

MONTHLY

REVIEW

Contents:

5 years of employment growth in the Ninth district.	p. 3
Current conditions.	p. 8
Federal Reserve System actions during 1965.	p. 11
Economic briefs.	p. 12

FEDERAL RESERVE BANK OF MINNEAPOLIS

MARCH 1966

5 years of employment

growth in the Ninth district

From an economic point of view, 1965 was a vintage year. Solid gains in almost all sectors of the economy were observed in both the nation and the Ninth Federal Reserve district. To say that most indicators reached record levels is to sound trite: after five years of expansion, any gain sets a new record. The important fact about 1965 was *not* that new records were set, but that the *rate* of growth was high — thus suggesting that the years of expansion are not yet ended.

Some truly amazing growth rates were recorded during the 5-year period 1960-1965. Gross National Product grew by 34 per cent, or at a compounded annual rate of 6.1 per cent; after allowance for price changes, real GNP advanced by 25 per cent, or at a compounded annual rate of 4.5 per cent. Personal income moved upward 32 per cent, and this higher income level resulted in a growth of retail sales of 28 per cent. Industrial production advanced 32 per cent; and the value of construction put in place, 26 per cent. (Even though value of construction grew at a compounded annual rate of 4.8 per cent, it is considered to be one of the weaker spots in the economy.)

Available data indicate that the district richly shared in the over-all economic advance. But existing evidence also indicates that growth rates of the district were generally below those of the entire nation.

The economic growth experienced during the five years naturally resulted in gains in employment and declines in unemployment, and these aspects of growth within the district as compared

to the entire nation are the focal points for this article. The charts and discussion point up district strengths and weaknesses within a national setting. All data are indexed to the base year of 1960, thus reflecting percentage changes from the year 1960. It should be noted that all district data used are exclusive of the Wisconsin portion of the district; thus when the term "district" is used, it means the sum of Minnesota, Montana, North Dakota, South Dakota, and Upper Michigan. Also, all 1965 data are subject to future revision.

Employment and unemployment

Two of the broadest measures of the employment sector's achievements are total civilian employment and unemployment. As shown in Chart 1, total employment growth started to move more slowly in the district than in the nation at the beginning of this expansion period and did not recover. In the nation civilian employment grew by more than 8 per cent during the 5-year period; in the district, by less than 3 per cent. Some of the reasons for this growth pattern will be pointed out in the concluding paragraphs.

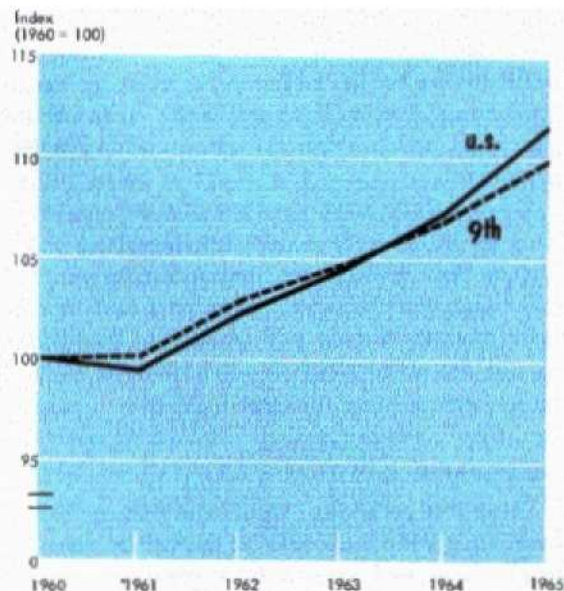
Although the district lagged the nation in terms of employment growth, it outran the nation in terms of unemployment improvements. As may be observed from Chart 2, the district outperformed the nation in every year of the 5-year expansion. In 1965 the number of unemployed in the district had dropped to 80 per cent of the 1960 number, whereas the like number in the nation was nearly 88 per cent.

weight placed on agricultural employment in the district relative to the nation: in terms of employment the agriculture sector is by far the largest of the major district industrial sectors, while it ranks in a low fifth place in the nation. Furthermore, this large employment category experienced a decline of about 15 per cent over the 5-year period and, consequently, exerted a depressing influence on total employment growth.

