Clear Skies for Aerospace?

The aerospace industry is in somewhat better shape than most other manufacturing industries. It has been forced to schedule production cutbacks and layoffs because of weakening orders from domestic airlines as well as inventory problems in the civilian-electronics end of the business, but its overall sales trend has remained strong because of a heavy inflow of orders from the Pentagon and from foreign buyers. Thus, aerospace sales are likely to expand further in 1975 on top of last year's 10-percent gain (to $26.8 billion), and profits are likely to remain high for most firms because of the industry's thick orderbooks and vigorous cost-reduction efforts.

Commercial-aircraft orders (both domestic and foreign) could decline this year as a result of the airlines' sluggish traffic growth and soaring fuel costs, but their heavy backlog of unfilled orders should help maintain a fairly high level of deliveries. Moreover, the strength of the military market, both here and abroad, should more than compensate for any loss of commercial business. But as backlogs dwindle, shipments of commercial airliners eventually will turn downward, and the weakness could spread if foreign competition and Congressional restraints reduce military exports.

Guns or butter?
The aerospace industry benefited in 1974 from a 6-percent increase in purchases by the Pentagon—its largest customer—to some $15.3 billion. This rise was part of a 5-percent gain in total defense spending in fiscal 1974 and (probably) a further 8%-percent gain in fiscal 1975, which reversed the downward trend in defense spending of the 1969-73 period. The turnaround reflected the need to replenish inventories and to overcome deficiencies in weaponry revealed during the 1973 Arab-Israeli conflict—but more importantly, the need to offset inflationary cost increases.

The Administration has presented Congress with a $94.0-billion defense budget for fiscal 1976, for a further 10-percent increase. (Beyond 1976, budget planners provided for an increase in real purchasing power of about 2 percent annually, in an attempt to reverse the steady decline in real resources going into the defense program.) Fiscal 1976 outlays for procurement and research-and-development activities—the crucial portion of the budget for the aerospace industry—were budgeted to increase 12 percent to $26.1 billion. The emphasis was on force modernization, with increased funds requested for a sophisticated new generation of aircraft and tactical missiles. Congressional budget debates so far this year have indicated little pressure to cut back on such programs, especially in view of Congressional fears about unemployment and worldwide political tensions.

(continued on page 2)
The nation's space budget also is on a rising trend after several years of stability, although much of the growth is in one program—the space shuttle. For fiscal 1976, the National Aeronautics and Space Administration has requested $3.5 billion—up 9 percent from the current fiscal year.

Jet lag
Domestic airlines reduced their orders for jet transports sharply in 1974 as a result of rising fuel costs and a slowdown in passenger traffic. But foreign airlines continued to increase their purchases, reacting in part to the devaluation of the dollar and an increase in their share of total traffic. As a result, U.S. commercial-transport sales rose 12 percent to almost $4.2 billion, as export sales soared to comprise almost two-thirds of the total market for commercial airliners. Boeing accounted for the entire gain; McDonnell-Douglas and Lockheed both suffered sales declines because of the weak domestic market for their jets.

Domestic and foreign orders for jet transports both could decline this year, because of the continued worldwide slowdown of passenger traffic as well as the market glut caused by the used-aircraft sales of hard-pressed airlines. Worldwide growth of passenger traffic slowed from a 13-percent annual rate during the 1960's and a 10-percent rate during the early 1970's to only 4 percent in 1974—the smallest gain on record. This year, with the recession, it may not increase at all. Order backlogs still remain fairly high, but the reduced order flow for commercial transports is likely to affect deliveries this year and even more sharply in 1976-77.

Nonetheless, manufacturers are quite optimistic about long-run prospects for the commercial market. Over the next decade, Boeing expects worldwide passenger traffic to resume growth at a 7-9 percent annual rate and cargo traffic to grow even faster. It also expects the world's airlines to retire a substantial number of older-generation aircraft, such as the 707 and the DC-8, and to replace them with newer planes offering lower costs per mile. The growth in traffic, along with replacement needs, thus could mean a worldwide commercial market of $50 billion (constant dollars) in the 1975-85 period. Manufacturers are not planning to introduce any completely new models until after 1980, but modified versions of existing planes, such as the Boeing 727-300 and a revised McDonnell Douglas DC-10, are likely to enter production as soon as airline traffic improves.

Another favorable market factor is Lockheed's recently negotiated agreement for easing the financial burden connected with its L-1011 project. The plan will extend to the end of 1977 both the Federal government's $250-million loan...
guarantee and the private $650-
million loan agreement, and it will
also reduce the interest charge
on the nonguaranteed portion of
that debt. Later on, in early 1977,
Lockheed’s lending banks are
scheduled to obtain an equity share
in the company in exchange for
writing off a portion of its out-
standing debt.

Sales of general-aviation aircraft,
used for both business and pleas­
ure, rose 10 percent in 1974 to a
new record of $920 million on the
strength of both the export and
domestic markets. But the pres­
ent decline in corporate profits and
discretionary consumer spending
could reduce 1975 sales and leave
this segment of the industry with
excess inventory on its hands.

Export boom
Exports represent the brightest
element in the aerospace outlook.
Exports of U.S. military and com­
cmercial aerospace equipment
jumped 82 percent during the
1972-74 period to a record $6.9
billion. This year they are expect­
ed to reach $7.8 billion—30 percent
of total industry shipments. The
Middle East oil-producing nations
have emerged as the major growth
market for both military and
commercial equipment.

