The original documents are located in Box 55, folder "1976/01/26 - Economic Policy Board" of the James M. Cannon Files at the Gerald R. Ford Presidential Library.

ECONOMIC POLICY BOARD
EXECUTIVE COMMITTEE MEETING

AGENDA
8:30 a.m.
Roosevelt Room

January 26, 1976

1.	Product Liability Insurance	Commerce
2.	Food Deputies Report	MacAvoy

Cattle on Feed and Sows Farrowing

Year and Quarter		Cattle on Feed (23 states, million head)	Sows Farrowing (14 states, million head
1973	I	13.9	2.3
	II	13.3	3.3
	III	12.7	2.5
	IV	12.1	2.6
1974	I	13.1	2.3
	II	12.3	3.2
	III	10.0	2.4
	IV	9.1	2.3
1975	I	9.6	1.8
	II	8.5	2.4
	III	8.5	2.1
	IV	9.3	2.1
1976	I	12.3	2.0**
	II	10.9*	2.5**
	III	10.5*	2.4*

*USDA forecast
**Reported intentions

THE UNDER SECRETARY OF COMMERCE
Washington, D.C. 20230

MEMORANDUM FOR: L. William Seidman
Assistant to the President
for Economic Affairs

FROM : James A. Baker, III

SUBJECT : Product Liability Insurance

This is in response to your memorandum of January 6, 1976, concerning the difficulties faced by many businesses in obtaining product liability insurance.

The Department of Commerce has prepared an analysis of the problem as reported to us by certain segments of the business community. We have not had sufficient time to make an extensive survey and assessment of the problem as it may relate to industry in general, and have therefore limited our analysis to the machine tool industry which is apparently most adversely affected.

In preparing this analysis, the Department received input from several trade associations and other Federal agencies. In addition, we looked at the problem from the point of view of both the insurance industry and the small business community. This review was unable to establish any reliable cost figures and therefore no attempt was made to develop recommendations. Those close to the product liability insurance issue are convinced that the problem is potentially more serious and complex than the medical malpractice situation.

The Department feels that the best next step would be a more extensive analysis of the data currently available in the private sector. This effort could be completed in about thirty days and would be necessary before any work should commence on a comprehensive data base, which would involve an industry questionnaire and about six months time. Any survey of this type would require the cooperation of the capital equipment manufacturers and the insurance carriers since the Department does not have the legislative authority on this issue to require mandatory participation.

The Department recommends that the study be undertaken and is prepared to assume the lead role.

Attachment

MEMORANDUM

ON

PRODUCT LIABILITY INSURANCE PROBLEMS

January 22, 1976

I. SUMMARY

This memorandum outlines some of the major problems which presently plague both small and medium sized manufacturing firms in connection with their need for product liability insurance. Due to the shortness of the deadline for this paper, we have focused on the problems of machine tool manufacturers, who have particular difficulties in this respect. At the same time, we realize that other industries also find it increasingly difficult to obtain product liability insurance.

The following trends and conditions highlight the problems faced:

- o Although the statistics and information we have been able to compile are sketchy and anecdotal, our preliminary information indicates that product liability suits against machine tool manufacturers are increasing rapidly. For example, a survey conducted by an industry association covering 11 companies in the machine tool industry indicates product liability insurance premiums increased from $274,000 in 1968 to $1,980,000 in 1975, a 7-fold increase in 7 years. Other anecdotal information turned up even higher premium increases.

- o Since many of the companies involved are small and premiums now approach an amount equal to 5-10% of gross sales in an industry the average net operating profit of which was only 3.2% in 1974, increased costs for product liability insurance could lead to plant closings.

- o The trend is toward sharp increases in the frequency and severity in product liability suits in other capital equipment industries.

- o The main reasons for such increases are:

  - Increasingly, either the injured employee or the workers' compensation insurance company will sue the original equipment manufacturers to obtain either additional compensation or recoup claim payments already made.

  - Increasingly, judgments against equipment manufacturers in court are based on absolute product liability regardless of employer contributions to the accident.

- o Although specific data is lacking, it is believed that implementation of a number of recently enacted Federal laws may be indirectly contributing to these product liability insurance problems.
    - Creation of Consumer Products Safety Commission
    - Hazardous Materials Act
    - Flammable Products Act
    - Toxic Substances Act
- o Product Liability Insurance has become increasingly difficult to obtain for many manufacturers particularly in the machine tool industry. Premium increases, however, do not appear to be keeping pace with increased claim and adjustment expenses. In addition:
    - The capacity to underwrite casualty coverages by major insurers has been eroded with decreases in required capital (for underwriting).
    - Available capital is being shifted by insurers to more profitable insurance lines.
- o Problems faced with obtaining product liability insurance protection could be potentially as serious as the difficulties associated with medical malpractice protection.
- o None of the remedies proposed by industry to date can be endorsed without further study.

In summary, more analysis of data from the private sector is required to ascertain the extent to which product liability insurance problems are impacting business. This next step is necessary before we can decide if an industry questionnaire should be developed (i.e. to establish a comprehensive data base for this issue). Such a base would be necessary to properly evaluate the full extent of the problem and to assess potential remedies.

A. THE THREAT TO SMALL AND MEDIUM SIZED CAPITAL EQUIPMENT PRODUCERS

1. The problem faced by small and medium sized capital equipment producers might best be understood by reviewing available data on machine tool builders who have found it almost impossible to obtain product liability protection.

   The problems faced by machine tool producers include the following:

   - Some may go out of business because they cannot obtain adequate insurance and are not willing to assume the liability themselves.

   - Some are operating without product liability insurance protection.

   - Product liability insurance premium increases this past year have ranged from 50% to several thousand percent. These increases cannot be adequately absorbed by companies who already are operating on reduced margins. In some companies, premiums now approach 5-10% of gross sales. The net operating profit on sales for the machine tool industry in 1974 averaged 3.2% after taxes, versus 2.4% in 1973 and losses in 1972 and 1971. Demand for machine tools tends to be highly cyclical.

   - Many insurers are failing to renew existing product liability policies when they expire.

   - Such significant increases in insurance premiums will undoubtedly be passed on in terms of higher prices for machine tools.

   - High injury rates have historically been associated with the machine tool industry. Use of machine tools, particularly metal-forming machinery including presses and shears, is inherently dangerous. Safety devices, such as guards and automated feed mechanisms, are not always practical. A medium to large producer of metal forming machinery could have 50-150 product liability suits outstanding at any one time.

- o Many machine tools currently in use were produced years ago and lack safety devices found on newer machinery. McGraw Hill estimates over 3 million machine tools in use in 1973; more than 700,000 of these tools were metal forming machines. Of this number, over 204,000 were over 20 years old, while 284,000 were between 10 and 20 years old. Machine tool manufacturers' potential liability could include nearly every machine tool produced in the past 30-40 years.

- o 450 Machine tool companies are in operation with 180 of these producing metal forming machinery. Total employment in 1975 was 85,000 with metal forming tool manufacturers employing 26,000 employees. 1975 shipments totaled $2.2 billion, of which $550 million represented shipments of metal forming tools. About 50% of all manufacturers of metal cutting machine tools are establishments with less than 500 employees.

B. PRODUCT LIABILITY CLAIMS; LINK TO WORKERS' COMPENSATION INSURANCE

1. Recent increases in the frequency and severity of product liability claims against capital goods equipment manufacturers are related primarily to three factors: (a) third party injuries to employees using such equipment, (b) workers' compensation claim payments subrogation, and (c) the legal standing of equipment manufacturers in the courts.

   - The situation which develops between the machinery manufacturer, the owner/employer, the employee who is injured and the owner/employer's workers' compensation insurance company often unfolds as follows. Once an employee is injured while operating such machinery, he receives statutorily prescribed workers' compensation benefits through his employer's workers' compensation insurance. The injured employee or the workers' compensation insurance company then often will sue the equipment manufacturer either for additional compensation or to recoup claim payments already made using the workers' compensation companies' right to subrogation.

   - Initial inquiries suggest that product liability claims from manufacturers not producing capital goods equipment are also on the increase but these claims are not necessarily tied to injured employees and/or workers' compensation claim payments.

2. Why has there been such an increase in workers' compensation related product liability claims?

   The reasons are principally as follows:

   - Workers' compensation benefits often vary widely from state to state and appear to have become inadequate in some instances to compensate employees for permanent and partial disabilities.

   - Injured workers are being encouraged to sue equipment manufacturers to obtain additional benefits and/or recoup claim payments already made.

- o Many in the insurance industry assert that attorneys who once were involved in auto liability litigation have shifted their attention to malpractice and product liability. Attorneys' fees are typically 1/3 of final awards or larger.

- o The Doctrine of Privity is being modified toward a doctrine of strict liability by various recent court cases with the abandonment of most traditional tort defenses for manufacturers. Essentially, liability is imposed now on the seller or manufacturer of a product because of an injury caused by the condition of the product, regardless of the presence or absence of negligence by the owner/employer.

- o Americans are becoming increasingly claims conscious.

3. <u>The operation of State workmen's compensation laws indirectly impact on increasing product liability claims against equipment manufacturers by:</u>

   - preventing in most States disabled workers from suing their employers for benefits beyond statutorily prescribed workmen's compensation settlements;

   - permitting third-party suits against manufacturers of capital equipment involved in the accident regardless of how the equipment was operated or maintained; and

   - generally preventing capital equipment manufacturers from suing employers of disabled workers who have improperly used or maintained equipment involved in an accident from filing third-party suits.

C. INSURANCE INDUSTRY TRENDS AND CONDITIONS

1. Insurance companies are reluctant to provide most forms of product liability protection and this is a function of rapidly escalating claim and adjustment expenses, decreasing underwriting capacity, and an inability to determine the extent of their exposure to future third party claims.

   The scope of the product liability insurance problem is aggravated by the following trends and conditions in the insurance industry:

   - In the past few years, insurance companies sustained record losses on outstanding liability insurance policies, particularly on product liability and mal-practice coverages. According to A.M. Best & Company, the property casualty insurance industry could sustain in 1975 estimated net underwriting losses of $4 billion for all lines.

   - Product liability premiums have skyrocketed in the past year yet have still not kept pace with rising claim costs according to insurers. Combined loss and expense ratios for all miscellaneous liability coverages including product liability, general liability and malpractice protection compiled by Best's Review are indicated below.

MISCELLANEOUS LIABILITY INSURANCE EXPERIENCE
All Stock Insurance Companies

	Net Earned Premiums (000 omitted)	Expense Ratio	Adjusted Loss Ratio	Total Loss and Expense Ratio*
1975	3,100,000 (E)	28.0 (E)	86.0 (E)	114.0 (E)
1974	2,395,751	29.5	94.9	123.4
1973	2,218,512	30.3	84.0	114.0
1972	2,066,794	30.3	82.6	112.9

* Not including dividends to policyholders or unreserved claims.

NOTE: Expense ratio (%) plus adjusted loss ratio (%) equals total loss and expense ratio (%) - i.e., in 1975, 114% of the $3,100,000,000 was paid out in the form of company expenses and claims payments.

- The Insurance Service Office, which is the national rate-making organization for product liability (PL) insurance, has just (1975) increased manual rates 1/ for product liability insurance by 50% for bodily injury and 15% for property damage. The office could increase rates again in 1976 because claim costs continue to outpace available premiums. Many product liability policies do not rely on manual rates however. Insurance companies therefore often charge premiums greatly in excess of manual rates.

- Several insurance companies are declining to write any product liability coverage, whatsoever. Others aren't renewing existing policies, are being much more selective in quoting on new policies or are raising premiums by multiples of 200-400%, or more.

- Reinsurance and excess insurance markets (domestic and off-shore) have become increasingly tighter, particularly in the past year. This has resulted in commensurate increases in premiums.

