CURRENT ECONOMIC CONDITIONS BY DISTRICT

Prepared for the
Federal Open Market Committee
by the Staff

April 15, 1980
<table>
<thead>
<tr>
<th>District</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>SUMMARY</td>
<td>1</td>
</tr>
<tr>
<td>First District - Boston</td>
<td>1</td>
</tr>
<tr>
<td>Second District - New York</td>
<td>4</td>
</tr>
<tr>
<td>Third District - Philadelphia</td>
<td>7</td>
</tr>
<tr>
<td>Fourth District - Cleveland</td>
<td>10</td>
</tr>
<tr>
<td>Fifth District - Richmond</td>
<td>14</td>
</tr>
<tr>
<td>Sixth District - Atlanta</td>
<td>17</td>
</tr>
<tr>
<td>Seventh District - Chicago</td>
<td>20</td>
</tr>
<tr>
<td>Eighth District - St. Louis</td>
<td>24</td>
</tr>
<tr>
<td>Ninth District - Minneapolis</td>
<td>27</td>
</tr>
<tr>
<td>Tenth District - Kansas City</td>
<td>30</td>
</tr>
<tr>
<td>Eleventh District - Dallas</td>
<td>33</td>
</tr>
<tr>
<td>Twelfth District - San Francisco</td>
<td>36</td>
</tr>
</tbody>
</table>
Economic activity has weakened across the country according to this month's Redbook reports. There is, however, considerable variation in the degree of softening; some districts do not see an actual downturn, only fewer and fewer areas of strength, while others, particularly Chicago, see a pervasive weakness. Retail sales are increasing in nominal terms but not as rapidly as prices; big ticket items have been disproportionately affected by the decline in real demand. Auto sales have slumped with the ending of rebate programs. Signs of weakness are also beginning to appear in the manufacturing sector. Overall production is still holding up in most districts but new orders have fallen off. Manufacturers supplying the automobile and construction industries are cutting back production and several districts report substantial layoffs. Both manufacturers and retailers are thought to be watching inventories closely, although recent developments have induced further trimming in some areas. Residential construction is said to be at a standstill. Mortgage lending has fallen sharply; financial institutions are reluctant to lend and customers are reluctant to borrow at interest rates of 16 and 17 percent. Commercial and industrial loan demand remains strong. There has been an abrupt deterioration in farm incomes.

Almost every district has seen a softening in retail sales. San Francisco is the exception reporting firm to brisk activity. Department

*Prepared by the Federal Reserve Bank of Boston.
store sales are down across the country in real, if not always nominal, terms. Big ticket items requiring financing are said to account for a disproportionate share of the decline according to Richmond, Atlanta, Kansas City, and Dallas. Despite the real decline retail inventories are generally thought to be under control. Richmond, however, reports that a majority of their retailing respondents now feel stocks are too high. Domestic auto sales are continuing to decline. Cleveland and Atlanta attribute some of the weakness to the end of rebate programs. New York, Chicago, and Dallas report that the combined effects of weak sales and the record costs of carrying inventories are causing auto dealerships to close.

Residential construction is very weak. Several districts describe the level of activity as at "a standstill." Boston, Dallas, and San Francisco report an increase in the number of homebuilders declaring bankruptcy. However, Minneapolis finds that nonresidential construction is an important source of strength.

Reports on manufacturing activity are highly varied. Weakness in construction and sales of domestic autos is now forcing production cutbacks in related manufacturing industries. Atlanta and San Francisco report substantial cutbacks and layoffs at sawmills, plywood manufacturers, and brick makers; Chicago and San Francisco have seen a decline in the demand for construction equipment associated with residential construction. According to Chicago and St. Louis, layoffs have increased again at the four major automakers and suppliers of brakes, auto bodies, and tires. Boston also reports further cutbacks in the tire industry. On the other hand, demand
continues to be strong for commercial aircraft (Chicago, St. Louis, and San Francisco), certain types of electric and electronic equipment (Chicago, St. Louis, and San Francisco), and machine tools (New York and Chicago).

Manufacturing inventories are believed to be satisfactory in most districts, although Philadelphia and Richmond report that manufacturers would like to cut back further. Chicago cautions that inventories which look conservative as long as sales hold up are excessive when demand declines. High interest rates are inducing businesses to rethink capital spending plans, according to New York, Cleveland, and Atlanta. However, Richmond finds no sentiment for reducing expansion plans and Philadelphia reports that capital expenditures are expected to be somewhat higher in six months. Boston and St. Louis observe that the demand for capital goods remains strong.

Farm incomes have deteriorated. All districts with large agricultural sectors report that increases in energy costs and interest rates coupled with low commodity prices have seriously cut into farm earnings. Kansas City and Dallas report that bankers in their districts are concerned about farmers' ability to repay loans. Farmers are trying to reduce borrowing by delaying purchases of equipment and reducing livestock inventories.

There appears to have been a general slowdown in the growth in loan demand. The volume of mortgage lending is very low. Several districts report that a number of financial institutions are temporarily withdrawing from the mortgage markets; at the same time consumers are resisting current high rates. Cleveland, Atlanta, Chicago and St. Louis report mortgage rates around 16-17 percent. Other consumer lending has also weakened. Again this reflects
both demand and supply factors; banks are trying to limit consumer lending in response to the credit restraint program and low profit rates on consumer lending. However, respondents in Philadelphia and Cleveland believe that consumers were already reducing their borrowing. On the other hand, the demand for commercial and industrial loans remains strong in many districts. Dallas and Kansas City report that banks in their areas may have difficulty staying under the 9 percent ceiling on credit growth.
There are still no clear signs of a recession in the First District, but there are more reports of decreases in sales and output and fewer of increases than in the past. Depending upon the respondent, retail sales are either holding steady or softening. Manufacturers see no dramatic changes in the level of activity; however, a survey of purchasing agents shows an increase in the numbers with lower orders and production. The building trades are experiencing difficulties and there are reports of smaller contractors going bankrupt. The growth in loan demand has slowed. Several respondents expressed support for the credit restraint program and what they perceive as the Federal Reserve's leadership.

In the retail sector sales seem to have weakened slightly during the past month. The head of a large department store chain reports that while sales are doing as well or better than expected in nominal terms, volume seems to be down. Sales are no longer keeping pace with inflation. Inventories remain under control with high interest rates providing an additional incentive.