State contributions

In general the record of wage and salary employment growth of the individual district states exhibits patterns similar to the district as a whole. However, as illustrated in Chart 4, there were a few significant deviations from the average pattern. Minnesota's growth pattern was almost identical to the district average — not a very surprising discovery when it is noted that Minnesota accounts for about two-thirds of the district's wage and salary employment and, consequently, weighs quite heavily in any district average.

Chart 3 — Wage and salary employment changes, Ninth district and U.S., 1960-1965



Montana's growth followed the district pattern quite closely during the first three years of the expansion, but decelerated somewhat in the last two years. This slowdown was due primarily to the construction and manufacturing sectors. Both of these sectors experienced relatively significant employment declines in 1964 — the year in which the growth pattern was broken. Most of the 1964 loss was recovered in 1965.

South Dakota experienced a growth pattern substantially different from those of the other states — gaining most in the early stages and declining in the later stages of the expansion. Although this state experienced generally above-average rates of growth in most of the major employment sectors, the main impetus for the early advance apparently was due to the construction sector — primarily projects involving the Missouri River Basin programs. From 1960 to 1962 construction employment advanced by almost 25 per cent. Manufacturing employment also made strong advances during the first three years of South Dakota expansion,

Chart 4 — Wage and salary employment changes, district states, 1960-1965

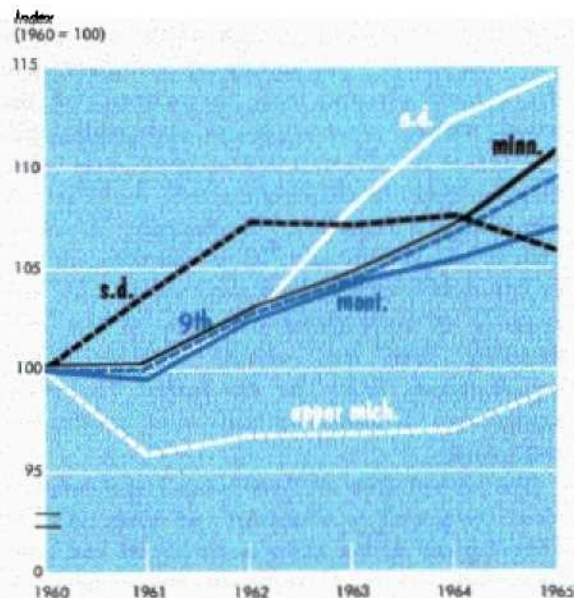
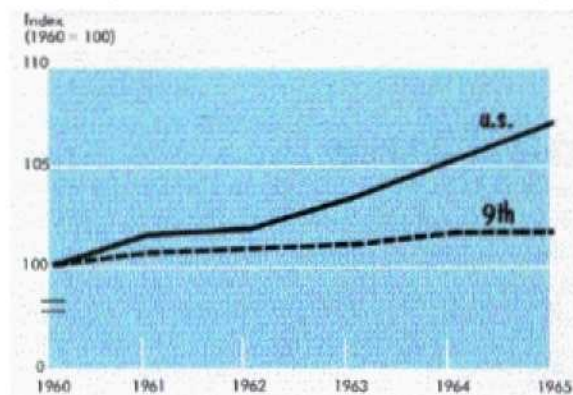


Chart 6 — Civilian labor force, Ninth district and U.S., 1960-1965



unemployment. Also important to the analysis is the source of supply for this employment growth — the civilian labor force. This is the fuel cell which enables the growth machine to keep running. Chart 6 shows that the national labor force grew by over 7.0 per cent over this 5-year period of expansion, while the district grew by 1.6 per cent with essentially zero growth from 1964 to 1965. Presumably out-migration was a principal reason for this slow district labor force growth, but analysis of this question is beyond the scope of this article.

This chart offers the principal explanation for the district's more rapid decline in unemployment as illustrated in Chart 2. Expanding employment without expanding the work force logically implies a decline in unemployment.

This chart, together with Chart 2, also appears to hold the key to the district wage and salary employment growth pattern in 1966. The district has already reduced unemployment rates to near the practical minimum. Although there is still some room for further declines, they will be harder to achieve as the unemployment rate approaches 3

per cent. Consequently, without a further expansion of the work force, the district will rapidly reach its limits of employment expansion.

