CURRENT ECONOMIC CONDITIONS BY DISTRICT

Prepared for the
Federal Open Market Committee
by the Staff

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# TABLE OF CONTENTS

<table>
<thead>
<tr>
<th>District</th>
<th>City</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>SUMMARY</td>
<td></td>
<td>1</td>
</tr>
<tr>
<td>First District</td>
<td>Boston</td>
<td>1</td>
</tr>
<tr>
<td>Second District</td>
<td>New York</td>
<td>4</td>
</tr>
<tr>
<td>Third District</td>
<td>Philadelphia</td>
<td>7</td>
</tr>
<tr>
<td>Fourth District</td>
<td>Cleveland</td>
<td>10</td>
</tr>
<tr>
<td>Fifth District</td>
<td>Richmond</td>
<td>14</td>
</tr>
<tr>
<td>Sixth District</td>
<td>Atlanta</td>
<td>17</td>
</tr>
<tr>
<td>Seventh District</td>
<td>Chicago</td>
<td>20</td>
</tr>
<tr>
<td>Eighth District</td>
<td>St. Louis</td>
<td>24</td>
</tr>
<tr>
<td>Ninth District</td>
<td>Minneapolis</td>
<td>27</td>
</tr>
<tr>
<td>Tenth District</td>
<td>Kansas City</td>
<td>29</td>
</tr>
<tr>
<td>Eleventh District</td>
<td>Dallas</td>
<td>32</td>
</tr>
<tr>
<td>Twelfth District</td>
<td>San Francisco</td>
<td>36</td>
</tr>
</tbody>
</table>
SUMMARY*

Business activity among the Districts continues to weaken in June, with mounting evidence that declines in consumer spending and construction are spreading to the capital goods sector. Consumer spending remains soft, especially for big ticket items. An inventory buildup is widely noted, although swift adjustments in production are generally thought to have kept inventories close to desired levels. There is little indication that capital spending plans have been altered, although scattered reports of cutbacks and delays are cited. Loan demand has not improved from last month's low levels despite easing of restraints and lower interest rates. Substantial declines in mortgage interest rates and improved credit availability has sparked some improvement in mortgage loan inquiries and sales of existing homes.

Manufacturing of durable goods declined further this month, with signs of the recession spreading to the capital goods industry. Production of auto and steel-related products is being cut sharply. A sharp fall in new orders of consumer and producer durables is reported by New York, Richmond and Philadelphia. Some weakening in capital goods orders are reported in Cleveland, and Chicago notes an increase in order cancellations, although not on the scale of 1974-1975. Manufacturing sales, especially of defense goods, however, are continuing to hold up in Boston, and backlogs of capital goods orders remain large in New York. Despite a decline in manufacturing activity, Minneapolis points out that the District

*Prepared by the Federal Reserve Bank of Cleveland.
has been able to avoid an employment decline as a result of significant strength in industrial output and nonresidential construction, as well as sustained demand in energy exploration and production. San Francisco notes that a continuing healthy aerospace industry has helped to buoy the retail business in the northwest.

Consumer spending, especially for automobiles, appliances, and furniture, remains weak throughout the nation, with little improvement expected before the end of the year. Real retail sales in nondurable consumer goods generally are holding better than durable goods, although Atlanta and St. Louis note declines in both. There are, however, signs of a pick up in retail sales in the Minneapolis area, and fashion items continue to do well in St. Louis and New York. Sales of new cars and trucks are well below year-ago levels, but improvements over the May level are cited in Dallas and Cleveland. New York notes that discount stores have been benefiting from the growth of price-conscious consumers.

Rising inventory levels at the producer and retail levels are a growing concern to businessmen across the nation, but most still believe that accumulations have not become excessive. Chicago reports that output has dropped faster than consumption as a result of substantial downward adjustments in production schedules. However, trouble spots are noted, especially for major appliance firms, by Cleveland and St. Louis. Energy stocks are reported to be well above year-ago levels in Cleveland, and storage facilities in the Dallas area are full. Further production and employment reduction may be necessary through the summer months to prevent inventory building among manufacturing firms.
Most firms appear to be reluctant to reduce capital spending programs, but there are widespread reports that reassessments are underway. Boston reports a sharp decline from the previous month in the number of firms planning to increase capital spending over the near term. New York and Chicago note that some existing programs are being stretched out rather than being reduced. Cleveland, however, cites announcements of substantial reductions in the steel and rubber industries. Weakening cash flow and declining market demand are the most common reasons given for delays and cutbacks.

Lending activity continues to decline virtually across-the-board, although consumer loans appear to be flattening out. Recent easing of credit restraints and lower interest rates do not appear to have increased consumer borrowing. Atlanta reports that many banks are aggressively seeking new loans, but Cleveland notes that banks have been reluctant to lower interest rates. Some banks report that interest rates have been slow to adjust to weakening demand. Industrial loans have dropped because smaller business firms fail to qualify, while large firms have access to commercial paper markets. A rise in bankruptcies, especially among auto dealers and home builders, is reported by Chicago area bankers as a result of the recession and new bankruptcy laws.

Thrift institutions have been aggressive in lower mortgage rates, but note only a mild pickup in inquiries. Loan commitments have been slow to respond because of a recognition lag and consumer uncertainty about the economy. Thrift institutions across the nation are experiencing sizable increases in deposit flows, which are frequently used to rebuild liquidity.
positions and repay borrowings. St. Louis and Chicago report some pickup in loans on previously owned houses, and San Francisco expects a turnaround by late summer.

The agricultural sector continues to be adversely affected by rising costs and falling farm income. Chicago expects that real farm income for the year will be at one of its lowest levels since before World War II, although income from livestock will improve in the second half of 1980. Dry weather has been a problem for crops and livestock in Atlanta and Richmond during June, while heat in Dallas and cool weather in San Francisco have adversely affected agricultural production. While funds for agricultural loans are available, loans have been very weak.
Signs of recession are becoming more widespread in the First District. Retail sales are soft and are not keeping pace with inflation. Surveys of manufacturers show more and more reporting reduced new orders and backlogs; however, there continue to be substantial numbers with increasing business. There is still very little housing activity; funds are available but the demand is simply not there.

Retail sales are not keeping pace with rising costs. However, the head of a large department store chain with affiliates across the country reports that the New England situation is substantially better than that in most regions. One consequence of the weak retail sales is that state sales tax revenues are falling well below projections.