Most manufacturers contacted report that production and new orders remain fairly strong. Sales of industrial safety equipment, which should be related to national production, are very healthy. Heavy capital equipment for the chemicals, plastics, and auto industries is selling well; there has been no increase in cancellations. A producer of small capital goods also reports good demand, but there has been a shift from the direct purchase of the equipment to short term rental arrangements. He attributes this to the high cost of financing. The defense business is extremely good. This favorable picture is generally confirmed by a survey of purchasing managers.
taken just last week. Most respondents stated that production levels at
the current time are the same or above those of a month ago. However, there
was an increase in the number for whom production is lower and there was a
sizeable increase in the number reporting that new orders are down. One
industry which is not doing well is the tire industry; a representative of
one large manufacturer said that, from his standpoint, the recession began
a year ago and the trough has still not been reached.

The growth in loan demand appears to have slowed. There is very little
demand for mortgages at current high rates. One of the region's largest banks
reports that loan demand is stable at a high level; however, if adjusted for
seasonality the increase over the past several months still exceeds 9 percent.

Professors Eckstein, Houthakker, Samuelson, and Solow were
available for comment this month. None of them felt that the credit restraint
program by itself will push the economy into recession, although they agreed
that it probably will have a marginal impact over and above the more constraining
effect of high interest rates. Not all of them agreed that the economy is
currently in recession, but all still expect slow growth in the year ahead.

Professor Eckstein welcomes the bank loan growth guideline. He
finds the rest of the program dubious, however, describing it as a "counter-
productive side show." Especially onerous in his opinion is the reserve
requirement on growth of money market mutual fund assets. Eckstein thinks
that the reduced yield on the funds may lower savings, an unfortunate
development for believers in supply-side economics. He warns the Fed not
to revert to its old policy during the recession and to avoid drowning the
economy in liquidity as the demand for money falls.

Professor Houthakker does not think the credit restraint program
is important, although he supports it if it helps the Fed achieve its money growth objectives. He urges the Fed to maintain its current objectives. Barring a major financial crisis, Houthakker believes there is an even chance the economy will escape recession and continue along a slow growth path. Because this outlook is consistent with lower inflation later this year and next, because there is a limit to the optimal diversification of international reserves, and because of growing balance of payments deficits in Germany and Japan, he expects the dollar to remain strong for some time despite occasional setbacks.

Professor Samuelson characterizes the credit restraint program as a placebo, but he thinks it may have a beneficial psychological effect in the short run. He notes that the Fed "cannot hold back the level of the ocean by moral suasion" in the long run, however, so he believes the program is only a minor additional factor beyond earlier tightening. Samuelson thinks that the Fed should allow interest rates to fall as the economy weakens, but not to become overly aggressive in supplying reserves should money growth fall below target.

Professor Solow believes that the credit restraint program is mostly "stagecraft," although it may precipitate the long-awaited recession. He hopes it will be the widely anticipated recession and not a more serious one. While the jawboning of banks may help ease credit expansion, Solow argues that anticipatory borrowing in January and February may mitigate the impact of slower measured loan growth in the months ahead. He is concerned about the strength of the dollar, arguing that induced capital inflows and lower exports are an inappropriate way to balance U.S. trade accounts and that the real cost of weaker exports exceeds the anti-inflationary benefit of a stronger currency.
SECOND DISTRICT - NEW YORK

Signs of an economic slowdown in the Second District have multiplied in recent weeks according to the comments of District directors and business leaders. Although some retailers continue to report strong sales, most have experienced declines in March and early April. Increased economic uncertainties and tightening credit conditions appear to be causing consumers to become more cautious in spending. The pressures of record interest rates and reduced credit availability also appear to be causing businesses to rethink spending plans. New orders have become decidedly mixed. Inventories are generally viewed to be at satisfactory levels.

Consumer spending weakened in the Second District during March and early April. Several major department stores reported that retail sales declined during March and early April in both suburban and metropolitan stores. The adverse impact of the New York transit strike has been felt in the Manhattan stores of the major retailers contacted. Upstate, the directors of the Buffalo branch noted that consumer attitudes appear to be changing and that households are becoming increasingly cautious in their attitude toward spending. In contrast to the decline in consumer spending reported by most respondents, two major retailers reported strong sales increases for this period throughout the area, which surpassed expectations. This was attributable in part to an earlier Easter this year than last. Thus sales may partially be "borrowed" from next month's volume. Nevertheless, spokesmen for these concerns maintained that their sales figures reflected an "underlying strength" in demand. Retail inventories generally appear to be at satisfactory levels.
Domestic car sales also have weakened in recent weeks. All of the dealers contacted reported a softening in sales. Several automobile dealers attributed the downturn in used car sales to a lack of financing. Tightening credit standards also appear to be hampering new car sales as well, but to a much lesser extent. Several respondents noted that the usury ceiling on automobile loans was far below market interest rate levels. In this environment, lenders have substantially tightened standards of credit worthiness. Lower-income groups appear to have been most severely affected by the tightening in lending practices. The record costs of financing inventories and weak sales prospects have caused several auto dealers to go out of business and more are contemplating such a move in the near future. While total domestic sales languish, foreign imports continue to sell briskly.

Outside the consumer sector, business activity was mixed, but respondents voiced growing pessimism over the economic prospects for the rest of the year. Two upstate manufacturers of machine tools reported that current business was good with strong backlogs, but one expects a "drastic drop-off for the economy." Some unexpectedly rapid material price increases have been felt, but these higher costs, largely through a switchover to "pricing at delivery" instead of a "fixed price," have been passed on to customers in the form of higher prices. Industrial respondents were worried that the recent credit control measures would reduce orders by small firms who typically use third-party financing. Inventories at the firms contacted were reported to be low due to pre-announced price increases. Several businesses indicated they were rethinking capital spending plans due to the record level of interest rates. Many small, discretionary purchases already have been cancelled.
In general, the industrial outlook is becoming pessimistic. Spokesmen for such diverse industries as chemicals, paper, metals, and petroleum refining expressed the belief that a recession is either imminent or has already begun. An official of a major metals manufacturer echoed the view of many respondents in indicating that the outlook is particularly bleak because of the decline in housing starts, the fall in automobile production, and the recent credit tightening. Brass and copper product shipments are expected to fall 25 to 30 percent in 1980 relative to 1979 levels. With rising labor costs and high energy costs, profits are expected to erode. A similarly pessimistic outlook was voiced by an upstate producer of paper products who noted that certain lines, such as food packaging, are showing signs of softness and "much slippage" is anticipated in shipments. Recent credit tightening measures are expected to have a large impact on paper demand. Inventories generally are about their desired levels.
THIRD DISTRICT - PHILADELPHIA

Reports from the Third District in April indicate that business activity is currently tilted toward the sluggish side. Business conditions in the industrial sector deteriorated further after a short breather in March, and retailers, although still showing gains in current dollar sales, are experiencing declining real dollar volume. As for the future, manufacturers expect some relief over the next six months, but retail merchants say the worst is yet to come. In the financial sector, business borrowing continues and consumer loans are still up. However, there has been some recent softening as a result of the credit restraint program. The prime rate is currently 20 percent in the Third District.