- The capacity of insurance companies to underwrite new and continue existing casualty coverage has been significantly reduced as declining security values have eroded State required insurance company capital and surplus accounts. Surplus and capital accounts have further been reduced by underwriting operating losses, and this has impacted corporate net worth. Available surplus is also being shifted to support more profitable underwriting lines.

2. <u>The type of insurance program a manufacturing company maintains is important in determining its ability to obtain and pay for product liability insurance protection</u>.

   The principal types of corporate liability insurance, including product liability insurance, are indicated below (in order of prevalence in use):

   - <u>Class or schedule rated policies</u> which rely principally on rates by type of business or product subject to adjustment. These rates are initially developed by either the Insurance Service Office (ISO) or based on independent file and use rate 2/

1/ Published rates filed on a state-by-state basis.

2/ Individual insurance company files its own premium rates independently of published manual rates.

factors filed by individual insurance companies with specific States. Smaller insurance companies tend to use class rates as developed by the ISO (if they subscribe), while larger subscribing insurance companies typically modify ISO rates based on their own experience nationwide. Insurance rates are filed on a State-by-State basis by insurance companies.

- o <u>Experience rated plans</u> in which an insured's prior years loss history directly influences his current years premium.

- o <u>Retrospective rating</u> in which an insured's loss history is used to adjust, subject to a variety of rating and adjustment factors, a standard premium for primary protection. Excess insurance would be purchased under this plan to protect against larger claims.

- o <u>Mixture of primary and excess insurance coverages and/or reinsurance with self insurance</u>.

Smaller companies would tend to be class or experience rated while medium sized and larger companies would be experienced or retrospectively rates. Very large companies normally are self insured for primary protection purchasing excess protection from the insurance marketplace. In general, the larger the company, the more flexible the premium rating plan, and the less difficult it is for the company to obtain some form of product liability protection.

3. <u>Product liability insurance premiums are developed on a variety of factors</u>.

The principal factors involved in establishing premiums for product liability insurance include the following:

- o Type of product and its intended use. Some product manufacturers have only moderate or minimal product liability exposure.

- o Exposure with respect to products sold in prior years. Product liability premiums are normally based on current year company sales and thus do not adequately compensate insurers for product liability exposure on products sold in prior years.

- o The probable number of nuisance claims expected requiring defense assistance.

- o Prior loss history (3-5 years) particularly for larger insureds.

- Sales volume of business/product line.
- Type of insurance plan (class rated, experience rated, self insurer, retrospective).
- The manual rates published and maintained for subscribing companies by the Insurance Service Office.

4. <u>Product Liability Insurance is typically purchased separately from other liability coverages. Because Product Liability is written separately, it allows insurance companies to be more selective in quoting on new insurance or in renewing existing insurance protection</u>.

   The great majority of small and medium sized businesses are covered by some form of comprehensive general liability protection as part of their overall insurance program. However, product liability protection is normally sold and quoted separately as an optional liability coverage since the exposure inherent in products and completed operations is separate and distinct from premises and operations related claim exposure.

5. <u>Most Product Liability Protection is sold by multi-line stock insurance companies who write the largest share of outstanding business insurance</u>.

   Prominent stock insurers (publicly owned) who write business insurance include such companies as the following:

St. Paul Group	Hartford Company
Travelers	Continental Group
Aetna	Insurance Company of North America
Firemans Fund	Employers

Most of these companies also write other related forms of miscellaneous liability protection including malpractice, errors and emissions and completed operations.

D. PRODUCT LIABILITY AND MALPRACTICE - A COMPARISON

1. Those close to the product liability insurance issue are convinced that the problem is potentially more serious and complex than for medical malpractice coverage.

- Medical malpractice protection is quoted and written on a state-by-state basis. While there are major problems in obtaining malpractice protection in at least one state (i.e., California), the problem may be manageable in other states.

- Product liability protection, on the other hand, is national in scope, with premiums based on nationwide claim data. Rates, however, are still developed on a state-by-state basis to meet state statutory requirements. Obtaining product liability protection will be as difficult to obtain in one state as it is in another.

- The recent dramatic increases in claims and premium charges for product liability insurance are potentially more serious than in malpractice since some manufacturers cannot obtain coverage at any price or are faced with premiums which have risen so far they exceed current levels of profitability.

- Medical malpractice claims almost always involve two parties who reside in the same state; product liability claims normally involve parties in different states. In workers' compensation suits three different states may be involved -- that of the employee, the employer, and the equipment manufacturer.

III. CURRENT ACTIVITIES TO DEFINE AND ASSESS RELEVANT ISSUES

The National Machine Tool Builders Association is working with the Interagency Task Force on Workers' Compensation to define the scope and background of the product liability problem the manufacturers of capital equipment are increasingly facing. The final report of the Task Force is currently scheduled to be completed and sent to the President and the Congress in August 1976.

The Department of Commerce, both as a member of the Interagency Task Force and as a part of its mission, is working with the National Machine Tool Builders Association. In addition, the Department of Commerce has contacted the National Association of Manufacturers, the Machinery and Allied Products Institute, the Occupational Safety and Health Administration, and representatives of the Product Liability Insurance Industry to better define the problem.

The Department of Commerce has been working closely with the Consumer Product Safety Commission (CPSC) with respect to product safety issues. CPSC estimated in 1974 that each year 20 million Americans are injured severely enough in product related accidents to require medical treatment. Some 110,000 are permanently disabled and 30,000 die. The cost to the economy is estimated to be more than $5.5 billion annually.

IV. NEXT STEPS

The relationship between State Worker Compensation Laws, Product Liability Laws, and recent trends in judicial decisions are complex. This suggests that relatively simple legislative solutions to the problems faced by industrial equipment manufacturers might result in undesirable effects throughout the business community. More analysis is required, and therefore current efforts to define and assess this problem should be accelerated and intensified.

Industry sources have initially suggested the following as possible remedies. While the Department of Commerce has not had sufficient time to properly evaluate these options and hence is not in a position to endorse any specific remedy, some preliminary comments are provided to place the suggestions in perspective.

(1) Enact a Federal statute of limitations for third-party product liability claims involving equipment-related industrial accidents. This would require potential plaintiffs to bring legal action against third-party defendants within a certain length of time after the product was manufactured. Enactment of such legislation could be challenged as this would tend to discriminate against employees using older equipment. Florida and North Carolina have already instituted a statute of limitations bill (12 years for product liability in Florida; 10 years in North Carolina), however, with Massachusetts and other states contemplating similar legislation.

(2) Make workers' compensation laws truly an exclusive remedy for injured employees. This would require Federal worker compensation legislation mandating that a workmen's compensation payment is the only payment, or modification of all 52 State workmen's compensation laws to the same end. This would prevent third-party actions by injured employees against product manufacturers, but is so anti-labor State governments and Congress would probably never consider it. Also, such a limitation would run directly counter to recent court cases holding such manufacturers liable.

This potential remedy is complicated because employees can presently sue their employers directly in some states and bypass State prescribed compensation benefits. In the event an employer was negligent, the employee should not lose the option of bringing suit against his employer.

(3) Increase allowable workers' compensation awards for injured employees. This would necessitate a change in all the States' workers' compensation laws increasing the benefits payable. Although it has been suggested that the increased payments be confined to permanent and partial disability, the increased benefits would undoubtedly result in increases in workers' compensation claims benefits and related insurance premiums. Also, it is not clear that this approach would successfully blunt third-party suits which often result in settlements far in excess of those provided by current workers' compensation insurance.

(4) Establish statutory principles of comparative negligence to provide for burden sharing on liability for work related injuries between manufacturers and employers. Such an action would provide for a sharing of the liability between the manufacturer of the item and the employer of the injured worker. Currently all third-party suits are focused on the manufacturer, regardless of whether the user's employer is at fault. It is felt that a modification to the exclusivity doctrine to allow a product manufacturer the right of contribution from negligent employers could serve as an incentive to the employer to maintain a higher safety standard, resulting in fewer accidents, hence fewer claims.

(5) Limit employer's subrogation rights by making employer negligence a possible defense to third-party product liability actions. This option would prohibit a suit against the manufacturer if the court found the employer negligent. Such a change would run counter to recent court decisions.

The Department feels that the best next step would be a more extensive analysis of the data currently available in the private sector. This effort could be completed in about thirty days and would be necessary before any work should commence on a comprehensive data base, which would involve an industry questionnaire and about six months time. Any survey of this type would require the cooperation of the capital equipment manufacturers and the insurance carriers since the Department does not have the legislative authority on this issue to require mandatory participation.

Such a study would be complimentary to the Task Force on Worker Compensation for the following reasons:

- o The Worker compensation study is not focusing on product liability and is including this topic in the report in response to pressure from the machine tool industry.

- o The worker compensation study is not due until April, which is too far in the future for the EPB request. The BDC study would use all of the machine tool data available to date.

- o The machine tool input to the worker compensation study will be confined to that industry, whereas the BDC 30-day effort will investigate the broader effects of product liability on the capital equipment manufacturers.

- o Such a study is a proper BDC task, particularly if the situation continues to worsen, resulting in more insurance companies refusing to write product liability insurance.

Business Conditions Report

January 23, 1976

U.S. Department of Commerce
DOMESTIC AND INTERNATIONAL
BUSINESS ADMINISTRATION
Bureau of Domestic Commerce

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90 DAYS AFTER PUBLICATION

CONTENTS

INDUSTRY HIGHLIGHTS

BUSINESS INDICATORS

CHART CORRECTION:

The Retail Sales chart in the January 16 issue of the Business Conditions Report erroneously showed unadjusted sales data for the month of December. The adjusted data are: Total retail sales, $52.1 billion (up 3.4 percent from November); non-durable goods sales, $35.4 billion (up 2.3 percent from November); durable goods sales, $16.7 billion (up 5.7 percent from November). See revised chart on page 2-7.

Page

LABOR DEVELOPMENTS

PRICE DEVELOPMENTS

PRICE INDICATORS

DEVELOPING ISSUES

For further information contact:

Mr. Samuel B. Sherwin, 967-5491
Mr. Charley M. Denton, 967-5223

Enquiries and suggestions are welcomed.

INDUSTRY HIGHLIGHTS

RETAIL SALES/INVENTORIES: LARGE CHRISTMAS GAINS FROM STABLE NOVEMBER INVENTORIES

° Retail inventories (unadjusted) increased $766 million between October-November 1975. During this period, automotive inventories rose by 2.4 percent and food by 1.1 percent. All other merchandise categories had changes of less than 1 percent.

° Total value of inventories in November 1975 at $76.6 billion was $118 million lower than November 1974. However, there were significant individual merchandise category differences: automobiles (down 5.2 percent), furniture-appliances (down 9.4 percent), department stores (down 2.3 percent), lumber-hardware (up 5.6 percent), and food (up 3.4 percent).

° Total retail sales in December 1975 were higher by 15 percent (year to year). Thus, merchants were able to increase sales substantially with approximately same inventories.

° Department stores, a bellwether sector of the economy, completed an excellent Christmas selling season (4 weeks ending December 27, 1975) increasing year to year sales 20 percent with inventory worth $272 million less than last year.

° Expectations are that merchants will maintain lean inventories through first quarter 1976.

WHOLESALE TRADE: STOCK-SALES RATIO REFLECTS ANTICIPATED SALES STRENGTH

° Merchant wholesalers' first 11 months sales of $401.2 billion showed continuing lag of 2 percent from year-ago levels, unchanged since mid-year.

° Durable goods sales also continued trailing year-ago levels by 9 percent, same rate as previous three months. Of 9 commodity lines, only machinery, equipment and supplies held slightly ahead.

° Durable goods sales dropped in November over October by 12 percent, all product lines down ranging from 6 percent to 18 percent, a decline attributed mainly to 4 fewer trading days in November.

- In nondurables, sales in first 11 months continued holding above 1974 levels by 4 percent. Sales dropped in November over October by 8 percent, with all 8 commodity lines reporting a decline ranging from 5 percent to 14 percent, also attributed to fewer trading days.

