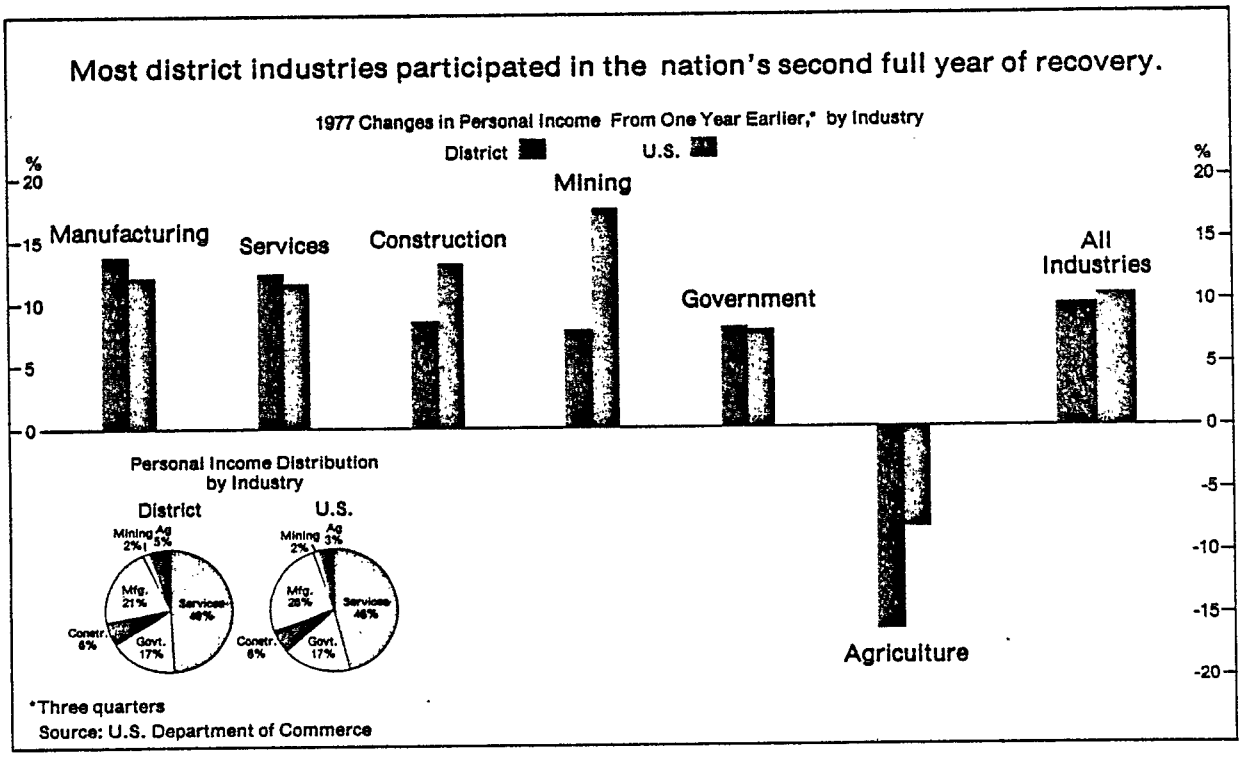
# The Regional Economy in 1977 and 1978

David S. Dahl

Economist
Research Department
Federal Reserve Bank of Minneapolis

Despite another drop in farm income, economic activity in the Ninth Federal Reserve District[1] kept pace with the national economic recovery in 1977. The four-year-long slide in farm income has significantly reduced the share of district income earned in agriculture. By last year that share, like our other industries, was very close to the share earned nationally. In 1978, therefore, even if ag income does not grow again, as is expected, the regional economy should continue to keep up with the nation.

[1]Minnesota, Montana, North and South Dakota, the Upper Peninsula of Michigan, and northwestern Wisconsin. Personal income data are only available for the four full states.



