District Conditions

Few economists foresaw that interest rates would reach such dazzling highs in early 1980 and then drop so rapidly, few predicted that credit controls would quash consumer spending, and few foresaw the dramatic decline in second-quarter production led by the housing and auto industries. These unpleasant surprises in the first half of the year affected virtually every area in the nation, the Ninth District no exception.[1] But the district's growth appears to be slowing less than the nation's, and there is a reasonable chance that the district will avoid a significant slowdown in the rest of this year and in 1981. The district, however, has not avoided double-digit inflation and will probably have to live with it through 1981.

The district has outperformed the nation

During an economic downturn, the district's economy typically does better than the nation's, and it appears to be doing so again. Comparing the district's economic growth to the nation's is not easy, because there is no regional measure of output that corresponds to real gross national product. But available data seem to say that the district's economy did not languish as much as the nation's during the first half of 1980.

Employment, for instance, grew in the district, whereas in the nation as a whole it shrank. Between the fourth quarter of 1979 and the second quarter of 1980, the district's employment grew 1.0 percent, while the nation's fell 0.8 percent.[2] The district's inflation rate also did better than the nation's. The Minneapolis–St. Paul consumer price index (CPI), our proxy for the district's CPI, rose 12.4 percent in the first half of 1980, while the nation's rose 15.2 percent.

Manufacturing of nondurable goods, which include food products and paper products, accounted for the majority of the district's advantage over the nation in employment. The district's employment in nondurables industries rose 1.3 percent in the first two quarters of 1980, while the nation's declined 1.7 percent. The district and the nation were parallel in several other areas of employment. Employment in the service industries rose about equally in the district and the nation; employment in housing dropped about equally.

Although the district outperformed the nation in total employment and inflation, farm income probably declined in the district about as much as it did in the nation, based on our July *Agricultural Credit Conditions Survey* and data from the Department of Agriculture. It is hard to say more than this because comparable regional and national data on the first half of the year are not available. While income probably declined in the first half of the year, farm production in the district did not; farmers planted slightly more acres this spring than a year ago.

The district should avoid a serious downturn

Using data through the first half of the year, our regional forecasting model still predicts for 1980 what it predicted at the beginning of the year: inflation of 13 percent and employment growth of 2 percent. In addition, it predicts only a slight improvement in these variables in 1981.

The forecast for 1980 is supported by the preliminary data available on the second half of 1980. The housing and farm sectors in the Ninth District, in particular, seem to be improving. The first-half decline in the district's housing industry may have been halted by the recent pickup in home sales—mortgage loan applications at Minneapolis and St. Paul S&Ls increased 44 percent between June and July. In spite of serious drought conditions that will depress the income of many farmers, the decline in total farm income may have been halted by the government's increased price supports for wheat and corn and by recent increases in farm product prices. In mid-July, Minneapolis cash

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

[2]In this article, all the quarterly figures except the inflation rates are seasonally adjusted. The inflation rates are annual rates.

prices for corn, wheat, and soybeans were all at least 11 percent higher than in June.

Our early forecast for 1981 indicates that next year will be similar to 1980. As before, employment growth in the district should compare favorably to that in the nation. Our forecasting model, based on historical relationships, projects that district employment will increase 2.4 percent; many forecasters expect very little or no increase in national employment. Unfortunately, the district may have an inflation rate higher than the nation's. Our model projects that the Minneapolis–St. Paul CPI will rise 12 percent; many forecasters expect the nation's CPI to rise 10 percent.