- Stock-sales ratio for wholesaling increased in November to 128, up 13 percentage points from October. Increase is largely attributed to rise in durable goods ratio to 185 from 163 in October, reflecting both the fewer trading days and increased ratio in metals and metalwork (from 189 to 208). This appears to support recent forecasts of better sales in appliances and residential building.

AUTOMOBILES: SALES RISE CONTINUES

CURRENT
- Car sales during January 1-10 period rose 46 percent above 1975 levels.

- Big four sold 136,008 units compared with 93,235 in 1975 (various rebate programs did not begin until January 12, 1975), and sales were about even with January 1-10 period of 1974.

- January 1-10 sales were slightly below what many analysts had anticipated.

CONSTRUCTION: 1975 PRIVATE HOUSING STARTS DOWN 13 PERCENT FROM 1974

- Total of 1,161,500 private housing units were started in 1975, 13 percent below 1974 total of 1,337,700. Multi-family housing accounted for virtually all of decline.

- 269,000 units in multi-family structures were started in 1975, a decline of 40 percent from 450,000 started in 1974. Multi-family starts accounted for only 23 percent of all 1975 starts, compared with 34 percent in 1974 and 45 percent in boom years of 1972 and 1973.

- Seasonally adjusted annual rate of private housing starts for December 1975 was 1,309,000, down 3 percent from November. Actual December starts, however, were 41 percent above December 1974.

CURRENT ° Private residential building permits, a leading indicator of future housing starts, registered 1,058,000 in December 1975 (seasonally adjusted annual rate basis), about same as October and November (1,079,000 and 1,085,000, respectively).

° Actual number of permits issued, 73,600, shows a 22 percent rise over December 1974 issues of 60,300 permits.

° Private multi-family permits accounted for 35 percent of those issued in December.

EXISTING HOMES: BRISK SALES

° Sales of existing single-family homes continued at brisk pace in November, according to survey of National Association of Realtors.

° Seasonally adjusted sales volume index (1972=100) advanced 2 points in November to 124, maintaining increase in sales activity since January 1975 low of 87. Advance in sales was bolstered by a record level of mortgage lending activity by thrift institutions.

° November median sales price of an existing single-family home was $35,650, 11 percent above the $32,130 price for same month in 1974.

° Sales of lower priced homes (under $30,000) declined from 45 to 36 percent of total sales of existing homes between November 1974 and November 1975. Sales of higher priced homes ($50,000 and over) increased from 17 to 23 percent of total over same period.

MORTGAGES: ACTIVITY CONTINUES AT HIGH LEVEL IN OCTOBER

CURRENT ° Home lending activities of mortgage companies continued at high level during October (latest data), according to survey of Mortgage Bankers Association of America.

° Closings of single-family home loans were $1.4 billion in October 1975, matching level established in September, on seasonally adjusted basis. From January to October 1975 mortgage companies closed $12.5 billion in home mortgages, nearly 12 percent higher than same 1974 period.

° Equally important, mortgage companies continued to issue a large volume of commitments to builders and borrowers for future funding of mortgages. Between January and October volume of commitments was $21.8 billion, 2 percent higher than same 1974 period.

HOUSEHOLD FURNITURE: SHIPMENTS SHOW INCREASE FOR FIRST TIME IN 14 MONTHS

- Value of household furniture shipments in recent years was growing 10 to 12 percent annually until 1974, when shipments increased only 4 percent, to $8.3 billion.

- Unit shipments in 1974 decreased 6 percent.

CURRENT
- During first 11 months 1975, value of household furniture shipments was 10 percent below January-November 1974 with November alone up 8 percent. Unit shipments were down 16 percent for the 11 months and up 5 percent in November.

- Value of new orders for furniture in November was 45 percent above a year ago, with unit orders up 41 percent.

- Value of furniture shipments during the first half 1976 is expected to be 12 to 14 percent above year earlier levels.

MACHINE TOOLS: ORDERS AND SHIPMENTS END YEAR ON STRONG NOTE (Not for Release to Public before January 26, 1976)

- Net new orders for machine tools were $115.5 million in December, a 13 percent increase over November. Net new orders for year totaled $1,186.5 million, decrease of 53 percent from 1974 total of $2.5 billion. (See chart in Business Indicators.)

- Metal cutting machine tool orders for December were $87.8 million, increase of 9 percent over November, while metal forming machinery orders increased to $27.7 million, 31 percent above November orders. Orders for metal cutting machine tools in 1975 were down 55 percent from 1974 levels. Metal forming orders for 1975 were 44 percent below levels attained in 1974.

- Shipments of machine tools in December reached $211.4 million, 21 percent above November shipments. Metal cutting machine tool shipments for December reached $165 million, 23 percent above November. Metal forming machinery shipments in December were $46.4 million, a 14 percent increase over November.

- Machine tool shipments for 1975 were over $2.4 billion, an increase of 21 percent above 1974 activity. While metal cutting machine shipments increased 30 percent, metal forming machine shipments dropped 2 percent below 1974, mainly due to several significant strikes of press builders.

- ° Backlogs at year end were $1,279.7 million, 52 percent below level with which industry began 1975.

- ° Industry enters 1976 optimistic that upward trend begun in the fall of 1975 will gather strength during year and carry over into 1977.

MACHINE TOOLS INTERNATIONAL: U.S. REGAINS LEAD IN WORLD MACHINE TOOL OUTPUT

- ° Increased machine tool output in 1975 (see preceding article) placed U.S. in first position in world production, a spot the U.S. had not occupied since 1970. U.S. output had been below West Germany for the past four years, and, except in 1974, was also below Soviet Union.

- ° World machine tool production in 1975 rose 2.7 percent to $13 billion, according to recent McGraw-Hill annual survey. The 12 cooperating machine tool producing countries of Western Europe produced $5.4 billion, 42 percent of world output, up from 41 percent in 1974.

- ° U.S. produced over $2.4 billion or approximately 19 percent of world production, up from 17 percent in 1974. Soviet Bloc produced $3.3 billion in machine tools in 1975, of which the USSR accounted for $1.96 billion. Eastern European output accounted for 26 percent of world output, up from 25 percent in 1974.

- ° In consumption of machine tools, U.S. and USSR at $2.28 billion each, tied for the lead, considerably above Japan, West Germany and Poland.

PERISHABLE CUTTING TOOLS: PRODUCERS SEE IMPROVEMENT IN 1976

- ° Perishable metal cutting tools are limited use tools. An upturn in the economy perpetuates greater tool use, with subsequent wear and replacement.

CURRENT

- ° This industry is emerging from low levels of operation during past year and is on much surer footing than it was after 1965 through 1970 price cutting competition. Current price stability and an increase in orders has been encouraging to the industry.

- ° New orders index rose 25 percent during last six months 1975. (A slight drop in orders in November temporarily slowed this gain.) Shipments in 1976 are projected to exceed $1 billion, a 6 percent increase over 1975.

° Industry employment at year-end 1975 was 10 to 15 percent below 1974, but levels have stabilized and many manufacturers expect to be increasing manpower this quarter, provided that recent upswing in business from automotive and other consumer oriented industries continues.

COMPUTERS: NEW SYSTEM TO REDUCE DANGER OF AIR COLLISIONS

CURRENT ° Federal Aviation Administration is installing a computerized collision warning system in all 20 traffic control centers in the U.S. titled Conflict Alert System (CAS).

° CAS can recognize what flight path of a plane will be two minutes in advance, and in case of impending collision, will flash warning to traffic controller, who will direct pilots to take corrective action.

° Resultant increased efficiency of traffic controllers should, in effect, increase capacity of airports to handle aircraft landings and take-offs.

INTERNATIONAL CONSUMER ELECTRONICS: HONG KONG MANUFACTURERS SHIFT FROM CALCULATORS TO WATCHES

° Rapid growth of U.S. Market for hand-held electronic calculators induced many Hong Kong firms to enter market.

° Rapid reductions in calculator prices have resulted in reduced profit margins for these firms, which do not have large volume necessary to reduce manufacturing costs to competitive levels.

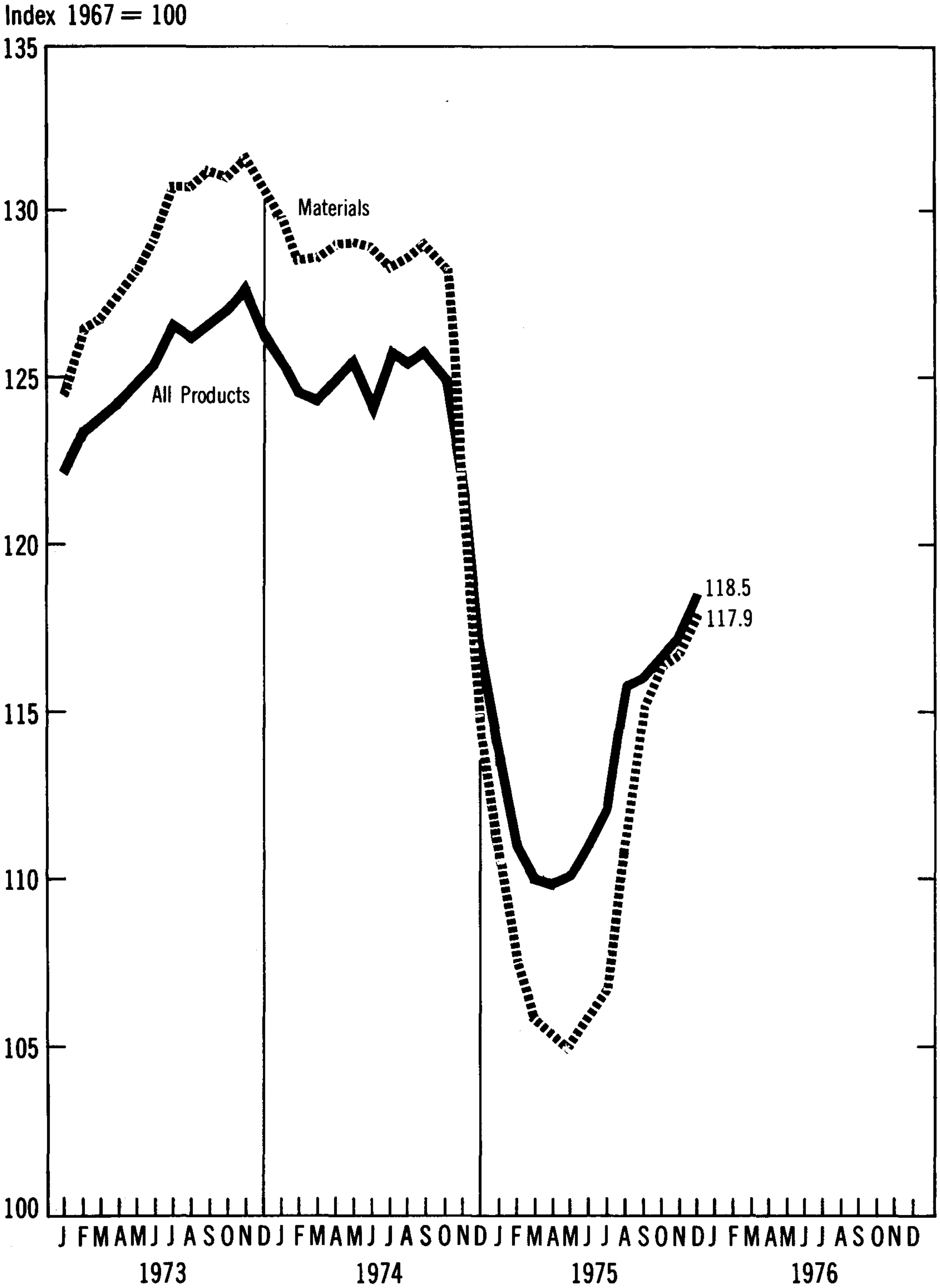
CURRENT ° Last week, several Hong Kong manufacturers announced that they are cutting back on production of calculators and expanding production of solid-state digital watches. Then-current price levels for the watches provided greater profit margin than did prices of calculators.