Manufacturers are experiencing declining demand for almost anything related to the consumer market. Among the products which were mentioned as experiencing difficulties were all types of appliances, automotive products, textiles, apparel and vision products. Sales to industry are continuing to hold up fairly well and defense remains a source of strength. Most manufacturers contacted had observed a buildup in inventories in the past month. While this buildup is not considered alarming, all respondents are taking action to bring inventories to more desired levels. For most these actions represent a continuation of existing policies of tight control, but in one of the region's largest employers a major new inventory reduction program has been begun.

It appears that a reassessment of capital spending plans is taking place. A survey of New England purchasing agents shows a dramatic decline
from the previous month in the number of firms planning to increase capital spending over the next three to six months. The number reporting reduced spending plans increased substantially. This situation was confirmed by direct contacts. Two firms reported that they are reexamining capital plans very closely; another has been following a selective policy since the first of the year. One respondent did say that his firm has not altered its investment plans; however, these expenditures are intended to cut costs and increase productivity rather than add to capacity. The primary concern at the present time is future product demand.

There continues to be very little housing activity. The thrift institutions are starting to see an increase in deposits. While a significant share of these funds is being used to repay past borrowings and improve liquidity, the thrifts are easing back into the mortgage markets and rates have fallen substantially. The decline in rates has stimulated an increase in demand, but the improvement is very modest. Most of the demand comes from people who are moving from one part of the country to another; there is almost no demand from people who want to improve the quality of their housing. The second group of buyers is by far the larger.

Professors Eckstein and Samuelson were available for comment this month. Without a tax cut, Eckstein believes the continuing shrinkage of consumer purchasing power would swamp the anticipated modest rebound in housing and inventory investment, rendering a 1981 recovery very dubious. "With the economy in deep recession, it would be the extreme of irresponsibility, and the worst economic policy since 1930, to let taxes increase to the programmed extent." The tax cut announcement should be made
as soon as possible, according to Eckstein. "Every day of delay needlessly worsens the recession, discourages capital formation, and encourages worse tax and expenditure policies. Eckstein feels this is "a good time to be monetarist," striving to achieve the announced monetary growth targets. "Nonetheless, the international factor will put a floor under interest rates not much below their present levels." The dollar is overvalued and should be allowed to depreciate, albeit in an orderly fashion.

Samuelson noted that in previous business cycles, a sharp drop in sales, such as occurred in the second-quarter, would have brought forth stimulative governmental policies and a quick recovery. But because a short recession will not make a serious dent in the core rate of inflation--despite the spurious improvement soon to appear in the CPI--the government may choose instead to "invest in austerity." Once incorporated into business planning, this policy would result in a sluggish recovery at best. Having lived by the monetarist rule when rates rose sharply, Samuelson urges the Fed "to travel on monetarist steam at this stage of the cycle." The monetary growth targets should be achieved even if it should lead to lower interest rates and a weaker dollar.
SECOND DISTRICT - NEW YORK

Business activity in the Second District declined in May, although the decline appears less rapid than in April. Consumer spending at some major department stores showed signs of picking up, but domestic automobile sales continued soft. There is no evidence that the recent easing of the consumer credit controls spurred spending. Outside the consumer sector, the outlook was generally pessimistic. New orders declined further or stabilized at low levels for many manufacturing firms. Production cutbacks, as orders fell, have limited inventory build-ups. Despite the uncertain economic conditions, few changes have been made in capital spending plans and capital goods producers still report strong demand. The weakening in demand has reduced the upward pressures on prices. On the financial side, loan demand continues to languish despite the recent sharp decline in interest rate.

Consumer spending in the Second District was mixed in May. Sales at retailers that cater to high-income consumers in Manhattan and nearby New York suburbs generally improved over April's disappointing levels. Still, sales remained below January's and February's levels. A large influx of tourists and foreign visitors helps account for some of the good showing in Manhattan, but the sales at the New York suburban malls also point to an underlying strength. Other large retailers reported sales to be disappointing and did not expect a pick-up until the end of 1980. The pattern of consumer spending varied in other regions of the Second District. Retail business in New Jersey began the month rather sluggishly but then recovered somewhat. Retail sales in upstate New York remained mixed. Scattered inventory problems were cited among retailers, but tight management seems to have averted any serious difficulties. Concerns appear to focus on the build-up of certain large-ticket items.
Domestic car sales continued soft in May, but there were reports of some pick-up in June. Overall conditions have been described as "disastrous" with many dealerships folding. Lack of consumer interest and confidence, as measured by a low volume of floor traffic, were cited as reasons that were more important than lack of credit availability in causing the weakness in sales. Inventories are in satisfactory shape for the most part. Imported car sales, which had also dropped precipitously in April and May, seem to have recovered in June. Used car sales appear to be picking up as well. There are scattered reports of an easing in auto lending credit conditions.

Outside the consumer sector, overall business conditions have deteriorated further in recent weeks. A sharp fall-off in new orders was reported by manufacturers in such diverse industries as copper, brass, and aluminum products; machines and tools; chemical products; industrial packaging, and other paper products. Smaller declines were registered among manufacturers of consumer related non-durable photographic supplies, auto-related electrical products, and sheet metal. Sharp declines were reported earlier by firms in such diverse industries as steel, fibers, large electrical appliances, plywood and lumber. Inventories in these industries are generally at satisfactory levels due to immediate cutbacks in production in response to falling orders.

In contrast to other Second District producers, capital goods manufacturers are still reporting strong demand. Backlogs remain large, and orders are robust. Similarly, business is strong for manufacturers of small electrical appliances and audio equipment. The aerospace and the home improvement industries are also doing well. It appears that at least at some larger firms plant and equipment spending plans will be maintained despite the near-term falloff in business activity. On the other hand, a major chemical firm
reduced its current dollar spending plans. There are some reports of retailers either reducing their plans or deferring them. The most common technique of making adjustments, however, seems to be stretching out or postponing capital spending, rather than reducing its dollar amount.

With the economy weakening, evidence is mounting of an easing in inflation—apparently more marked than in the previous recession. List prices have not been lowered all that much, but prices are not rising much from the previous month and even some discounts are apparently being offered. Wage pressures also seem to be easing in response to the weakening in the labor markets.

