

**MONTHLY**

**REVIEW**

## **Ninth district business activity: 1st quarter**

Economic activity in the Ninth district during the first quarter of 1965 continued to move at the vigorous pace established in 1964. Preliminary data (only the first two months of the year are available for some of the economic indicator series) reveal that the economy grew at about the 1964 rate and that the outlook for the remainder of 1965 is "bullish."

Personal income in the district was about 4.5 per cent above the first quarter of 1964, and, as evidenced by bank debit and consumer credit figures, the increase resulted in correspondingly higher levels of spending by consumers. Bank debits, a measurement of check-book spending, were nearly 7 per cent above 1964's first quarter level; consumer credit outstanding about 15 per cent. The rapid growth of consumer credit in the district is also pointed up by noting that the smallest year-to-year percentage increase registered during the last 14 months in this category was 9 per cent. Although the repayment level was high, the extension level was even higher.

The high level of consumer spending also resulted in fewer district business failures. The failure level, both in numbers and in valuation, was substantially below that of the first quarter of 1964. The only major indicator that seemed to follow a negative trend was total cash farm income. In the first two months of the year

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this category registered drops of 8.8 and 2.2 per cent from year-earlier levels: a quarter-to-quarter drop was thus virtually assured.

### Employment picture bright

Preliminary evidence indicates that the employment picture in the Ninth district brightened considerably during the first quarter. Total wage and salary employment in Minnesota averaged about 38,000 above the first quarter of 1964 and about 2,000 in each of the other Ninth district states. Gains were registered in every broad industrial sector in the district with construction showing the largest percentage gain from the first quarter of 1964: only Upper Michigan reported a sector loss. All Ninth district states registered gains in government employment. Minnesota was the only state that followed the district pattern of year-to-year employment gains in all sectors. Every state except Minnesota showed slight losses in manufacturing employment. Losses in mining employment were reported in Montana and South Dakota with South Dakota also registering losses in both the trade and services sectors.

The number of unemployed workers in the Ninth district improved markedly: the first-quarter level appears to be about 9 per cent below that of a year earlier. Every state except North Dakota registered solid gains, and with two months data available for that state it appears that essentially no quarterly change will be registered there.

The rate of unemployment also exhibited impressive gains. Examples: Montana averaged 7.2 per cent in first-quarter 1964 as compared to 6.7 per cent in first-quarter 1965; Upper Michigan dropped from 14.9 per cent to 11.9 per cent.

Further evidence of labor market strengthening

is indicated by insured unemployment and "help wanted" advertising data. With the first 12 weeks of insured unemployment data available, 1965 figures registered below corresponding weeks of 1964 in 11 weeks in all district states. The "help wanted" advertising index for the Ninth district, a crude measure of the strength demand for labor, in first quarter of 1965 averaged over 14 per cent above the first quarter of 1964. (This index registered an 8 per cent gain in 1964.)

Bits of available evidence indicate that the Ninth district will continue to show strong improvement in the labor area. A recent survey by the Minnesota Department of Employment Security suggests that about 95,000 more skilled and semiskilled workers will be needed by 1968 to fill job vacancies in the Twin Cities metropolitan area. A study by Management Analysis at Malmstrom Air Force Base in Montana indicates that the development of a new Minuteman squadron there will cause a flow of about \$6 million per month into the central Montana economy during 1965, and about \$7.5 million per month during 1966. The increased income will provide a greater demand for finished goods from which the demand for labor is derived. Reports that the Small Business Administration is granting loans to certain South Dakota businesses indicate that in that state another source of demand for labor is developing.

### Retail sales strong

First-quarter 1965 retail sales in the Ninth district were off to a brisk start: the first two months averaged almost 5 per cent above the year-earlier level. Preliminary evidence indicates however, that business lagged during March so that over-all first-quarter gains will likely be somewhat less than the gain set during the first two months.