Manufacturers responding to the April Business Outlook Survey indicate another significant drop in industrial activity after last month's temporary halt in the ten month old downswing. New orders also slipped again, as did shipments—but by a lesser degree—so producers' backlogs continue to shrink. Inventory paring appears to have resumed as well. Factory payrolls are being held steady in April though, and only a marginal cut in the workweek is observed overall.

For the longer term, survey respondents are, for the most part, sticking with their six-month forecasts of the previous two surveys. General business conditions are expected to be about the same in October as they are now, with little change in new orders predicted. A fractional pickup in shipments is anticipated, however. To be on the safe side, manufacturers polled are planning further inventory liquidation, along with a
minor cutback in employment and a shorter workweek. Expenditures on plant and equipment, on the other hand, are expected be somewhat higher in six months than they are now.

Industrial prices are up again this month, with three-fourths of the respondents paying more for inputs than they did last month, and half charging more for the goods they sell. No relief from inflation in the coming months is anticipated, as nearly 90 percent of responding manufacturers foresee higher costs for raw materials by October, and about 70 percent plan to raise prices on their finished products by that time.

Retail sales at local department stores are running about 5 percent ahead of April '79 figures at this time, a decrease in real terms. This may not be as bad as it appears, since Easter was late last year, providing a large sales base for comparison. Nevertheless, most merchants feel that the long-awaited slowdown has probably arrived, a feeling partially based on the recent softening of several old-standby merchandise lines, such as fashion apparel and accessories, which tend to weather recessions better than others. Accordingly, many merchants have adjusted their sales forecasts to include a recession in the second and third quarters, and expect to see nominal sales increases of only 1 to 2 percent over the next six months. Inventories at major retailing establishments are reported to be "in line," and there is no real fear that merchants will get caught with heavy stocks if there is a recession.

Most retailers contacted this month feel that the voluntary credit restraint program was more "cosmetic and political" than substantive, and that consumer credit was already slowing when the program was announced. Some feel that retailer-type credit has always been more restricted than bank card credit (e.g. requiring higher
minimum monthly payments and a lower credit limit) and hinted that compliance with the program on the part of the retail community may be spotty.

Area bankers report mixed activity in April, a result of the recently instituted credit restraint program. Commercial loan levels at the banks contacted range from 4 to 19 percent above year-ago levels. Consumer loans are up slightly also, but are expected to dry up as they become increasingly costly for area banks to make. Looking ahead to the next six months, most contacts are forecasting some growth in C&I loan activity, but expect continued shutdowns in consumer and mortgage loans. All of the banks contacted plan to comply with the voluntary credit restraint program, and bankers for the most part, are optimistic about the program's success, "provided that the Federal Reserve Board remains strong in its commitment to the program."

Bankers in the Third District are currently quoting a prime rate of 20 percent. Projections of the prime indicate a peak over the next three months, followed by cuts that will leave the rate 150–300 basis points below its current level by October.
Respondents in the Fourth District now expect a somewhat deeper recession than they did in early March as signs of recession are spreading beyond residential construction. Business spending remains strong, but fixed investment is expected to decline if interest rates remain high. Although it is too early to tell how consumer attitudes on spending have been affected by the March 14 credit restraints, most respondents believe retail sales are in a contractionary phase. Bankers generally confirm that loan demand remains strong for business, but loan demand has declined for consumers because of credit constraints. Several banks and S&Ls are withdrawing from the mortgage market until short-term interest rates stabilize or decline. Inflation appears to be on the verge of a steady decline over the next several months, although the underlying inflation rate is believed to remain unchanged at about 10%.

Respondents associated with consumer spending and housing believe a recession is now underway. Several economists who attended the Fourth District Round Table on March 7 have lowered their real GNP forecasts because of higher interest rates and tightening credit conditions. Instead of a mild 1.0% peak-to-trough decline during the second and third quarters that they projected in early March, they now expect a decline between 2.5% and 3.0%. Although virtually all the respondents believe that interest rates have peaked, economic activity next quarter is expected to show the sharpest decline as business spending weakens along with the decline in consumer spending. However, a fourth quarter pick-up in real GNP is foreseen by most respondents as consumer spending strengthens in response to lower interest rates and expected tax cuts. Virtually all of the respondents expect a sluggish recovery.
Prospects that business spending will be relatively unaffected by the recession seem to be fading. Because long lead times are required, fixed investment programs already underway are unlikely to be cut, according to one capital-goods producer, even if new equipment is no longer needed for the near-term. However, rising interest rates and weakening cash flow positions will cause cancellation of many short-term spending programs. An economist for the auto industry states that fuel efficiency laws will prevent capital spending cutbacks that might normally have occurred in the industry. An economist for the machine tool industry reports that new orders are beginning to slow, although some businesses may be waiting to see if interest rates fall before placing their orders. Although a mild inventory liquidation may still occur in the second and third quarters, most respondents report that inventories are under control. Even auto inventories are under better control now than recently. However, a consumer-durables producer is concerned that small businesses are being squeezed by credit constraints and expects a rising incidence of returned goods and of bankruptcies.

Although some softening in PCE was expected, credit restraints will make financing of durables goods by consumers more difficult. March sales of department store type goods slowed sharply from the first two months of 1980. An economist for a major department store chain reports a 7.5-8.0% year-over-year gain in March compared to much larger gains in the previous two months. In real terms, sales increases did not match price increases (about 8%) for department store type goods for the first time since 1975. Also, the auto sales slump in recent weeks was widely attributed to the end of rebate programs. Most banks in the District will be eliminating free credit on credit cards by mid-year, while department stores will be increasing minimum monthly payments.
Because credit in real terms has been sliding for the past year and a half and installment credit in nominal terms slowed even before the March 14 controls, one economist in the retail industry believes that controls are untimely and will worsen consumer spending prospects. A bank economist believes that the personal saving rate will rise shortly because consumers are faced with a cash flow squeeze and are becoming concerned about their ability to service debt.