No evidence was seen of any increase in consumer spending resulting from the recent easing of the credit controls. Instead, the psychological impact of the program was still felt to be severe. Financing terms at commercial banks are reported to have eased in recent weeks. All major thrift institutions have lowered mortgage interest rates and some have even begun to aggressively advertise for borrowers. Business loan demand at banks has not recovered despite the recent drop in interest rates.
THIRD DISTRICT - PHILADELPHIA

Reports from the Third District indicate that business activity for the month of June is sluggish. Business conditions in the industrial sector have declined significantly this month, while retailers report sales to be just even with a year ago. Looking ahead, manufacturers are expecting an upward swing six months from now, but local merchants say sales will remain flat, despite end-of-year Christmas buying. Area bankers say commercial loan volume is up, but by less than projected, and foresee little improvement this year. Interest rates are expected to continue their decline through the next two quarters.

Manufacturers responding to the June Business Outlook Survey report another significant decline in area manufacturing activity, extending the slump in the local industrial sector to a full year. Both new orders and shipments are down substantially as producers' backlogs continue to diminish. Inventory liquidation appears to have abated, however, at least temporarily. The pinch continues to be felt by area labor, with about one quarter of the respondents to the survey reporting decreased payrolls and half reporting a shorter average workweek.

For the longer term, survey participants are projecting a significant upward swing in general industrial business activity in the next six months. New orders and shipments are expected to increase; however, plans to add to inventories have not yet been made. Likewise, manufacturing managers foresee little change in employment, the average workweek, or expenditures on plant and equipment.
A Director of this Bank whose business is in the manufacturing sector feels that this cautious attitude is appropriate. He takes exception to the survey results, and does not expect recovery until 1981, pointing out that many of his customers anticipate a recession deeper than that of '73-'75.

Industrial prices are up again this month as nearly 60 percent of the survey respondents report paying more for inputs than they did in May and 40 percent report charging higher prices. Looking ahead to the balance of 1980, responding manufacturers expect inflation to continue. Over 80 percent anticipate increases in raw material prices within the next six months and 70 percent plan price hikes for the goods they sell.

Area retailers report this month's overall sales to be in the range of zero to 5 percent above those of June '79. Expectations were gloomy to begin with, though, so merchants are not unhappy with their current sales performance. Moreover, the bleak outlook early this year led many retailers to plan cautiously, so that even though sales have slowed recently, inventory-sales ratios are still healthy. Sales of soft goods—apparel and small household items—are fairly brisk, but big ticket items are very sluggish, owing at least partly to credit tightening. Credit sales in general are down slightly, with cash sales up, and collection of outstanding credit is reported to be slow.

Local department store executives are continuing their trend of recent months, and are planning cautiously and defensively. They believe "the other shoe has fallen" and are projecting flat sales through year-end, despite December Christmas buying. They feel that the current recession will be deeper than generally believed, and do not expect recovery until 1981.

Bankers contacted this month report sluggish loan activity. Reports of C&I loan volume range from 5 to 7 percent over year-ago figures, somewhat below projected volume for this period. Consumer loans, on the other hand, are flat, which contacts
attribute to the continued restrictive posture taken toward retail lending. Looking ahead to the next two quarters, bankers are projecting little change in lending activity, as the economy slips deeper into recession.

Banks in the Third District are currently quoting a prime rate of 12 percent, and report a nominal amount of below—prime lending as a result of stiff competition for customers. Projections for the prime indicate a continued drop through the balance of 1980, leaving the rate about 200 basis points below its current level by the end of the year. Falling interest rates have had a positive effect on banks' deposit flows. Deposits at commercial banks have stabilized as rates have plummeted, but are still down compared to last June's levels.

Housing sales in the Third District have started to show some signs of life again, although new starts remain depressed. The increase in sales is attributed to increased mortgage availability and lower mortgage rates. Some 80 percent mortgages are now available at 12 to 13 percent. Housing prices had generally levelled off in January of this year, but are once again on the upswing, especially in prime areas. On the construction side, starts have not taken off again yet, as builders finish projects started late last year and hold back on new groundbreakings. One broker feels that developers will wait for two to three consecutive months of economic improvement before undertaking new construction.
FOURTH DISTRICT - CLEVELAND

Business activity in the Fourth District continued to decline sharply in June as the recession begins to affect business spending. Most respondents expect the recession to bottom out late this year, followed by a sluggish recovery in early 1981. The summer months will likely be marked by inventory liquidation. The worst of the decline in consumer spending appears over, but new car sales are expected to remain relatively flat until the introduction of new fuel-efficient models later this year. Loan demand, according to District bankers, continues to be weak across-the-board. Housing remains depressed, despite significant reductions in mortgage rates and improved deposit flows into S&Ls.

Economists who attended the Fourth District Economists Round Table meeting held at this Bank on June 13 have revised their forecasts of real GNP downward since the March meeting. Although virtually all of the 27 economists who attended the meeting forecast a sharp decline, only four expected an equally sharp recovery. The median forecast of the group shows a 7.3% annual rate of decline in real GNP in the second quarter, 4.3% decline in the third quarter, 1.6% decline in the fourth quarter, and a recovery at annual rates of 1.3% and 4.7% in the first and second quarters of 1981, respectively. Next quarter's anticipated reduction in real GNP is largely associated with a decline in inventory investment and a further contraction in residential construction. However, a higher level of consumer spending from the second quarter is anticipated.

Generally, most officials believe capital spending plans for 1980 are unlikely to be adjusted downward unless cash flow weakens more than is
now expected. Although several capital goods producers report no adjustment in spending plans, there is concern that a cash flow squeeze could result in some cutbacks in the period ahead. However, some firms directly affected by weakness in consumer spending have already begun to cut back capital spending because of poor operating rates and a poor profit outlook. A rubber and chemical producer reports that capital spending for 1980 is being cut to $200 million from $300 million because of poor earnings and projected sluggish growth for rubber products. A steel producer has announced another postponement of a $280 million project for its Ohio facility because of a poor profit outlook and is planning to trim a $400 million capital spending program for 1980 by $50 to $100 million.

Some liquidation of inventories is expected to get underway following a sudden step-up in inventory accumulation in recent months. Generally, most respondents believe that inventories are not nearly as out of line with desired levels as they were in 1974-1975. General merchandise inventories rose sharply between March and May, according to a major retailer, and inventories are now at least 6% higher than desired and will be promptly liquidated during the summer months. Adjustment of soft-goods inventories is expected to be completed by the end of summer, but will take longer for furniture and appliances. Passenger tire stocks are still considered lean at the plant and distributor level. One producer has offered dealer incentives to build stocks, but dealers have preferred to keep inventories low until sales pick up. Inventories of steel mill products are judged to be excessive and are already being worked down by capital goods as well as consumer goods users of steel. Energy stocks, especially petroleum products and coal, are judged to be more than ample. The
buildup in crude oil and gasoline stocks until recent months was planned because of uncertainties in world oil markets, but large stocks will contribute to an easing in utilization rates to the low 70s through the balance of 1980.