Of course the decline in farm workers is providing a supply of workers to the wage and salary sector. In 1965 there was a decline of 33,000 farm workers in the district; but this was three times the average decline of the previous four years and cannot be expected to continue. At the same time there was an increase in wage and salary employment of 42,000. On the basis of this past experience, and assuming (1) no change in the number of self-employed and domestics, (2) no change in the civilian work force, (3) an increase of 43,000 in wage and salary employment, and (4) a decrease of 30,000 in farm workers, then the district would experience an unemployment rate in 1966 of about 3.2 per cent. From the above discussion it would seem that the "weakest" assumption here is the size of the decrease in the number of farm workers. If this decline were a more reasonable 15,000, then (together with the other assumptions) the district's unemployment rate would be on the order of 2.8 per cent. An unemployment rate of this magnitude would result in a very tight labor situation and might even be considered an unreasonable goal given the fact that the rate was 3.8 per cent in 1965. Consequently growth in the work force seems imperative for strong growth in employment levels in 1966.

Perhaps work force expansion is not an unreasonable outcome since the work force has remained stagnant primarily because of net out-migration. The healthy economic climate which appears to be in store for the district in 1966 may be enough to halt, or at least slow down, the out-flow of workers.

Current conditions . . .

A survey of the Ninth district's major economic indicators covering the first month of the new year shows mostly pluses — in some cases substantial ones. All categories of employment showed increases from a year earlier, with manufacturing, mining, and construction showing gains of 5 per cent and better. Total nonagricultural employment, on a seasonally adjusted basis, was up 4 per cent from January a year earlier and up 1.5 per cent from December 1965.

Paralleling the favorable employment trends in January was a further reduction in the district's unemployment rate to an estimated 3.3 per cent from 4.3 per cent a year ago and 3.7 per cent a month earlier. For the nation, the unemployment rate in January was 4 per cent.

Another indication of continuing economic strength is shown by the available data on the industrial use of electric power — up 14 per cent from a year earlier and 1 per cent from December 1965. This, together with strength in the index of production worker man hours series, indicates further improvement in the district's industrial output compared with 1965.

Although January retail sales figures are not yet available for the district, increases in the January bank debits series of 17 per cent from a year earlier indicates a favorable trend. Expansion in new car registrations as late as December is one evidence of sales expansion.

In agriculture, continued relatively high price levels and substantial marketings have lifted farm incomes to more respectable levels. These higher

levels have engendered more optimistic appraisals of the business situation in the rural areas. Farmers are being led to believe that growing world food shortages may at last keep prices up to more reasonable levels and thus relieve the severe price-cost squeeze that has plagued agriculture in recent years.

January banking developments in the Ninth district are marked by further increases in time deposits at all member banks, with some pause in demand deposit growth and total loans. That time deposits have expanded is no particular surprise in view of the higher rates offered for savings by most commercial banks. Some of this, of course, is at the expense of demand deposit expansion. That loans slowed a bit in January is a bit surprising in view of general economic growth; hence this may be only a temporary phenomenon. The feeling among bankers generally seems to be that the demand for loans, particularly business loans, is indeed vigorous. The ratio of net loans to deposits at member banks in January was about the same as in December, but considerably above year-earlier levels. Daily average federal funds purchased by all member banks during January also were up from month- and year-earlier levels, although this was partially offset by some decline in borrowings at the Federal Reserve bank. The available data therefore suggests a slightly declining trend in bank liquidity or credit availability, but this may be looked upon as an acceptable situation by those who are concerned with inflationary trends in the U.S. economy.

The following selected topics describe particular aspects of the district's current economic scene:

Farm income tops record

Relative agricultural prosperity in the Ninth district continued through 1965 as year-end data indicate a new record high in terms of cash farm income. Strong livestock prices during the fourth quarter boosted farm incomes to record levels. Cash receipts from the marketing of livestock amounted to almost \$700 million, exceeding the 1964 fourth quarter total by almost 16 per cent. Crop sales during the fourth quarter advanced 2 per cent over the year-earlier figure to a total of about \$400 million. Total cash farm receipts during the fourth quarter thus amounted to almost \$1.1 billion, up 10 per cent from 1964 and the largest fourth quarter figure on record.