° This announcement was made before Texas Instruments and other American manufacturers introduced new digital watches with prices as low as $19.95. Hong Kong manufacturers have not yet made further announcements.

BUSINESS INDICATORS
INDUSTRIAL PRODUCTION INDEXES

(Seasonally Adjusted)

TOTAL AND MATERIALS

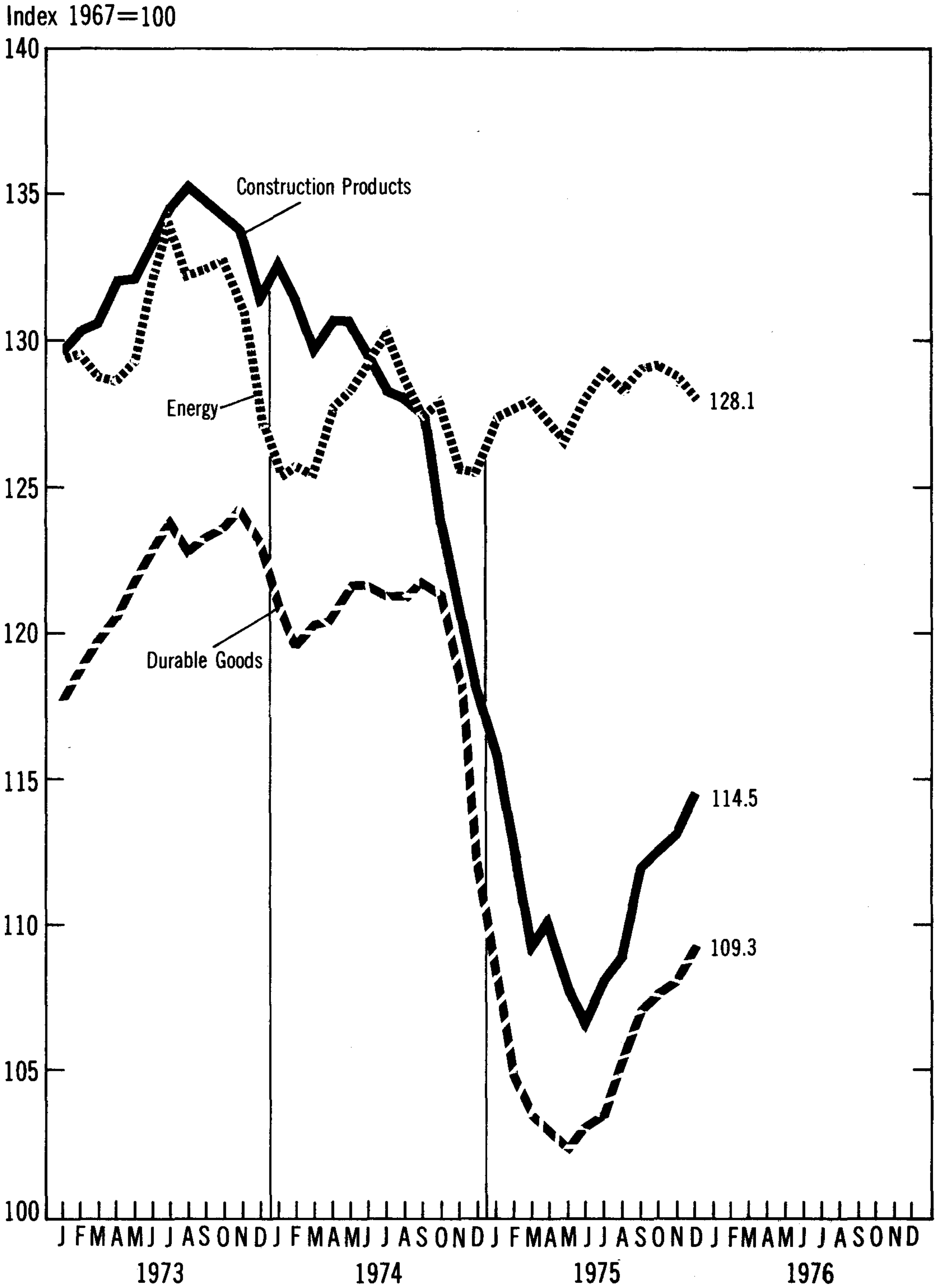


Source: Federal Reserve Board

INDUSTRIAL PRODUCTION INDEXES

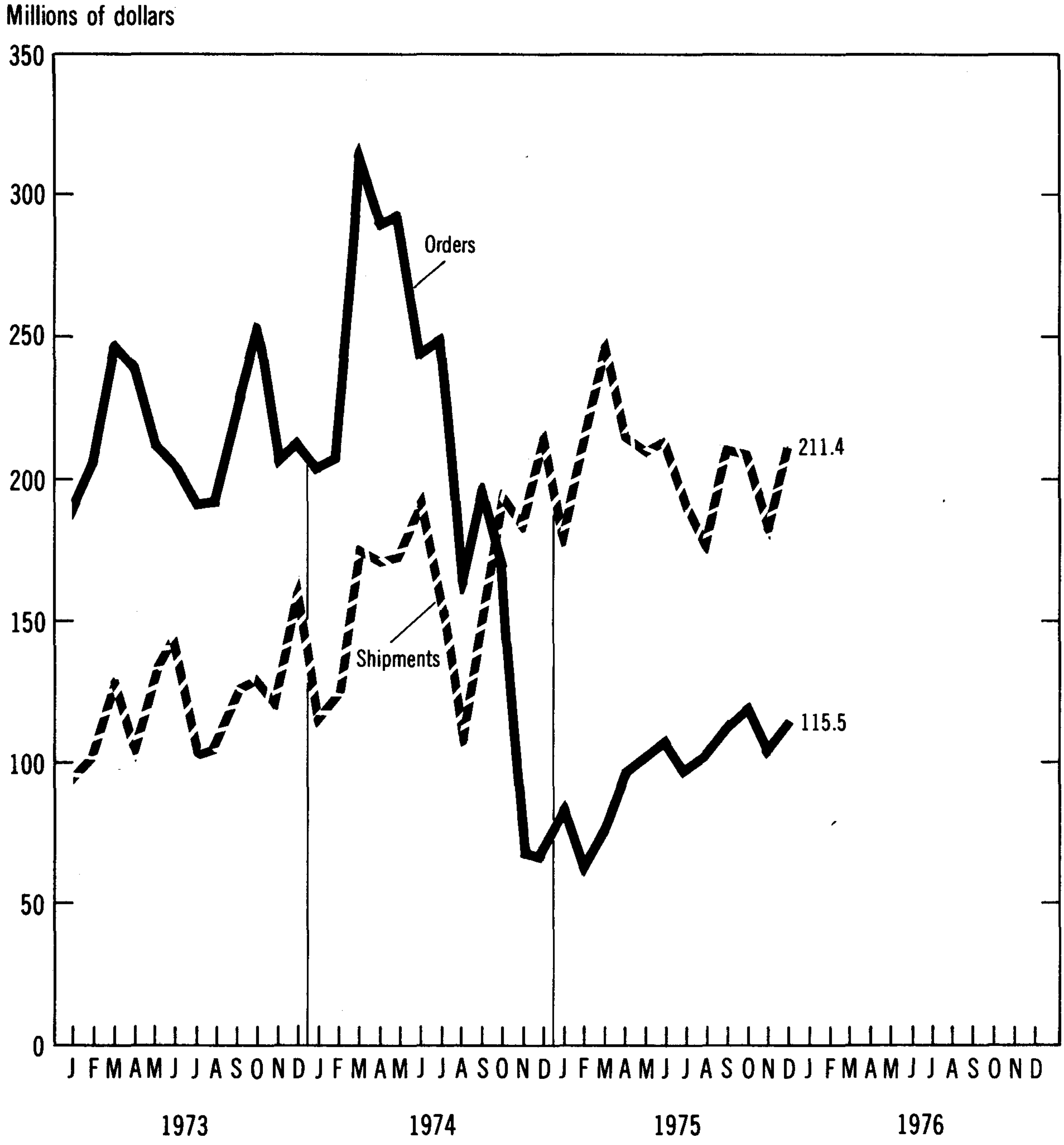
(Seasonally Adjusted)