**Our economy grew as fast as the nation's in 1977 . . .** Personal income[2] is one of the best measures we have of overall economic activity in the district, and according to it, growth here matched the nation's in 1977, the second full year of the recovery. During the first three quarters of the year (the latest data available), income in both the district and the nation was up about 10 percent from a year earlier. Leading this increase with gains close to 13 percent were our two largest sectors, manufacturing and services.

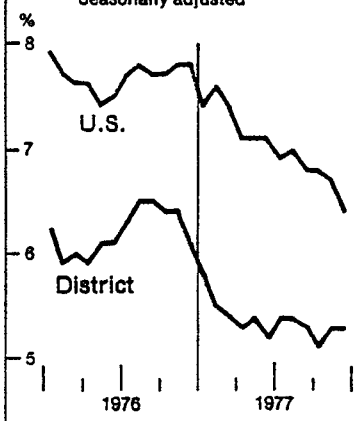
Income in two smaller sectors did grow slower here than nationally, but their growth was still relatively strong. Our construction industry was coming off a much better 1976 than the nation's, so the stronger growth nationally in 1977 merely indicated U.S. construction was catching up. Growth in our mining sector, though also much slower than in the nation's, was actually surprisingly strong considering that last year's long iron ore strike included about one-third of the district's miners. Income to this sector was boosted by efforts to develop coal, oil, and gas resources in two district states, Montana and North Dakota.

Other indicators of economic activity support the strength shown in personal income data. Employment grew 3.1 percent here and 3.5 percent nationally; about 80,000 more district workers had jobs in 1977 than in 1976. Our unemployment rate stayed at least 1 full percent below the nation's during the year and dropped just as much. Sales of manufactured goods were about 15 percent ahead of 1976 in the district and 12 percent in the nation. And homebuilding (measured by residential building permits authorized), while strong nationally, set a new record here. Financial activity reflected the strength in other sectors: bank deposits grew about 10 percent both in the district and in the U.S. as a whole.

[2]Includes wages, salaries, and business income paid to individuals. Does not include dividends, interest, rent, or transfer payments.

Our unemployment rate fell with the nation's in 1977 . . .

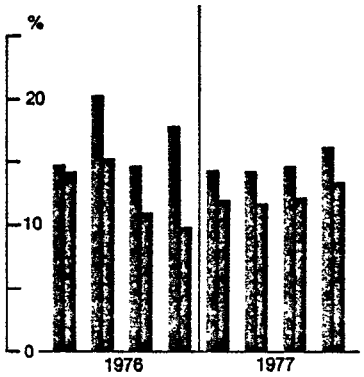
Unemployment as a percent of the labor force
Seasonally adjusted




Sources: State employment security departments, U.S. Department of Labor

. . . while sales of our manufactured goods grew strongly . . .

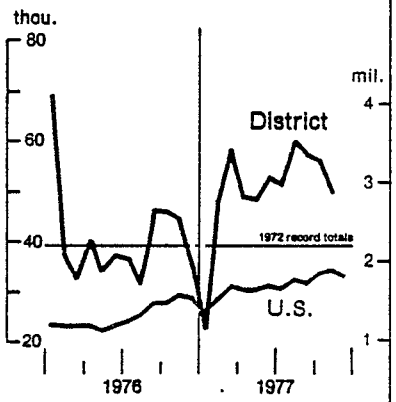
Changes in manufacturing sales from one year earlier
District ■ U.S. ■




Sources: FRB Minneapolis, U.S. Department of Commerce

. . . and homebuilding set a new record here.

