his customers have accumulated all the debt they can handle and feels the next few months are crucial because the repayment of indebtedness will almost certainly cause those customers to retrench. Retail inventories have been strictly controlled for many months and, therefore, should not prove excessive unless a severe fallout in sales occurs.

Sales of automobiles contracted appreciably. Notable declines occurred in Baton Rouge, Jacksonville, central Florida, and southern Mississippi. Large and intermediate car sales suffered most. Late-model used auto and compact sales, particularly GM X cars, were generally good. Inventories

continue to be pared to a minimum, primarily because of excessive carrying costs. For example, a Ford dealer on the Mississippi coast wants to reduce orders to get his normal 60-day supply down to 30 days. GM dealers there will reduce inventories even further in 1980.

Single-family residential construction was curtailed considerably throughout the District, and a recent sizable drop in building permits is certain to further depress this sector. Building permits in Huntsville, Alabama for single-family and multi-family structures are only one-third and one-eighth of year-ago figures, respectively. Substantial declines in permits were also reported for Tallahassee and large metropolitan areas of Tennessee. A large Florida bank forecasts a 20 percent downturn in new residential units in 1980.

Residential mortgage demand has fallen markedly. An Atlanta Federal Home Loan Bank officer reports most S&Ls are encountering a profit squeeze. For example, an Atlanta S&L experienced a one-point increase in its cost of savings during the past year, while its mortgage yield increased by only 35 basis points.

Loan demand dipped in most parts of the District. A Jacksonville banker attributes a decrease in loan demand to high interest rates and selective screening. High interest rates, the postponement of projects, and lower inventories are responsible for a gradual decline in loan demand for a central Florida contact. Commercial loan demand remains soft generally. Consumer loan demand continues to be reasonably strong in south central Tennessee, even though smaller-sized loans are being granted. A Melbourne, Florida banker notes a continuing increase in personal bankruptcies related to credit cards and personal loans.

Unemployment rates remain at relatively low levels. Nonetheless, layoffs in industries that typically weaken prior to a recession (automobiles and residential building materials) are evident. A substantial number of workers at an Atlanta GM assembly plant were laid off during the last half of December due to excessive inventories. In Mississippi, workers at a GM parts supply factory are on a 4-day workweek. Several hundred Ford glass plant workers in Nashville are on an extended layoff. The slump in housing construction caused a work force reduction at a large Masonite plant in Mississippi.

The pace of tourist sector investment will accelerate markedly by the building of \$750 million theme park near New Orleans and a \$600 million commercial and tourist complex in Orlando. "New Orleans, Past, Present, and Future" may exceed Disney World in size and employ 7,000 upon completion. Plaza International in Orlando will consist of convention hotels, restaurants, and entertainment and retail facilities to complement a planned Orange County Civic Center. The creation of 11,300 permanent positions is anticipated over a ten-year construction period.

This year's orange crop is estimated to be about 20 percent higher than production for the last two seasons. But, prices have slid 30 percent below the year-ago level, suggesting a sizable shortfall in total revenue. District winter wheat acreage expanded by 50 percent vis-a-vis 9 percent for the nation. Georgia's acreage more than doubled. Shrimpers in Georgia are experiencing their best harvest in 10 years. This year's catch and total revenue may set records.

The outlook for broiler and hog producers, which has been gloomy for months, has improved. Some recovery in broiler prices, combined with stable

feed costs in recent weeks, has created renewed optimism. Broiler production has grown moderately after dropping sharply below year-ago levels during November. Hog prices have climbed markedly from their very low mid-November level, and Georgia producers plan a 29-percent rise in pig production for the December-February period.

SEVENTH DISTRICT - CHICAGO

Despite surprisingly strong national economic data, most informed observers in the Seventh District are in agreement that a national recession has begun, and that it will continue at least through the first half of 1980. This district probably has been in a recession since last spring, primarily reflecting depressed conditions in the motor vehicle industry and in the housing sector. Business capital spending continues at high levels, but appears vulnerable to a decline in 1980. Although inventories are judged to be at moderate levels, most businesses are trying to reduce them further. Price inflation continues unabated, except for some discounting in steel and other metals. Total employment has leveled off in most areas and has declined in Michigan. Retail sales appear to have been disappointing during the Christmas season. Credit conditions are tight, but loans are "available" in most markets.