The principal impetus to the Ninth district expansion in retail sales during January and February can be attributed to the high level of demand for automobiles, a situation paralleling that of the nation. Retarding the growth in total level of retail sales was the marked decline from year-earlier

levels of sales in department stores, furniture and appliance stores, and retail lumber stores. Sales of all durable goods during the first quarter appear slightly below the level of the corresponding period of 1964; sales of nondurable goods about \$30 million above.

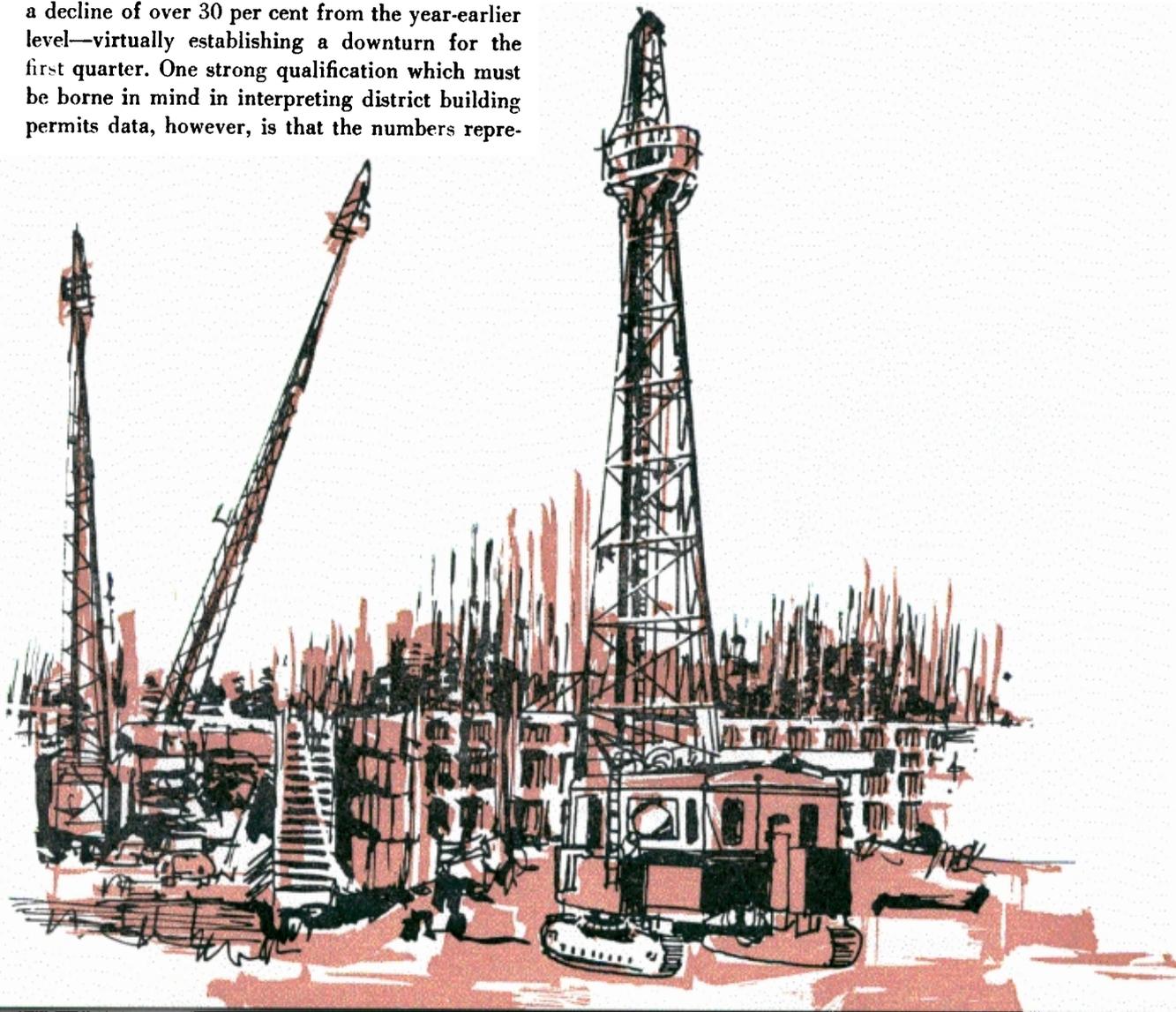
### **Construction activity mixed**

No direct construction expenditure data are available for the Ninth district, but inferences concerning the level of construction activity can be gleaned from other sources. For example, during 1964 the Ninth district experienced an increase over 1963 of 6.4 per cent in the valuation of building permits issued for all types of construction. The first two months of 1965, however, have shown a decline of over 30 per cent from the year-earlier level—virtually establishing a downturn for the first quarter. One strong qualification which must be borne in mind in interpreting district building permits data, however, is that the numbers repre-

sent only about 300 issuing centers and projects outside these and are not included in the data.

Another forward-looking district indicator is the series on the valuation of construction contracts. This series registered almost a 15 per cent gain during 1964 over 1963, but the first quarter of 1965 appears to be at about the same level as the first quarter of 1964.

The evidence available seems to point to a good construction year in the Ninth district. The strong gains registered by the forward-looking indicators during 1964 mean that much of the work scheduled then will be started or in process during 1965. In Montana, for example, a record level of highway contracts were let in 1964: projects totaling



\$93 million were under contract as of December 31, 1964. The Great Falls area economy will be boosted with the beginning of the three-year, \$60 million Minuteman construction project at the Malmstrom Air Force Base. A \$4 million transmission line project is also scheduled for this spring.

Sioux Falls, South Dakota reports construction projects, planned and in progress, with a valuation of almost \$17 million.

The major construction projects in the Ninth district, however, are the taconite plants on the Minnesota Iron Range. The expenditure for these plants will total almost \$300 million for plants already started or planned. These projects should take two to three years to complete. Among the other major projects planned in Minnesota are a national water quality standards laboratory in Duluth and a pedestrian mall in downtown Minneapolis.

