CURRENT ECONOMIC COMMENT BY DISTRICT

Prepared for the
Federal Open Market Committee
by the Staff

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Overview

District reports suggest that economic activity in most sectors has slowed in recent weeks retracing some of the progress made in late spring and early summer. Manufacturing activity has declined broadly giving rise to new layoffs and plant closings in most Districts. Consumers are widely described as extremely cautious, buying very selectively, and almost totally avoiding any major commitments. As a result of excess capacity and weak orders, many businesses are scaling back or deferring capital spending plans. The construction industry is confronted by continued weakness in the residential area and a recent fading of support from the commercial and industrial sector. Crop prospects are generally quite good, but the resultant prospect of falling prices implies further financial difficulties for farmers. Loan demand is soft with only widely scattered pockets of resurgence. The outlook is very subdued and cautious, although a few Districts discern traces of optimism.

Manufacturing

There is little in the District reports to suggest any recent improvement in industrial activity. Production, shipments, and orders are generally below the June-July levels and cost cutting measures are being pursued vigorously. Inventories are modest for the most part, but there is widespread determination to trim them further. Layoffs continue to exceed recalls; vacations and plant shutdowns are being extended; and average workweeks are being reduced. Capital spending plans are being scaled back since plant and equipment capacity is far in excess of current needs.

*Prepared at the Federal Reserve Bank of Richmond.
Dallas, St. Louis, and Philadelphia report that industrial activity has stabilized. All other Districts but Kansas City report production cut backs that have resulted in layoffs and plant closings. New York, Cleveland, and Chicago cite capital goods industries, in particular, as an example. Cleveland finds major steel producers in great difficulty with inventories high, prices low, orders weak, and capacity utilization at 40-50%. In the Chicago District over half the freight car plants are closed. Only defense related industries, noted by Boston and St. Louis, and some seasonal industries such as food processing, seem to be offering much support to the broad industrial sector.

Consumer Spending

In the retail sector, consumers are generally described as cautious despite aggressive promotional and discounting programs by retailers. The net effect has apparently been to hold real sales at or near year ago levels. There is virtually no indication of a consumer led recovery being imminent.

Dealers are keeping inventories very tight and squeezing profit margins but have been disappointed recently, particularly by the apparent failure of this summer's tax cut and social security benefit increase to boost sales. Retailers have adopted extremely cautious buying plans, hoping that stronger back to school and Christmas spending will materialize, but basically waiting to see before committing heavily.

Durable goods still seem to be the most affected, but San Francisco finds even grocery store sales sliding. Only two areas of relative strength appear: tourist trade is doing well in the mountains of Pennsylvania and in
the western half of the Minneapolis District; also, Chicago and Kansas City
report recent strength in automobile parts and repairs.

Construction and Real Estate

A very weak but stable residential sector and a stronger but fading
commercial and industrial sector sum up the current construction picture.
The housing sector is almost uniformly weak, although regional differences
do exist. San Francisco reports homebuilding picking up slowly while in the New
York and Chicago Districts there is no revival in sight. Mortgage rates have
drifted down in some areas, but so far without effect.

Commercial construction is generally stronger than residential build-
ing, but varies considerably from District to District. Most Districts remarking
on commercial building find it slowing somewhat or being sustained only by proj-
ects already in progress. Dallas reports a high level of activity, however,
and Atlanta notes an upturn in permits in early August.

Agriculture

With few exceptions District reports on agriculture are bleak. Farm-
ers are generally faced with high and rising production costs and the prospects
of falling crop prices. Weather conditions have been good to excellent and
forecasts call for bumper crops of grains and soybeans, which along with large
inventories and weakening export demand are widely expected to depress prices
significantly further as harvests proceed. The livestock sector is somewhat
stronger as feed prices continue soft and smaller hog and cattle supplies lend
support to meat prices.

Continuing deterioration of price to cost ratios is depressing farm-
land prices and eroding the equity position of many farmers. Minneapolis
reports storage facilities already near capacity and Kansas City sees the
possibility of a shortage later. Furthermore, Minneapolis and Chicago expect relatively small portions of the corn crop to be eligible for support programs. The implications of these conditions for farmers, lenders, and agribusinesses are, in Chicago's view, ominous.

Financial Sector

Loan demand is widely described as soft. Businesses have slashed inventories and otherwise cut costs, greatly reducing credit needs. Philadelphia also notes that declining interest rates are attracting some borrowers into the long term debt market, further dampening business loan demand.

New real estate loans are very weak, but in some areas outstandings are on the rise due to lower turnover rates of residential properties and a modest increase in second mortgages. Additional financing for ongoing commercial projects is also lending support in some areas.

Consumer borrowing is showing few signs of life. In the Third District there has been a mild recovery, but even there outstandings remain slightly below year ago levels.

Recent bank difficulties have reportedly prompted a great deal of caution by banks contemplating extensions of credit.
FIRST DISTRICT - BOSTON

Neither retailers nor manufacturers in the First District see any evidence of an upturn. Respondents from the retail sector report that July sales were good but not markedly so; they attribute this strength to heavy promotional activities rather than the start of a consumer-led recovery. Manufacturers were unanimous in reporting no signs of a pickup. For some, orders and backlogs continue to fall. Most firms are aggressively cutting inventories and payrolls. Costs previously regarded as fixed have been cut. Although layoffs are widespread, some firms are using four-day work weeks and periodic shutdowns to reduce wage costs while still avoiding permanent staff reductions. Because of these cost cutting efforts, cash flow positions are relatively strong. However, in both retailing and manufacturing, the firms participating in the Redbook survey are probably among the stronger members of their industries.

Retail

Retailers in the First District report that they continue to meet or exceed sales plans because of extra promotional activities, but they see no evidence of the predicted July upturn. Plans for the next six months show increasing strength, but buying and ordering are proceeding with greater than normal caution. Several firms with stores or affiliated merchants in other regions said operations in New England compared very favorably to results elsewhere. However, while the Redbook respondents are weathering the recession, newspapers have reported some store closings in the region.
Department store sales were weak in June because of unseasonably cold and rainy weather; as the weather improved in July, customers bought the summer merchandise planned for June, more than making up June's lost sales. However, several merchants mentioned that July sales were heavily promoted, so that sales were maintained at the expense of profits. None attributed July's strength to the tax cut or a consumer-led turnaround. Executives at several department stores reported that they are buying cautiously for the Christmas season; they are planning on good sales but staying in a position to cut expenses if back-to-school buying does not track plans. Inventories will be kept smaller and more liquid than usual. One contact noted that the second half of this year will look better even if current activity levels continue, because last year's second half was weak.

A building goods specialty house reported retail operations continuing at a very healthy pace as a result of strong promotional activities: "The customers are there, you just have to work harder to get them." Contractor sales of the same firm were off considerably from last year. While most firms report keeping inventories very lean, exceptions can be found. One pet supplies operation has gained a larger market share by increasing its inventories so as to have what the consumer wants always in stock.

Several retailers said that for purchased merchandise, the number of items with price increases is declining and for those with increases, the rate of increase is lower than in the past. In weak markets, special opportunities from manufacturers appear more frequently.
Manufacturing

Responses from the manufacturing sector were remarkably consistent. There are no signs of an upturn. Representatives of firms manufacturing such diverse products as packaging, communications and electrical equipment, engine castings, processed steel products and springs, precision metal products, printing equipment and supplies, furniture, heavy capital equipment and specialized industrial machinery - all reported that business is very weak and there are no encouraging signs. The precision metal products manufacturer and the castings producer reported that orders are 30 percent below the level of a year ago. Orders and backlogs for heavy capital equipment, springs, and electrical equipment and supplies continue to fall.