In contrast to the bitter cold and heavy snows of recent years, this winter has proved mild thus far with above normal temperatures and little snow to hamper activity. Outside work has continued on many commercial and industrial construction projects into late December.

Activity in the Seventh District in November and December was affected adversely by major strikes at Caterpillar and International Harvester. Work stoppages reflected disputes over work rules and managerial prerogatives, rather than the economic package, which paralleled the auto pacts. The Caterpillar strike was settled December 19 after 79 days, and operations are returning to normal. The International Harvester strike is still unsettled. Output of companies supplying materials and parts also has been seriously affected by the strikes. Output of trucks, farm equipment, and construction

equipment would have declined even if no strikes had been called. The companies had been building inventories of finished goods in anticipation of strikes, while demand for most products had declined for both seasonal and cyclical reasons.

On December 17, 11,000 Chicago Transit Administration workers (who operate buses and rapid transit, but not railroad commuter trains) struck over a proposal to modify a long-standing COLA agreement that, each quarter, provides an automatic, unlimited wage increase that is related to changes in the Chicago area CPI, which is 14 percent above year ago. The union also demanded a "basic" wage increase and other concessions. Pay and benefits of CTA workers are the highest anywhere, and exceed compensation of police and other municipal workers. CTA operations were resumed December 21 under a court order. The terms of settlement of this dispute are expected to have widespread repercussions on demands of other organized groups. The CTA strike kept some people from getting to work, and reduced downtown retail volume at a crucial time.

Confidence in the motor vehicle industry probably is at the lowest ebb since the years following 1929. Despite a series of layoffs and plant closings, vehicle inventories remain at excessive levels, except for a few favored models. Layoffs have also hit suppliers of parts and dealerships. The clouds overhanging Chrysler have hurt sales of its subcompacts which had been best sellers. Some makers of production equipment for Chrysler's proposed new models are said to have suspended work awaiting assurance of payment. Lenders and suppliers of components are very reluctant to undertake a share of the risks of a "bail out."

Output of most types of producer equipment remains at a high level, but new orders have been lagging shipments in the past month or two. Machine tool companies with large, firm backlogs and long lead times provide an

exception to the usual situation. Order cancellations for producer goods have been rare, in contrast to late 1974, but some cancellations are expected in the case of railroad freight cars.

The financial crisis of the huge Chicago public school system has become increasingly evident since mid-November. Revelations of questionable financial practices, indulged in to meet advancing salary demands of teachers' unions, have prevented the sale of school bonds. As a result, on December 21, 49,000 employees did not receive their biweekly checks. These problems may spread to other municipal operations. No short-term solution, short of federal aid, is in sight. Detroit and Wayne County also show signs of financial stress. These developments have no parallels since the mid-1930s.

Credit conditions in the district stabilized, following the initial reaction to the Fed's moves of early October. Business loans have remained available to borrowers with established credit ratings, but frequently at rates in excess of the prime rate. High interest rates have helped to moderate loan demand as heavy carrying costs have encouraged firms to reduce inventories to bare minimum levels. Steel mills report that, to an unusual degree, customers have deferred deliveries beyond January first. Nevertheless, we have little evidence of precipitous inventory liquidation caused by financial stringency. Demand for farm operating loans remains strong, but farmers are not liquidating holdings of crops or animals sooner than normal. Many banks have de-emphasized consumer installment loans, partly because of usury ceilings. Some collection difficulties are reported.

Mortgage loan commitments are being met, but new commitments are very difficult to obtain. Some commercial and industrial construction projects that would have been started in the second half of 1980 probably will be postponed.

Prevailing rates on home mortgage loans are about 13 percent in most parts of the district. A 12-percent home mortgage ceiling is still in effect in Wisconsin. About half of the S&Ls in Wisconsin now require a 50 percent down payment, which effectively eliminates many borrowers. In the Chicago area there is some concern over condominium loans owed by borrowers who purchased one or more units as speculations, but there is no clear evidence of forced sales thus far. Chicago experienced a broad and rapid wave of "forced conversions" of rental apartments to condos.

EIGHTH DISTRICT - ST. LOUIS

Activity in most sectors of the economy in the Eighth District has slowed somewhat from the pace of October and November. Sales of most products have leveled off, and new orders have generally declined; inventories, however, remain under control, and little unemployment has occurred outside the automobile sector. Major sectors of declining activity are automobile manufacturing and home construction. Partially offsetting these declines, however, is rising activity in both commercial construction and farm- and food-related businesses.