#### **Industrial activity up**

The most comprehensive measure of industrial activity in the Ninth district, the industrial use of electric power index, reached a record level of 156 (seasonally adjusted annual rate, 1957-59 = 100)

in the first quarter of 1965—about 6.5 per cent above the year-earlier level. This gain indicated quite vigorous industrial activity underway in the Ninth district. (The index registered a 9 per cent gain during all of 1964.)

Another district indicator, the index of production worker manhours (PVMH), after remaining essentially the same in 1964 as in 1963, registered signs of vigor in the first quarter of 1965. The index advanced 3 per cent above the like period in 1964.

Other details: flour production in the Ninth district declined by about 4 per cent in the first quarter of 1965 from the first quarter of 1964. Crude oil production ran well ahead of year-earlier levels. Gold production continued to advance: South Dakota maintained its position as the leading U. S. gold producing state.

An encouraging note concerning the future of industrial activity in the Ninth district was provided by the U. S. Department of Commerce. In a report published in January the department predicted that during 1965 Minnesota would advance from twentieth to sixteenth place in the ranking of states by value added in manufacturing.



## **Current conditions . . .**

**I**t has not been unusual in past years for considerable business pessimism to prevail in the Ninth district during late winter. This year, however, proved to be an exception in spite of severe weather conditions and a wet and cold early spring over much of the district. Most of the district's economic indicators are not only showing substantial gains from year- and month-earlier comparisons

but general expectations of favorable business prospects ahead are dominating in all but the essentially rural areas and have been since the first of the year.

District total nonagricultural employment moved ahead sharply in February, on a seasonally adjusted basis, and preliminary estimates for March and April from the Minnesota employment security

offices are optimistic. Furthermore, the improvement in employment seems to be broadly based with mining and construction employment showing the most vigor. That the employment picture in the district has brightened is also evident from figures on initial claims for insured unemployment compensation. The latest official data show a 10 per cent reduction in initial claims from year-earlier levels with the total number on the insured unemployment rolls down about 13.5 per cent.

