# *District Conditions*/*Growth in 1984*

The Ninth District economy has been recovering from the last recession—though not quite as fast as usual—and it should continue to recover throughout 1984.* Just how fast growth will be in the year is hard to estimate because of high uncertainty in a major local industry: agribusiness. Regardless of what happens there, though, another year of healthy economic growth is likely in the district as a whole because it is likely in the nation as a whole and in several other major district industries.

## A Recovery Slower-Than-Usual . . .

Compared to previous postwar recoveries, this recovery has begun rather slowly in the district. The accompanying charts compare the quarterly percentage changes of district statistics from their levels in the fourth quarter of 1982, when the last national recession bottomed out, to their average quarterly changes from previous U.S. troughs.[1] Chart 1 shows this comparison for real personal income, one of the best available indicators of general economic activity in the district. Clearly, the recent growth of district activity has been below-average. Three quarters into the nation's recent recovery, district income had risen less than 1 percent whereas it usually rises about 3.5 percent in the first three quarters of recovery.

In part, this below-average growth is due to the fact that agriculture did not recover early in 1983 from its several years of extreme weakness. In Minnesota, for example, net farm income in 1982 was less than $1.1 billion, its lowest level since 1976. While more current net farm income figures—which would include substantial PIK income—are not available, Chart 2 shows that district farmers' gross receipts fell further in the first three quarters of the nation's recovery. Agribusiness accounts for a significant amount of the Ninth District's gross output. Such weakness in this industry thus undoubtedly helped cause the lower-than-average growth of total district personal income.

## . . . But Continuing

Note, though, that Chart 1 also shows that, on average, district income continues to grow for at least eight quarters after the national economy bottoms out. Most forecasters think that trend will be found in the current recovery as well, so that district income will continue to grow at least through 1984. How fast it will grow compared to past recoveries is too hard to predict, however. In part, that is because of the high uncertainty about the future performance of agribusiness, which is subject much more than other industries to the vagaries of the weather, government programs, and export demand.

The national economic outlook also points to continued growth in the district. A recent consensus of private forecasts is that in the United States real personal income will grow 5.2 percent in 1984. Research done at this Bank shows that, historically, the nation's economic fluctuations have been closely followed by those in Minnesota.[2] Since this is the district's largest state, its relationship to the nation is probably true for the district as well.

## Contributing Industries

More reasons to expect a continued district expansion in 1984 come from conditions in several nonagricultural industries: two key industries which have been strong so far in the recovery are expected to remain so in the new year, and some which have been fairly weak are expected to strengthen.

### *Construction*

One of the strong industries has been construction. As Charts 3 and 4 show, it appears to have so far been

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

[1] We use the quarters of U.S. troughs because only national recessions and recoveries are officially dated. We use varying numbers of past recoveries to calculate the average recoveries because some time series have more historical data than others. All basic data are seasonally adjusted and are totals of indicators for the four states completely within the district's borders.

[2] See Robert B. Litterman and Richard M. Todd, "As the Nation's Economy Goes, So Goes Minnesota's," *Federal Reserve Bank of Minneapolis Quarterly Review* 6 (Spring-Summer 1982): 1-9.

Charts 1–5

## How This Recovery Compares to Past Recoveries in the Ninth Federal Reserve District

Quarterly Percentage Changes From the Level in the Trough of the U.S. Recession During the Current Recovery and on Average in Postwar Recoveries*