Retail sales, seasonally adjusted, have generally leveled off. Major department stores in the district report that nominal sales are about the same as a year ago. One of the largest retailers reported gains in big ticket items, but offsetting losses in software. Fast-food service chains reported a slowing of sales last spring and further softness in the last two months.

Factory orders have also leveled off or declined. A major manufacturer of plastics reported that orders for all products by the automobile manufacturing and residential building industries were down. Boxboard sales have also leveled off.

In contrast to the general trend, a number of firms in the farm product and food-related sectors report that business is continuing to increase. Manufacturers of feed and farm chemicals reported record orders as livestock feeding is on the upswing. Food processing firms, such as oil and seed processing, reported increased sales and orders. Appliance manufacturers reported small increases in orders in recent weeks.

Real estate activity is mixed. A decline in new home construction has been largely offset by rising commercial construction, but total home sales have declined sharply from mid-1979 levels. Sales of new homes are nearly at a standstill, and new home construction is winding down as the homes sold last fall are completed. Sales of old homes have been sharply reduced, and the number of such houses on the market is reported to be more than double that of last year. Most of the decline of home sales is believed to reflect the high cost and short supply of mortgage money. Increases in new home prices may slow, however, as timber and lumber prices are reported to be falling sharply. Restrictive usury laws in Missouri and Arkansas have tended to restrict the flow of mortgage funds in these two states. Commercial construction, on the other hand, generally remains strong throughout the district although one builder noted that fewer new projects appear to be in the planning stage.

No excessive inventories were reported with the exception of some large-sized automobiles. A common reply to the inventory question was that inventory liquidation will not be a problem during any forthcoming recession. Most businessmen have been expecting a recession throughout 1979 and have watched inventories more closely than before. Hence, the inventory-sales ratio of most firms is at record low levels.

Employment remains at relatively high levels. There have been few layoffs in the district with the exception of automobile and home construction workers, and most of those engaged in home construction have been absorbed in commercial construction projects. A year ago, the St. Louis SMSA residential sector employed 55 percent of the carpenters in the area compared to 39 percent in November; nevertheless, the carpenters'

union reports virtually no unemployment in the area.

Demand for credit has moderated from the October-November level. Major banks report a leveling off of loans in recent weeks despite a slight decline in commercial loan interest rates. Mortgage rates are also down somewhat in those parts of the district where usury laws are less stringent. A major mortgage lender in Memphis, for example, reported that its rate on best quality mortgages declined from 13 percent to 12 percent in late November. The net flow of funds into savings and loan associations is reported to be down considerably from year ago levels. Savings and loan officials noted strong competition for funds from commercial banks and money market funds.

None of the financial firms interviewed reported an excessive number of problem loans such as occurred in the 1974-75 recession. Credit card and consumer loan defaults were reported to be rising at commercial banks and major retailers, but were not considered a major problem. Both groups of lenders reported that they scrutinize more closely credit applications.

NINTH DISTRICT - MINNEAPOLIS

As 1979 ends, signs of softening in the Ninth District economy persist. Consumers continue to be hesitant to spend, businesses have started cutting back their ordering, and loan requests are still declining. The region, however, is not yet in a recession. Industrial activity remains strong, employment is high, and agricultural conditions are good.

The signs of softening persist . . .

In November we said consumers seemed hesitant to spend, and this assessment hasn't changed. Adjusted for inflation, December sales at most stores have been either the same as or slightly less than a year ago. According to this Bank's directors, home and auto sales are down from a year ago. In the Minneapolis/St. Paul metropolitan area, for example, 10 percent fewer homes have been sold recently and about 40 percent fewer homes are now listed for sale compared to last year at this time.

Consumer reluctance to spend is one reason why manufacturers are starting to receive fewer new orders. A director affiliated with a large national manufacturer indicates that in December his firm's new orders have weakened. Another national manufacturer reports a slight falloff in the incoming order rate at one industrial division.

This softening in new orders, along with the weakness in consumer spending, is reflected in a continuing cutback in loan requests at district financial institutions. In November we reported that consumers were requesting fewer loans, and this cutback is continuing, especially on loans to finance homes and large durable goods. The Savings League of Minnesota, for example, reports that its members' mortgage loan applications in late November were 28

percent below a year ago. Our sources also indicate that businesses are still requesting fewer loans.