Several bankers indicate that loan demand is consistent with the current pattern of business and consumer spending. C&I loans are very strong, although the rate of growth has plateaued. One bank economist expressed concern about the financial position of some borrowers, but does not expect heavy business borrowing to cause any unusual problems during the recession.

Consumer installment credit has dropped sharply. Consumer loan demand, according to a District banker, has declined because consumers, concerned about the economy and higher interest payments, have reduced their spending and because banks, watching their profits decline, are discouraging some consumer loans that are currently unprofitable. However, a bank economist notes that customers are accumulating balances on their credit cards and are now paying the minimum balance more than ever before. Most bankers and retailers contacted will eliminate free credit, but one retailer is reluctant because 60% of his sales are based on credit.

Mortgage lending has dropped dramatically in the last few weeks. One S&L official reports that five rate increases since March 3 have raised his mortgage rates from 14% to over 17%. Several S&Ls report continued weak deposit flows, although six month money market certificates still attract funds. Jumbo CDs are still required to meet past commitments. Still, pent-up demand remains high, according to an official in the housing industry, and a drop in
mortgage rates later in the year could bring many buyers back into the market. Currently, for new construction, only builders having close ties with S&Ls can borrow, according to one bank economist.

The rate inflation is widely expected to slacken in the next few months because of a peaking in mortgage rates and deceleration in energy price increases. The underlying rate of inflation, according to a steel economist, is still around 10%, but weights attached to mortgage rates over-emphasize the component in the CPI. Declining rates, perhaps 700 basis points by the end of the year, will reverse the process and reduce the pace of inflation by as much as two percentage points. Along with an easing in energy costs and food prices, several economists forecast consumer prices will increase between 10 and 11% by the end of 1980.
Business conditions in the Fifth District showed further signs of softening over the past month. The weakness now appearing is far from pervasive, but there are fewer and fewer areas of strength remaining. On balance, District manufacturers report declines in shipments, new orders, and order backlogs. Manufacturers' inventories have grown in recent weeks causing some additional concern over current levels. Reports from District retailers were generally negative this month. Most retailers report a fall in total sales, and all respondents experienced a relative decline in sales of big ticket items.

According to most Richmond Directors, the availability of suitable labor ranges from average to abnormally tight. Credit market conditions continue to be characterized by moderate expansion and by changing composition of outstanding credit. The only area of strength is in commercial and industrial lending, where borrowing is concentrated among the larger businesses.

Of District manufacturers responding to this month's survey over one-third experienced declines in new orders and order backlogs over the survey period. Shipments were also apparently down, but by much less than orders. Inventories of materials and finished goods were higher. Approximately one-third of all manufacturing respondents now view current stocks as excessive. Employment was essentially unchanged over the month, but there were scattered reductions in the length of workweek. Current plant and equipment capacity remain essentially in line with desired levels and there is very little sentiment for altering current expansion plans.

In the retail sector reports of weakening activity are more widespread than in manufacturing. Two-thirds of our respondents report sales down over the past month and all respondents report a relative decline in big ticket
items. In some areas where sales held steady it was attributed solely to aggressive promotion and price cutting. Despite an overall decline in the level of retail inventories a large majority of respondents now feel that stocks are too high.

Price increases were somewhat less widespread this month than in recent survey periods. Over one-half of our manufacturing respondents report no change in prices received. Twenty percent report no change in prices paid. Among retail respondents prices received and paid, on average, showed little or no change over the month. Respondents' expectations of future activity, however, deteriorated sharply over the past month. Over 90 percent of the manufacturing respondents now expect the level of business activity nationally to worsen over the next six months, and a majority expect a decline in their respective market areas. Similar views prevail among retailers. About half of all respondents, however, expect activity in their own firms to hold steady over that time period.

Richmond Directors, queried as to the ease or difficulty of hiring qualified workers, find availability of labor average to abnormally low. Very few Directors found availability of labor above normal, and then it was primarily unskilled labor. Asked about industries, other than homebuilding and automobiles, which are depressed in their areas, our Directors mentioned several possibilities. Among these were furniture, major appliances, furniture and auto related textile products, building materials, and retail trade. To date, however, effects on these industries have apparently been diffuse.

Business loan growth at large Fifth District banks has been strong so far this Spring, exceeding the substantial increases that occurred in the same period last year. This time, however, it is the larger, national firms that
are doing most of the borrowing. Banks report that smaller and medium sized firms are making every possible effort to avoid borrowing at prevailing interest rates. Current borrowing is described as short-term but not for normal seasonal or working capital requirements. Nondurable goods manufacturers, especially those in food processing and chemicals, are most active. Retailers have also borrowed amounts that are unusually large for this time of year. Finally, municipalities have been heavy borrowers, for example, through revenue anticipation notes.

Instalment loan growth continues to be very weak, particularly at larger banks. Auto loans in particular are slack. Area bankers are taking aggressive steps to restrain any further growth in consumer revolving credit. Real estate lending is declining. In particular, the residential mortgage market is very quiet. Area thrift institutions, which continue to suffer severe declines in savings and long-term time deposits, are being very cautious. At current levels of mortgage interest rates, however, demand is very weak anyway.
SIXTH DISTRICT - ATLANTA

Most business indicators signal a downturn in the District economy. Retail sales have not met expectations, and higher interest rates have caused a slump in home and automobile sales, forcing layoffs in related industries. Loan demand has slackened. Agricultural prices are below the break-even point for most products.

Retail sales have softened recently. Inventories are lean in most cases, reflecting retailers' expectations of slower future sales. There has been a notable falloff in the sale of big-ticket items where financing is usually necessary. The heavy tourist season is bolstering sales in Florida; however, retailers are concerned that this is not sustainable through summer. Florida merchants are especially concerned over the restraints on credit card use, since a high proportion of their sales are from credit cards. Customers are becoming very price conscious, and discount stores are doing well. Slower sales prompted the closing of one of Alabama's oldest department stores and eight A&P stores.

Recent auto sales have been sluggish. The end of many rebate programs has weakened demand for most medium and large models. A few auto dealers in or around Atlanta have recently gone out of business. Fuel-efficient small car sales are still strong but not to the extent of previous months. People seem to be repairing their present cars rather than trading as most service and parts departments report heavy business. Used car sales are down because of the restricted supply of small fuel-efficient cars. Consumer loan demand has fallen off due to high borrowing costs.
High interest rates and their expected adverse effects on the economy have prompted some companies to revise capital spending plans. For instance, Kimberly-Clark Corporation has postponed construction of its $300-million manufacturing and distributing facility near Augusta, Georgia, and the Atlanta-based lodging chain, Days Inn of America, has cut its capital expansion program by 50 percent. Most architects and contractors in central Florida also see work running out in three to four months. Condominium construction has slowed because the typical Florida condominium buyer from the North is unable to sell his house. The few long-term loans recently issued include "kickers" (percent of profits) in addition to stiff rates. Residential construction is at a standstill in most areas. Buyers can't qualify for loans, and houses are staying on the market longer.