Consumer spending appears to have bottomed out. Sales of small appliances continue to show surprising strength in recent months, according to a consumer durables producer, while declines in major appliances have been quite sharp. Nondurable goods are experiencing a return to more traditional spending patterns, with a greater willingness among consumers to spend without the influence of price hedging. Although auto sales have remained very weak throughout June, a producer and some major auto dealers report that June sales will be higher than May. Recent improvements are partly attributed to lower instalment lending rates on direct auto loans, but lending rates throughout the District have not fallen much from highs in March. Heavy discounting, except for slow-moving standard-size cars, have been avoided, according to an area dealer, because of the low volume of sales generally. Several auto dealers remark that sales will be flat until new model cars appear in the fall. Otherwise, recovery in sales will be delayed until spring.

Demand for consumer and industrial loans remains very weak. Several bankers report that consumer credit demand continues to decline virtually across the board, despite some easing of credit terms. Instalment rates have not been lowered very much thus far. One area banker states that lower auto loan rates could not be justified because they would not induce additional demand to offset the profit squeeze, and alternative investments offer better returns than auto loans. A Pennsylvania banker states that interest rates on consumer loans never rose much because of usury laws in that state, and when
they were finally modified, demand had already begun to weaken. Although some borrowing to finance inventory may be occurring, a banker expects C&I loans to remain soft for the rest of the year, as large corporations continue to issue commercial paper and small businesses fail to qualify for bank credit.

Banks and S&Ls in the District uniformly report strong growth in savings and time deposits in June. With mortgage loan rates in the range of 11% to 13%, borrower demand has shown little improvement. A large S&L in Cleveland recently introduced a 9 3/4% mortgage rate for a 1-year rollover mortgage. Lenders note an increase in inquiries in response to reduced mortgage rates, but not much pickup in commitments and loans, nor do they generally expect a significant pickup for the time being. However, one S&L official reports loans are currently in a $6 to $8 million range compared with a more typical $25 to $30 million range, but hopes the recent pickup in inquiries and applications will lead to a $15 to $20 million loan month in the near future. An economist with a regional FHLB in this District asserts that some lenders are reluctant to make commitments and loans, and instead, they choose to rebuild liquidity and repay advances from the FHLB. Apparently, some associations are intent on reporting a profit as soon as possible following a disastrous first quarter and perhaps first halt.
FIFTH DISTRICT - RICHMOND

The level of business activity in the Fifth District fell sharply over the past month. Of manufacturers surveyed over two-thirds experienced declines in shipments, new orders, and order backlogs. Inventory accumulation, particularly of finished goods, occurred across a broad front. Employment among manufacturers surveyed also fell on balance. Retail sales activity continued to slip in June as both total sales and relative sales of big ticket items fell. Retailers, however, appear to have trimmed inventories further and forestalled serious problems in that area. Contacts in the consumer lending area indicate that consumer credit demand continues to weaken around the District. Furthermore, there is little evidence that lenders are eager to make additional loans, despite the recent declines in interest rates. Respondents in our latest survey express somewhat less pessimism about the future than in other recent months, although most expect some further deterioration in business conditions in the period immediately ahead.

Of Fifth District manufacturers responding to this month's survey over two-thirds report declines in shipments, new orders, and order backlogs during the past few weeks. At the same time inventories continued to expand as did concern over the level of current stocks. Fully half the respondents report stocks of finished goods up from a month ago, and well over half find current levels excessive. Employment was also down among manufacturers and most establishments reduced the length of the workweek. The number of respondents finding current plant and equipment capacity in excess is substantially greater than a month ago, but there remains very little sentiment for altering current expansion plans.
In the retail sector sales were down as were relative sales of big ticket items. Retailers, however, are still able to keep tight control over inventories, which so far have not become a serious problem. Indications are that employment among retailers was down somewhat from a month ago. In general, however, retailers find the current numbers and sizes of outlets appropriate.

Survey Responses suggest that price increases have become somewhat less widespread in recent weeks. Both manufacturers and retailers report less frequent rises in employee compensation this month. Manufacturers report increases in prices, both paid and received, as less common now. Some retailers continue to report declines in prices received. The pessimism which has pervaded our survey for some time lifted slightly in the latest survey period, but most respondents still expect some further deterioration of business conditions over the next six months.

In general consumer credit demand in the District remains weak, particularly for automobile and personal cash loans. Mortgage lending has apparently made little response to recently reduced rates. Neither borrowers nor lenders seem eager to initiate loans at this time. Richmond directors note a recent increase in the pace of repayments of credit-card and other consumer instalment debt balances. Directors from banks and thrift institutions do not find that the 6-9 percent lending growth guideline has been a binding constraint on lenders.

June weather varied widely throughout the District, with extremely dry conditions prevailing in the Carolinas—especially in South Carolina—and in Virginia. Elsewhere, soil moisture supplies were mostly adequate. Corn and pastures appear to have been affected most. While some relief from the dry weather occurred during the third week of June, more rain is still needed.
Corn at that time was reported to be beyond recovery in some areas. The peach harvest now in progress is expected to be 12 percent under the 1979 crop. Expectations point to sizable reductions in the North and South Carolina crop but significantly larger crops in Maryland and the Virginias.
SIXTH DISTRICT - ATLANTA

The District economy remains in a recessionary state. Retail sales dipped in real terms. Residential construction exhibited no significant improvement; however, real estate sales rose modestly. Bank lending remains weak. Carpet and lumber mills report large production cutbacks, layoffs, and the elimination of excess inventories. Much of the District's early corn crop was lost to dry weather, and hog prices received by producers advanced substantially.

The Cuban "Freedom Flotilla" and the devastating riots in Miami profoundly affected Florida both socially and economically. Over 100,000 freedom-seeking Cuban refugees arrived by boat in Key West for eventual settlement, primarily in the Miami area. Upward pressure on unemployment is certain, as are extraordinary governmental expenditures. Deep-seated frustrations sparked large-scale rioting and burning in Miami's black Liberty City area. Property damage alone exceeded $100 million.