Most firms, even those which see no further deterioration in orders and backlogs, are aggressively cutting costs. Inventories and employment are being reduced and capital spending plans are being scaled back. Many of the cost cutting measures are likely to be permanent. Executive after executive said that the economic downturn has caused a much greater emphasis on productivity and efficiency. Internal procedures have been changed and costs previously considered fixed have been cut. Because of these cuts, many of the firms contacted have strong cash flow positions despite low sales volumes.

While many firms reported sizable layoffs, some are attempting to share the reductions among all personnel. One machine tool manufacturer with a 25 percent layoff in April plans an additional 10 to 15 percent layoff for October. However, both castings and precision metal products
manufacturers said they are cutting hours, reducing corporate payrolls, and extending plant shutdowns in order to keep production forces intact.

No one is making business plans based on a recovery in the near term. Several executives, from a variety of industries, see no recovery in their businesses until the middle of 1983. A couple of respondents noted that, if a robust recovery were to develop, spot shortages might occur because of the conservative planning and tight inventory management.

The one bright spot is defense. The defense business is good and getting better. However, competition is becoming more intense, as more and more firms are looking to replace lost commercial sales with military business. Also, one large prime contractor finds it is taking longer than expected to get specifications approved. A surprising number of firms in a wide range of industries reported having defense business.

Professors Eckstein and Houthakker were available for comment this month. Eckstein sees "no evidence of recovery in July so far. What little evidence there is shows that the economy, at best, has been flat and the risks of further deterioration have mounted." The first month of the tax cut failed to ignite a consumer spending spree, the tax cut instead may have prevented a slump in retail sales. Because of the somewhat modest change in withholding schedules, Eckstein also notes that "we shall have to wait until next April before we see the full benefit of this July's tax cut." Eckstein believes "the Fed should turn more toward ease until we see convincing evidence that the economy has turned up." He suggests holding the federal funds rate below 10 percent for the time being.

Houthakker believes that the economy has begun a very slow recovery
and that the recent decline in interest rates is not just a fluke. "The
dollar's exchange rates have risen despite the drop in yields because,
unlike many of our trading partners, we have made progress in reducing
inflation. Lower inflation is achieved in three stages: First, raw
materials prices decline; second, the pace of wage increases declines; and
third, the increase in prices for industrial goods and services declines.
The first stage is completed, we have achieved about half of stage two, and
we have come not very far at all into stage three. The completion of all
three stages may take another year or two." In view of this progress,
Houthakker believes the Fed should not relax monetary policy. So far he
gives the Fed "high marks. The present rate of money growth at the high
end of the range (without exceeding the range) is appropriate, and not
changing the guidelines for 1983 is appropriate as long as money growth
moves more to the middle of its range."
SECOND DISTRICT—NEW YORK

The economy of the Second District continued to languish in July and early August, displaying more evidence of deterioration than recovery. Almost all sectors suffered from depressed business activity. Retail sales turned down at many stores. Residential construction showed no signs of pulling out of its persistent slump. Nonresidential construction, however, continued to be the healthiest segment of the region's economy. In the manufacturing sector, production schedules were cut through layoffs and shorter workweeks. Business leaders saw no reason to expect an upturn before the end of the year.

Consumer Spending

Retail activity was flat or down at almost all stores contacted. Few merchants achieved their July goals, and some reported that business had distinctly worsened during the first week of August. No respondent had yet observed any stimulus from the July tax cut or social security increase. Only a few nondurable products, such as apparel and cosmetics, demonstrated any strength, and big ticket items continued to move slowly. Department stores maintained the heavy promotions of the past twelve months, and one reduced markups to their lowest levels in recent years. Furthermore, buying plans were tight, although inventories generally were not considered high. Retailers had become more uncertain about the next few months but were hopeful that back-to-school shopping would bring a modest gain.
Construction and Real Estate Activity

Residential construction remained depressed. The few bright signs noted during the past two months have not led to any significant improvement. Even the construction of high-priced condominiums and single-family homes, which had been accounting for most of the activity, appeared to have slowed. Many homebuilders experienced severe cash flow problems as suppliers pressed for faster payment.

The prospects for new nonresidential construction activity remained weaker than a few months ago, but that sector was healthy relative to the rest of the economy. While the recent softening in the office market persisted, as reflected in a small rise in vacancy rates, a considerable surplus of space that had been anticipated by some real estate brokers has not materialized. Observers nonetheless believed that few new buildings would be started in New York City until the economic recovery was well underway. However, ongoing projects were sustaining a high level of construction. Suburban areas showed some promise of renewed strength, including the commencement of two large scale ventures—an office park and a luxury hotel.

Business Activity

Business leaders throughout the District reported that economic activity had been flat at best, and many observed evidence of additional deterioration. Capital goods producers cut production further, with one firm considering the permanent closure of a plant. In addition, a large steel company just filed for bankruptcy. Auto production, which picked
up in June, leveled off. And, high technology companies and producers of a variety of goods, including firearms, pianos, and silverware, were hurt by a lack of orders. Many of these firms shortened workweeks to four days or extended vacation shutdowns for a week or more. Workforce reductions, both blue and white collar, continued in a broad range of industries. While scattered recalls were noted at a few plants, they amounted to only a small proportion of the workers that had been laid off by those establishments. A rising number of companies forecast real reductions in capital spending over the next year, and inventories were being held at very tight levels.

**Outlook**

Business leaders felt that the economy would drift along at its current languid pace through the rest of the year. Even our contacts who had previously been the least pessimistic saw no indication that any pick-up was imminent. One respondent believed that an almost total lack of confidence by both businessmen and consumers would thwart any recovery. Another expressed the view that while the economy was on a low plateau, a renewed deepening of the recession was more likely than an upturn.

**Financial Panel**

This month we have comments from Donald Maude (Merrill Lynch), Donald Riefler (Morgan Guaranty Trust), and Francis Schott (Equitable Life Assurance Society):*

* Their views of course are personal, not institutional.
Maude: Strains anticipated in the financial system have been alleviated to some degree by recent easing in Federal Reserve policy. The easing has been accepted by the financial community as appropriate and desirable because of the perception that the recession still persists and the present turbulence in the financial sector. But as signs of economic recovery become more evident and the wave of financial shocks recede, the Fed's credibility will be scrutinized more critically. The most recent easing moves combined with normal cyclical forces will probably lead to a renewed acceleration in money supply growth.

Looking ahead, while interest rates will generally trend down, there will be occasional pressures on rates and a risk of renewed recession over the first half of next year.

Riefler: Business conditions are poor and worldwide credit problems continue to mount. The Fed appears to be properly shifting its focus toward concern about the weak economy. At the same time it would be reassuring to the capital markets for the Fed to define more precisely its longer goal for the inflation rate, which in my view should be zero.

Schott: The widely forecast business recovery for the second half is not yet a reality. Erosive effects of weak cash flow are becoming more apparent in the industrial sector. Repercussions in the financial sector are also spreading.

Federal Reserve policy is mildly supportive of recovery. More may have to be done.
THIRD DISTRICT - PHILADELPHIA

Reports from the Third District in August fail to give any clear indication of the direction the local economy is taking. Manufacturing remains weak, retail sales have dropped, and business loan demand has tapered off in recent weeks. Area farmers are facing mixed crop yields, and tourist business, although good in some areas, is also spotty.