Mortgage rates of 16 percent for potential home buyers and 17 percent for builders are typical. Mortgage loan applications have slowed to a trickle. Most of the inflows into savings and loan associations are from the sale of money market and 30-month certificates. The high costs of money are presenting serious problems for some businesses. The Vero Beach Piper Factory, a manufacturer of small airplanes, closed for two weeks and furloughed 700 employees.

Industries connected with construction are cutting back. In south Mississippi, hardwood plants, sawmills, and plywood manufacturers are reducing their work forces. One Masonite plant has reduced its work force by one-third since the first of the year. Prices of lumber in the Florida mills are paralleling the drop in housing starts. In south Alabama, some sawmills have gone to one shift. In Augusta, Georgia, a
brick manufacturer closed one of its six facilities as shipments of bricks were down 40 percent from last year.

The short-range outlook for the agricultural industry is not good. Farmers are producing in a period of great risk due to high interest rates, high energy costs, and an unstable price structure. Heavy rains have presented serious difficulties with the corn crop in south Alabama. Lettuce and tomatoes are reported to be the only vegetables in south Florida that can be sold above the cost of production. Pork and poultry prices are low, reflecting rapid growth in supply. On the brighter side, the orange crop in Florida suffered less freeze damage than was first expected, and farmers are optimistic about next year's crop.

Contrary to the weakness in the aforementioned areas, energy-related industries are booming. In the chemical and petroleum sectors, a disposal facility of hazardous wastes, alleged to be the world's largest, will be constructed between Baton Rouge and New Orleans. This complex will be capable of detoxifying 80 million gallons of hazardous chemical by-products from area industries, which now create 50 million gallons of these wastes annually. Also, a large plant for refining contaminated petroleum products will be constructed near Montgomery, Alabama. Two large chemical companies have announced plans to spend about $300 million over the next five years on a joint exploration project for oil and gas, mainly in Louisiana and Mississippi.
The Seventh District was hit disproportionately by the slump in motor vehicles and housing that began in 1979. Until recently, however, it was not clear that weakness was spreading to other sectors on a broad front. Now, accumulating evidence indicates that a general recession developed in the first quarter. Demand for most types of consumer and producer goods has been dampened, complaints from the rural areas have become strident, and nonresidential construction appears to be poised for a dropoff. Some observers detect an abrupt deterioration in their industries that began after mid-March. Finally, we no longer hear confident predictions that any general recession will be brief and mild. Confidence of consumers and executives has eroded noticeably, with no reversal likely in the near future.

Reduced availability of credit and high interest rates have become paramount considerations in decisions to apply for or grant most types of credit, not only for long-term residential and farm mortgages, but also for consumer instalment loans, business working capital loans, and farm production loans. This phenomenon has not been apparent since WW II.

Conservative policies on carrying inventories and booking orders (in contrast to 1974) may have prevented a general recession from developing in 1979. In a number of industries—e.g., steel, appliances, and equipment components—order trends have followed an irregular path as periodic reordering has been necessary to maintain adequate working stocks. Similarly, the absence of multiple ordering prevented waves of cancellations when demand slowed. But inventories and bookings never appear conservative when demand declines sharply or is expected to do so. In late March a number of
industries, e.g., steel and petrochemicals, experienced a sharp drop in orders. Reduced backlogs and shorter order lead times were reported widely.

Favorable weather this past winter in contrast to the last three may have made the economy appear stronger in early 1980 than was the case. Road and rail transportation and construction activity were affected less by weather this winter than in a normal year.

The industrial developments in the district have been confused by the aftereffects of strikes at Deere and Caterpillar late last year, and by the continuing strike at International Harvester that began November 1. The strikes have made demand for the products of these companies appear artificially strong because of the reduced flow of finished products.

Most producer goods industries report declines in demand, although in varying degrees. Production is being maintained in some cases, but backlogs typically are declining. Hardest hit have been trucks, trailers, farm equipment, and types of construction equipment associated with residential developments. Orders for freight cars, diesel engines, mechanical components, and castings are down sharply. Still strong are machine tools, various electrical equipment, and commercial aircraft—all represented to a degree in our district.

Demand for most types of domestic cars and trucks remains weak, resulting in further cutbacks in output schedules. Layoffs have increased again at the Big Four, at parts suppliers, and at dealerships. Sales are down more in this region than nationally.

Closings of auto dealerships, often large agencies handling the strongest names, are increasingly frequent. Aside from depressed sales, dealers have been carrying inventories at interest rates ranging up to 20
percent. Interest alone averages $150 per car per month, and many higher-priced cars remain on hand for abnormally long periods. Also, some of the agencies occupy modern facilities with heavy mortgages.

Large general merchandise retailers headquartered in the district reported March sales in current dollars at or below last year despite an earlier date for Easter. Prices average about 7 percent higher. Weakness was noted in all major lines, and in all regions. Credit delinquencies have increased, but not to an alarming level as yet. However, bankruptcy filings are building up rapidly, encouraged by last year's lenient bankruptcy act.

Instalment credit has been under increasing restraint for six months or more at banks (including bank cards), credit unions, and retailers. Outflows of deposits, usury ceilings, and operating losses on consumer loans have caused lenders to take one or more of the following steps: refusal of new lines and increases in existing lines, withdrawals of existing lines, raising of standards, increasing minimum payments, and changing methods of calculating interest.

Housing activity, both new construction and transfers, is at a virtual standstill in most areas of the district. Permits for new homes in the Chicago SMSA in the first quarter were at least 80 percent below two years ago, and many of these permits may not be activated. Residential developments continue where loan commitments were made last year at favorable rates. Posted loan charges are 17 percent plus three points, but very few new loans are being made. Usury rates have not been a factor because huge monthly payments required currently price virtually all borrowers out of the market. Some analysts believe that fixed rate mortgages may not be offered in the future. Transfers of existing homes usually reflect situations where people must move,
and are ready to make substantial price concessions.