Housing units authorized by building permits
Seasonally adjusted annual rates




Source: U.S. Department of Commerce

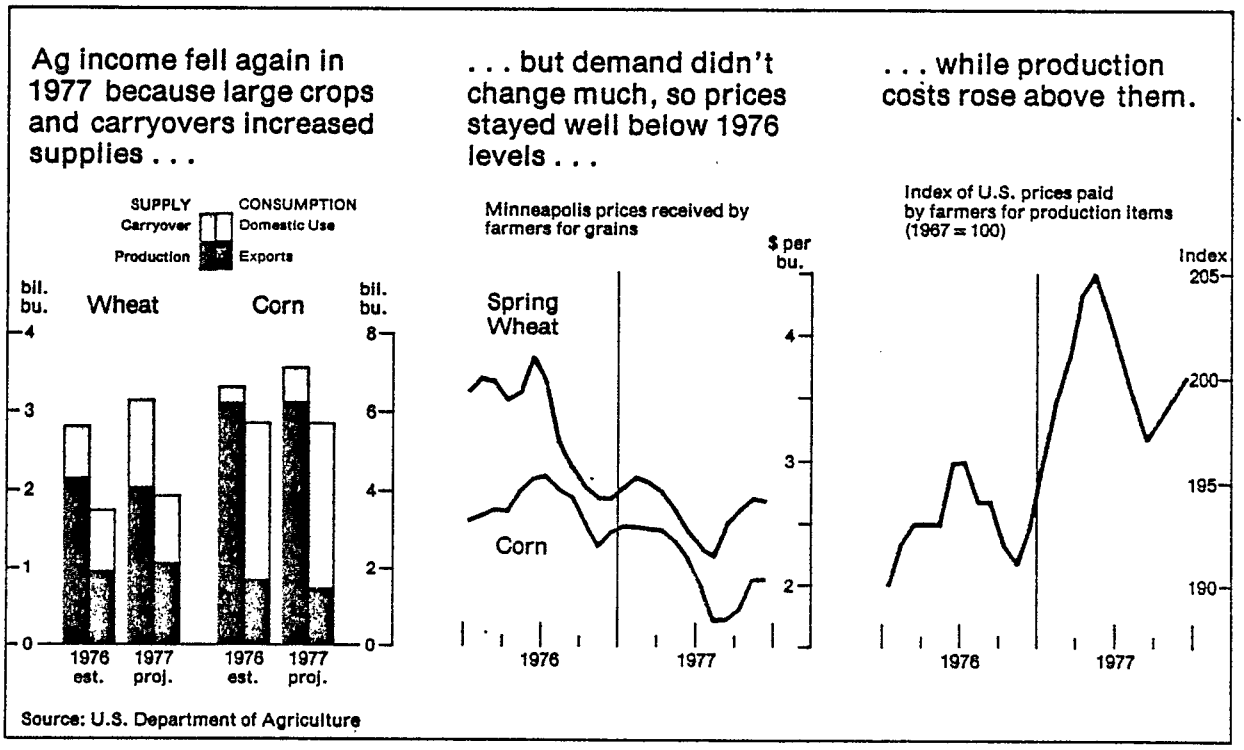
**. . . despite a decline in farm income . . .**
The one sector without any income growth in 1977, either in the district or the nation, was agriculture.

Due to larger supplies but little change in demand, farm income declined nationwide. Large crops last year added to the already large carryovers. For the third consecutive year, more than two billion bushels of wheat were produced; and corn and soybean production set new records. Since demand for these products did not change much, prices fell well below their 1976 levels. And because purchases still did not increase much despite the lower prices, farmers' receipts stayed well below a year earlier too. Production costs rose, however, so U.S. farm income amounted to 8 percent less than a year ago in the first three quarters of 1977.[3]

Personal income to the district's farmers declined 16 percent during this time. The significantly bigger drop here was due to our heavier dependence on wheat, which last year was being sold for less than its production cost.

**. . . making 1977 an unusual year for the district**
Given last year's decline in agricultural income, it is surprising that the district even came close to matching the nation's overall income gain. For in the past when farm income was strong or weak in both the district and the nation, overall economic activity measured by personal income was much stronger or weaker here. When farm income rose rapidly in 1971-73, the district's total grew substantially more than the nation's. And when farm income declined in 1974-76, the total grew much less here than nationally.