Chart 1 **Real Personal Income**

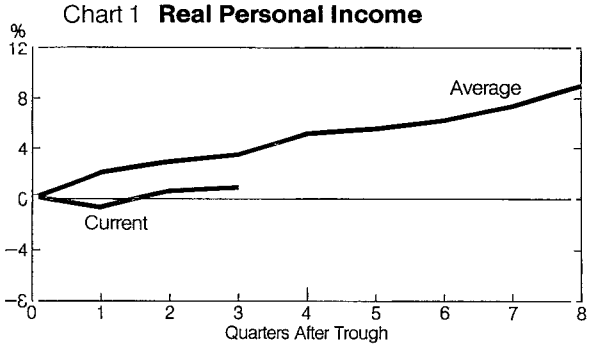



Chart 2 **Cash Farm Receipts**

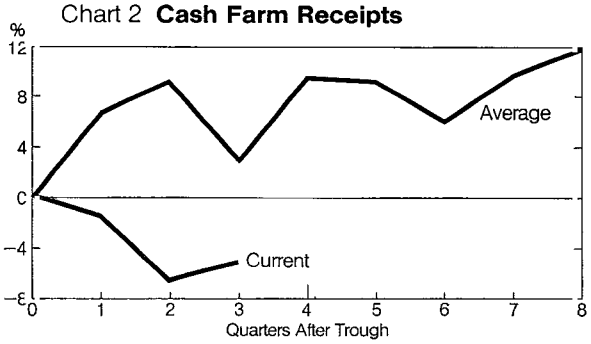



Chart 5 **Manufacturing Employment**

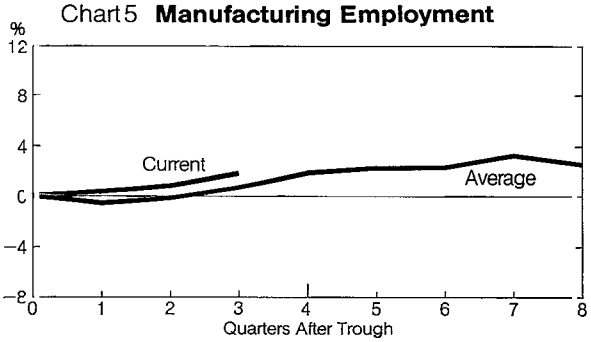



Chart 3 **Building Permits**

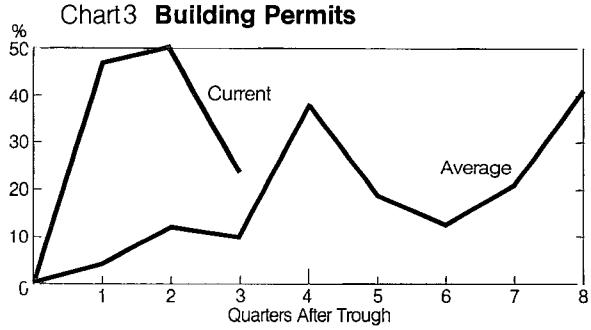
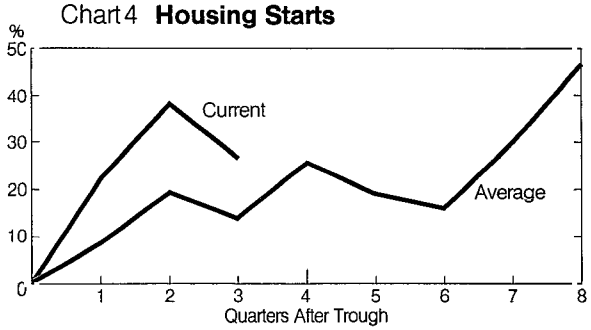



Chart 4 **Housing Starts**




*The trough of the last U.S. recession was the fourth quarter of 1982. Because of data limitations, the average of past recoveries on these charts is based on a varying number of past recoveries: five for personal income and manufacturing employment, four for building permits, and three for cash farm receipts and housing starts. All basic data are seasonally adjusted and are totals of indicators for the four states completely within the district's borders: Minnesota, Montana, North Dakota, and South Dakota.

Sources of basic data: U.S. Departments of Commerce, Agriculture, and Labor

contributing more than a historical average share to the recovery. Both district building permits and district housing starts rebounded at a faster pace than usual during the first few quarters of this recovery. In Minnesota, for example, construction contracts valued at $4.2 billion were awarded in 1983, an increase of 40 percent over 1982. In December alone, the value of nonresidential contracts awarded in that state was 82 percent higher than in December 1982.

Charts 3 and 4 also show that, based on historical experience, some temporary setbacks are to be expected in this industry in 1984. But, unless interest rates swing widely, the general trend for 1984 construction should be upward.

### *Manufacturing*

Another strong industry has been manufacturing, and it too should continue to grow in 1984. As measured by its employment, the manufacturing sector has also come back from recession at a faster-than-normal pace (see Chart 5). Reflecting that growth, many large manufacturing firms in the district reported third-quarter 1983 earnings higher than a year earlier, including 3M, Honeywell, Control Data, and Cray Research. Many plant expansions have been announced recently, including a major expansion of Ford Motor Company's St. Paul assembly plant. Many industry analysts expect capital equipment spending to pick up further in 1984. The outlook seems particularly favorable for firms that make wood products. For example, in 1983 one large pulp mill in Montana showed a profit for the first time since 1981. All of these forecasts are consistent with the average growth of manufacturing in past recoveries (shown in Chart 5).

### *Natural Resources*

Several natural resource–related industries were not strong like construction and manufacturing in most of 1983, but they turned up late in the year and now, like construction and manufacturing, are expected to continue to grow in 1984. Spurred by strong demand for pulp and paper, the forestry industry began to recover in 1983. The number of active oil rigs in the Williston Basin of North Dakota recently increased nearly 30 percent, to a total of 87. Some industry analysts think that the short-term outlook for iron pellet production is improving and that production will probably be slightly higher in 1984 than in 1983.

The views expressed herein are those of the author and not necessarily those of the Federal Reserve Bank of Minneapolis or the Federal Reserve System.