Economic conditions in the district's farm sector have deteriorated significantly since mid-March, an abrupt change for the worse rarely matched in the past. Deep concern reflects lower commodity prices, reduced credit availability, and unprecedentedly high interest rates. The squeeze on farm profitability evident in earlier months has tightened. The terms "panic" and "distress" are encountered frequently in the local press and in our contacts with rural communities. Because of liquidity pressures, rural banks are policing farm credits more closely. Some borrowers have been turned away, and others have been restricted to amounts needed to get crops underway, with a clamp down on loans for equipment and capital improvements. Purchases of farm equipment are down sharply. Buyers of grain and livestock, also affected by tight credit, have scaled down purchases to hold inventories at minimum levels. A preliminary tabulation of our farmland survey shows prices down moderately in the quarter ending March 31, and observers believe that the downtrend has accelerated. Tight credit and bleak farm income prospects have had the double impact of reducing the number of potential investors and increasing the number of properties offered for sale.
The economy of the Eighth District has shown signs of deterioration in recent weeks. Most dramatic has been the virtual stoppage of homebuilding. Department store representatives and automobile dealers report reduced sales in real terms. The manufacturing of most capital goods, however, remains relatively strong even though new incoming orders are beginning to slow. Financial institutions, particularly savings and loan associations, are more vulnerable to liquidity pressures because of the fast upward movement of interest rates. Mortgage rates in the St. Louis area are at 15-1/2 to 16-1/2 percent with several points usually required. Few mortgages, however, are being made at these rates as saving and loan associations find that over 50 percent of applicants do not qualify for loans, and that funds can be invested more profitably in short-term money market investments.

Consumer spending has begun to falter. Retail stores continue to post sales gains in current dollars, but after adjustment for inflation, sales volume is reported to be declining. Among items reported to have sluggish sales were shoes, apparel and home furnishings. Even though retail sales are sluggish, retailers report no "excesses" in inventories. Automobile dealers report that March sales were down approximately 25 percent from a year ago.

Overall, manufacturing has declined somewhat in recent weeks as the severe weakness in the automobile and housing industries was translated
into reduced demands for a number of manufactured products. The permanent work force at the automobile assembly plants in the St. Louis area has been reduced by 30 percent in the past year, and additional layoffs are scheduled at the St. Louis Chrysler plant. In addition, those not laid off are working only about one-half the time. Manufacturers of automobile brakes, bodies, and tires also report further layoffs. Manufacturing activity has declined in several industries related to home construction and home furnishing. One major appliance manufacturer, with declining sales, reported that sales have held up better than expected. Manufacturing of capital goods generally remains strong—as a result of existing backlogs of orders. Production of aircraft, energy efficient electric motors, railroad and barge equipment remains strong, and carloadings by local railroads have increased in recent weeks. But, some slowing in sales was reported for steel, lubrication equipment, and gas regulators.

Current inventories of most goods are reported to be at desired levels. However, a major chemical manufacturer reported that unwanted inventories are beginning to accumulate in nonagricultural chemicals.

Home sales and home construction have undergone substantial declines relative to a year ago. The St. Louis Homebuilders Association report on a survey of 112 members shows new homes sales and employment down about 60 percent in the first quarter of this year from a year ago. A financial "squeeze" on builders is reported to be particularly severe as interest charges on capital tied up in projects have gone up while cash
flow has fallen sharply. In a homebuilders demonstration around this Bank on April 9th, they called for immediate Federal Government action to balance the federal budget, institute a hiring freeze, provide for an eventual 10 percent reduction in staff, and a sunset law.

Financial institutions report lower loan volumes and higher interest rates. Business loan demand has continued to rise but personal loan volume has fallen. Banks report that consumer installment loans are generally unprofitable and delinquencies are beginning to increase. Most thrift institutions have stopped making commitments for mortgage loans, making loans only for other investors and to meet existing commitments. While most financial institutions continue to offer the highest possible rates on CD's, new funds attracted by savings and loan associations primarily are used to purchase Federal funds and large CD's.

In the agricultural sector, farm input costs are reported to be rising very rapidly, up as much as 25 percent from last year with fuel and interest cost posting the largest gains. Bank lenders note that the majority of farmers are obtaining credit, but at higher interest rates. Some farmers, particularly those who are heavily in debt, are reported to be under extreme financial stress.
The long-awaited recession has not arrived in the Ninth District, but it is closer than a month ago. For it to arrive, total output must decline, and that hasn't happened yet: most district businesses are still expanding production and adding workers. Recent drops in farm income and further leaps in interest rates, however, have cut back lending and spending enough to begin to slow production and reduce employment in some district industries.

The recession is still not here . . .

All of our reports so far this year have said that overall district output was still expanding, and this assessment hasn't changed. According to our Bank directors, the main growth industries are manufacturing and nonresidential construction in the Minneapolis-St. Paul area and energy production and exploration in western North Dakota and eastern Montana. Reflecting this expansion, available first-quarter data show district employment up about 2 percent from a year ago.

. . . but agriculture has been hit . . .

One major district industry is no longer helping keep the district out of a recession, though. Our last report indicated that good agricultural conditions were bolstering the district economy and that grain prices were still at their preembargo levels. But farm commodity prices declined in March, while farm production costs continued to rise. Thus, of the rural bankers responding to our survey in late March, 56 percent reported that farm earnings in their areas were down from a year ago, nearly twice as large a share as said this three months earlier.
While farm earnings have been falling, interest rates have been rising. In the last month, the rates that banks and S&Ls must pay for funds to lend have risen sharply as many deposits have been shifted into money market certificates. The average interest paid on these certificates rose from 13 to 15 percent between February and March.

... lending is still contracting ...

These high interest rates are curbing lending in two ways.

First, where financial institutions can pass on the higher costs, borrowers are more hesitant to borrow. Our last report said loan requests were dropping off because nominal interest rates on loans had begun to rise faster than most prices, causing real interest rates to rise. In March real rates rose again, and requests for loans fell further. Farmers facing lower prices for their products became more reluctant to pay higher interest rates. So did consumers whose incomes were not keeping pace with mortgage rates. In fact, one director now says mortgage lending in his area is "dead."

Second, where usury ceilings prohibit financial institutions from passing on these higher interest costs, lenders don't find lending profitable, so even borrowers willing to pay the higher rates cannot get loans. These usury ceilings have been restricting consumer lending for quite some time. Directors report, however, that the March interest rate increases and the new System regulations have combined with the usury ceilings to reduce the supply of credit even further.

... and layoffs have begun.