Judged by the most recent data on the industrial use of electric power and production worker man-hours, district industrial production has expanded roughly parallel to that of the nation as a whole—7 to 8 per cent ahead of a year earlier. This view is reinforced by the bank's business conditions survey of important industries which indicated a rising trend of manufacturing output. Available information on oil and copper production through February shows about a 4.5 per cent increase from year-earlier levels.

Conditions on district farms have not been so favorable. Farmers were plagued this past winter by relatively low prices, severe storms, feed shortages, high costs, and prospects of a relatively poor spring calf crop. Farm incomes have continued to lag year-earlier levels. Many bankers and businessmen located in rural areas feel that farmers will not be aggressively buying machinery and equipment this spring—at least not until 1965 crop prospects are better known or unless prices improve substantially.

A feature of district credit development in recent weeks has been a continued strong demand for loans, particularly business loans. To meet this demand, some banks have found it necessary to liquidate a portion of their investment portfolios. Banks generally have continued to be net purchasers of federal funds and, although some increase in borrowing by member banks at the Federal Reserve Bank is reported, only a relatively few banks are borrowers on any one day. Nevertheless, the net loan-to-total-deposit ratio at city banks, 61.2 per cent in March, was at a five-year high;

the ratio at country banks had inched up to 53.1 per cent, only slightly below the high of the last five years. Total loan-to-deposit ratios in the Ninth district during March remained slightly below national levels.

In summary, the district economy is reasonably strong and has been growing closely parallel with that of the nation. Assuming normal crops this summer and continued prosperity in the nation, the district's economic outlook is favorable.

*The following selected topics describe particular aspects of the district's current economic scene:*

### **District high in farm program participation**

Corn or soybeans? Wheat or barley? Plant or divert? These are the kinds of questions and decisions that are the prelude to hectic springtime farm activity now underway throughout the district. By now planting intentions are firm decisions, much of the seed is in the ground, and the period of waiting commences as the 1965 crop year begins. From now on Mother Nature will largely determine whether or not the farmers' carefully made plans will be brought to fruition.

While crop plans can only indicate crop output and while farmers can revise plans up to the last minute before planting time, some evidence is available which indicates what the future may hold for Ninth district crop production in the new crop year.

### **Crop planting intentions**

*Wheat:* Few changes can be expected in district crop acreages during 1965 as compared with 1964 if farmers hold to their March 1 planting intentions. Acreages devoted to wheat, according to U. S. Department of Agriculture reports, are expected to rise 4 per cent in the district on the strength of 6 per cent increases in Montana and North Dakota. A slight decrease in wheat acres is planned in South Dakota while cutbacks amounting to 4 per cent are expected in Minnesota.



Included in the all wheat acreage figure is a 21 per cent expansion in acres planted to winter wheat during the past fall. Virtually all the increased winter wheat acres are located in Montana. Spring wheat planting on the basis of farmers' intentions will be only slightly higher than those of a year earlier: an 8 per cent increase in North Dakota is offset by a 16 per cent reduction in Montana. Sharp cutbacks in intended durum planting, amounting to 28 per cent in Montana, 22 per cent in Minnesota, and 14 per cent in South Dakota, just barely offset a 2 per cent planned increase in North Dakota. Total durum plantings for the district are expected to drop 2 per cent from the year earlier.

*Feed grains:* Planted acreages of feed grains in the district will drop slightly from last year: farmers indicate a reduction in corn acreage of 3 per cent; barley, 5 per cent; and oats, 1 per cent. The provision allowing farmers to shift acreage allotments from feed grains to wheat or from wheat to feed grains does not appear to have influenced district crop producers to a great extent with regard to their planting. The only exception appears to be a marked shift from barley acreage to wheat acreage in Montana.

*Soybeans and flax:* The trend toward increased soybean production in the district will continue through 1965 if planting intentions are carried

out. Farmers in Minnesota and South Dakota plan respective increases of 12 per cent and 20 per cent in soybean acreages. District flax acreage, on the other hand, will be reduced 5 per cent from last year on the basis of this spring's farmer planning.