Retail sales in the District remained level and failed to keep pace with inflation. Consumer delinquencies grew slightly. Department store executives tightened control even further over employee hours and inventories to alleviate serious profit squeeze situations. A major Atlanta retailer experienced spotty sales, with increases in soft goods, especially women's wear, offsetting declines in hard goods and home furnishings. Relatively good sales levels were reported for discount stores due to the heightened price-consciousness of consumers. Movie admissions, which historically fare well in recessionary periods, are up. Lawnmower
sales, which have previously been strong, dipped, and orders for motorcycles and bicycles softened for the first time in several years.

Automobile sales were stagnant and well below year-ago levels. Although automobile loan rates have been sticky, several dealers felt the well-publicized general decline in interest rates caused a considerable jump in showroom traffic. Import dealers continued to do well at the expense of domestic dealers. For many, stepped-up parts and service receipts blunted the impact of the slump in sales.

Districtwide, residential construction activity continued to be sluggish. One exception is the Atlanta area, where housing permits for early June climbed to 23 percent above year-ago levels. Home sales, meanwhile, showed a moderate gain overall. A southeastern Florida contact was encouraged by sales in June returning to near normal proportions. A Nashville contact experienced a slight increase in sales and a spurt of inquiries. Home sales rose modestly in the smaller cities of east Tennessee and north Georgia. At District savings and loan associations, generally, mortgage commitments are up appreciably and savings inflows have improved sharply.

Weak loan demand still characterizes the District's banking sector, especially commercial and consumer lending. Consequently, many bankers are aggressively seeking new loans. Numerous banking contacts observed a decided shift by savers from 6-month money market certificates to 30-month certificates due to interest rate differentials.

Backlogs of office and other large construction projects in the Atlanta area are down because of previous nonavailability of permanent financing. Occupancy in office buildings, however, has risen to 90 percent
and beyond, and pension funds have recently returned to the market but are requiring significant profit participation and seeking short maturities.

In several of the District's major industries, inventories are now down to desired levels, following production curtailments in recent months. Carpet manufacturers, heavily concentrated in northern Georgia, cut production during the last quarter by about 25 to 30 percent. Carpet and Rug Institute, the national trade association, judges inventories to be in line with sales. Unemployment among carpet workers is moderately high.

Lumber inventories at mills were reported at planned levels, but only after production was slashed by at least one-half since QIV:1979 at numerous firms. Sizable layoffs among lumber workers have had a wide impact. Manufacturers of paper products have enjoyed relatively constant production and have experienced no involuntary inventory accumulation.

Dry weather severely damaged much of the early corn crop in the Southeast, but cotton, peanuts, and soybeans were in good condition following a recent rainfall. A sudden upturn in hog prices recently brightened prospects for producers. However, sharply lower prices during previous months were responsible for a 13-percent reduction in farrowings planned for the fall months in Georgia. Sustained losses suffered by broiler producers, due to low broiler prices, indicate a further shrinking in production for the industry.
Already weaker than the nation generally, economic conditions in the Seventh District deteriorated rapidly in late March, April, May, and June. Jobless claims have mounted rapidly. It now appears that the recession, in this region at least, will be much deeper, more pervasive, and longer than in 1974-75. Price increases have slowed and some discounting is noted in wholesale markets. But underlying inflationary pressures remain strong, pushed by rising labor costs. Virtually all consumer goods and services have been hard hit, and the downturn has spread increasingly to capital goods. The farm sector, which held up well in 1974-75, is badly depressed despite some recent rise in farm prices. Little or no improvement has occurred in housing, but nonresidential building remains strong. Credit is now generally available on more favorable terms, but borrowers are reluctant to incur debt. Delinquencies have increased. Although the picture is very gloomy, there are some signs that demand in various markets is leveling off at reduced levels, and there are scattered reports of modest improvement in the past 4-6 weeks.

Sectors reporting a leveling off of demand at reduced levels in June include paper, chemicals, RVs, mobile homes, and steel. In some cases a slight improvement is reported. A large national retailer sees some rise in sales in June, seasonally adjusted, although the picture is still very dark.

Our contacts in various industries operating in national and international markets tell us that the Midwest, defined broadly as the area north of the Ohio from the Appalachians to the Rockies, is much the weakest that they serve. Some have noticed no clear recession in the South, Southwest, or West Coast.
Major capital expenditure programs underway have not been halted, but some have been slowed to cut costs, and managements are using more exacting standards when considering new programs. On the optimistic side, a company that advises on new plant locations informs us that new proposals to be studied are still coming in at a fast pace. The nonresidential building picture remains strong. Contracts had dropped off sharply in the spring, but new office buildings and shopping centers again are being announced for near-term starts, mainly in the Chicago area. Many of these projects are financed in substantial part by European funds.

Manufacturing industries that have cut production very sharply now include autos, trucks, tires and other components, steel, farm equipment, construction equipment, RVs, outboard motors, appliances, building materials, oil refining, and petrochemicals. Inventories were generally viewed as lean early this year, but the rapid drop in sales required substantial adjustments in production schedules on short notice. In most cases output has been reduced faster than consumption, so a reversal may occur later this year. Many plants will be shut for several weeks this summer, confusing normal seasonal trends.

Electric, gas, and telephone utilities have experienced declines in demand to a degree unexpected earlier this year. Rail, truck, and airline traffic is down significantly. Layoffs have occurred, and equipment has been idled. The airlines will cut operations substantially after the peak summer season. Truck lines report tonnage down 20-40 percent. Truckers are very concerned about shifts in traffic patterns under deregulation.

Capital goods producers report increased order cancellations, but not to the extent of 1974-75 when backlogs contained much more water.
Cancellations are most significant for heavy trucks and rail cars, but some machine tool orders are being canceled. Oil and gas well equipment is booming.

New jobless claims are running about 200 percent above last year in our states. In addition, many plants are on short weeks. White-collar workers have been affected much more than in earlier recessions. Many companies complain about the unwillingness of unions "to give an inch" in the face of high unemployment and company problems. Strikes have halted construction in Milwaukee.

Many lenders complain of a rapid rise in bankruptcies, especially personal bankruptcies, spurred by the recession, the new law, and lawyers anxious for business. Among business bankruptcies, vehicle dealers and home builders are most common.

Existing home sales have picked up slightly as mortgage rates have dropped to 12 percent. Rates on RRMIs are still lower. Unsold backlogs of finished or semifinished homes and builder bankruptcies have kept new starts at the lowest levels since World War II.