A main cause of this letup in spending and lending is high interest rates. At present rates, many consumers cannot afford the monthly payments required to buy a large durable good or a house. Interest expense has become the fastest increasing business cost. To reduce it, businesses are cutting back inventories.

. . . but the Ninth District is still not in a recession

In our last report we said strong industrial activity, employment gains, and good agricultural conditions were keeping the district out of a recession, and this is still true.

District industrial activity remains strong. District manufacturers responding to our survey expect their fourth-quarter shipments to be 16 percent ahead of a year ago. A recent University of Minnesota survey also reports strong manufacturing activity in the region. Complementing the manufacturing strength is considerable petroleum and coal exploration and production in Montana and North Dakota.

To accommodate this expansion in industrial activity, district employers are still hiring more workers. District help-wanted advertising is currently at a record high. This Bank's directors also indicate that employers' desires to expand payrolls are keeping labor markets tight.

Not only have industrial activity and employment remained strong, but agricultural conditions are even better now than in November. Then, many district agricultural producers were enjoying income gains, but two developments were restricting the income of some grain producers. Poor weather had put

the corn harvest way behind schedule, and many feared that it would not be completed. And even if it were, transportation problems had made marketing grains difficult. In November and December, however, the weather cooperated, most farmers were able to harvest their corn, and transportation bottlenecks eased. Thus, grain producers are now marketing their crops at profitable prices and realizing income gains along with other agricultural producers.

TENTH DISTRICT—KANSAS CITY

While inflation in the Kansas City District remains strong, business conditions have begun to weaken. Homebuilders and auto dealers report the most substantial declines in District activity. Purchasing agents report rapidly rising input prices and continued efforts to trim inventories. Retailers report an increase in sales over last year and inventories that have been trimmed to suitable levels. Loan demand has declined in all categories throughout the District, due to the weakening economy and high interest rates. Liquidity at District agricultural banks is beginning to show some improvement as a result of some slackening in loan demand—prompted by higher interest rates—and increased deposit growth resulting from agricultural products sales.

The number of new housing units started and the level of auto sales have both declined substantially in the past month. Housing starts are 25-50 per cent below last year's levels and no improvement is expected soon. Sales of new American made cars have declined by 10 to 35 per cent since October.

Purchasing agents in the Tenth District report input prices have generally risen 8 to 10 per cent over the year, with the prices of petroleum based commodities increasing ever more rapidly. Input availability is not a major problem in the District and most companies contacted expect delivery conditions to remain satisfactory. An overwhelming majority of purchasing agents indicate that they have recently moved to further trim inventories, due to high interest rates and expectations of lower sales in coming months. Planned inventory reductions are not expected to be large, however.

About half the firms contacted report some excess plant capacity, though not yet critical. The labor market is still very tight in Lincoln and Omaha, but labor supply seems adequate elsewhere in the District.

Retailers contacted report increases in year-to-date total sales of between 4 and 20 per cent. Retailers are satisfied with their current inventory levels, as inventory trimming has been a standard practice throughout the second half of the year. All retailers expect to maintain current pricing and inventory policies during the coming months.

Agricultural banks report some improvement in liquidity during the past few weeks. This results from strong deposit growth from grain and livestock sales at quite favorable prices, as well as from some reduction in loan demand. In parts of the District that are experiencing strong loan demand as a result of energy and urban development, little or no improvement in liquidity has occurred.

The paydown on 1979 farm loans has been better than last year. However, some bankers note that the cash flow projections of borrowers are not holding up because of lower product prices and higher production costs. Furthermore, as bankers discuss 1980 credit needs with their customers, both parties are dismayed to discover the impact of higher input costs—short-term interest rates included—on production costs and credit needs.

There is some concern about the ability of country banks to provide for their customers' legitimate credit needs during 1980, especially if the quarter per cent interest rate differential on money certificates is reimposed. But most bankers indicate they are planning to take care of established customers. Finally, most banks are improving

the quality of their agricultural loan portfolios, including increases in the collateral pledged. Farmers and ranchers have limited ability to reduce credit requirements for production purposes. Many cattle feeders, however, are reducing the rate of replacement of cattle on feed, until profit margins show some improvement. Moreover, demand for farm machinery and other buildings and equipment appears to be off substantially in many parts of the District.