The outlook varies by industry. Despite persistent sluggishness in the industrial sector, manufacturers continue to look for an imminent recovery. Retailers also anticipate a pickup, but one that is mostly seasonal in nature. Bankers foresee further cuts in interest rates, but softening loan demand, as borrowers turn to long-term capital markets.

AGRICULTURE

Third District crop yields will be mixed this year, according to area agriculture officials. While the New Jersey tomato crop is strong, and corn and soybeans are also doing well, several of the area's major farm products will not turn in a good 1982 showing. Most vegetable farmers, for example, will have a small harvest this year, owing to record rainfall in early spring which delayed plantings. That wet weather also forced hay growers to put off their first cutting. Hence, they will get only two or three cuttings this year, rather than the usual four. A severe coldsnap in early spring damaged the New Jersey peach crop. Peach volume is currently running 17 percent below that of a year ago.

Area farm prices are generally strong, especially for those commodities in short supply, but farmers may not get to keep much of the money they take in. Rising distribution and production costs, especially interest
expense, will keep the lid on farm income again this year. An official of the Pennsylvania Farmers Association predicts that total interest expense for farmers in 1982 will exceed the 1981 mark of 13.6 percent of gross income.

MANUFACTURING

Manufacturers responding to the August Business Outlook Survey report that local industrial activity has stabilized this month following a seasonal drop in July. This month's results point to continued weakness in the industrial sector, which seems to have bottomed out in February but has yet to show any real sign of recovery. Both new orders and shipments dropped sharply under seasonal pressure in July. In August, new orders have declined slightly, while shipments have held steady, causing further shrinkage of backlogs at area manufacturing plants. Reports of inventory liquidation are still widespread and reductions in payrolls and average workweek length persist.

Despite the continuing slump in industrial activity, more Outlook Survey respondents are optimistic about future business conditions than in June or July. Over three-quarters of participating manufacturers now expect business conditions to improve within six months, and there are widespread predictions of growing strength in both new orders and shipments. In response, local manufacturers plan to expand payrolls and working hours, but projections of weakness in both inventory growth and capital spending raise doubts about the real strength of the recovery.

The prevailing sluggishness in local manufacturing continues to have a stabilizing effect on industrial prices. At over 80 percent of participating firms, neither input nor finished goods prices have changed.
since July. Looking ahead, however, forecasts of continued stability in prices, apparent in the June and July surveys, have diminished somewhat this month.

RETAIL

As predicted by many retailers, neither the July tax cut nor the Social Security increase has had a significant effect on consumer purchases to date. In fact, sales have slipped considerably over the last few weeks, and can now be described only as mixed. Reports of current sales volume range from 5 percent below to slightly ahead of a year ago, but sales are generally below retailer's expectations. Merchants simply blame the lingering general economic slump for current lackluster consumer performance.

Looking ahead, retail contacts see sales improving by year-end, and hope for a reasonably good holiday season. They concede, however, that even with a strong finish, they'll be lucky to break even on the year. They remain very cautious about inventory building, and have no plans to add to current stocks until a turnaround in sales is obvious. Presently, department store inventories are down from August '81 by as much as 10 percent.

FINANCE

Third District bankers say lending activity is mixed in August. The recent decline in interest rates has apparently attracted some borrowers to long-term debt instruments and put a damper on the demand for business loans. Reports of C & I loan activity range from slightly off to 7 percent ahead of a year ago, not disasterous but definitely less robust than earlier this year. At the same time, however, bankers have opened the door to consumer loans, and retail borrowing, down by as much as 15 percent just six
weeks ago, is now running only about 1 percent under August 1981 levels. The outlook for lending reflects a continuation of current developments. Bankers expect that, as the economic picture shapes up, business borrowing will drop further as stress borrowing fades. Further growth of consumer loans is projected.

The prime rate has been lowered to 15 percent at Third District banks contacted this month, and local bankers are forecasting further cuts. Estimates of a trough in interest rates center around early- to mid-fall. At that time, bankers expect rates to firm up and begin to climb as business investment picks up.

Time deposits at Third District banks have maintained the surprising firmness that has been evident throughout 1982, and are now running as high as 13 percent above a year ago. Demand deposits are still running about 3 to 4 percent behind on a year-over-year basis.

TOURIST SERVICES

Businessmen at Third District vacation spots give mixed reviews of the season so far. Seashore businessowners say early summer was disastrous, with record rainfalls noted in many areas. Midsummer business has been a bit better, but tight budgets have led many families to shorten their vacations, resort to daytripping, and generally pare expenditures. The strength of the U.S. dollar, vis-à-vis the Canadian dollar, has been a particular problem in South Jersey, a favorite vacation spot of Canadians. Overall, seashore business is currently holding at about last year's level, but a boom in late summer will be necessary to offset early season losses.
Mountain vacation spots in Pennsylvania, on the other hand, are having a good year. After a strong winter season, summer tourist trade in the Poconos is now well above most expectations. To be sure, the average stay at mountain resorts is shorter this year than last, but late summer and fall business is projected to be strong. Advance reservations are running 10 to 14 percent over a year ago, which should give Pocono businesses a good boost and help them finish well ahead of 1981.
FOURTH DISTRICT - CLEVELAND

Summary. A sluggish national recovery is expected to begin this quarter but there are few signs of recovery in the Fourth District. Unemployment remains high and additional plants are being closed. Consumers remain cautious and capital goods activity is weak. Additional inventory reductions are likely. Steel producers and farmers continue in difficulty.

National Outlook. Respondents in the Fourth District generally expect a sluggish national recovery beginning this quarter but have scaled down their expected gains in output for the near-term because the capital goods slump is sharper than expected. One respondent asserted that recovery will not be sustainable without (1) a better outlook for Federal deficits, (2) greater conviction by consumers that inflation has moderated, and (3) a 200 basis point decline in long rates and a further 100 to 150 basis point decline in short rates.

District Outlook. Most observers report no signs of recovery in the Fourth District, although there are some signs that the bottom is near. Primary metals, capital goods, and the coal market are all weak. Plant closings and layoffs continue, and capital spending plans are being reduced. Preliminary results from our August survey of Fourth District manufacturers, however, show some optimism for August. On balance, the 19 respondents expect shipments and new orders to rise in August after declining in July, and backlogs to be unchanged after declining in July. The survey indicates manufacturers are significantly more optimistic, or at least less pessimistic, in their expectations for August than they were a month ago about July.
**Employment Situation.** Labor markets in the District remain weak as unemployment continues high, additional plant closings are announced, and layoffs exceed callbacks. In Ohio, the unemployment rate at 11.8 percent (sa) in July, showed no net change since March. Among the District's eleven major SMSA's, unemployment rates (nsa) in June ranged from 9.6 percent in Wheeling to 18.3 percent in Youngstown, and most SMSAs had rates about 2 percentage points higher than the national rate. Measures of current activity in the Pittsburgh area, which usually lags the national economy, show continued declines through early July. Initial unemployment claims are up significantly, and an index of leading indicators for the Pittsburgh region fell in June for the 14th consecutive monthly decline.