For the most part the year 1965 was the year of the livestock producer. District cash receipts from the sale of livestock were estimated at \$200 million, or 10 per cent higher than those of 1964. Crop receipts, on the other hand, remained virtually unchanged from the 1964 level. Thus, total cash farm receipts increased 6.1 per cent above the 1964 level establishing the 1965 total of about \$3.4 billion as a district high.

Cash flow to farmers during 1965 was further enhanced by an estimated 8.7 per cent increase in direct government payments to farmers participating in the various federal programs. Adding the \$374 million in government payments to cash receipts from marketings brought total cash farm income to more than \$3.7 billion or 6.3 per cent above the 1964 total.

Each of the four whole district states experienced impressive gains in the value of livestock marketings during 1965. The largest relative increase, almost 16 per cent, occurred in Montana followed by an increase of 12 per cent in South Dakota and 9 per cent in North Dakota and Minnesota. Crop receipts generally fell short of 1964 levels except in North Dakota where the total was

up 10 per cent. The sharpest decline in crop receipts occurred in South Dakota where the total was down 14 per cent. The value of crop marketings in Minnesota and Montana was off 3.6 per cent. Increases in the value of total farm marketings ranged from 8.4 per cent in North Dakota to a low of 4.9 per cent in Minnesota. Gains in total receipts from marketings in Montana and South Dakota amounted to 6.4 per cent and 5.3 per cent respectively.

CASH FARM INCOME, NINTH DISTRICT*

	(millions of dollars)				
	1961	1962	1963	1964	1965**
Crop receipts	\$1,017	\$1,165	\$1,320	\$1,248	\$1,243
Livestock receipts	1,974	1,969	1,909	1,948	2,147
Total cash receipts	2,991	3,134	3,229	3,196	3,390
Direct government payments	184	242	268	344	374
Total cash farm income	3,175	3,376	3,497	3,540	3,764

* 4 full states

**estimated

Direct government payments to farmers increased 17 per cent over those of 1964 in Montana followed by increases of 11 per cent in South Dakota, 10 per cent in Minnesota, and 3 per cent in North Dakota. While Minnesota received the largest amount of these payments, \$133 million, the relative importance was greatest in North Dakota as would be expected in a state where grain production is dominant. In North Dakota government payments of \$111 million amounted to 16 per cent of cash receipts from farm marketings. South Dakota farmers received \$76 million in direct payments, 7 per cent of cash market receipts; and Montana, \$55 million or 13 per cent of cash market receipts.

The estimated cash receipts from marketings plus government receipts produced the following state totals for 1965: Minnesota, \$1,699 million; Montana, \$474 million; North Dakota, \$803 million; and South Dakota, \$787 million. These figures are record highs for each of these district states.

Industrial activity shows strength

Preliminary data indicate a high level of industrial activity in the Ninth district during the fourth quarter 1965. After a strong advance during the first 11 months of the year, the index of industrial use of electric power in the district reached a December level almost 13 per cent above the year-earlier level. This was the largest year-to-year gain observed in 43 months. Most major industries contributed to the advance with the exception of electrical machinery and food and kindred products, both of which were essentially unchanged from the year-earlier levels.

The index of production worker manhours, another method of measuring industrial activity, advanced to a fourth-quarter level about 5 per cent above year-earlier levels — an appreciable gain for this indicator.

Evidence of growth in industrial activity is indicated not only in the combination of strength in the major indexes; expansion is also suggested by the fact that employment in the mining and manufacturing sectors during 1965 is estimated to be

about 2.9 per cent above the 1964 average. This latter growth rate is slightly higher than the growth rate in over-all wage and salary employment.

Gold and silver production high

Domestic gold production rose to 1.7 million ounces in 1965, the highest level since 1960; and silver output, at 38.6 million ounces, was the largest since 1956.

Gold output increased substantially in Utah and Nevada, and was slightly higher in South Dakota, the nation's largest gold-producing state. All South Dakota gold was from the Homestake mine at Lead. The mill operated at a maximum daily capacity of 5,500 tons of ore.

