District Conditions*

Strength at Midyear . . .
At midyear, every major sector of the district's economy promised continued strength except agriculture.

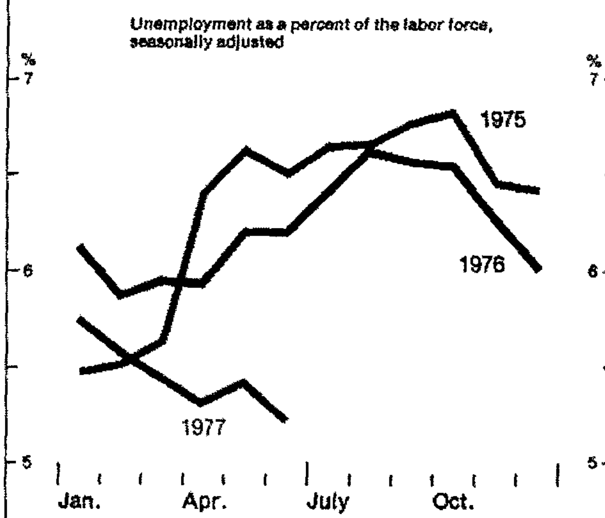
Unemployment was at its lowest rate in more than two years. Seasonally adjusted, it fell from 6.0 percent in December of last year to 5.2 percent in June. (The U.S. rate, still much higher, fell from 7.8 to 7.1 percent during that time.) The district's rate dropped because many more people got jobs than started looking for work, thus reducing the unemployment rolls by 22,000 workers or 12.3 percent.

Many jobs came from the large manufacturing industries where sales have been growing for a year and a half. According to our survey of district manufacturers, sales during the first half were about 15 percent better than a year ago, with durable goods sales leading nondurables. Manufacturers expected gains to continue nearly that high through 1977.

Construction industries also looked strong at midyear. Authorizations for homebuilding continued to run far ahead of 1972's record rate. Most of these authorizations were for single-family units. Nonresidential and nonbuilding construction seemed to be improving too.

All this activity gave district consumers more money to spend, and retail sales in large urban areas increased noticeably, with autos selling especially well.

District unemployment fell to its lowest rate in more than two years.



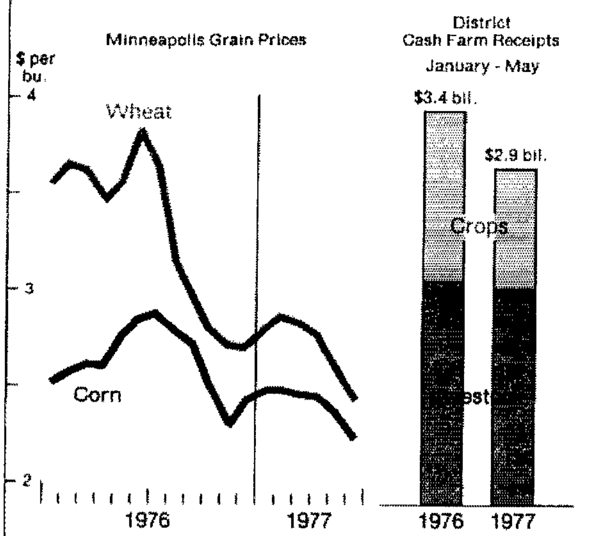
Sources: State employment security departments

. . . Except on Farms
Low income in rural areas, however, clouded the district's otherwise bright outlook.

Drought conditions had disappeared in most areas at midyear. But prospects of large crops and low export demand plus large carryovers from previous harvests pushed wheat and corn prices below even their low spring levels. Cash

*The Ninth Federal Reserve District consists of Minnesota, Montana, North and South Dakota, Northwestern Wisconsin, and Upper Michigan.

Low crop prices held farm receipts below last year's level.



Source: U.S. Department of Agriculture

receipts to crop farmers, therefore, were still far behind last year.

Livestock farmers were a little better off, but not much. Hog prices increased to fairly profitable levels recently, and cattle prices were somewhat higher than last year. Since fewer cattle were being slaughtered, though, cash receipts from livestock just matched last year's level.

Thus, by midyear district farmers had received less cash from crops and livestock combined than they had a year ago.

Financial Support

Both the troubled farm sector and expanding nonfarm sectors were bidding for funds from the financial industry at midyear, and so far financial firms were generally able to meet their needs.

Partly in response to the homebuilding boom, savings and loan associations made 70 percent more mortgage loans than a year ago in the first half. Large banks sharply increased their lending to businesses during that time, especially for interim construction and inventory financing. And rural banks renewed many loans to district farmers plagued by last year's drought and this year's low wheat, corn, and cattle prices.

However, low farm income also reduced the funds available to lend at district ag banks, as farmers had less money to save or repay bank loans with. As a result, according to our July survey, some ag bankers were beginning to strain to meet the increased credit demand: Nearly one-third called their loan-to-deposit ratio "too high," and 12 percent—almost twice as many as three months ago—reported reducing or refusing a loan because of a funds shortage.

Outlook

Agriculture is likely to remain the district's weak sector through 1977. The midyear strength of construction and manufacturing industries should continue, and unemployment should therefore drop below 5 percent. Despite good harvests, though, low commodity prices will probably keep farm income below last year's. If that happens, credit will be harder to get at rural banks.