Less borrowing and smaller farm incomes mean less spending, of course, and output in some district industries is starting to be curtailed. Directors
report declines in sales of general merchandise, autos, homes, and farm implements. They say that in order to hold down inventories as sales continue to weaken, retailers are buying less to sell. A director with a large Twin City manufacturer, for example, reports that in January and February the number of new orders his firm received was even with a year ago; in March the number was down 20 percent. With fewer new orders being written, unfilled orders have started to fall too, and at some firms they have fallen enough to slow production and lay off workers. In Minnesota during the last week of March, 65 percent more laid-off workers filed for unemployment compensation than a year ago.
TENTH DISTRICT - KANSAS CITY

The Tenth District economy is feeling the squeeze of tighter credit and activity appears to be weakening. Retail sales, adjusted for inflation, dropped during the first quarter of 1980 from their year-earlier pace. Inventories in manufacturing and in retailing are reported under tight control. Purchasing agents are finding materials readily available, but at ever-rising prices. Farmers are having difficulty getting credit at terms they can afford. Bankers worry about serious credit problems in the agricultural sector this spring and summer. Bank loan demand has weakened considerably since last month, probably because of the higher cost of borrowing and the more restrictive credit practices. Demand deposit growth continues strong.

Retailers report that dollar sales of their department stores held up in March, as compared to the volume a year earlier, after deteriorating in February. For the first quarter as a whole, sales in real terms were down from a year ago in most stores. Clothing has been selling fairly well, while sales of durable goods have been weak. Some retailers now say they are cutting profit margins instead of passing on all cost increases. Most store managers are still trimming inventories, although they do not regard stocks as excessively high.

Purchasing agents report input prices have risen 10 percent or more over the past twelve months. Most buyers note sizable price increases in recent months, and only a few purchasers expect a let-up in the price hikes as the year progresses. No widespread shortages of materials are evident and lead times are not expected to lengthen much, except possibly
in the case of some defense-related inputs. While very few firms report
much excess plant capacity, some note a loosening of the labor market in
their metropolitan areas. Purchasing agents, pessimistic in their economic
outlook and burdened with high interest rates, plan to maintain low levels of
materials inventories. Desired inventory reductions have already been achieved
by many companies, which have in some cases enjoyed stronger-than-expected sales.

The agricultural credit conditions in the Tenth District remain
tight with scattered fund shortages occurring in Nebraska, Kansas, and
Wyoming at some smaller agricultural banks. Slow deposit growth and strong
farm loan demand are resulting in relatively high loan-to-deposit (L/D)
ratios at District agricultural banks. Credit availability in Nebraska is
particularly tight with over three-fourths of the agricultural banks reporting
L/D ratios of 70 percent or more.

Some bankers cite the 6-9 percent credit growth guidelines as
contributing to shortages, since all their loan demand qualifies for special
treatment under the controls. A few large regional correspondent banks,
important in agricultural lending, indicate that they may have some diffi-
culty servicing peak correspondent loan demand this year while abiding by
the 9 percent ceiling on bank credit growth.

Alternative sources of credit for agricultural producers may be
somewhat limited this spring. Production Credit Associations (PCA) are
finding that many new requests for credit do not meet their credit stan-
dards. Additionally, both PCAs and Federal Land Banks are experiencing
loan processing delays which may affect the availability of credit during
critical production periods. Merchant and dealer credit is also more
difficult to obtain this year on all agricultural inputs.
Many bankers are very concerned over farmers' ability to repay 1980 lines of credit. An increase in planting costs of 20-25 percent combined with declining farm product prices pave the way for significantly lower net farm income in 1980. Within the District, the heaviest burden of declining prices will be carried by cattle feeders and pork producers.

A survey of bankers in the Tenth District indicates substantially weaker loan demand as compared with last month. Most bankers cite increased customer resistance to the higher costs of borrowing. Real estate and agricultural lending has been particularly hard hit, with several bankers foreseeing serious problems in the agricultural sector over the next six months. While there is some demand for consumer loans, banks have tightened terms of lending, particularly in the credit card area. Some banks report restricting the availability of credit cards as well as plans to raise minimum payments and impose user fees. A few banks report continuing strength in the commercial and industrial area from ongoing energy-related projects. Even in those parts of the District where energy and mining play important roles, however, bankers are no longer optimistic about being insulated from a deteriorating economy. In addition to raising the prime rate, several banks report requiring higher compensating balances. In the consumer area, there is increased concern over the quality of loans being made as well as some evidence of a rising delinquency rate.

On the positive side, most bankers report stable to stronger demand deposit growth. Growth in money market certificates and large CD's continue at a rapid rate. However, passbook savings accounts are still declining.
ELEVENTH DISTRICT - DALLAS

On balance, the economy of the Eleventh District continues to grow, but signs of weakness that portend a recession are cropping up. Department store sales have begun to lag behind the rise in prices, and new car sales continue to decline. The distress in residential construction is reflected in an increase in unsold homes and a rise in bankruptcies among builders. Disintermediation shows little sign of abating at District S&L's. Loan demands at District banks are slowing, but limiting the growth in loans to 9 percent this year will prove to be difficult at most banks. A survey of agribankers shows rapid deterioration of financial conditions in rural areas. In spite of apparent weaknesses elsewhere, industrial production continues to increase, and drilling activity remains at record levels.

Real sales at District department stores have begun to edge down, and much of the weakness is big-ticket items. Retail executives report consumers are becoming increasingly selective in their purchases, and as a result, inventory levels are being tightly controlled. No major changes in the extension of consumer credit are evident as retailers have adopted "wait and see" attitudes toward implementation of the new credit control measures. The volume of delinquent credit accounts shows no sign of increasing.

The trends in new car sales are unchanged from recent months. Sales of small and foreign cars remain fairly strong, while sales of large domestic models continue to slip. Availability of GMAC financing is helping GM sales, but a lack of similar financing is hurting Ford and Chrysler sales. Declining sales and ever higher interest costs are forcing marginal dealers out of business.
The decline in residential construction is beginning to take a toll on builders. The supply of unsold homes is increasing because of declining sales and house prices are softening. Dallas has a four-month supply of unsold homes in the higher price range, and a four-month supply is under construction, based upon sales in February which were slightly below a year earlier. The number of homebuilders declaring bankruptcy is on the rise—particularly in Houston. Further distress will become evident this summer when current commitments run out.

Disintermediation at District S&L's continues unabated, and loan activity remains depressed. Some mortgage funds are available, but there are few takers at current interest rates. Demand for home improvement loans has picked up slightly, however.

High interest rates have begun to cut into spending programs of an increasing number of municipal governments. Many bond issues and bond elections are being deferred until interest rates drop. Some projects that would normally be financed through bond issues are being funded out of general revenues where such funds are available.