Most Tenth District banks contacted report strong declines in loan demand since November 1. Auto and construction loans are particularly weak. Aside from changes in the prime rate to match national changes, further tightening of credit terms is not expected. A few bankers note that quality standards for business and consumer loans have tightened, and others are increasing the downpayment required for consumer loans.

Restrictive usury ceilings continue to hamper mortgage lending by District savings and loan associations. Even in states with no usury ceilings, however, high rates continue to deter borrowing. Savings and loan deposit flows have shown some limited improvement since November 1, with a few associations noting net inflows over the period.

Bankers note potential liquidity problems for auto dealers, retailers, and local trucking companies. Rising levels of accounts receivable were also mentioned as a problem, particularly for small, under-capitalized firms. One banker mentioned the possibility of country banks facing liquidity problems because grain is not being sold. Savings and loan executives expect that, while a few builders will face bankruptcy in the coming months, most builders will not experience great financial difficulties.

ELEVENTH DISTRICT--DALLAS

The economy of the Eleventh District continues to expand at a reduced rate of growth, but inflationary pressures persist in many sectors. A late surge in Christmas buying pushed dollar sales volumes ahead of the level a year ago, while new auto sales are off sharply. Total factory output has declined slightly, although production in many industries continues to grow. Auto production has been cut in half, but demand for building materials remains at a high level. Two programs are in the offing that would stimulate the listless residential mortgage market in Texas. That could put a strain on the production capabilities of the construction and building materials industries, since nonresidential building is on the rise. Loan demand at banks is falling off.

Holiday sales at District department stores, measured in nominal dollars, ran ahead of the level posted a year ago. Sales were boosted by a wave of buying during the week before Christmas, the extra shopping day this year, and widespread price discounting. Current inventory levels appear to be well within manageable limits and continue to be closely monitored. The outlook for sales is mixed. Local managers of national chain stores anticipate a slowdown in sales next year, while executives of major urban shopping centers expect sales to hold up well.

New auto sales are reported to be down as much as 25 to 30 percent, according to domestic car dealers, while foreign car dealers indicate sales remain ahead of a year ago. Tight credit requirements, especially at credit unions, are a major drag on sales. A foreign car dealer estimated his sales would be 20 percent higher if credit conditions were the same as a year ago.

Inventories of domestic autos are high generally, while stocks of foreign cars are on the low side.

Total production in manufacturing is off slightly but remains ahead of the level a year ago. Output in many industries continues to grow, and demand for labor shows no sign of slackening. Drilling activity has exceeded a 22-year high and continues to buoy demands for a wide range of inputs, while construction demands continue to press the production capabilities of most building materials industries. The biggest setback in manufacturing is auto production. The GM assembly plant in Arlington, Texas closed in mid-December. The first shift returns to work January 2, but the second shift is on an indefinite layoff. Another area of weakness is petroleum refining, where lower consumer demand and higher imports of refined products are holding refinery runs below year-ago levels.

The mortgage market in Texas is virtually shut down, but two programs promise to rekindle mortgage lending. Several cities among the 16 eligible are rushing to sponsor municipal bond programs that will make mortgage funds available to homebuyers with incomes of less than \$30,000 a year. In addition, President Carter is expected to sign a bill into law that removes the usury ceiling on mortgage loans on January 1. Conventional mortgage rates in Texas would likely rise from the current 12-percent ceiling to about 13 1/4 percent, according to S&L executives. Some consumer resistance to larger interest payments is anticipated, but many buyers may not flinch at paying a higher rate.

Increases in highway, large commercial, and industrial projects will bolster current demands for inputs to the construction industry. And if the residential mortgage market turns around, an increase in housing could

create substantial bottlenecks in the availability of building supplies. Builders report continued shortages of labor and materials. Demand for labor remains high in all categories of construction jobs--unskilled, skilled, and managerial. Tight supplies of sand, gravel, cement, and a wide range of heavy building materials persist. Delays of up to 18 months are reported on deliveries of some materials, and construction costs are estimated to be rising 20 percent a year.

Loan demands at commercial banks have slowed sharply in the last three months, reflecting the increase in interest rates. Nonetheless, borrowing for commercial and apartment building and energy-related activities remains strong. Many banks report consumer loans--particularly for automobiles--have softened, although credit card usage is up moderately. A few banks report slightly higher delinquency rates on consumer loans. Business loans at large commercial banks are falling off sharply in most industry categories.