### **Program participation**

District farmers opted to participate in crop programs in fairly large numbers. According to the preliminary final report on the 1965 wheat program, 70 per cent of the district farmers eligible for the voluntary program decided to participate. That compares with national participation of 52 per cent. In North Dakota 89 per cent of the eligible wheat growers signed up while participation rates for Montana, South Dakota, and Minnesota are 74 per cent, 70 per cent, and 48 per cent respectively. As is usually the case, the participating farmers generally are those with larger acreages. In North Dakota the participating farmers account for 94 per cent of the state's wheat acreage allotment. This is followed by rates of 92 per cent and 90 per cent in Montana and South Dakota. Participating farmers in Minnesota accounted for 71 per cent of the state's total acreage allotment.

In all, slightly over 2 million acres are to be diverted out of wheat production in the district, an amount equal to 15 per cent of the district's nearly 14 million acre wheat allotment. Nationally, 14 per cent of the wheat acreage allotment is being placed in the diversion program. Among the district states the largest acreage diversion is in North Dakota where just over 1 million acres, 16 per cent of the state acreage allotment, is to be taken out of production. The largest relative diversion, 18 per cent, is in South Dakota. Wheat acreage diversion figures in Montana and Minnesota come to 11 per cent and 13 per cent, respectively, of the state's acreage allotment.

Participation of district farmers in the 1965 feed grain program equals that of all farmers in the nation: 65 per cent of the eligible producers signed for the program. Rates of participation range from just over one-half of the eligible pro-

ducers in Montana to 74 per cent in North Dakota. Those participating in South Dakota and Minnesota amount to 65 per cent and 63 per cent of eligible producers respectively.

Of the district's nearly 23 million acre feed grain base, over 6 million acres (27 per cent) are to be diverted out of production. That compares with a 28 per cent diversion throughout the country. Little difference exists among the district states in terms of proportion of allotment to be diverted: diversion in Minnesota and North Dakota is to be 28 per cent of the base feed grain acreage followed by 27 per cent in South Dakota and 22 per cent in Montana.

### Strong credit advance recorded at banks

The first quarter of 1965 has seen an unusually vigorous expansion of credit by member banks in the Ninth district, paralleling in many respects the strong credit advances recorded by commercial banks throughout the nation. In recent years the first quarter has usually found district member banks undergoing a contraction in total credit—the result of modest increments in outstanding loans being more than offset by liquidations of investment holdings which were necessary in order

to provide reserves not only for loan expansion but also to finance the seasonal decline in bank deposits. However, during the first three months of 1965 (see table), district bank loans increased \$97 million (four times as large as the average rise during the initial quarter of the previous five years) while investment holdings dropped \$61 million (slightly higher than average). As a result, total credit rose \$36 million—a sharp contrast to the \$25 million average decline noted in comparable periods over the last five years.

To a great extent the strong first-quarter 1965 credit performance is attributable to city banks. Outstanding loans at these banks expanded by \$61 million whereas ordinarily little change is recorded. The entire loan increase was the result of additions in the business loan component, and the threat of a steel strike may have been an important influence. Users of steel and steel products, it is thought, in order to insure continued production during a strike secure loans so as to accumulate larger-than-usual quantities of raw material inventories. No quantitative measure of this factor is available, however.

City banks, in order to satisfy the increased loan demand, in addition to borrowing heavily from banks located outside the district, were forced to reduce their investment portfolios by \$28 million. But even with this reduction, because of the unusually large increment in loans, the increase in total credit at city banks during the first quarter of 1965 amounted to \$33 million, whereas in the like period of recent years, on the average, it declined slightly.