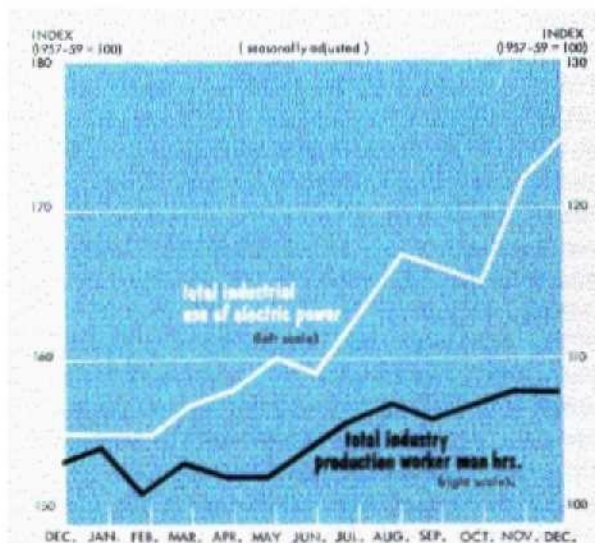
Most of the gain in domestic silver production came from Idaho and Utah, which more than offset declines in Colorado and Montana. Consumption of silver in industry and the arts in the U.S. increased 14 per cent, and the use of silver in coinage increased sharply for the fifth consecutive year, reaching a record of about 320 million ounces.

Net exports of gold in 1965 were more than three times those of 1964. Imports of silver exceeded exports marking a return to a trade pattern more normal than that of 1964 when exports were more than twice as large as imports.

The Treasury's stocked silver bullion dropped sharply in 1965 reflecting the increased demand for the metal for industrial use and for coinage. In July legislation was enacted to eliminate silver from the dime and the quarter and to reduce silver content of the half-dollar.

(The new half-dollar, which went into circulation this month, consists of a clad material of which the outside layers are 80 per cent silver and 20 per cent copper, and a core of about 21 per cent silver and 79 per cent copper. The new coin on the whole contains 40 per cent silver instead of 90 per cent as formerly.)

Industrial activity, Ninth district, 1965



Federal Reserve System actions during 1965

Discount rate

In effect January 1, 1965	4 %
December 6, 1965	4½ %
In effect December 31, 1965	4½ %

Reserve requirements

	Demand deposits		Time deposits	
	Reserve city banks	All other member banks	Reserve city banks	All other member banks
In effect January 1, 1965	16½	12	4	4
In effect December 31, 1965	16½	12	4	4

Margin requirements on stocks

In effect January 1, 1965	70%
In effect December 31, 1965	70%

Maximum permissible interest rates payable on time and savings deposits

	Savings deposits		Other time deposits	
	Under 1 year	1 year and over	Under 90 days	90 days and over
In effect January 1, 1965	4%	4%	4 %	4½ %
December 6, 1965	4%	4%	5½ %	5½ %
In effect December 31, 1965	4%	4%	5½ %	5½ %

Economic Briefs



1. Swift dam underway

A \$2.9 million replacement for the 1964 flood-damaged Swift dam near Dupuyer, Montana is being built for the Pondera County Canal and Reservoir Company by the Bureau of Reclamation. The 205-ft.-high, 600-ft.-long thin-arch concrete structure on Birch creek, now 15 per cent complete, is scheduled to be finished in 1967.

2. Gas from Wyoming

Montana-Dakota Utilities Company has proposed a 248-mile 12-in. natural gas pipeline to run from Wind river basin in central Wyoming to near Belle Fourche, South Dakota. The proposed line will permit the company to move increased volumes of gas to markets in its 4-state service area. It will also pass through areas of the Powder river basin which are productive of oil and gas.

3. Equipment firm expands

A new \$350,000 office and assembly plant has been completed for a Bismarck, North Dakota agricultural equipment manufacturing firm. The firm, Kirschmann Manufacturing Company, produces fertilizer attachments and drills. The addition is the third for the company since it moved to Bismarck in 1957.

4. Arsenal reactivated

The Twin City Army Ammunition plant, Arden Hills, Minnesota, has been reactivated for the production of small-arms ammunition. When in full production, employment will top 1,000 with an annual payroll of \$7 million. Federal Cartridge Corporation, which has maintained the government-owned arsenal in standby condition since it was idled eight years ago, will be the contractor-operator.