Temporary and permanent plant shutdowns continue to be announced. Babcock and Wilcox will permanently close an 800 employee boiler parts plant by December 1, AM International is permanently closing a 450 worker duplicating machine parts plant on October 15, Republic Steel will "suspend indefinitely" by November 1 operations at two bar mills, affecting 700 employees, and Clark Equipment Company is closing its 450 employee truck plant in Georgetown, Kentucky. A director in southern Ohio reports that layoffs exceed callbacks in his area.

**The Consumer.** Some respondents assert that the tax cut is not leading to a surge in spending on durables. Consumers are very cautious because of high interest rates, fear of unemployment, and the belief, conditioned by the sticker shock phenomenon, that inflation has not abated. One banker estimated car financing rates would need to decline to 12% before cars would sell well. Consumers are cautious on both necessities and luxuries. A hospital association reports patients are now sicker and staying longer than several months ago because they delay seeking care, while major amusement parks in
northern Ohio report attendance is down from last year. A major national retailer reports sales are very weak.

**Capital Goods.** The capital goods industry continues to suffer as new orders are weak and planned projects are deferred or stretched out. A machine tool manufacturer says orders are flat and will remain flat until after two or three quarters of solid increases in PCE. A large diversified capital goods manufacturer sees no spark in any of his markets. Sales of heavy trucks are below 1974-75 levels. U.S. Steel is making sharp reductions in 1982 capital spending plans, including stopping construction of a continuous caster in Lorain, Ohio. Republic Steel has reduced capital spending plans for 1982 from $280 million to $200 million. Armco recently reduced planned capital spending in 1982 from $570 million to $370 million. Sohio has reduced its planned capital spending in 1982 from $3.0 billion to $2.6 billion.

One respondent asserted capital spending could not lead the national recovery because (1) capacity utilization is so low, (2) interest rates are too high, and (3) the new tax bill would offset a substantial part of the tax reductions that corporations obtained from the 1981 tax law changes.

**Inventories.** Additional inventory reductions are likely this quarter. A major steel producer expects his inventories to fall sharply again in the third quarter and less rapidly in the fourth quarter. Inventories of oil country pipe are especially high. A major automobile producer, who had involuntary inventory accumulation in the second quarter wants to reduce inventory this quarter but so far has not been successful. A major retailer expects less reduction of retail inventories this quarter than last. He reports excess stocks of household goods, especially furniture.

**Steel.** Major steel producers continue in great difficulty. One firm forecasts shipments will remain anemic this quarter and show only a slight
improvement next. Prices are a "disaster," according to a director, with oil country pipe prices continuing to fall rapidly from a high level and other steel product prices drifting down from already low levels. Orders are extremely weak and capacity utilization ranges between 40% and 50%.

Agriculture. Financial difficulty continues among farmers. More bankruptcies are expected, even if interest rates fall and crop prices rise. Agricultural land prices have fallen by one-third or more in eastern Kentucky, and many farmers there who bought land just before the price decline now have no equity to collateralize working capital loans. A midwest grain storage executive reports grain crops are large, inventories high, and prices low, and asserts the farm economy won't turn around very fast.

Banking. Some bankers acknowledge the prime rate is higher than justified by money costs because banks want greater spreads to offset loan losses, and because they want to minimize the risk of rate increases later in the year. Business loan demand has weakened, and loans are limited from the supply side also as bankers have become more cautious. Small banks report more problem loans, and small businesses being liquidated. A bank that cut mortgage rates to 16 1/4% from 17% received no customer response and expects none until the rate moves below 15%.
Overview

Nearly all indications are that business activity in the Fifth District continues very weak, and may still be declining. Our recent surveys suggest further deterioration of business at both the manufacturing and retail levels in recent weeks. We continue to hear of layoffs and the number of unemployed is apparently still on the rise, although unemployment rates have turned down in some areas. Inventories have apparently turned up over the past month to six weeks. Survey responses are to the effect that prices are actually falling. There has been no evidence of any revival in the housing industry and other construction seems to be lagging as well. Credit demands remain generally soft, particularly in the consumer and real estate sectors. Delinquency rates are up modestly on most types of loans. Expectations for business performance remain generally positive, but have weakened somewhat in recent weeks.

The Manufacturing Sector

Activity in the manufacturing sector appears to have weakened since our last survey. Respondents report declines in shipments, new orders, and order backlogs. Also, employment has been cut back further and the average workweek has been shortened. Inventories, of finished goods and materials, moved back up over the month leaving total stocks generally above desired levels. Current plant and equipment capacity is also well above present needs according to respondents.

In this area the greatest difficulties are being felt in such industries as textiles, furniture, building materials, metals, and machinery and equipment. Much of what little support the manufacturing sector has gotten
recently has come from seasonal strength in the tobacco and food processing sectors.

**Consumer Spending**

Retailers responding to our latest survey experienced declines in total sales and in relative sales of big ticket items over the past month. They further report declines in inventories, which remain somewhat above desired levels, and in employment. Indications are that prices remain weak and that retailers are offering heavy promotions and discounts to keep the goods moving. Despite the efforts, a common view around the District is that the consumer has withdrawn and is awaiting some encouragement from other sectors of the economy. In the meantime, consumers are generally managing their existing debt with only a modest increase in delinquencies, and increasing savings. Many believe that postponement of purchases is setting the stage for a significant rebound in sales of autos and other durables once attitudes begin to improve.

**Housing and Construction**

Housing continues to contribute disproportionately to the overall weakness in District business activity. The overall construction sector is lagging, having lost the support until recently furnished by the commercial and industrial area. The residential sector remains the weakest, however. Sales of existing houses also remain very slow.

**The Financial Sector**

Loan demand is very soft overall. In the real estate area it is described as virtually non-existent, and the consumer sector is doing little better.
Business loans are also down considerably in the face of an inventory liquidation which may now have run its course.

Delinquency rates are being held to modest increases in nearly all areas, but several Richmond directors mentioned the growing numbers of business and personal bankruptcies as an area of concern. One noted that a loan need not go delinquent before it goes bad, as in the case of a bankruptcy.

Our directors generally believe that if interest rates continue to fall borrowing could rise substantially. Most believe that the strength will appear first in the consumer and real estate areas.

Agriculture

Fifth District farmers' financial difficulties continued unabated during the second quarter of 1982, according to this Bank's survey of farm credit conditions. Moreover, farmland values are trending downward, eroding farmers' equity positions. Under these circumstances, farm loan demand remained sluggish and bank supplies of farm loan funds were plentiful. Farm loan repayment rates and requests for loan renewals and extensions, although showing slight improvement over the spring quarter, were equally as poor as during the same period last year. Bankers were requiring significantly more collateral to secure farm loans than they did a year ago. Meanwhile, liquidity pressures facing some rural banks eased slightly from year-earlier levels.

Marketing of this season's flue-cured tobacco crop, under way for two weeks, has been characterized by lower grade prices and slightly poorer quality than a year earlier. Because of dissatisfaction with prices, growers have placed more than one-third of gross sales thus far under the government loan program. The crop is some 13 percent under 1981's output.
SIXTH DISTRICT - ATLANTA

Midsummer economic conditions in the Sixth District remain weak; however, signs of increasing activity in some sectors are encouraging. An upturn in building permits indicates that the outlook for construction may be brightening. The District's farm economy is also showing some improvement.

**Consumer Spending.** With the exception of Atlanta, Knoxville, and Jacksonville, retail sales are down or flat in real terms in spite of heavy promotions. Sales in Mississippi and Florida seem to be especially weak. Home furnishings, most hard goods, and some apparel are moving slowly, while menswear, auto parts, and home entertainment equipment are doing relatively well. Consumers are buying cautiously and paying particular attention to quality. Retailers, reporting generally taut inventories and anticipating a gradual increase in sales over the next two quarters, are buying guardedly for the Christmas season.