[3]Although regional personal income data are now only available for 1977's first three quarters, preliminary estimates indicate that national farm income for the entire year may have been up about 5 percent from 1976. If so, this increase came primarily from the large farm subsidy payments made in late December. While these funds will help farmers in 1978, they don't change the weak farm income story above.



This old relationship is not hard to explain.

First, while agriculture is generally a volatile industry, it was more volatile in the district than the nation. From 1971 to 1973 strong worldwide demand for our major crops, particularly wheat, boosted farm income 65 percent annually here but only 24 percent nationally. Then in 1974-76 when grain supplies burgeoned and prices dropped, farm income fell 32 percent in the district and only 12 percent in the nation. These larger farm income changes showed up strongly in the totals partly because personal income gains in our other major sectors were very close to the national gains.

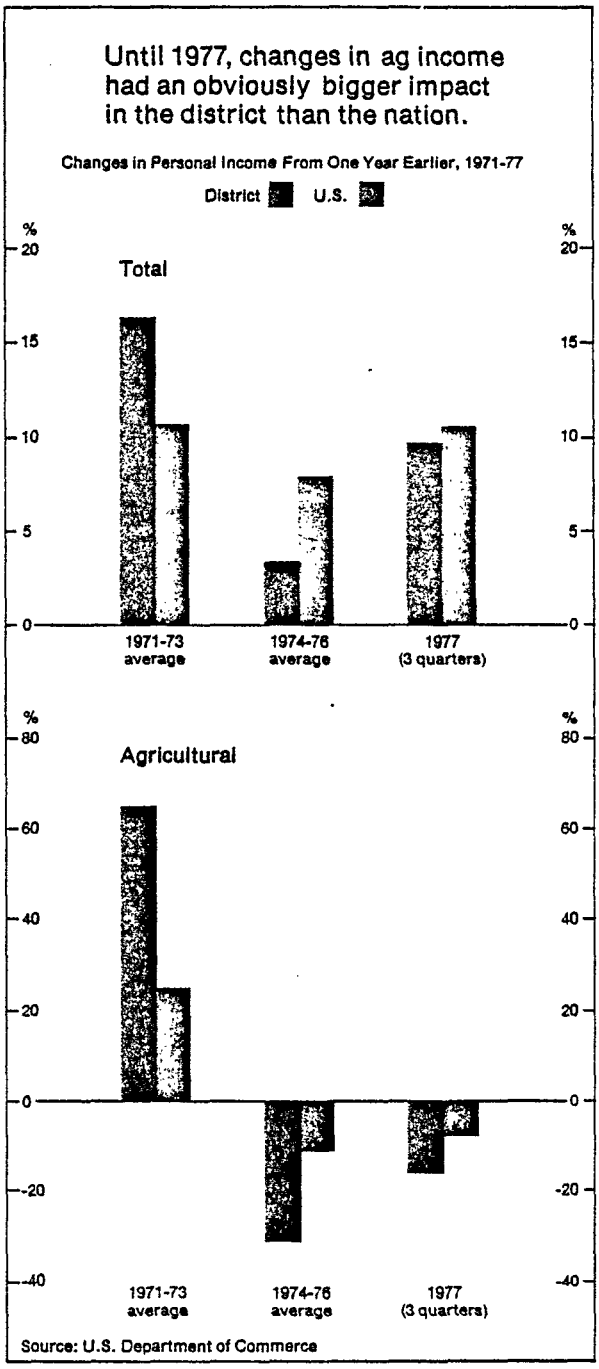
Furthermore, the agricultural sector contributed a significantly larger share of total income in the district than in the nation. On average in 1971-76 farming accounted for 13 percent of personal income here and only 3 percent nationally; in terms of income shares, our ag industry was more than four times bigger. At the same time, our other industries were all roughly the same size as or somewhat smaller than the nation's.