Military sales are expected to show
the largest increase in this sector.
Because of the several devalua­
tions of the dollar, the rise in Middle
East purchasing power and grow­
ning political tensions throughout
the world, U.S. exports of air­
craft, missiles and other weapons
could exceed $3.5 billion in fiscal
1975—20 percent above the 1974
figure and almost triple the year-
earlier figure. New foreign orders
for all types of military equipment
have doubled during the past
year and are now running well over
$8 billion annually, making the
United States the world’s largest
arms supplier.

Although the U.S. now supplies
over two-thirds of all worldwide
aerospace exports, its share is likely
to decline in the future as France,
Britain and other producing na­
tions seek to improve their trade
balance by aggressively market­
ing new products. The Common
Market countries have formed
multinational aerospace firms
which stress a policy of “buy and
sell European.” Also, Congression­
al limitations on arms exports may
limit industry sales. The Senate
Appropriations Committee last
August directed the Defense
Department to give it prior notifica­
tion of all sales in excess of $25
million, and declared its concern
“that the long-term security inter­
ests of the U.S. might be jeopard­
ized by large cash sales of sophis­
ticated weapons systems in areas
of potential conflict.” Still, despite
the likelihood of increased for­
eign competition and possible
limitations on military sales, the
export sector may well provide
the basic support of the U.S.
aerospace industry for the rest of
this decade.

Yvonne Levy
### BANKING DATA—TWELFTH FEDERAL RESERVE DISTRICT

**(Dollar amounts in millions)**

<table>
<thead>
<tr>
<th>Selected Assets and Liabilities</th>
<th>Amount Outstanding 5/21/75</th>
<th>Change from 5/14/75</th>
<th>Change from year ago Dollar</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loans (gross, adjusted) and investments*</td>
<td>85,033</td>
<td>+ 280</td>
<td>+ 2,313</td>
<td>+ 2.80</td>
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<tr>
<td>Loans (gross, adjusted)—total</td>
<td>64,590</td>
<td>+ 152</td>
<td>+ 206</td>
<td>+ 0.32</td>
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<tr>
<td>Security loans</td>
<td>1,339</td>
<td>+ 382</td>
<td>+ 108</td>
<td>+ 8.77</td>
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<tr>
<td>Commercial and industrial</td>
<td>23,769</td>
<td>− 149</td>
<td>+ 624</td>
<td>+ 2.70</td>
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<tr>
<td>Real estate</td>
<td>19,531</td>
<td>+ 2</td>
<td>+ 353</td>
<td>+ 1.84</td>
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<tr>
<td>Consumer installment</td>
<td>9,901</td>
<td>− 16</td>
<td>+ 516</td>
<td>+ 5.56</td>
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<tr>
<td>U.S. Treasury securities</td>
<td>7,954</td>
<td>+ 69</td>
<td>+ 2,728</td>
<td>+ 52.20</td>
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<tr>
<td>Other securities</td>
<td>12,469</td>
<td>+ 39</td>
<td>− 621</td>
<td>− 4.74</td>
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<tr>
<td>Deposits (less cash items)—total*</td>
<td>84,331</td>
<td>− 461</td>
<td>+ 6,189</td>
<td>+ 7.92</td>
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<tr>
<td>Demand deposits (adjusted)</td>
<td>22,538</td>
<td>− 455</td>
<td>+ 1,162</td>
<td>+ 5.44</td>
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<td>U.S. Government deposits</td>
<td>381</td>
<td>+ 77</td>
<td>− 88</td>
<td>− 18.76</td>
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<tr>
<td>Time deposits—total*</td>
<td>60,159</td>
<td>− 31</td>
<td>+ 5,065</td>
<td>+ 9.19</td>
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<tr>
<td>States and political subdivisions</td>
<td>7,619</td>
<td>− 34</td>
<td>+ 255</td>
<td>+ 3.46</td>
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<tr>
<td>Savings deposits</td>
<td>19,777</td>
<td>+ 162</td>
<td>+ 1,857</td>
<td>+ 10.36</td>
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<td>Other time deposits</td>
<td>29,195</td>
<td>− 239</td>
<td>+ 2,052</td>
<td>+ 7.56</td>
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<tr>
<td>Large negotiable CD's</td>
<td>15,794</td>
<td>− 292</td>
<td>+ 1,652</td>
<td>+ 11.68</td>
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<table>
<thead>
<tr>
<th>Weekly Averages of Daily Figures</th>
<th>Week ended 5/21/75</th>
<th>Week ended 5/14/75</th>
<th>Comparable year-ago period</th>
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<tbody>
<tr>
<td>Member Bank Reserve Position</td>
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<tr>
<td>Excess Reserves</td>
<td>29.1</td>
<td>33.4</td>
<td>34.0</td>
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<tr>
<td>Borrowings</td>
<td>0.0</td>
<td>0.0</td>
<td>258.1</td>
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<tr>
<td>Net free (+) / Net borrowed (-)</td>
<td>+ 29.1</td>
<td>+ 33.4</td>
<td>− 224.1</td>
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<tr>
<td>Federal Funds—Seven Large Banks</td>
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<tr>
<td>Interbank Federal fund transactions</td>
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<td></td>
</tr>
<tr>
<td>Net purchases (+) / Net sales (-)</td>
<td>+ 1,501.3</td>
<td>+ 1,164.3</td>
<td>+ 1,213.0</td>
</tr>
<tr>
<td>Transactions of U.S. security dealers</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net loans (+) / Net borrowings (-)</td>
<td>+ 562.5</td>
<td>+ 462.6</td>
<td>+ 403.3</td>
</tr>
</tbody>
</table>

*Includes items not shown separately. †Individuals, partnerships and corporations.