SELECTED CATEGORIES



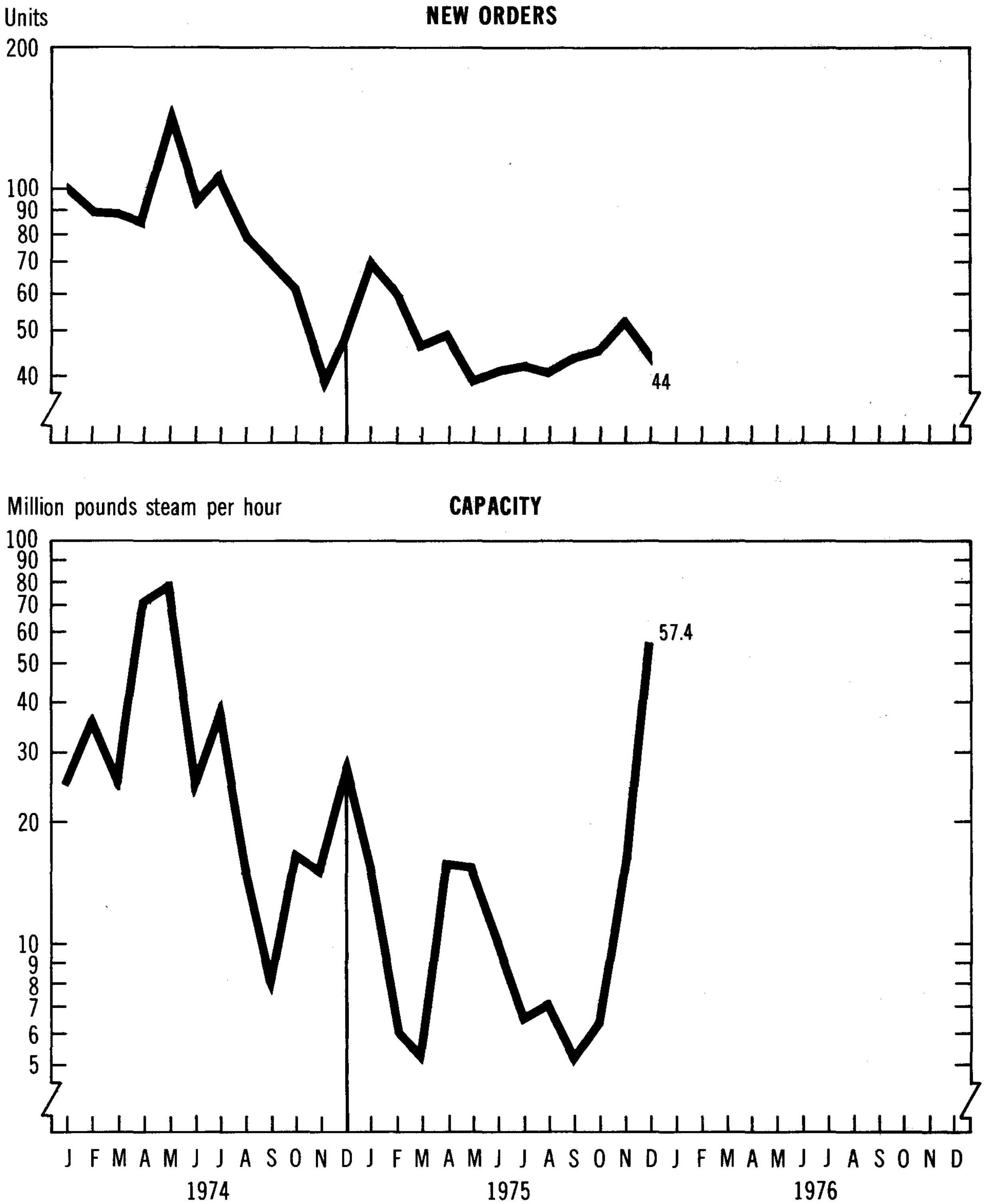
Source: Federal Reserve Board

MACHINE TOOLS



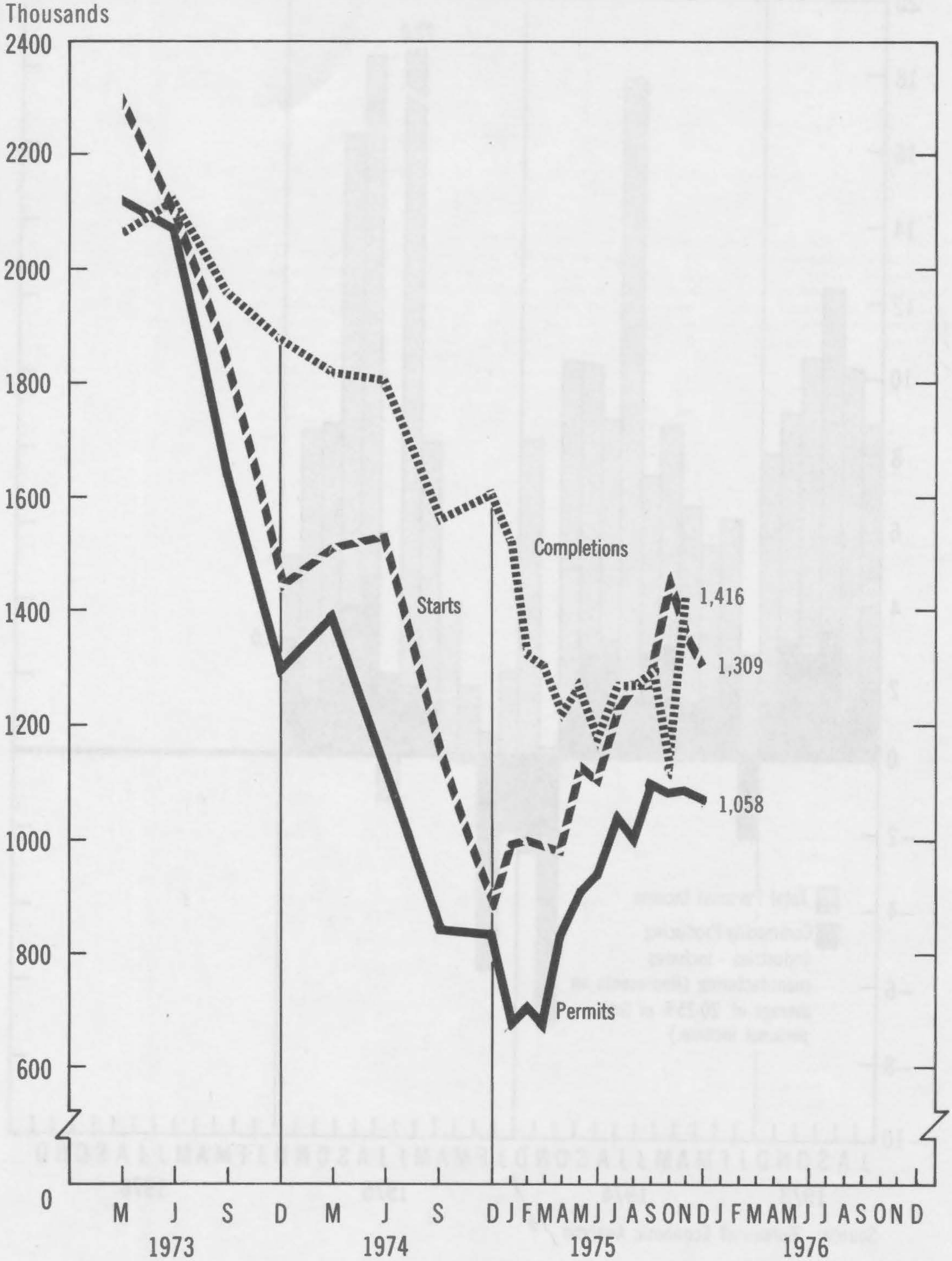
Source: National Machine Tool Builder's Association

INDUSTRIAL AND UTILITY WATERTUBE BOILERS



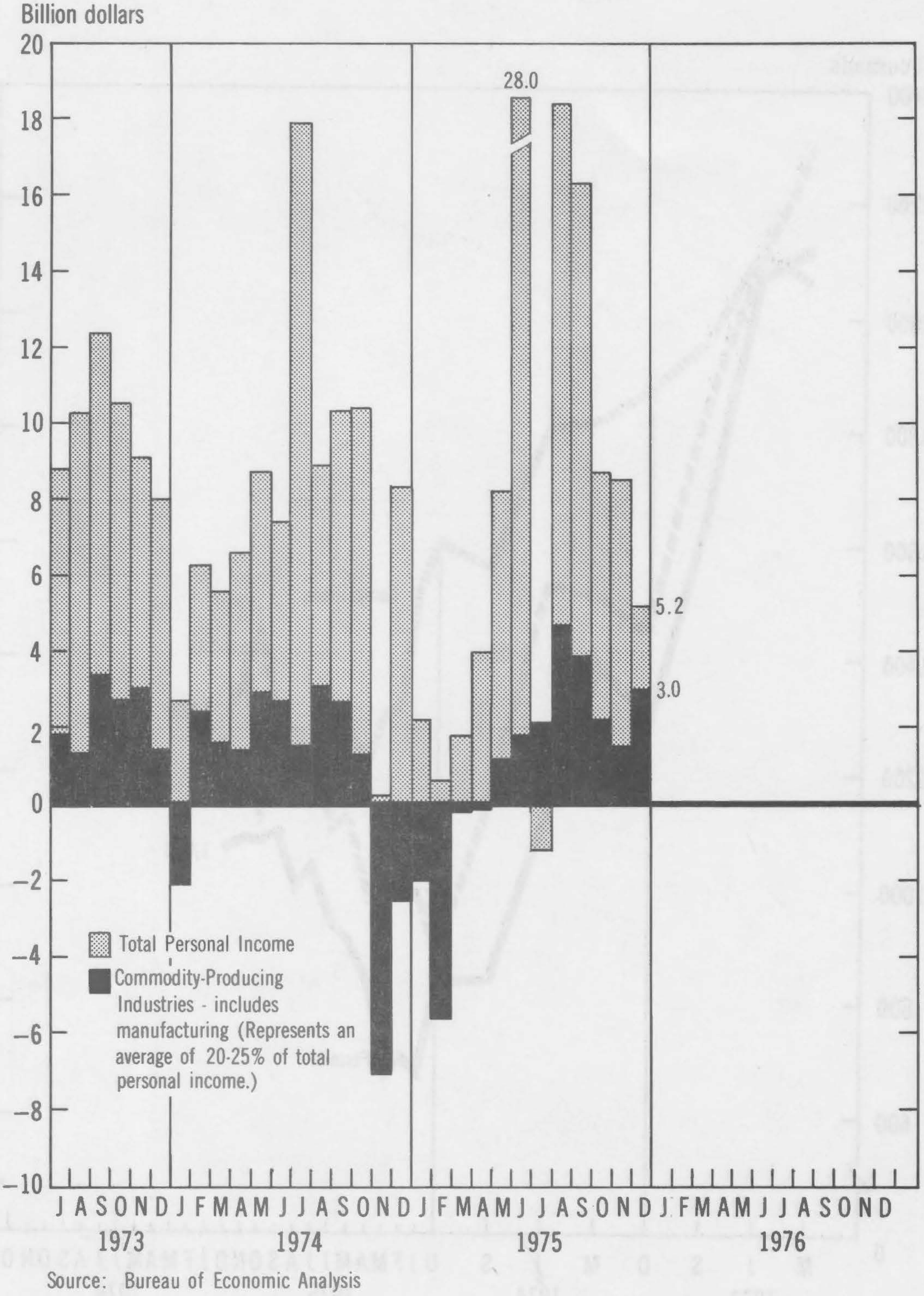
Source: American Boiler Manufacturers Association.

PRIVATE HOUSING
(Seasonally Adjusted Annual Rate)



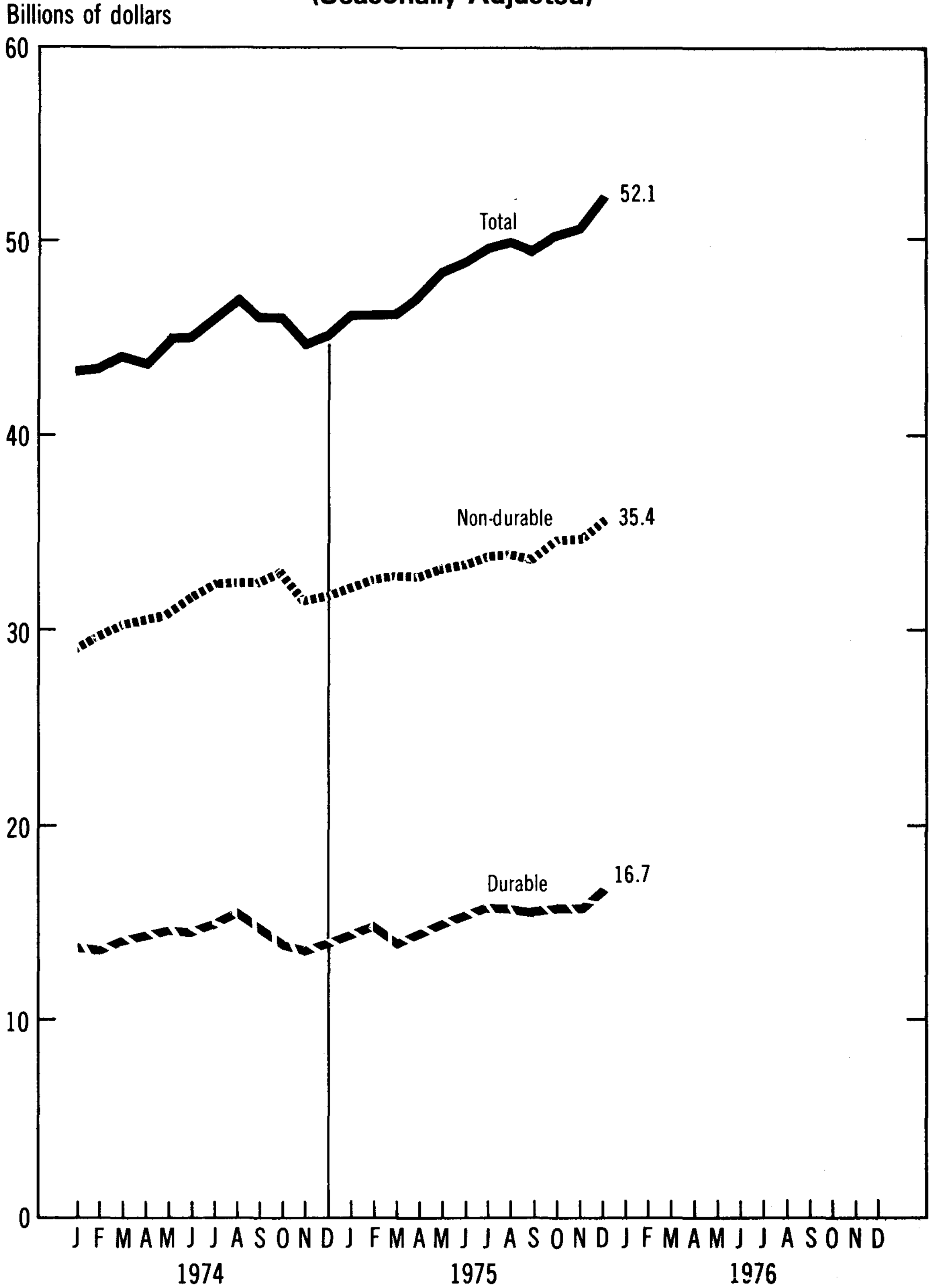
Source: Bureau of the Census

MONTHLY CHANGES IN PERSONAL INCOME



Source: Bureau of Economic Analysis

RETAIL SALES
(Seasonally Adjusted)



Source: Bureau of the Census

ENERGY RELATED

UTILITY AND INDUSTRIAL WATERTUBE BOILERS: NEW ORDERS

CURRENT

- December 1975 new orders for utility and industrial watertube boilers amounted to 44 units with total steam generating capacity of 57.4 million pounds of steam per hour. (See chart in Business Indicators.)
- Total of new orders in 1975 was 577 units with hourly capacity of 167.4 million pounds of steam, a 43 percent decline in units and 57 percent decline in capacity from 1974.
- In December, 13 utility boilers with total hourly capacity of 54.9 million pounds of steam were placed on order, bringing 1975 total to 27 units with hourly capacity of 118 million pounds of steam. 1974 total was 91 units with hourly capacity of 338.9 million pounds.