Auto sales have come to a virtual standstill since the termination of price promotions in early June. Even in metro Atlanta's relatively strong economy, July and August floor traffic and buying have been quite slow. A spokesman for Atlanta car dealers attributes this slowdown to consumer expectations of further declines in interest rates and of reinstated price rebates.

**Construction and Finance.** The construction sector appears to be poised for a possible recovery from the slight decline of the past several months. In July and early August both single-family and commercial building permits rose after a two-month drop. Office vacancy rates have been slowly falling. Lower mortgage rates have yet to have an impact on the housing market, where most activity is attributable to adjustable mortgage loans, state mortgage bond programs, and higher income buyers. Nonetheless, realtors and thrifts remain hopeful that the market will improve.
Bank loans in Georgia, especially to corporations, are reported to be showing strong gains from year-ago levels, whereas loan growth in other states is slowing as acceptable loan customers are becoming increasingly difficult to find. Because of the decline in energy-related business activity, bank lending in Louisiana has been especially hard hit.

Planned capital spending for 1982 amounts to a mere 3.5 percent increase in current dollars over last year. Moreover, most of this investment is concentrated in the chemical and petroleum industries. One bright spot is the Port of Mobile, where recently expanded coal-handling facilities have contributed to a 103 percent expansion in coal exports during the first seven months of 1982 compared with 1981. Ongoing improvements should allow the port to double current coal export capacity by early 1983.

**Employment and Industry.** In general, Sixth District employment statistics except in certain "pockets" of prosperity such as Atlanta present a bleak picture. From May to June the District's unadjusted employment declined slightly (0.4 percent), running counter to both seasonal and current national trends. However, average weekly hours increased slightly more than in the nation. Regional employment and average weekly hours remain below last June's levels. Employment growth did occur in some sectors, for example, construction, services, and certain nondurable manufacturing industries (food, apparel, and paper), but this expansion was generally less than seasonally normal. Chemical and petroleum industries in Louisiana have been particularly hurt by the recession. Layoffs in Louisiana's chemical processing plants numbered more than 2,500 in the past six months, and more are slated.

At 9.4 percent, the region's seasonally adjusted unemployment rate in June was down fractionally from May and remained slightly below the nation's, largely because of Florida's and Georgia's jobless rates of 7.5 and 7.6 percent, respectively. Four of the six District states continue to have double-digit jobless rates.
Tourism. The tourist industry is thriving in the vicinity of the World's Fair in Knoxville, Tennessee, but in Louisiana and Florida, business is down and, elsewhere, merely holding steady over last year. July attendance at the Fair tapered off somewhat from May and June levels but continues to meet official projections. The Fair's "spillover effect" is being felt at hotels, motels, campgrounds, state and national parks, and private attractions as far away as Nashville and in the border regions of Kentucky and the Carolinas. However, elsewhere, the Fair has not overcome the effects of the recession by triggering the widely anticipated increase in tourist trade.

Agriculture. The present outlook for the District's farm economy shows a few bright spots and the possibility of future improvement. In the livestock sector, pork producers are receiving prices approximately 15 percent higher than last year. Continuing declines in production of both pork and beef presage further price increases. Poultry, which is important in the District's farm economy, has not yet shown much gain from reductions in supplies of competing meats. Aggregate income from the livestock sector is likely to remain below 1981 levels, but profit margins of individual farmers should improve. Crop producers face low prices and forecasts of high yields. Cotton and tobacco prices, which have recently shown strength, are the sole exceptions.

Despite some improvement District farmers are not likely to be able to make significant progress toward debt reduction in 1982. Loan delinquencies have declined modestly in recent weeks, but they remain alarmingly high by historical standards.

Panel of Economists. Local academic, banking, and business economists polled in a telephone survey indicated their evaluation of the Fed's continuing targets for money growth as acceptable and appropriate to anticipated recovery. Their recommendations for monetary policy ranged from maintaining the status quo by not
revising targets upward to stimulating further reductions in short-term interest rates to foster recovery.

Estimates varied regarding the timing of recovery. Some respondents felt that the recession had already reached its trough in all District states except Florida and Mississippi, but others were more optimistic regarding Florida's economy and less so regarding Louisiana's. At least one economist predicted that recovery would not begin until spring, 1983, well after the nation's unemployment rate surpassed 10 percent. All those polled expected only a weak or moderate recovery.

None have seen much effect from federal income tax cuts and social security increases because of the offsetting effects of "bracket creep" and higher state and local taxes. Response in Florida was expected to be stronger than elsewhere due to the relatively large percentage of the work force still employed and the state's disproportionately large number of social security recipients. Economists surveyed anticipated retail sales of nondurable goods to be the prime beneficiary of increased disposable personal income.
Summary. With the third quarter well advanced it appears that economic activity in the Seventh District is still declining. Signs of improvement noted in the spring have evaporated. Consumer purchases are very slow in virtually all sectors. Capital goods producers, almost without exception, are cutting output further. More plants are being closed, many permanently. Motor vehicle sales continue well below expectations. Normal vacation shutdowns commonly have been extended. Financial problems are increasing for many lenders and borrowers. Residential construction is at a postwar low with no revival in sight, and nonresidential plans are being scaled down. Demand for workers is weak, but many unions adamantly oppose significant concessions, and most nonunion employers are increasing compensation. Analysts were shocked by recent USDA predictions of record crops, which threaten the financial health of agriculture. Farmland values are continuing an unprecedented postwar decline.

Financial Stress. Revelations of the extent of problem loans of the District's largest bank sent a chill wind through the financial and business community. Most large banks have special teams monitoring existing loans, and new loans are being scrutinized very closely. First-half losses of some of the largest S&Ls would wipe out their book net worth if not checked in the second half. (Actual net worth, taking into account current market values, is rarely mentioned.) Many business and agricultural bankruptcies would result if lenders chose strictly to enforce loan contracts. Liquidations of retailing and manufacturing establishments without bankruptcy are frequent. A number of capital goods firms are
planning to consolidate two or more plants, with the survivor likely to be a newer facility in the Sunbelt.

**Capital Expenditures.** Machinery and equipment production is declining or remaining at very low levels, depending on the type. Demand for equipment for construction, agriculture, industry, utilities, and transportation is at very low levels. Orders for all types of capital goods were poor in the second quarter, and some producers reported a further drop in July and early August. Forging and casting operations are off 50 percent or more from last year and dropping further. Employees of 40 to 50 years experience at some capital goods companies "have never seen anything like this." Some firms that normally only manufacture complete machines are seeking repair or retrofit jobs. Over half of the freight car plants are now closed, and with orders near zero, the ratio may rise to 90 percent by year-end. Construction engineering firms have reduced staff, and plant location advisers have relatively few new projects. These developments suggest that the capital expenditure slump will be long extended.