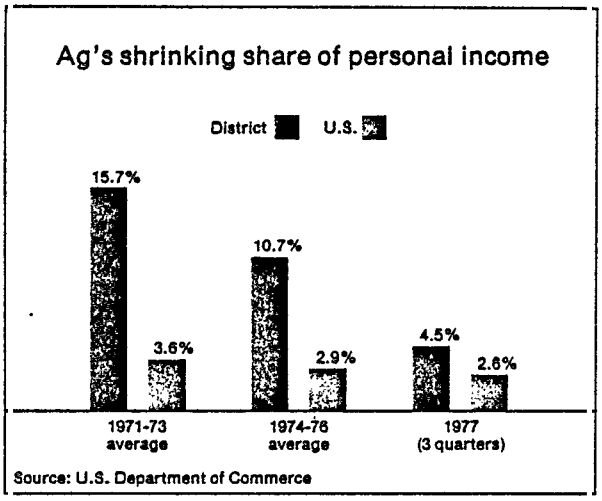
But what happened in 1977? As usual, farm income fell much more in this district than in the nation. So why didn't the nation's overall economy grow substantially more than the district's?

The answer is that although on average agriculture here has been bigger than nationally in recent years, its share of district income has actually been shrinking. When farm income increased rapidly in 1971-73, agriculture's share of district personal income reached 16 percent, but it has declined since and by 1977 was down to only 5 percent. In the nation, ag's share was 3 percent in 1977, only slightly less than its 4 percent high in 1971-73. By 1977, therefore, farming's contribution to total personal income in the district was small and, like the other sectors, about the same size as in the nation as a whole.

**1978 will be a rerun**

Because of this similar income distribution, in 1978 the district economy should grow at about the same pace as the nation again even if income to farmers drops again or changes very little, as the U.S. Department of Agriculture (USDA) predicts. And since the nation is generally expected to have a 1978 pretty much like 1977, the district probably will too.






The underlying factors which held down farm income last year are not expected to change in 1978. At current prices, corn, wheat, and soybean supplies should be more than adequate to meet this year's demand. Consequently, prices of these crops and revenue from them will probably fall again while production costs continue to rise. At most, last year's farm legislation will offset the revenue drop only enough to keep total personal farm income at its 1977 level.

Yet, because agriculture has become a much smaller part of the district's income, overall activity here should still match national activity in 1978—and that is expected to be as strong as in 1977. For the third full year of recovery, most economic forecasters predict about a 10 percent increase in current dollar gross national product. Total personal income growth in the district and the nation should therefore again be about 10 percent too.

National forecasts indicate that this income growth will be distributed among nonfarm industries much the same as last year. But in 1978 even construction and mining, the district's two slower sectors in 1977, should at least match their national counterparts. Personal income to construction workers last year appeared significantly stronger nationally because the district was already at such a high level in 1976. Now that the nation has caught up, income growth should be just about even. Income to miners, though, should actually grow faster here than nationally in 1978. Not only will energy developments in Montana and North Dakota once again give the district a special boost, but because most of our coal miners are not involved with the United Mine Workers' strike, this year the U.S.—not the district—will be hit harder by a prolonged strike.

Other regional signs support the national forecast of continued growth. The current high level of help wanted ads signals further strong job growth ahead. If it's as strong as last year, the district's unemployment rate could fall below 5 percent. District manufacturers responding to our February survey expected their sales to grow nearly as much as last year. Mortgage loan commitments are still high at savings and loans, so homebuilding will not let up soon. And so far this year banks appear able to finance continued growth at current interest rates; their deposit inflows have shown no signs of weakening.

**Beyond 1978?**

Thus, because of ag's smaller size, for 1978 the nation's forecast is probably a good barometer of economic activity in the district. But it may not be beyond 1978. The USDA recently predicted that exports of our major crops—corn, wheat, and soybeans—will increase substantially in the next decade. This should make ag income again grow faster in our region than in the nation, which could restore much of ag's income share here. Though it won't likely come close to its size early in this decade, our farm sector could then, together with a mining sector strengthened by energy developments, pull the region's economic growth somewhat ahead of the nation's.

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.