SUPPLY SITUATIONS

NEWSPRINT

CURRENT ° Strike ends at one Quebec newsprint mill. (See Canadian newsprint strike article in Labor Developments.)

FERTILIZERS: PHOSPHATE FERTILIZER SUPPLY SEEN ADEQUATE FOR 3 TO 4 YEARS

° Phosphate fertilizers were in short supply during 1973 and 1974. After decontrol of fertilizer prices in October, 1973, prices of phosphate rock and phosphate fertilizers more than doubled.

° In 1975, as result of high prices of fertilizers and reduced crop prices, farmers world-wide cut back on phosphate fertilizer application. In U.S. in 1975, more than 1.5 million tons of new capacity was available for production, a 21 percent increase over 1974 capacity.

° At international (Europe, Japan, and U.S.) phosphate sulfur symposium held last week, general conclusion about fertilizer supply-demand situation was that phosphate fertilizers in U.S. and worldwide would be in adequate to more-than-adequate supply for next 3 to 4 years.

CURRENT ° Indications that this supply situation is already present in U.S. are reinforced by announced closing of two plants (400 to 500 employees to be laid off) which produce phosphoric acid. One plant cannot compete with reduced prices prevalent today.

PLASTICS: ANOTHER LOOK AT RECYCLE TECHNOLOGY

° Higher plastics prices and potential feedstock shortages have stepped up efforts to recycle plastics wastes. In 1974, U.S. produced over 30 billion pounds of plastic materials, valued at $9 billion (used for such downstream products as appliances, housing, packaging, housewares, toys, furniture, automobiles, etc.).

° Although fabricators and reprocessors worked estimated 4 billion pounds of process plastic scrap, some 10 billion pounds are discarded as post-consumer waste, i.e., packaging film, cups, household wastes, etc.

- Plastic waste is difficult to recover once it is mixed with household refuse. A previous Society of the Plastics Industry (SPI) sponsored study in 1972 arrived at conclusion that "on basis of existing technology, recovery of energy value of plastics in municipal solid waste by incineration represents most practical and economically beneficial recycle concept for household plastic waste."

CURRENT

- SPI is funding new project to study recovery of plastics from municipal solid waste. It is being carried out by National Center for Resource Recovery (NCRR) at its Equipment Test and Evaluation Facility in Washington, D. C.
- NCRR is said to have brought together largest collection of specialized equipment ever assembled to study processing of municipal wastes into reuseable materials. Aim is to separate metals, glass, paper and a fuel stock; and determine whether recovered plastics has its greatest value as a fuel or to be used again as a material.

LABOR DEVELOPMENTS

STRIKES

(Source: Federal Mediation and Conciliation Service)

- ° During week ending January 14, approximately 48,300 employees were involved in 243 work stoppages throughout the United States.
- ° Six work stoppages were in major and/or significant category where 1,000 or more employees were in bargaining unit.
- ° During approximately the same year-ago period, there were 216 work stoppages, involving 67,400 employees. Eleven stoppages were in major and/or significant category.

NEW AND SETTLED MAJOR STRIKES

(Source: Federal Mediation and Conciliation Service)

- ° New: There have been no new work stoppages in major and/or significant category since last week's report.
- ° Settled:

Sun Shipbuilding and
Dry Dock Company and
the Boilermakers
Chester, Pennsylvania
2,900 employees; 1/5/76 through
1/12/76

RAILROADS: UNIONS ACCEPT 3-YEAR PACT

CURRENT ° Railway Employees Department of the AFL-CIO (Firemen and Oilers, Boilermakers, Carmen, and Electrical Workers) has ratified three-year agreement with nation's railroads.

° Settlement, which concludes industry-wide bargaining with fourteen unions that began eighteen months ago, provides 450,000 employees with estimated 40.7 percent increase in wages and benefits.

NEGOTIATIONS: COUNCIL ON WAGE AND PRICE STABILITY (COWPS) RELEASES STUDY

CURRENT ° Background information about 1976 collective bargaining negotiations, trends in employee compensation, productivity, profits and consumer prices in construction, auto, trucking, electrical equipment, rubber, apparel, meatpacking and retail food industries and economy as a whole between 1965 and 1975 are presented in recent COWPS study.

° Report states that recession of 1973-75 may cause contradictory impulses in labor.

° Unemployment increased sharply in all industries analyzed except meatpacking and retail food, and high unemployment often lessens workers' wage demands and willingness to strike. However, concurrent rapid inflation caused decline in real earnings for most workers and this could lead to increased militancy.

CANADIAN PAPER STRIKE: STRIKE ENDED AT ONE QUEBEC MILL

° Canadian pulp, paper and newsprint workers have been striking intermittently for past six months. 60 percent of this industry's production capacity has been recently idled by strikes.

° U.S. publishers, who had been maintaining newsprint and paper inventories of 60 days and more, reported last week that inventories were down to around 30 days.

CURRENT ° A 3-year contract has now been ratified by union workers in a large Quebec newsprint mill, providing for wage increases of 14 percent the first year, 10 percent the second year and 8 percent the third.

° Workers at three other mills, who had tentatively approved contract provisions, are expected to end their strikes.

° It is hoped that contract agreement by these four mills will provide impetus for resolution of total strike, sending more than 20,000 workers back to work and returning Canadian newsprint, pulp and paper operations to normal production level.

- In absence of full strike settlement, some U.S. newspaper publishers, close to 70 percent dependent on Canadian newsprint, have expressed concern about near-term paper supply.

PRICE DEVELOPMENTS

PETROCHEMICALS: PRICE INCREASES

- Some petrochemical price increases were attempted during fourth quarter 1975 as demand improved. Increases were not put into effect due to concurrent surplus capacity.

CURRENT
- Continued improvements in production have occurred and on January 1 price quotations were higher.

- Basic chemicals with higher price quotations were methanol (up 5 percent), formaldehyde (up 10 percent), styrene (up 5-10 percent), benzene (up 5 percent), ethylene glycol (up 10 percent by some suppliers), isopropyl alcohol (up 12.5 percent), methylethylketone (up 5.5 percent), phthalic anhydride (up 10 percent).

- Consumer products affected by these raw material cost increases include textiles, automobiles, household specialities and plastic products.

CONSTRUCTION MATERIALS: PRICES IN 1975 ROSE AT HALF OF 1974 PACE

- All construction materials price index (1967=100) rose 6.2 percent in 1971, 5.9 percent in 1972, 9.4 percent in 1973, and 16.2 percent in 1974.

CURRENT
- Construction materials group index in 1975 rose 8.1 percent or half the 1974 increase. Increase of 8 percent is considered high for building materials, particularly with severely depressed demand situation of 1975.

- Largest percentage increases in 1975 were: insulation materials (25 percent); steel for buildings (23 percent); Portland cement (21 percent); steel structural shapes (21 percent); enameled iron plumbing fixtures (19 percent); concrete pipe (18 percent); galvanized sheets (17 percent); wire nails (17 percent); water heaters (16 percent); sand and gravel (16 percent); prepared paint (15 percent), and sheet vinyl flooring (15 percent).

- Prices for the following products declined significantly in 1975: nonmetallic sheathed cable (-27 percent); building wire, type THW (-24 percent); selected hardwood lumber (-22 percent); copper water tubing (-21 percent); prefabricated structural members (-8 percent), and other softwoods (-7 percent).

GALVANIZED STEEL: PRICES REDUCED

- Galvanized steel, 5 percent of annual steel mill shipments, is used principally in automotive, appliance, and construction industries, including farm and residential building.
- Steel mills have followed practice recently of reflecting cost of zinc in published prices of galvanized steel on pass-along basis.
- Galvanized steel was increased last when most flat-rolled steel products were increased from 5.7 percent to 7.1 percent effective October 1, 1975, along with general price increase on nearly 75 percent of steel mill products.

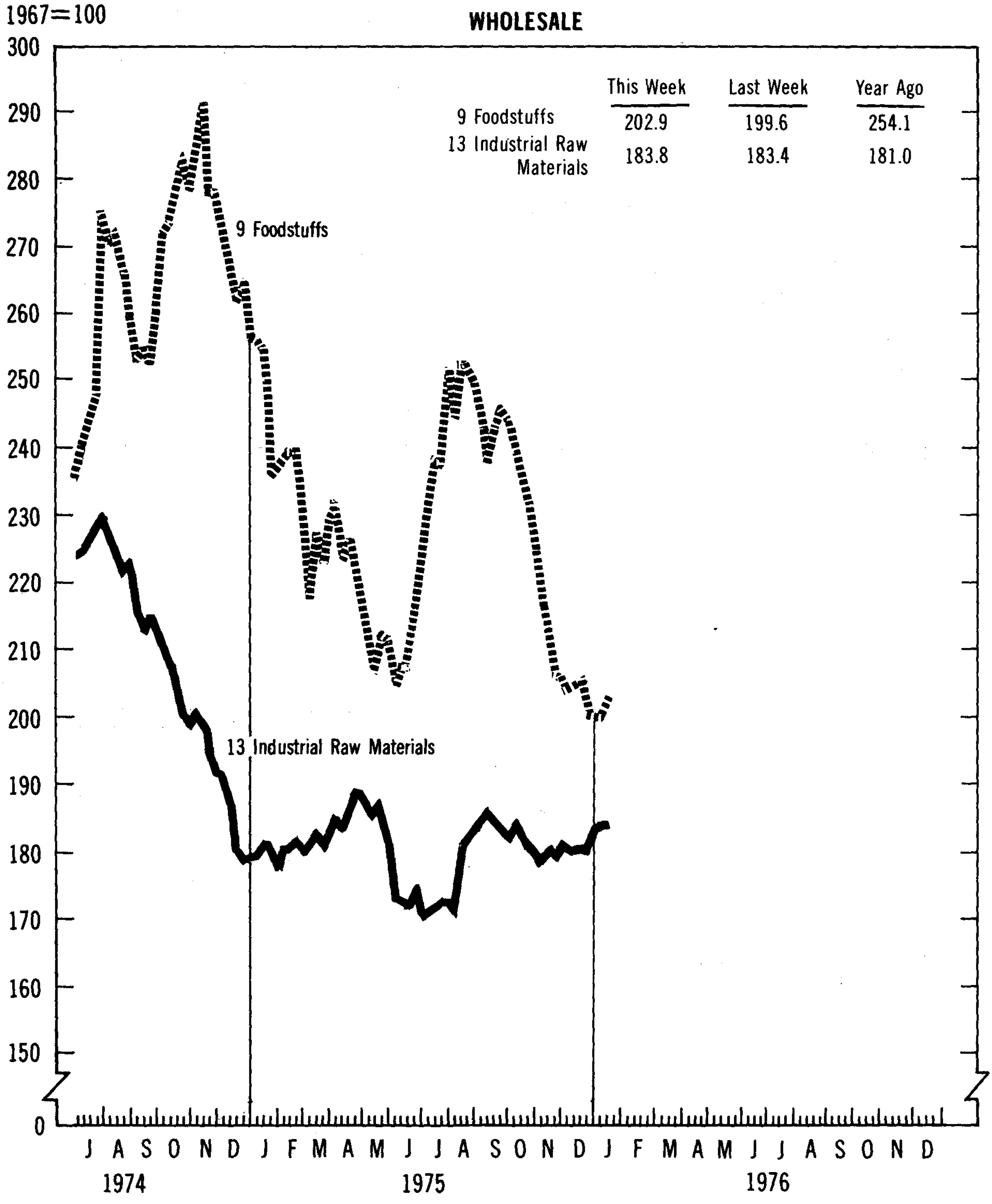
CURRENT
- Effective during first week of January 1976, Armco and Bethlehem decreased galvanized prices by $2.20 to $3.40 per ton (or a little under 1 percent) to reflect 2 cents per pound zinc price reduction recently announced by all major domestic zinc suppliers.
- Other major mills are expected to match price cuts.