**Consumer Spending.** Consumers are not leading the Seventh District out of its recession. Large general merchandise retailers report dollar sales about equal to last year in July and early August in dollars, and significantly lower in real terms. Customers generally respond only to price cutting and strong promotions. The only consistently strong line is auto repair and service, reflecting the fact that people are holding on to cars longer. Airline traffic in July was 8 percent below March, seasonally adjusted, because of reduced vacation travel. Resort areas have much larger vacancies than in past years.
Labor Negotiations. Unions are strongly resisting attempts of management to obtain concessions on wages, benefits, and work rules. On August 1, just after negotiations broke off in the steel industry, contract provisions automatically boosted average total compensation of production workers by about 75 cents per hour to $22.50. (Over one-third represents nontaxable benefits.) This multiplies out to almost $47,000 per year. For Ford and GM the comparable figure is almost $45,000. Chrysler workers have rejected virtually all new management proposals to cut costs and are demanding a return to "parity." Various managements dependent on autos and steel have decided that survival for their corporations requires scaling down operations, diversification into unrelated fields, and turning to foreign sources for major components such as engines and transmissions.

Housing. Residential construction continues near rock bottom with the year 1982 now "written off for lost." New units being built, in the main, are either ordered by well-financed buyers or are subsidized rental units. Used home sales are very slow. One survey indicates that actual selling prices in the Chicago area, adjusted for special lending terms, are down 8 percent from last year, but there are reports of auctions bringing cuts of 25 percent or more. Average quoted mortgage rates on conventional loans are 16.5 to 17 percent, but almost no loans are being made on these terms. Most lending activity involves short-term loans, "blended rates" and second mortgages. There are reports of "balloon" notes coming due with refinancing difficult to arrange.

Nonresidential Construction. Vacancy rates for first-class downtown Chicago office space increased sharply in the second quarter. New space
is coming on the market rapidly, and needs of some renters are shrinking. Some proposed new buildings, put up for bids only recently, have been postponed or cancelled. Leasing agents are offering attractive concessions to sign tenants, suggesting the downtown building boom is collapsing. The suburbs have had substantial excess office space for at least a year.

**Agriculture.** Crop prices had declined in recent weeks in anticipation of bumper corn and soybean harvests. Nevertheless, analysts were surprised by the very large production estimates released August 11 by the USDA. Excepting Iowa, record corn and soybean harvests are forecast for all District states. The five District states account for 55 percent of the nation's corn and over 40 percent of its soybeans. The implications of the large crop forecasts for District farmers, agricultural lenders, and agribusiness are ominous. Already burdensome carryover stocks of corn and soybeans will rise substantially, and crop prices, at unprofitable levels for several months, are likely to decline further. Because of limited compliance with the government's program only a small portion of the corn crop will be eligible for CCC price support loans. District farmland values, off 10 percent in the past year, probably will decline further. Farm equipment sales probably will remain depressed.
EIGHTH DISTRICT — ST. LOUIS

Economic conditions in the St. Louis District have changed little since May, baffling a number of respondents who thought that business activity would accelerate during the summer. Retail sales, after adjusting for price changes, were less in June, July and early August than in the like period last year. Manufacturing orders continued at the earlier depressed pace, and employment was essentially unchanged. According to Southwestern Bell's composite index, economic activity in June declined 0.5 percent in Arkansas and 0.2 percent in Missouri. Farmers have had a favorable growing season, but the anticipated large grain and soybean harvests are likely to result in low selling prices.

Retail sales in the District have been listless during the summer. Nominal sales were up about 3 percent in June and July over the corresponding period in 1981, but fewer goods were moved as average prices rose faster than dollar sales. Smaller retail stores, especially those handling luxury-type merchandise, and small service businesses performed better than major department stores. July sales were particularly disappointing to retailers in view of the 10 percent tax cut and the larger social security payments. The demand for consumer goods may have been strengthened more than the sales figures indicate, however, since some merchants expected improved sales in July and offered fewer price promotions than normal.
Industrial activity has remained steady since May. Defense procurement is still strong, while sales by food producers are normal or up moderately. On the other hand, orders remain at relatively depressed levels at firms producing consumer durables, chemicals, aluminum and wood products. Several companies, particularly those producing industrial equipment, indicate further sales deterioration. Capital spending plans of most manufacturers have changed little since May.

Employment in the District remains at May's level. A few larger industrial firms have continued to reduce work forces through attrition, and several plants were shut down longer than usual during the summer for model changeovers. On the other hand, many smaller businesses have hired more workers.

Residential home sales continue to be slow, and home construction remains depressed. According to the Home Builders Association, home sales in the St. Louis area were 10 percent lower in June and July than in the same months a year ago, and the trend continued in early August. New housing starts in the St. Louis area in June and July were only 20 percent of normal. A moderate improvement is expected in the near future, however, since the typical interest rate on residential mortgages has fallen.
from 16 3/4 percent plus 3 points in May to 15 3/4 plus 3 points in early August. Also, about $50 million of lower interest rate mortgage funds for first time homebuyers in the St. Louis area soon will be available from state revenue bonds. The demand for commercial construction, although restrained, remains stronger than for residential.

Crops in the St. Louis District are excellent, reflecting near ideal weather conditions during the planting and growing season. Also, relatively favorable feeding margins are benefitting hog and cattle producers. Because of the high interest rates and low grain prices, however, many farmers remain in financial difficulty. Prices of farm land, according to scattered reports, have decreased somewhat, and there have been few purchases of major farm equipment. Bankers serving rural areas are anticipating fewer pay-downs of agricultural loans than normal this fall.

Savings and loan associations in the District continue to lose deposits, primarily to the higher yielding money market funds. As a result, these associations have made few new loans to home buyers. Virtually all associations are operating at a loss, and four associations in the St. Louis area currently are being liquidated.
NINTH DISTRICT - MINNEAPOLIS

Previously reported weaknesses in district economic activity have persisted through the summer. So far, the only important evidence we see of the consumer-led recovery predicted by many economists is a strong showing in tourism and vacation spending. Consumers have remained unwilling to spur the district economy by stepping up their purchases of merchandise, homes, and motor vehicles. Manufacturing orders and production have continued to shrink this summer, and the already depressed lumber and metal mining industries have suffered additional blows. While district crops have benefited from superb growing conditions, this has been a mixed blessing at best, primarily serving to aggravate farmers’ price problems. Confirming these weaknesses has been a continued decline in new bank loans. Demand to roll over existing credits has been strong, but much of this lending activity must be attributed to borrowers’ liquidity problems.

Tourism

Tourism accounts for approximately 7 percent of district nonagricultural employment, and this summer it has been the one bright spot on our otherwise dreary economic landscape.

In the western half of the district, tourism is oriented to travel and sightseeing (the Black Hills, Mount Rushmore, Glacier National Park, for example), and these activities have been expanding lately. In North and South Dakota, state tourism directors report that tourism in June and July was up about 3 percent from 1981 levels, and 1981 was itself a good year. In
Montana, poor weather held down spending by tourists in May and June, but the state tourism office indicates that business in July and early August was much improved, well ahead of a year ago. These vacation areas are far from major population centers and primarily reached by automobile. Thus, industry sources attribute much of the improvement to the recent easing in gasoline prices.

Tourism in the eastern half of the district has been respectable this summer, but not as strong as in the western half. Resorts, fishing, camping, and the like dominate the eastern area's tourism business. Resort operators and trade association officials in Minnesota, northwestern Wisconsin, and the Upper Peninsula of Michigan indicate that business has been up from a year ago at some resorts, down at others. This spottiness is attributed largely to reduced group entertaining by corporations and, in some areas, to poor weather.

