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District Conditions

Last year wasn't a very good year for the U.S. economy, and while the Ninth District wasn't as bad off as some regions, it had its share of double-digit inflation and very low employment growth.* According to newly available data, in fact, real personal income in the district did not grow at all in 1980. In 1981, however, the district appears to be pulling out of its slump. So far this year, the economy seems to have been somewhat stronger than a year ago, and while the outlook at midyear is fairly cloudy, there's a chance that the economy will remain at least that strong the rest of the year.

Strength in the First Half

Both inflation and economic activity appear to have improved over year-ago levels in the first half of 1981.

Inflation in the Ninth District clearly slowed some in the first half. The only measure of district prices available, the Minneapolis-St. Paul consumer price index (CPI), rose 9 percent over its level a year earlier in the first half, a much smaller increase than the 12 percent it registered in the first half of last year. Inflation's slowing was fairly broad-based, with perhaps the most dramatic drop occurring in prices of fuel and other utilities. The first-half increases in these prices plummeted from 39 percent last year to 16 percent this year.

Economic activity seems to have improved in the first half too. Aggregate data on income generated in the district in the first half of the year won't be available until the end of the year, so how much—or even whether—the economy has actually grown so far is hard to determine. However, the next-best measure of regional economic strength, the level of employment, did grow in the first half: the number of people working in the district was 1.3 percent higher in the first six months of this year than in the comparable months last year. That may appear to be modest growth, but it is more than three times as much as employment grew in 1980.

This apparent strengthening in district economic activity has occurred despite several fairly weak sectors. Two industries were severely depressed in the first half by the nation's historically high interest rates. Rather than pay these rates, many consumers decided not to buy large items which they would have to buy on credit, and activity in the auto and housing industries therefore suffered. According to regional sales offices of domestic car manu-

facturers, new car sales in the Ninth District in the first half of the year just managed to meet last year's low level. Homebuilding didn't even do that well. The number of new housing units authorized by building permits in the district was 27 percent below the level a year ago in the first half.

A third industry significantly weakened by high interest rates was agriculture, but it had other problems too. In the first half of 1981, thanks in part to the high interest rates, U.S. farmers were paying prices an average of 11 percent higher than a year ago for their inputs. At the same time, many farmers in the district were not getting prices higher than a year ago for their products. Although prices of grains and hogs were up from a year ago, prices of feeder and slaughter cattle were down. Besides that, many farmers in Montana, the Dakotas, and western Minnesota had much less to sell than a year ago in the first half because of drought conditions. As a result, income and activity in this industry were obviously weaker than a year ago: more than half of the rural bankers responding to two surveys by the Federal Reserve Bank of Minneapolis in the first half of the year said the net income of farmers in their areas was down from a year earlier, and only about 10 percent said income was up.

The first-half strength in the district appears to have been centered in three other industries. The largest is the fast-growing group of firms providing a wide variety of personal and business services, such as medical, lodging, public utility, data processing, and financial services. This industry employs roughly a quarter of the district's workers in all district states, and in the first half of the year its jobs expanded about 2 percent over a year ago.

The other two growth industries are not as large as the service industry, but each employs a significant number of people in part of the district. In the western end of the district, energy mining was booming in the first half of 1981. The phased-in decontrol of oil early in the year helped spur activity enough there so that in the first half the number of oil rigs in Montana and North Dakota increased 57 percent over a year earlier. Meanwhile, in the eastern end of the district, business was booming for computer, high technology, and machinery firms which sell to the U.S. Defense Department. The Minneapolis-St. Paul area of Minnesota has many of these firms, and they benefited from a first-half spurt in defense spending. The value of military defense contracts administered in this region was reportedly up 36 percent from a year ago in the first half.

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