Despite recent increases in livestock and crop prices, the farm picture in the district remains dismal. Adjusted for inflation, total net farm income for the year will be at one of the lowest levels since before World War II. This is reflected clearly in the severely depressed market for farm equipment. Because of higher prices, livestock farmers will do better in the second half of 1980 than in the first half when large losses were typical. Crop prices have edged up, but not nearly enough to offset higher production costs. Early prospects suggest excellent crops again this year, but probably not at record levels. Crops in parts of Iowa were
destroyed by hailstorms in June. Most of this acreage was replanted, but yields will suffer. Federal programs will help cushion losses of farmers affected by hail.

Loans and deposits at district member agricultural banks have been very weak this year. Total loans at these banks were 2 percent lower in May than in December. No downturns in loans had occurred in this period in the 1970s. Total deposits rose slightly, but less than half as much as the average for the 1970s.
EIGHTH DISTRICT - ST. LOUIS

The downtrend in economic activity in the Eighth District has gathered momentum in recent weeks and most businessmen expect little improvement before next year. Consumer spending remains quite sluggish, particularly for durable goods. Consequently, manufacturing of durable goods has declined significantly. Firms have adjusted their labor force downward by instigating layoffs, early vacations, and reduced work weeks. In general, inventories at the retail and manufacturing establishments have remained at satisfactory levels as orders and production have been adjusted quickly to slowing demand. The housing industry remains depressed although increases in traffic and sales were noted in recent weeks. Reflecting the depressed business conditions, overall loan demand is sluggish and interest rates have continued to decline.

Retailers report that consumer spending continues to decline in real terms. Consumers are described by retailers as being "tight-fisted" and "scared". Sales of durable goods have been affected most, particularly automobiles, trucks, appliances, and furniture. Soft goods sales, while not declining to the extent of durable goods, have also dropped. Some items such as fashion goods, outdoor equipment, and do-it-yourself equipment continue to sell well.

Manufacturing of durable goods has declined further in recent weeks. Metal manufacturers, such as steel and aluminum, are experiencing declines in orders from the automobile and housing sectors. One local steel
plant has recently stopped operations. An aluminum manufacturer has reduced production of fabricated products, although primary aluminum operations are still at full capacity. The price of aluminum has fallen substantially, however, and production cutbacks may be necessary. Appliance manufacturing activity has also decreased rapidly in recent weeks. A representative of a major appliance manufacturing firm is now expecting sales to decline by 25 to 30 percent compared to an earlier estimate of only a 5 percent decline. Other durable goods manufacturing firms have also experienced substantial declines in orders and production. Included among such firms are manufacturers of lumber, glass, farm equipment, welding equipment and lighting fixtures.

Currently, inventories are not generally regarded as a major problem. Most firms report that inventories have been kept in line with declining sales by quickly trimming production and orders. A few trouble spots were reported; for example, excessive inventories of large cars are reported by some dealers, an appliance manufacturing firm noted excess inventories among selected items; and brick, gypsum board, and connector plate manufacturers noted sizable inventories.

The firms contacted have not altered recently their plans with respect to plant and equipment investment. In a few cases, however, firms reported that they are taking advantage of the slack in demand to make repairs and upgrade existing equipment.

Homebuilders report an increase in persons looking for new homes and some increase in new home sales was evident in June. St. Louis
homebuilding activity was virtually zero in May when only about one-tenth of the "normal" amount of new homes were started. Starts in June are estimated to be up, but still at a very low level compared with a year ago. Some residential real estate developers are beginning to experience increased demand for lots from local builders reflecting the decline in mortgage interest rates.

Overall loan demand is reported to be quite sluggish, reflecting depressed business and consumer spending. Mortgage loan demand at savings and loan associations has picked up somewhat in recent weeks primarily for loans on previously-owned houses. Mortgage interest rates have declined to around 12 percent in the St. Louis area. Installment loan volume at banks has declined in recent weeks, whereas agricultural loans have registered a seasonal increase. Following a relatively long period of decline, consumer savings deposits at thrift institutions are reported to have increased in recent weeks.

Most crops have been planted in the District. Soil moisture conditions in parts of Missouri and Kentucky are reported to be below normal, although recent rains have relieved the drought situation in some areas.
NINTH DISTRICT - MINNEAPOLIS

The Ninth District is not in a recession. Total economic activity is up from a year ago, and there are signs that conditions may have brightened recently for the District's farmers and retailers. District economy activity, however, is being restricted by a further softening in sales of motor vehicles and homes and in manufacturing activity.

No District Recession . . .

The District appears to be avoiding a recession. Employment is up from a year ago. Minnesota employment in May, for example, was up 2.3 percent from a year ago while national employment was up only 0.5 percent. Supporting the employment data, directors' comments indicate that overall economic activity is greater than a year ago. In the District's eastern half, fairly strong industrial output and nonresidential building are preventing the economy from declining. Meanwhile, in the District's western half, oil and coal exploration and production are boosting the economy.

There are also signs of improvement in District retail sales. A major retailer in the District indicates that its sales have recently picked up; in June it expects its largest year-to-year sales increases so far this year. Confirming this report, a Minnesota director reports that retail sales recently have improved in his community. District retailers, however, are still very cautious and are watching their inventories closely.

Conditions have also improved somewhat for most District farmers. Recent increases in farm prices may have halted the decline in farm income this past winter and spring. Although drought conditions in northeastern Montana,
northwestern South Dakota, North Dakota, and northwestern Minnesota are still endangering crop yields, most District crops have gotten enough rain to have a good start. While farm income is still down from a year ago, the decline is probably not as large as was indicated by conditions several weeks ago.

... But Some Sectors Are Declining

While the District economy so far has avoided a recession, some sectors are weaker than several weeks ago.

Motor vehicle and home sales have declined further. In May, District domestic auto and truck sales were down 44 percent from a year ago, as contrasted to a 36 percent drop in April. In addition, bank directors indicated that their communities' housing sales in June have continued to decline from a year earlier.

Not only motor vehicle and home sales, but manufacturing activity has been declining. A majority of the manufacturers responding to a May survey conducted by the University of Minnesota reported declining new orders and production, many more than a year ago.