Other Consumer Spending

While consumers have been willing to spend on vacations, they have continued to be reluctant to make other purchases. An economist for a locally headquartered national retailer reports that his firm is "waiting but still hopeful." Major department and discount stores in the Minneapolis-St. Paul area report that weak sales (reported in recent Redbooks) continued into July. Specialty store revenues have also been flat. A national book retailer, headquartered in Minneapolis, terms its summer sales as "soft," and a large Minneapolis company with several specialty retailing subsidiaries characterizes recent sales as "weak." Federal Reserve Bank of Minneapolis directors report that merchandise sales outside the Twin Cities area have also been soft.
Consumers have remained wary of big-ticket items such as homes and motor vehicles. According to the Minneapolis Board of Realtors, July home sales in Minneapolis and its suburbs were down 25 percent from the already depressed level of a year ago. Furthermore, after reporting in our last Redbook that motor vehicle sales had strengthened modestly in May and early June, regional sales managers indicate that sales turned down again in July.

**Industrial Activity**

Accompanying weak consumer spending has been a continuing decline in manufacturing orders and production. District manufacturers of toys, housewares, and cosmetics report that retailers have simply not been ordering this summer. Also, orders received by district paper manufacturers have been "weakening rapidly," according to a director associated with that industry. Until recently, this was one of the district's strongest manufacturing sectors.

Lack of demand has continued to reduce production as evidenced by more layoffs announced in early August: a Minneapolis clothing manufacturer, 30 workers; two Minneapolis-St. Paul computer manufacturers, 73 workers; a St. Paul manufacturer of heavy equipment, 270 workers; and a South Dakota meatpacker, 600 workers.

Lumbering and mining have been further depressed this summer too. Not only has weak construction activity continued to hold down lumber production, but directors report that unseasonably heavy summer rains at both ends of the district have interfered with logging operations. Also, several iron mining companies extended their previously announced shutdowns, (discussed in our last Redbook). Iron ore production at district mines this year is now projected to total 35 million tons or less, well below the 50 million tons that industry sources were estimating in early June.
Agricultural Conditions

Good growing conditions in the district and elsewhere have driven down crop prices and exacerbated the problems confronting farmers in the district. The threat of cold and wet weather in the spring did not materialize, and prospects now are for record harvests in the Ninth District. However, local storage facilities are full to capacity from previous harvests, and many farmers are not eligible for price support loans on this year's crops. For example, only 25 percent of Minnesota corn producers are eligible for price support loans. The threat of this fall's bumper crops forcing large amounts of grain on the market has sent corn and soybean prices tumbling from already weak levels.

To compound district farm problems, farm stored grains in Minnesota are reported to have above average amounts of insect infestation and mold this year. If those reports are true, some Minnesota farmers will have difficulty getting even these poor prices for privately stored grains.

Financial Developments

Recent bank lending has reflected these weaknesses in the district economy. A Minneapolis-St. Paul banker indicates that new bank loans at metropolitan area banks have "drifted down" through the summer. Outside the metropolitan area, the poor farm economy has been slowing debt repayment. At the end of June, 43 percent of the rural bankers responding to our Agricultural Credit Conditions Survey expected the demand for farm debt refinancing in their area to be greater than normal in the third quarter. Moreover, 62 percent characterized the current rate of debt repayment as slow.
Overview. Business conditions in the Tenth District continue weak with little indication, as yet, that an economic recovery is underway. Retail sales across the District, however, improved somewhat in June. Automobile dealers have experienced a modest increase in sales, as well. Input prices, as reported by purchasing agents, are mixed compared to a year ago with some further trimming of inventories expected. Large corn and soybean crops are in prospect, if an early frost is avoided. Loan demand at Tenth District banks is generally flat, while deposit growth is mixed. Some deterioration in loan quality is occurring at commercial banks, resulting in more careful monitoring of the financial condition of all borrowers.

Retail Trade. Most retailers in the Tenth District report sales in the first half of 1982 were slightly less than in the first half of 1981. Sales improved somewhat in June with automotive repair and parts sales especially strong. Durable goods sales remain weak. While merchandise costs have not changed significantly in recent months, promotional price cutting is resulting in some downward pressure on profit margins for retailers. Primarily due to lackluster sales, inventory levels remain slightly higher than desired. Retailers express cautious optimism about sales in the remaining months of 1982, indicating that some further inventory liquidation is expected.

Automobile Industry. Automobile dealers in the Tenth District express guarded optimism due to recent marginal upswings in sales. With the exception of Colorado where sales were off 15 percent in July from a year earlier, the District is experiencing a general increase in sales, especially in Oklahoma.
Credit is generally available, but at quite high rates. Dealers are still tightly controlling inventories. Yet, some larger dealers have expanded slightly—primarily in the better selling luxury cars. Dealer optimism, however, is fragile and they are reluctant to predict further significant increases in sales over the next six months.

**Purchasing Agents.** Tenth District purchasing agents report input prices are mixed compared to last year at this time, ranging from 15 percent decreases to 15 percent increases for certain materials. Prices are expected to remain relatively stable for the rest of the year, with at most a 5 percent increase for certain raw materials beginning in the fourth quarter. Firms contacted continue to trim their inventory levels and plan to maintain them at very low levels for the remainder of the year. Consequently, input availability is becoming a problem for many firms in the District. All firms report excess capacity at this time and no shortages of skilled labor.

**Agriculture.** Tenth District bankers report corn and soybean crop conditions range from good to excellent. Concern is expressed about the vulnerability of late planted crops to an early frost, however. Harvesting of the large Tenth District winter wheat crop is nearly complete. District bankers indicate that wheat prices are unusually low. The grain storage situation appears to be adequate at present with the possibility of some later shortage of storage facilities, depending upon the final crop production outcome. Hog production continues to be profitable and more cattle are on feed in the Tenth District than a year earlier. District bankers indicate that cattlemen are reducing the size of their cattle herds from year-ago levels.
Banking Developments. Loan demand in the Tenth District continues to show little or no growth. Districtwide, demand for commercial and industrial loans remains constant, although some banks in Colorado report a growth in loans to nonenergy-related businesses. While some banks indicate increases in agricultural loans, farm lending is generally weaker than normal for the season. Several Oklahoma bankers note strong growth in loans to finance commercial construction; however, there are no indications of greater real estate lending elsewhere. Demand for consumer loans is flat throughout the District. Districtwide, the prime rate ranged from 15 to 15 1/2 percent, down from the 16 to 17 percent range reported last month. Some bankers note a deterioration in the quality of their outstanding loans, resulting in close monitoring of the financial condition of all borrowers.

Deposit growth reported by Tenth District banks is mixed. NOW accounts show little or no growth, and money market certificates are up slightly. Growth in large CD's range from flat to moderately strong, except in Oklahoma where large runoffs are reported in some instances due to apprehension resulting from the Penn Square failure. Districtwide, other categories of time and savings deposits remain flat or down slightly. Very few commercial banks report their institutions offer deposit sweeping arrangements.
ELEVENTH DISTRICT—DALLAS

Economic indicators for the Eleventh District are mixed. The unemployment rate and manufacturing output are stable, but the drilling rig count continues to fall. Loan growth at commercial banks is down, but construction loans are up. Commercial and residential construction is stable, but housing permits are rising. Department store sales fell in July and auto sales are sluggish.

Texas' unemployment rate stabilized at 7.0 percent in June and July, up from 6.7 percent in May. The number of layoffs is down considerably from its peak two months ago, but new claims for unemployment insurance remain high. The Texas Employment Commission reports that unemployment is hitting workers in a much broader than normal range of professions. The Commission notes that an unusually high proportion of workers filing claims for unemployment compensation now come from firms that have gone out of business.