AUTOMOBILES: FORD RESCINDS PRICE INCREASES

CURRENT
- Ford Motor Company rescinded most of price increases it announced on January 5, eliminating $97 boost on cars and all but $35 of $123 increase on light trucks. Average $17 increase on optional equipment on light trucks and cars remains.

PRICE INDICATORS

TUESDAY SPOT PRICES



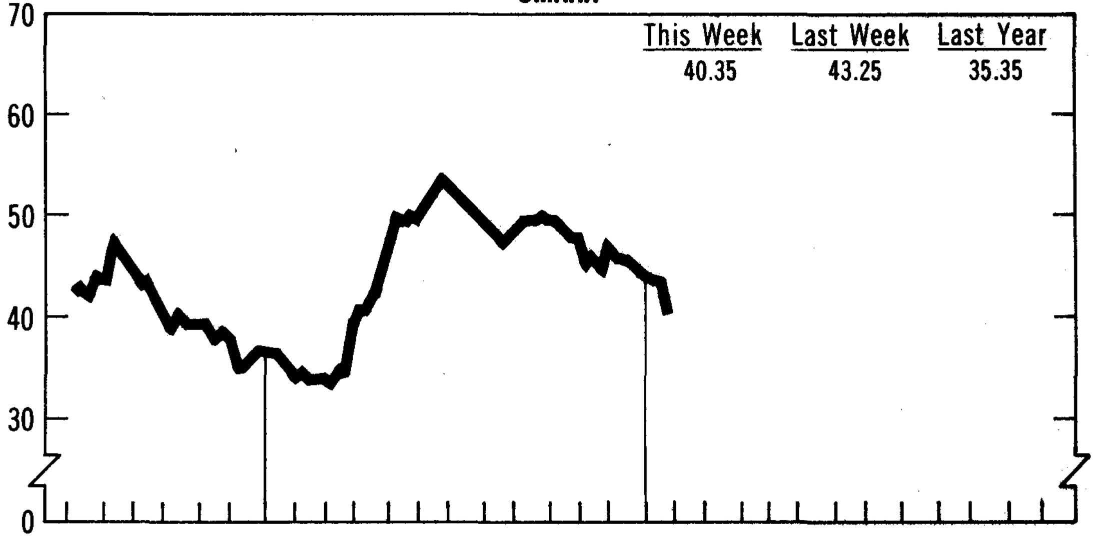
Source: Department of labor

SPOT AGRICULTURAL PRICES

Steers, Choice

OMAHA

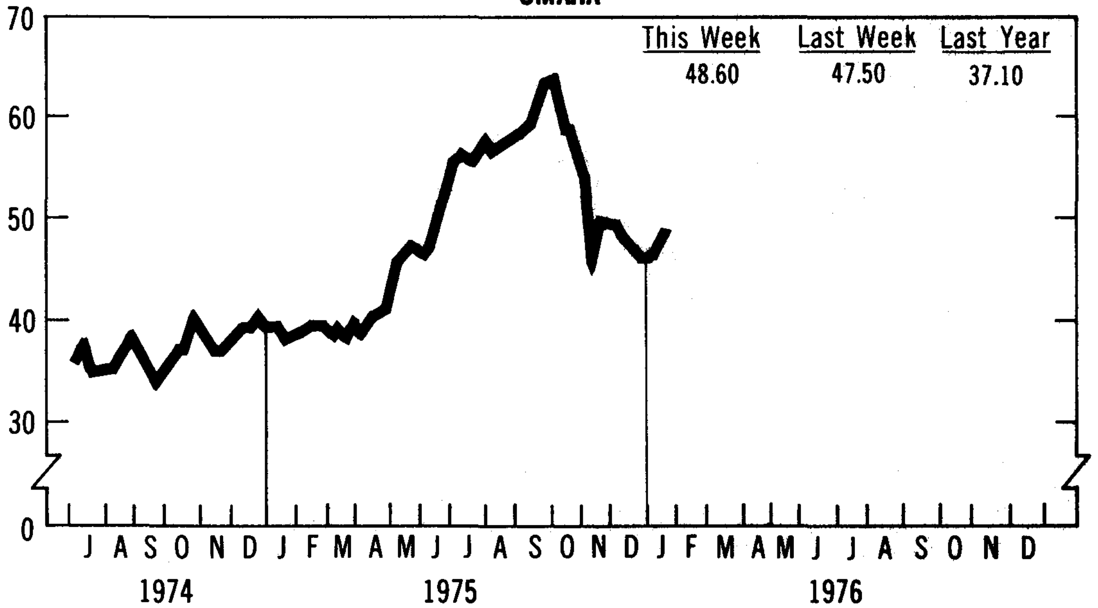
Dollars per cwt.



Hogs

OMAHA

Dollars per cwt.

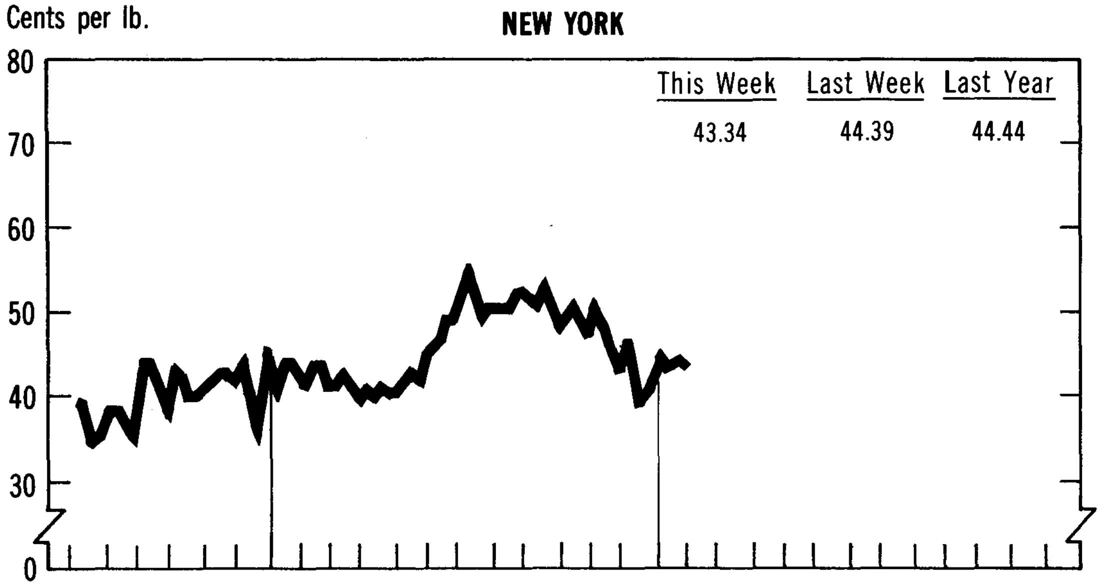


Source: Agricultural Marketing Service, Department of Agriculture.

SPOT AGRICULTURAL PRICES

Broilers, Dressed 'A'

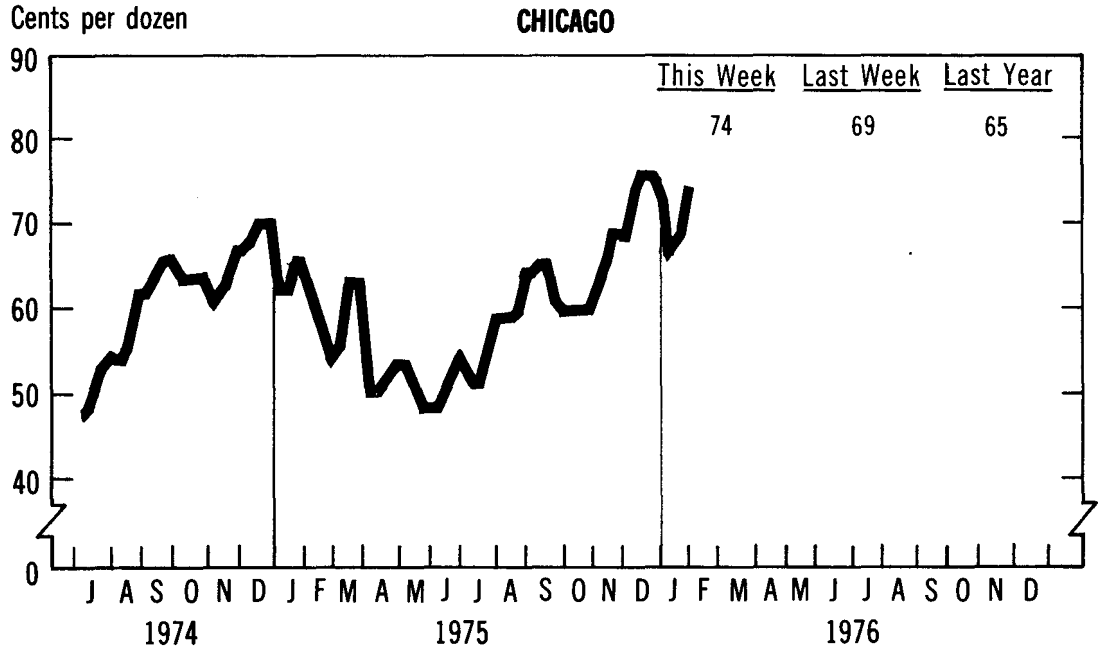
NEW YORK



This Week	Last Week	Last Year
43.34	44.39	44.44

Eggs, Large White

CHICAGO



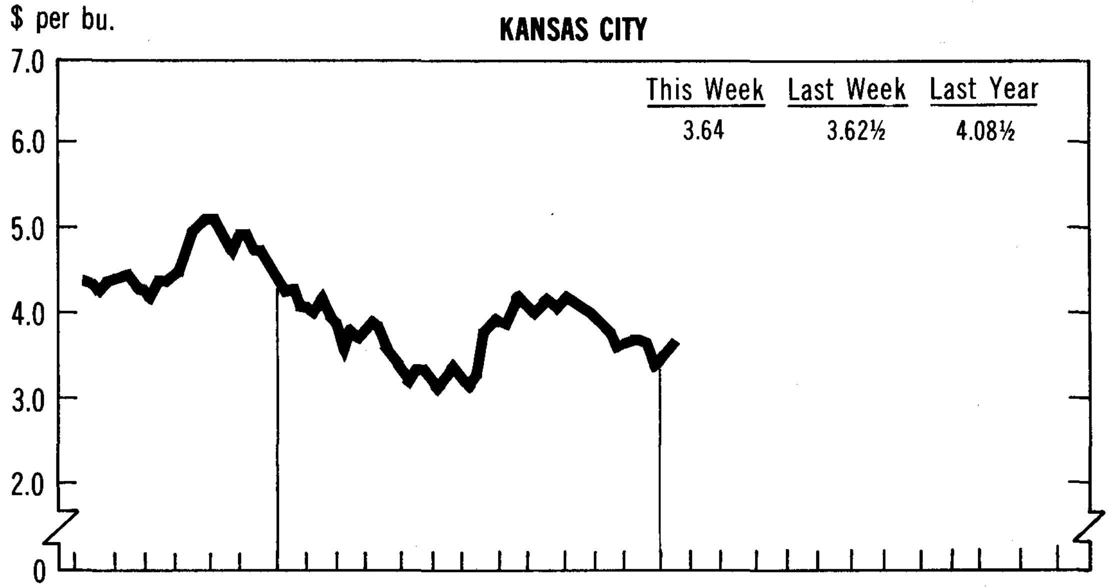
This Week	Last Week	Last Year
74	69	65

Source: Agricultural Marketing Service, Department of Agriculture.