Reflecting poor motor vehicle, home, and manufacturing performance, lending has weakened. Mortgage loan applications at Minneapolis/St. Paul S&Ls in June were down 60 percent from a year ago, as they were in April. Despite falling interest rates, this softening in home loans has spread to other types of lending. Loans at Minneapolis/St. Paul banks in mid-June were up 5 percent from a year ago, as compared to an 11 percent increase in late April.
TENTH DISTRICT—KANSAS CITY

Business activity in the Tenth District is reflecting the national downturn. Weakening sales have led retailers to trim inventories. Inventory control is apparently even more of a problem for manufacturers, who are reducing input orders and production. There is no sign of a revival in homebuilding or house sales, although inflows to thrift institutions have improved slightly. Livestock prices may increase somewhat later in the year and thus improve income prospects in the farm sector. Loan demand at commercial banks is generally weak, as is deposit growth.

Most retailers contacted in this month's survey report that total dollar sales through May 1980 are somewhat better than in the first five months of 1979, but are slowing somewhat in the more recent months. Sales of furniture and appliances are particularly weak. Costs are continuing to increase for all types of merchandise, and at an increasing rate. The latest cost increases are expected to push up retail prices as retailers try to maintain markups. While most retailers indicate that current inventory levels are satisfactory, all retailers report that they have been trimming inventory levels slightly due to softening sales.

Half the purchasing agents contacted report an easing off of input price increases in recent months, and over two-thirds believe this trend will continue as the year progresses. Lead times for most inputs have been declining, and are expected to remain shorter than usual in the coming months. About half the purchasing agents indicate that inventory buildup has become a problem and they plan to reduce their orders to compensate. Most firms contacted have excess plant capacity, and over half have idled some workers. About
one-third of the companies have recently cut back on their plant and equipment expenditure plans due to slumping product demand.

Tenth District homebuilders' associations indicate that housing starts are down more than 50 per cent compared to last year, with single-family starts leading the decline. There is no sign of a revival in homebuilding or house sales reported. Many association spokesmen believe that potential home buyers are waiting for mortgage rates to fall below 12 per cent before buying. They also report that inventory of unsold homes is not critically high, due to the unusually low number of completions, and that home prices are holding steady.

A majority of savings and loan associations contacted report improved savings inflows in May of this year compared to May 1979 and compared to the first quarter of this year. Most savings and loans expect to see only slight improvement in savings inflows for the remainder of 1980. While some noted that demand for mortgage funds has picked up recently, others indicate that demand remains at very low levels. Currently quoted rates on conventional mortgage loans range from 12 to 12.5 per cent with all District savings and loans expecting rates to drop the rest of the year to between 11 and 11.5 per cent.

Beef supplies will continue to remain tight and the cattle price outlook is beginning to look more optimistic. The numbers of cattle and calves on feed in seven states were the lowest on any June 1 since 1975 and 11 per cent below the level of one year earlier. May marketings of fed cattle were the lowest since 1975. Additionally, May placements of cattle on feed were off 13 per cent from levels of one year earlier indicating continued tightness in the future supply situation. Cattle prices may continue to increase somewhat throughout the summer due to the reduction in beef supplies.
Tenth District hog producers are facing grim prospects for profitability in 1980. But hog prices have improved in recent weeks and some price improvement is expected during the remainder of this year. The hog and pig inventory on June 1 was the largest on record, and producers are cutting back on production. A reduction in breeding stock along with lower farrowings should help reduce pork supplies and bolster prices towards the end of the year.

Farm machinery and equipment sales throughout most of the Tenth District improved somewhat during May, with slightly more improvement expected during June. The improvement is apparently due mainly to various manufacturers' programs including cash rebates, waivers of finance charges for up to 1 year, and agreements to finance purchases at some percentage rate below the prime lending rate. Area bankers report that they are receiving little demand for machinery loans.

Loan demand in the Tenth District is generally weak. High lending rates and a weakening economy appear to have resulted in a general decline in the demand for commercial and industrial loans as well as consumer loans. The demand for real estate loans, while still generally weak, has been strengthening in some parts of the District. Some bankers also report that some customers are experiencing economic difficulties and several bankers feel that some of their local auto dealers are facing bankruptcy.

In the past month, the prime rate in the District has declined from the 17 to 18 per cent range to the 12 to 13 per cent range. Nonprice lending terms generally remain unchanged. Most bankers report that their deposits are either flat or growing slightly. For the first time in many months, demand deposit growth appears to be in line with the growth of other deposit liabilities. However, no deposit category is showing any exceptional strength.
ELEVENTH DISTRICT--DALLAS

The economy of the Eleventh District continues to slide into recession, although the rate of decline appears to have slowed recently. Department store and new car sales continue to weaken but have posted slim gains in some cities according to survey respondents. New home sales have picked up slightly with the decline in mortgage rates, and many potential buyers are reported to be waiting for mortgage rates to decline further. Increased savings inflows have been reported for both banks and S&L's. Liquidity positions of S&L's have improved. Loan demands at S&L's and commercial banks remain soft. Manufacturing output continues to decline, and farm incomes are being squeezed by falling commodity prices and rising costs.

Sales at department stores in the Eleventh District continue to trend down but at a slower rate of decline than a month ago. Sales have firmed somewhat in Houston and Austin but remain lackluster in other major cities. Customers continue to buy selectively. Apparel sales are holding up well, while purchases of furniture and large appliances show signs of slight improvement. Retailers report inventories are not excessive and are stepping up promotions and price discounts, at the expense of reduced profit margins, to hold and expand market share.

Unit sales of new cars and trucks remain well below the level a year ago but quickened in June from the May level. Recent sales have been helped by an increased availability of funds at GMAC and Ford Motor Credit Company. The number of auto loans are also up a bit at a number of District banks. Bankers report many inquiries for terms on auto loans, but
most are reluctant to borrow at the prevailing 14.5-percent annual rate. The decline in interest rates has reduced inventory costs for dealers, but weak sales forced the bankruptcy of a major Dallas Ford dealer last month.

The outlook for residential construction has improved slightly. Inventories of unsold new homes are not excessive. Sales of both new and used homes have picked up slightly in the last two months with the decline in mortgage rates and increased availability of municipal bond funding in the District. Corporate relocations to this area also continue to bolster sales. However, the revival in home sales is not yet significant, as some home purchases are being delayed as many potential buyers anticipate further declines in mortgage rates. Prices are reported to be firm, with substantial discounts generally not available.