Loan demands at District banks are slowing, although energy and commercial real estate demands remain strong. Growth in loan volumes at Dallas banks is well above the new 9-percent guideline, and most bankers face painful choices for compliance. Elsewhere in the District, the problem may be less severe.

Preliminary results from the April survey of agribankers indicate a rapid deterioration of financial conditions in agriculture. Loan demand at respondent banks is substantially lower than a year ago, and farmers are reported to be delaying purchases and cutting corners wherever possible.
Replacement cattle, new farm machinery, and land sales appear to be the most affected. Prices for most agricultural commodities are low relative to production costs, and many of the bankers surveyed are pessimistic about the ability of farmers to repay loans made at current interest rates.

Despite growing signs of weakness elsewhere, factory output continues to increase, and widespread shortages of labor persist. Production in most major industries remains at a high level. However, demand for lumber and construction steel is weakening further, and new orders for office furniture are down because newly completed buildings are being furnished only with essentials due to higher costs. Refinery output continues to decline in light of high inventories of most finished products. Oil field equipment manufacturers report an oversupply of offshore drilling rigs may be developing.

Drilling activity for the year to date is 25 percent above the comparable period a year ago. Demand for inputs remains high. Industry observers indicate it may take a couple of months to determine what affect passage of the windfall profit tax will have on drilling.
TWELFTH DISTRICT -- SAN FRANCISCO

Signs of more cautious approaches to buying, borrowing, lending and future planning are beginning to appear in the Twelfth District's economy. In the face of slumping retail sales elsewhere, consumer buying has remained firm to brisk in much of the West, with strong buying reported in Southern California and in the urban areas of Utah, Idaho and the Pacific Northwest. Countering this is a depressed home-construction and real-estate sector which has crippled the lumber and plywood industry in the Northwest -- triggering mill closures, production cutbacks and rising unemployment. Banking and financial institutions generally are adjusting well to tighter limits on loan expansion, while noting that many consumers are adopting self-imposed credit restraints. Rising financing costs are crimping future plans of farmers and cattlemen, but good late-winter weather (except in rain-deluged Southern California) provided ideal planting and range conditions this spring.

Retail sales in Southern California during February and March ran approximately 14-15 percent ahead of year-ago figures. In most other areas of the District, consumer buying fell below the annual rate of inflation, and further slowdowns are expected in coming months. Still, Southern California retailers noted some softness in sales of selected consumer durables, while Utah stores noted very good sales of big-ticket items such as electric ranges, dishwashers, dryers and home freezers. Meanwhile in Oregon, retail sales were labeled "disappointingly flat," and a major Oregon retailer restrained inventory accumulation and halted expansion plans.

"Domino" effects of an ailing construction industry are being seen in rising unemployment, falling heavy-equipment sales and rising bankruptcies.
But the District's diversified economy appears able to ward off a major recession. Bright spots in the area's business activity include: aircraft manufacturing and port business in the Puget Sound area, ski-resort business throughout the Mountain West, commercial and industrial construction in Southern California and the Pacific Northwest, and selected exports such as wood products, metals, and electronic components.

Following a nationwide pattern, reporting directors called residential construction "a wet blanket" in Southern California, a "disaster" in the Pacific Northwest, and "practically nil" in the Intermountain area of Utah and Idaho. Among the casualties were fast-food outlets, which cut back considerably on expansion plans in Southern California. The falloff in housing starts even reached Alaska, despite stimulus to home-buying from a state lending program for owner-occupants. Housing starts in Oregon fell to their lowest level since World War II, and analysts predicted a 40-to-60 percent decline in residential construction this year in Utah, Idaho, Oregon and Washington.

One third of Oregon's industrial base is concentrated in lumber and wood products, so the current downturn is placing heavy stresses on the state's economy. The American Plywood Association reports 18 plywood mills closed and 16 with curtailed production in Oregon at the end of March. Also, about one-third of Washington's plywood work force has been idled. Spokesmen for lumber trade associations maintain the current slump is at least as bad as that of 1974-75. In Idaho, recent layoffs of more than 400 workers by Boise Cascade and the Van Camp Packing Company have triggered a 29-percent unemployment rate in several small towns.
Reports are mixed from the region's agricultural sector. In California's Central Valley, the fruit crop was "extremely good" in the southern end around Bakersfield but only "average" around Fresno. The Florida freeze has pushed up the price of California citrus. As a result of wet weather in Southern California, prices are expected to be up on almonds, green onions, avocados and citrus fruits. In that area's Coachella Valley, the carrot crop was reported ruined, but cotton production was relatively unaffected and cotton prices remained high.

Higher energy and financing costs continue to plague agriculture in the Northwest. But decent weather and ground moisture during the spring planting season will aid production of hay, vegetable and seed crops in the area. In the Intermountain region, farmers withholding their wheat and corn from markets until they can obtain higher prices are experiencing storage problems.

Farmers throughout the District are suffering from financing problems. Noted one observer: "They are having difficulty living within the present cost of money, which is their principal operating cost." To overcome this problem, many farmers are scaling down their loan requests to a bare minimum, foregoing major equipment purchases and repairing worn and broken equipment to last another year or more. Despite rising farm costs, employment in California's farm-rich San Joaquin Valley increased 2 1/2 percent in January and February following a 2-percent overall rise during 1979.

In the banking and financial sector, loan demand appeared to be cooling in several areas. An Anchorage bank stopped issuing new credit cards, and reported a 16-percent decline in its consumer-loan portfolio over the past 18 months. The largest banking organization in the Mountain West announced
that it is charging $20 a year for the use of its Visa credit card, with interest on those accounts starting to accumulate the day of purchase rather than 30 days after the billing date. "Consumers appear to be rationing themselves in the credit sector," said one Washington banker. Lack of loan business has forced some financial institutions in Southern California, Utah and Idaho to trim their staff and budgets.

In response to a Federal Reserve survey, bankers generally reported that total loan expansion at commercial banks this year could be limited to the 6-to-9 percent range recommended in the Fed's special credit-restraint guidelines. Several banks reported that real estate and installment loans have already been curtailed by high costs and, in some instances, usury law limits. To remain within the loan-increase guidelines, some lenders are curtailing non-productive loans for business expansion, speculative purposes and unsecured personal borrowing. One banker had this to say: "We expect the curtailment to be borrower-imposed across the board. Businessmen are borrowing less to carry inventories, contractors (other than home builders) are curtailing the amount of work they are taking on to avoid borrowing in the 20-percent plus range, and mortgage demand at current rates is virtually nil."

# # #