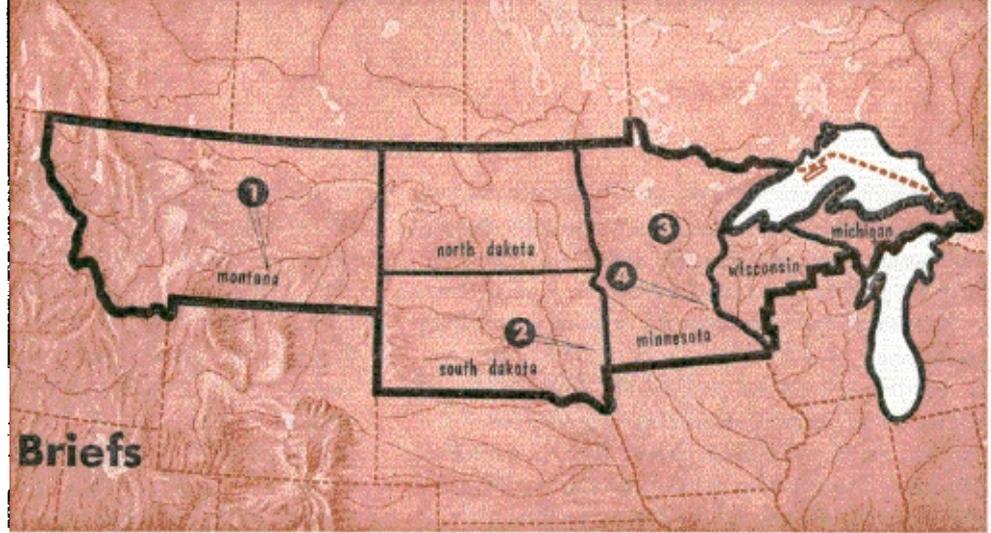
Country banks scored steady though less spectacular credit advances during the first three months of 1965. Loans were up \$36 million—nearly double the average rise for the period. Investments contracted by \$33 million—somewhat less than the usual amount—leaving a slight \$3 million increment in total credit. This small advance proved a distinct shift from the average \$21 million credit contraction recorded in similar periods in recent years.

### CHANGES IN CREDIT AT DISTRICT MEMBER BANKS—FIRST QUARTER

(in millions of dollars)

	1965	5-yr. average
		1960-64
<b>All Member Banks</b>		
Total credit	\$+ 36	\$- 25
Loans	+ 97	+ 25
Investments	- 61	- 51
<b>City Banks</b>		
Total credit	+ 33	- 4
Loans	+ 61	+ 4
Investments	- 28	- 8
<b>Country Banks</b>		
Total credit	+ 3	- 21
Loans	+ 36	+ 21
Investments	- 33	- 43

Figures may not add to totals because of rounding.



## Economic Briefs

### 1. Target year for Yellowtail dam: 1966

The \$40 million prime contract for constructing the 525-foot-high Yellowtail dam and power plant is 85 per cent complete. The \$100 million project on Montana's Big Horn river will be completed in 1966.

### 2. Tests continue at atomic plant

Testing continues at the Northern States Power Co. (NSP) Pathfinder Atomic Power plant near Sioux Falls, South Dakota. Late in the fall, the \$20 million plant will begin generating small loads of electricity and eventually will produce up to full capacity—66,000 kilowatts. Uranium fuel will be used in the nuclear reactor and superheater, and atomic heat will convert water to steam. Sharing in the planning, research, and costs of the plant are the Atomic Energy Commission and nine mid-western electric utilities who joined with NSP to form the Central Utilities Power Associates, a non-profit organization.

### 3. Minnesota manufactured exports up

Minnesota led Ninth district states in value of increase in exports of manufactured products between 1960 and 1963; value of exports increased from \$147 million to \$194 million. Other district states also recorded increases: Montana from \$7 million to \$16 million; South Dakota, \$6 million to \$8 million; and North Dakota, \$1 million to \$1½ million. Export sales of non-electrical machinery from Minnesota increased 59 per cent in the 3-year period; sales of instruments and related products, over 50 per cent.

### 4. Eight new downtown buildings for St. Paul

St. Paul Housing and Redevelopment authority has approved a plan for construction of a \$25 million complex of business and office buildings in downtown St. Paul. The proposal is for eight business and office buildings, the tallest, 16 stories, to be located in a 3-block area which is part of a 12-block urban renewal program for downtown St. Paul.