District Conditions*

As we predicted, the district's economy avoided a recession in 1979 but not high inflation. Our best guess is that it will follow a similar course in 1980.

1979: Rising Output, High Inflation

In 1978 we predicted that the district would experience healthy economic growth despite high inflation through 1979. We predicted that rising output would be accompanied by employment growth of 3 percent and that consumer prices would rise 8.5 percent. Our forecast was generally good, although it underestimated inflation.

In line with our forecast, the district avoided a recession, defined as a period of declining output and rising unemployment. In fact, output seems to have risen while unemployment stayed about the same.

For most of the district's largest industries, 1979 was a pretty good year. Manufacturing output, according to our Industrial Expectations Survey, rose spectacularly. Manufacturing dollar sales increased a whopping 16 percent, a substantial increase, even after it is adjusted for inflation. Farm output also rose in 1979. Many agricultural producers in the district harvested large crops. Farm income was the same or higher than it was in 1978 for a large majority of the respondents to our Agricultural Credit Conditions Survey. Retail output, according to our estimates, held steady. The dollar value of retail sales rose 11 percent in Minnesota (the only district state with this data available), but this increase was offset by a comparable increase in consumer prices. Since Minnesota's retail sales account for most of the retail sales in the district, this is a fair indication that this district's retail output has stayed about the same as a year ago. Residential construction output, however, did decline. Although the number of residential units authorized by building permit in 1979 was close to the decade's average, it was below 1978's very high level.

Despite this decline in construction, though, the district's overall output rose, according to the employment figures. In order to expand output, district businesses and farms, as forecast, added 3 percent more workers to their payrolls in 1979. Since this increase matched the number of additional people looking for jobs, the district unemployment rate remained at 4.3 percent.

Although the district's economic growth and employment were in line with our predictions, inflation was even higher than we predicted. The Minneapolis/St. Paul consumer price index rose 11 percent in 1979, about 3 percentage points more than we forecast. Rapidly increasing food, housing, and transportation prices caused this acceleration. The other major components of the index—apparel, medical care, and entertainment—did not increase as fast as the overall index.

1980: More of the Same

In 1980, as in 1979, we predict that the district will have no recession but will have higher inflation.

Output in the two strongest sectors in 1979 is not likely to decline in 1980. Manufacturing output will expand, but at a slower rate. According to our Industrial Expectations Survey, manufacturing sales in the district during the first half of 1980 will rise 11 percent, slightly faster than the rate of inflation for the district's manufactured goods. Agricultural output in the district should not decline either. Most rural bankers in our recent Agricultural Credit Conditions Survey expect farm income in early 1980 to equal or surpass what it was a year earlier, and high prices for most agricultural goods should encourage a high level of farm production.

Two other industries, however, probably won't do quite as well. Retailers' output will decline slightly. Our regional forecasting model projects that retail sales in Minnesota will rise 12 percent in 1980, even in the face of a national recession. This rise in dollar

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

sales, however, will be more than offset by the increase in consumer prices. The other major sector to experience some difficulty will be the homebuilding sector. Outstanding mortgage loan commitments at district S&Ls, a leading indicator of residential building activity, have been falling throughout 1979, and by August were down 30 percent from the peak reached in late 1978.

But despite the declines in retailing and construction, overall output in the district will not fall in 1980: our model predicts that district businesses and farms will add 2 percent more workers to their payrolls. This increase is smaller than 1979's, but it will approximate the increase in the number of people looking for jobs. Therefore, we also predict that the district's unemployment rate will be 4.5 percent, closely matching last year's rate.

The least welcome news is that inflation in the district will accelerate again in 1980. Our model projects that the Minneapolis/St. Paul consumer price index will rise almost 13 percent, which is about 2 percentage points more than in 1979.

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.