Liquidity positions of most S&L's in the District are much improved with a net inflow of savings deposits and the low rate of forward commitments on mortgage loans. Mortgage demands are not as great as expected as many potential home buyers are waiting for further declines in rates. Although some survey respondents anticipate further significant reductions in mortgage rates, most indicated the 9.25-percent rate on 30-month CD's could prevent mortgage rates from falling below 12 percent in months to come.

Except for oil and gas and interim construction financing, loan demands at commercial banks remain soft. Most business borrowers have taken a conservative stance with respect to borrowing until the severity of the recession is known. Although auto loans have firmed slightly, demand for consumer instalment loans at District banks is off a third from a year ago. Moreover, the rate of liquidation of instalment credit exceeds the
rate at which new loans are being extended, and applications for credit cards remain flat. Most respondents expect the current weakness in loan demand will lead to further reductions in interest rates.

Total production in manufacturing continues to sag. Such industries as lumber and wood, aluminum, tires, and rubber that supply the auto and housing industries have trimmed their workweeks, increased layoffs, and have scaled utilization rates down to as much as 50 percent of capacity. Production of major chemicals is down somewhat, but firm demand in export markets has prevented inventory buildup. Refinery runs are reduced to less than three-quarters of capacity due to sagging demand. Onshore storage facilities are full, and crude oil cargoes are stacking up in the Gulf of Mexico. The decline in total output in the District is being offset somewhat by increased production by suppliers to oil and gas, highway construction, and public utility companies. Manufacturers supplying these industries report large backlogs of unfilled orders and high rates of capacity utilization and are proceeding with plant and equipment plans. Several steel and oil field equipment manufacturers are benefitting from increased exports to Mexico's expanding oil industry.

Total employment is declining slowly. Employment in the construction and retail trade industries is up from a month ago, although the gains are far below the increase for the same period one year ago. Newspapers report no decline in the number of jobs advertised, but the number of lines purchased in their want-ad sections are reduced. An estimated 5.8 percent of the labor force is currently unemployed in Texas.
Despite a bountiful wheat harvest, farm incomes are being squeezed hard by declining prices and rising costs of fuel, fertilizer, and machinery. Loan carry-overs remain a problem in many areas, although most farmers have paid off last year's loans. Funds for agricultural loans are readily available. Production of crops and livestock in the District will be adversely affected if the current heat wave persists.
TWELFTH DISTRICT - SAN FRANCISCO

Business prospects remain fixed in the Far West. The aerospace-producing centers of California and Washington show signs of health, but other areas have been hurt by the recession and (especially) by the three major eruptions of Mount St. Helens. Losses of timber and crops, plus clean-up costs, may approach $3 billion in areas affected by the fallout of volcanic ash in Washington, Oregon, Idaho, and parts of Montana. Short-term damage to agriculture and to the health of residents living in the path of the ash showers has been less than originally forecast. But questions remain about the eruptions' long-term impact, especially on the regions' "clean environment" appeal to tourists and to the previously booming electronics industry. On the agricultural front, lingering cool weather has delayed the almond harvest and the cotton and fruit crops in California's Central Valley, while ash showers have put a crimp in Washington's alfalfa and apple crops, in addition to damaging harvesting machinery and irrigation pumps located in ash-silted rivers. Housing activity remains quite weak throughout the District, although some recovery is anticipated for late summer or early fall if mortgage rates continue to decline.

In the retailing sector, southern California and the Seattle-Tacoma area are outperforming most other regions of the nation. In Los Angeles-San Diego, sales are 12.6 percent above year-ago levels; despite a substantial decline in big-ticket purchases. Major regional shopping malls around Puget Sound reported business "like the old days" toward the end of May, with furniture sales outpacing other big-ticket items. Otherwise,
retail sales remained generally flat in the West. Credit-card usage has
dropped considerably, while cash sales are increasing. Concern of consumers
about the length and depth of the recession has been reflected in cautious
spending habits. Variety discount stores, along with hardware and do-it-
yourself lumber outlets, have been the strongest retail performers.

Housing activity remains sluggish, although the recent downturn in
mortgage rates has stimulated listings and sales in the last month. However,
housing-starts activity is only one-third to one-half of year-ago levels.
Markets for both lower-priced homes and expensive homes appear fairly active,
but markets remain weak for medium-priced housing.

Home prices have risen 7 percent to date this year in southern
California, while increasing at a lesser rate in Washington and Utah.
Analysts believe many potential home buyers are waiting for a further drop
in interest rates to around 10 percent before purchasing. Inventories of
unsold new homes are moderate to low in most areas, and builders reportedly
are cautiously optimistic about a rebound in home-buying activity.

The timber industry of the Pacific Northwest, already buffeted by the
recession and the weak home-building market nationwide, was dealt another
blow by the volcanic eruptions. About 128 lumber operations in the path of
the ash fallout reported cutbacks due to ash and flooding. Initial reports
had indicated very heavy losses to the timber industry. But perhaps 90
percent of the 44,000 acres of fallen timber can be salvaged, provided that
roads and bridges are restored to allow access to the devastated woodland
and that log-cutting machinery and tree-hauling vehicles are not damaged
by the ash.
California is anticipating a banner tourist year, based on a busy spring season. But tourism and restaurant sales are suffering in the Pacific Northwest as a result of the volcanic eruptions, the recession, and poor spring weather. Some Northwest resort areas report a 20 percent to 50 percent falloff in business, with some convention bookings canceled heading into the busy summer season. Public and private agencies, however, have leaped into action to resuscitate the tourist industry and to dispel the region's image of being covered by volcanic ash.

In the agricultural sector, unseasonably cool weather has reduced cotton production 10 percent to 20 percent in California's agricultural heartland and has also delayed fruit production and diminished the almond harvest. Because of a delay in the ripening of fruits and some vegetables, a glut could result if most of the major harvests reach market at the same time, pushing down prices at the retail level.

In Washington, about 15 percent to 20 percent of the state's winter-wheat crop was flattened by the ash storms. The ash also has caused excessive apple "drops" in the prime apple-producing Yakima Valley, with growers expecting a 20 percent decline to 20 million bushels this year. Washington's alfalfa crop was hit heavily by the ash fallout, but southern Idaho's alfalfa crop is the best in 10 years. Meanwhile, many bond buyers, weary about investing in the securities of communities affected by the eruptions, have raised interest rates 1/4 to 1/2 percent above normal levels on such issues.
A major southern California bank reported a sharp falloff in commercial and consumer loans in the spring period. However, it also reported a slight turnaround in savings deposit inflows in early June.