SPOT AGRICULTURAL PRICES

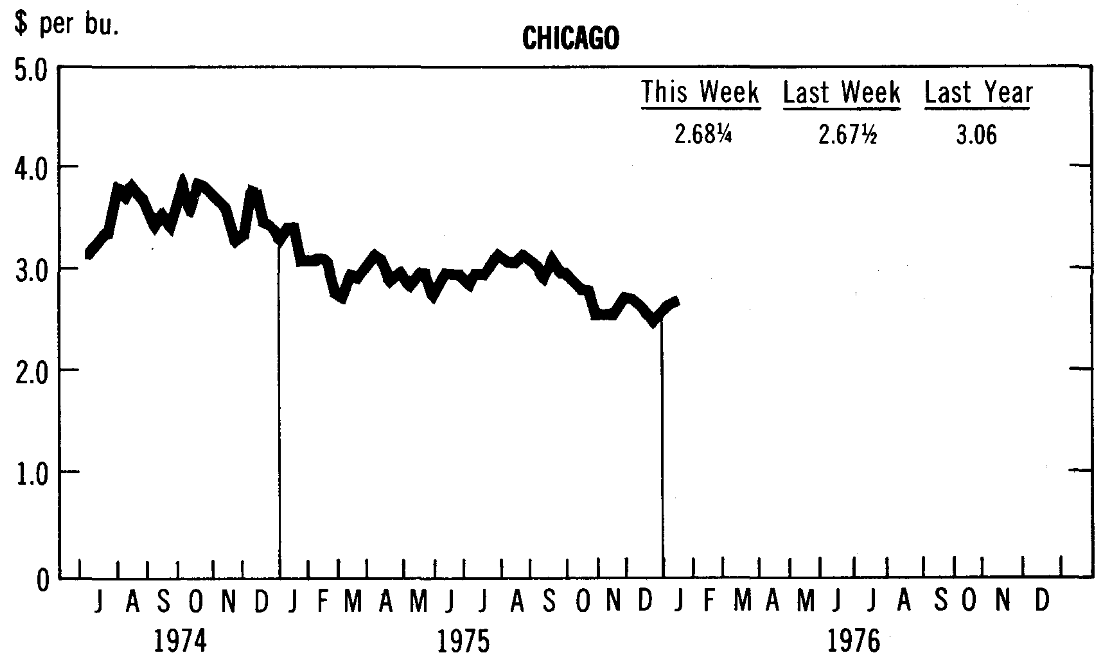
Wheat No. 2 Ord. Hard

KANSAS CITY



CORN No. 2 Yellow

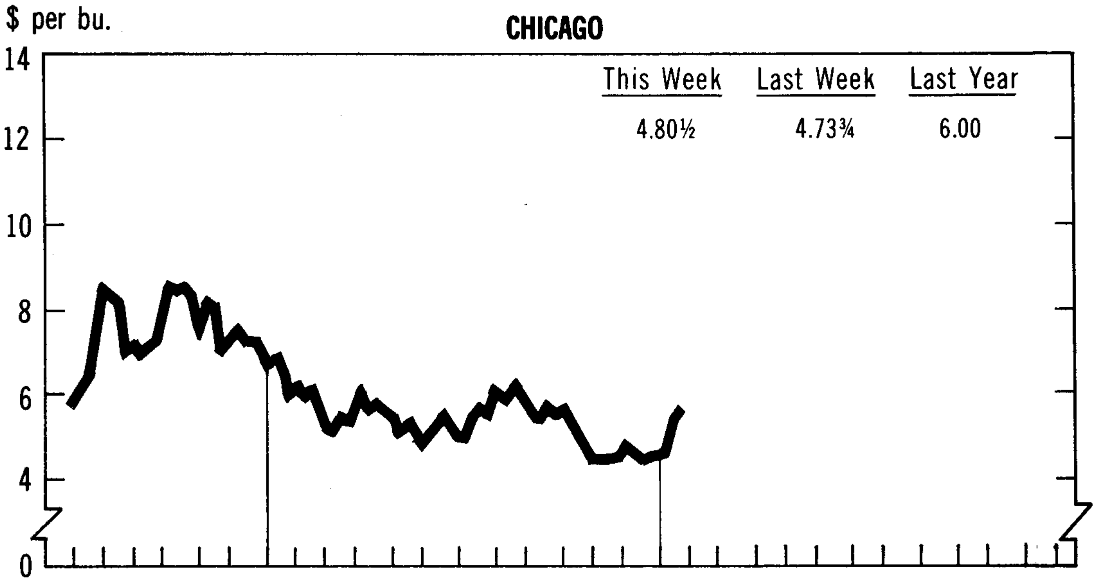
CHICAGO



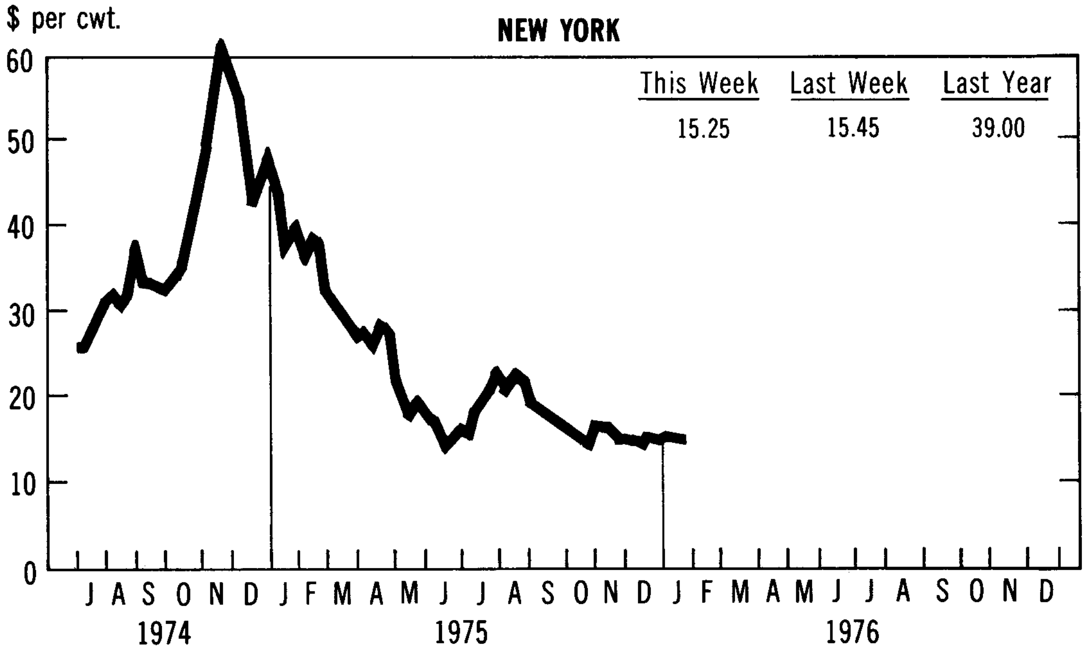
Source: Agricultural Marketing Service, Department of Agriculture.

SPOT AGRICULTURAL PRICES

Soybeans No. 1 Yellow



Raw Sugar



Source: Agricultural Marketing Service, Department of Agriculture

DEVELOPING ISSUES

SPECIALTY STEELS: IMPORTS INJURING DOMESTIC INDUSTRY

° Imports of specialty steels (stainless and tool steels) in 1973 were 122,678 short tons; in 1974 were 164,406 tons; and in first 11 months 1975 they were 147,870 tons.

CURRENT ° On January 16, International Trade Commission (ITC) ruled that imports of stainless and tool steel are causing injury to domestic specialty steel industry. (This is first successful case under liberalized injury criteria of the Trade Act of 1974.)

° These steels are imported primarily from Japan, the EC, Canada, Sweden, and Austria.

° ITC recommended quotas on imports of specialty steels for a period of five years. Total annual quota is 146,000 short tons broken into five categories of specialty steels.

° Tonnage of imports would be valued at $220 million or 5 percent of total imports of all grades of steel mill products in 1975.

° The President must decide within 60 days (by March 16) whether to accept ITC recommendation, take alternate action (such as increased tariffs or negotiation of orderly marketing agreement), or decide that imposing import restrictions is not in national interest.

° President must report his action to Congress. Congress has 90 days to reject (by majority vote) any alternative action of the President. President must put into effect ITC recommendation if Congress overrides him.

TRADE REFORM ACT OF 1974, ADJUSTMENT ASSISTANCE TO WORKERS: DECEMBER UPDATE

° Under the Trade Reform Act of 1974, Title II provides for relief from injury caused by import penetration. One type of relief is "adjustment assistance to workers" (Chapter 2).

CURRENT ° As of December 31, according to the Department of Labor:

-- 123 petitions for assistance affecting 51,500 workers have been certified, an increase of 20 petitions and 6,800 workers since November 28;

-- 112 petitions affecting 56,900 workers have been denied, an increase of 38 petitions and 9,300 workers since November 28;

-- 283 petitions affecting 224,500 workers, a substantial increase of 98 petitions and 182,200 workers since November 28, are in process of review;

-- 5 petitions affecting 3,900 workers (no change from November 28) have been withdrawn; and

-- 5 petitions affecting 700 workers have been terminated, because individual cases did not meet statutory requirements.

° Large increase in petitions in process (and large increase in number of workers affected) is attributed to petitions from autoworkers, primarily Ford and G.M.

° Industries with highest number of workers certified are transportation equipment, 16,200; electrical and electronic machinery, equipment and supplies, 11,800; and apparel and other finished products made from fabrics and similar materials, 8,500.

° States with most affected workers are Pennsylvania with 11,000, Michigan with 10,100, and Missouri with 8,100.

BERYLLIUM: INTERAGENCY MEETING CONCERNING PROPOSED STANDARDS

° The Occupational Safety and Health Administration (OSHA) is proposing new work exposure standards for various materials.

° On October 17, 1975, OSHA proposed new standards for beryllium dermal contact and ambient air content.

° 90 percent of total beryllium metal produced in U.S. is used for defense requirements in nuclear and aerospace applications.

CURRENT ° At beryllium industry request, Department of Commerce convened Interagency Beryllium Commodity Committee on January 14, 1976.

-- Agencies attending included Bureau of Mines, Geological Survey, General Services Administration (including Federal Preparedness Agency), Energy Research and Development Administration and the Central Intelligence Agency.

-- Officials of the following agencies, who were unable to attend, were informed of the meeting's results: Department of Defense, Treasury, and the National Commission on Supplies and Shortages.

° Industry, now studying technical feasibility of complying with new standards, presented its views on implications and potential impact of proposed OSHA standards.

° Present industry position is that proposed OSHA standards go beyond traditional standards which had been established jointly by industry and the Atomic Energy Commission.

FOREGOING RESTRICTIONS MAY BE REMOVED
90 DAYS AFTER PUBLICATION

AMERICAN REVOLUTION BICENTENNIAL 1776-1976

U.S. DEPARTMENT OF COMMERCE * DOMESTIC AND INTERNATIONAL BUSINESS ADMINISTRATION