The situation in manufacturing is little changed, except for the reduction in the pace of layoffs. Large inventories and depressed new orders rates persist for manufacturers of non-electrical machinery and fabricated metals for the petroleum industry. Orders for construction steel are declining slowly, but backlogs are large and production stable. Electronics manufacturers are relying on military contracts to offset low commercial demand. Petroleum refineries are maintaining low, but stable production levels. Apparel manufacturers report smaller than anticipated orders for fall merchandise.
The number of drilling rigs operating in the District continues to fall from December's peak. A small rise, after eight months of decline, in the number of crews that explore for potential drilling sites could mark the end of the decrease in the rig count.

The growth of loans at commercial banks slowed in July, and deposits declined. Loan growth has been significantly above average for the year to date, but was slight last month. Loans to businesses at large weekly reporting banks increased an average of 2.0 percent each month this year, but rose 0.4 percent in July. Key lenders at large banks indicate that the financial condition of borrowers with outstanding loans is deteriorating, particularly in the energy industry and its suppliers. Credit requirements are tightening. Total deposits declined, in spite of the rise in time deposits.

S&L's are posting large rises in loan volume. Over half of the dollar amount is for construction, and S&L's prefer to invest in apartments and office buildings. Loans for home purchases are up modestly—increases that respondents attribute to the combination of seasonal factors and interest rate declines. The number of delinquent payments is up slightly since June. Liquidity is above required levels.

Respondents in the residential construction industry say the pace of building is stable. Construction should increase, however, as permits rose 27.9 percent for multifamily units and 10.5 percent for single-family homes in June from May's level. The combination of low apartment vacancy rates and an abundance of office space is helping to attract financing for apartment construction.
The level of commercial construction is high, and should be fairly stable into next year. The number of new projects announced is slowly declining, but exceeds cancellations of projects on which work has not begun.

Sales at department stores for the year to date are 5 percent above last year's cumulative levels but below year-ago levels for the month of July. Inventories have been tightly controlled, but price discounting of merchandise is greater than planned. Retailers are reducing their expectations for fall sales and cancelling some orders placed with manufacturers. Sales along the Mexican border are significantly decreased after the recent devaluation of the peso.

Auto dealers attribute their slow sales to earlier rebate programs, interest rates, and high unemployment. Inventories are not excessive. Many would-be buyers are visiting dealerships but respondents expect little stimulus from the model changes in the fall.

Farm incomes are declining. Storms and disease have damaged the wheat and cotton crops, and bumper crops in the rest of the United States are depressing prices. Livestock prices are declining and energy and feed costs are rising. The volume of loans for agricultural production remains high as the pace of payments is slowing and many loans are extended.
The Twelfth District economy slipped deeper into recession during the past month and further near-term weakness appears to be in prospect. Consumer spending declined in July at both department stores and new car dealerships, and reports for early August suggest no improvement. Homebuilding continues to pick up gradually, but from an extremely depressed level. Moreover, the large inventory of unsold homes and recent Supreme Court ruling permitting Federally-chartered S & L's to enforce the due-on-sale clause on outstanding mortgages suggest that any further recovery this year will be negligible. Meanwhile, commercial construction is slowing. In the manufacturing and mining sectors, a number of industries cut back production further in July and announced further curtailments for August to reduce excess inventory. In the agricultural sector, the relationship between farm costs and prices continues to deteriorate. At Twelfth District banks, real estate loans outstanding continue to grow, but for reasons related to hardship among builders and households rather than strength in construction activity.

**Consumer Spending**

The long-expected consumer led recovery does not appear to have materialized in the Twelfth District. Respondents report that retail sales dropped in July and barely exceeded the year-ago level in nominal terms. The decline was noted for both department stores and automobile dealerships selling new cars. In fact, car dealers reported July sales activity as the worse yet during this recession. In the face of rising unemployment, high interest rates and an uncertain future outlook, consumers still appear to be exhibiting extremely cautious spending behavior. A slow tourist season
also is adversely affecting retail business. Meanwhile, retail profits are depressed, bankruptcies are rising, and managers are scaling back plans for purchasing Fall merchandise. Even grocery store sales are reported to be sliding.

Manufacturing and Mining

Many basic Twelfth District manufacturing and mining industries cut back production and employment further in July. In the Pacific Northwest, the lumber industry sank deeper into depression as the renewed weakness in national housing starts further reduced orders and prices. The paper industry also experienced further weakness in orders, not only from domestic but foreign customers. The Boeing Company in Seattle continued to reduce its payrolls in response to order cancellations for commercial aircraft, also forcing further curtailments at Pacific Northwest aluminum plants. In the Intermountain states, cutbacks were especially severe in the copper industry where producers in Arizona and Utah reduced mine production to only about 55 percent of capacity. Efforts to arrest the worldwide accumulation of excess inventory have been unsuccessful due to rising foreign production and depressed demand from such industries as automobile manufacturing and construction. As a result, further curtailments are planned for August. In California -- a state which traditionally outperforms the nation -- the unemployment rate reached an all-time high of 10.5 percent in July. Particularly notable has been another recent wave of layoffs in the semiconductor industry which once again is facing excess inventory due to depressed business capital spending for such products as computers.

Construction and Real Estate

The slight improvement in Twelfth District homebuilding activity that began in the spring appears to be continuing. But residential construction
activity in the region is still even more depressed relative to a year ago than activity nationally. Moreover, the recent pace of residential building permit activity virtually guarantees that any further improvement this year will be negligible. There are other factors that suggest this outcome. First, the inventory of new and old unsold homes has continued to rise. Second, a large proportion of sales in recent months has been through some form of creative financing, and the recent Supreme Court decision allowing Federally-chartered S & L's to enforce the due-on-sale clause will end the assumption of mortgages originally issued by those institutions. Meanwhile, nonresidential construction expenditures are slowing dramatically as a result of rising vacancy rates and cutbacks in private and public capital spending. Vacancy rates in office buildings and shopping centers are reported to be rising. For example, in San Francisco, about 10 percent of the city's first class office space is vacant.

Agriculture

Prices for important Twelfth District agricultural crops and livestock products have shown mixed patterns recently. Prices for fruits and vegetables generally have increased, while prices for cattle and grains have moved lower. But, in general, the relationship between farm prices and costs has continued to deteriorate, both relative to earlier months in 1982 and a year earlier. Moreover, the outlook for improvement in net income later this year is not favorable, given the bumper crops in prospect. Adding to the industry's problems, the rising foreign exchange value of the dollar and slowdown in overseas economies have been acting to reduce agricultural exports. Due to declining net income, the industry's demand for credit has been increasing substantially while its creditworthiness has been deteriorating.
Financial Institutions

July data show no significant change in total bank credit from the month earlier. Real estate loans outstanding were the only major component to exhibit strength, although growth there was slower than a year ago. Growth in mortgage loans continues to reflect a lower rate of turnover of properties and consequent slower pace of repayments on outstanding loans, as well as the continued expansion of credit needs for commercial projects already in progress. Slow sales of new housing units and high long-term interest rates also are forcing builders to restructure existing debt and to turn increasingly to short-term bank borrowing. Residential loans outstanding also continue to grow because homeowners find home equity loans (seconds) attractive and because banks have been offering below-market financing on new homes to help move the excess inventory of builders to whom they have extended construction financing.