Total deposits are slowing. The inflow of demand deposits is declining, while time deposits continue to grow. Banks continue to rely on money market certificates and large CDs for funds and are having no problem in selling them.

TWELFTH DISTRICT - SAN FRANCISCO

The economy of the Twelfth District does not display signs of a serious slowdown as yet, but definite weak areas are developing in housing and related industries and in industries associated with automobile manufacturing. Pre-Christmas retail sales are strong, but sales of consumer durables and large domestic automobiles are weak throughout the District. The credit market picture is mixed, but there are signs that loan demand has weakened in many areas, particularly housing. Employment and production remain stable and, in fact, continue to grow in the Northwest, but pessimism about future prospects is widespread.

The large department stores in the District report very good pre-holiday sales and in many parts of the region, such as the Northwest and the inter-mountain areas, there are tight supplies of retail space. Retail food sales are reported to be flat, however, and sales of appliances and other consumer durables are very weak. Sales of large domestic cars and trucks are reported off 25 percent and 40 percent, respectively, in areas of Oregon. In contrast, sales of compact foreign cars are running about 60 percent ahead of last year in Idaho. High rates for automobile financing loans of up to 16 3/4 percent are badly hurting dealers with sluggish turnover.

Residential real estate activity has dropped off sharply in the District. Housing starts are down 60 to 70 percent in the Salt Lake City area from a year ago, for example, and declines of 30 percent are reported elsewhere. There are widespread indications that builders are dropping out of the market and some projects have been stopped in the middle of construction.

In most areas of the District, the decline in activity is attributed to the price of mortgage funds rather than any change in the underlying demand for housing. In several states in the District, the problem is compounded by usury limits which have curtailed the supply of mortgage funds. There are no reports of falling housing prices.

In contrast to residential construction activity, commercial and industrial construction continues at a rapid pace throughout the District. However, there is widespread apprehension that the "pipeline" of previously contracted construction will run dry soon, bringing a sharp downturn to this industry as well.

The employment and industrial production picture remains quite stable in the District. A major aluminum manufacturer, for example, cites strong sales despite a fall-off in sales to the automobile industry. A major Southern California-based conglomerate reports increased sales at all but one of its 73 profit centers (the weak profit center sells steel to the automobile industry). In the Northwest, conditions continue to depict rapid growth, with new electronics plants locating in the region and the aerospace industry continuing to generate employment. Boeing, for example, reportedly will require an additional 6,000 people in the coming year.

The weakest industries in the area are those linked to the automobile industry or the residential construction industry. Thus, manufacturers of products and services for automobiles report weak sales, and the lumber milling industry has experienced some closing of smaller mills. Inventories throughout the District are reported to be low, suggesting that firms are managing the transition to the anticipated downturn better than they did in 1974/75.

Agricultural activity in the District has been quite strong and crops generally have been good, recovering from the drought conditions that prevailed in earlier years. Washington, for example, reports a record apple crop and strong foreign demand for its agricultural products. The growth in production of pork, chicken, and fresh vegetables is expected to reduce or stabilize the prices of these commodities. The strong performance of agriculture has generally permitted farmers to obtain the necessary credit for the upcoming seasons.

The reports received from the financial industry were mixed. Although in general, loan demand is reported to be down in all categories, a large California bank reports that its loan demand remains relatively strong. The weakest areas of loan demand are in the areas of residential mortgages, automobile loans and consumer installment credit. Residential mortgage loan applications are reported to be very light throughout the District and outstanding loan commitments have declined significantly, according to some bankers.

There is some evidence that it is the demand, rather than the supply of credit, which is the limiting factor in loan volumes--at least in those areas of the District without usury constraints on rates. California S&Ls, for example, are reported to have ample funds available for mortgage loans, stemming from the sharply dampening effect of high interest rates on the demand for these loans and the net savings inflows generated by MMCs and jumbo CDs. Strong November deposit inflows were also reported by a large commercial bank with contrary reports from several smaller banks. One manufacturer reports being approached by several banks seeking loan business, suggesting that commercial credit remains available to healthy borrowers.

Delinquencies in the consumer loan area are up sharply according to several banks. One bank has instituted a swing-shift of consumer credit examiners to identify and remedy delinquent accounts.

A survey of District directors indicates widespread sentiment that interest rates have peaked. However, most are not optimistic that rates will be able to fall substantially because of underlying inflationary factors in the economy such as continued energy price increases.