

Federal Reserve Bank of Minneapolis

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*As the Nation's Economy Goes,  
So Goes Minnesota's*

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This publication primarily presents economic research aimed at improving policymaking by the Federal Reserve System and other governmental authorities.

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## *District Conditions*

The long-awaited recovery may have begun, according to many U.S. forecasters. As evidence they point to the nation's real (inflation-adjusted) gross national product (GNP), which rose at a 1.7 percent annual rate in the second quarter of 1982. At the same time, however, these forecasters think the recovery will be relatively slow; on average, they project a 3 to 4 percent annual rate of expansion in real GNP in the second half of this year. Such growth would be modest by historical standards, well below the average growth for comparable periods in the previous five recoveries.

If the U.S. economy does recover as these forecasters predict, most of the Ninth District economy will probably recover right along with it.\* Overall, however, the district is unlikely to do better than the nation, and it may do worse. This is because of three industries which are relatively more important to the district's economy than to the nation's: farming, metal mining, and lumbering. Through midyear, these three industries have been very weak, both locally and nationally, due to circumstances which will not be materially mitigated by a recovery as slow as that forecasted (at least not by the end of the year). Since these industries are more important locally than nationally, they may slow the district's recovery more than the nation's.

### **The District Has Been Weakened by Three Industries. . .**

Farming, metal mining, and lumbering are each more important to the Ninth District economy than to the U.S. economy as a whole. Agriculture accounts for 8 percent of personal income in the district and only 2 percent nationwide. Mines in the district produce 90 percent of U.S. iron ore, and the district's proportion of total employment in metal mining is about five times the nation's. The Ninth District contains 8 percent of the nation's forest area, and the district's proportion of employment in the lumber and forest products industry is about double the national average.

Nationwide, activity and earnings in these industries have dropped off sharply this year. From the first half of

1981 to the first half of 1982, farm proprietors' income fell about 25 percent. Employment dropped about 17 percent in the metal mining industry and about 10 percent in the lumber industry (in logging camps, sawmills, and planing mills, for example).

At the same time, total employment in the United States fell 0.8 percent, whereas total employment in the Ninth District fell 1.3 percent. At least part of this discrepancy must be attributed to the district's heavier concentration in farming, mining, and lumbering.

### **. . . Which Probably Won't Recover Soon**

We expect the district's heavier concentration in these three industries to continue to make it trail the nation, for none of them is expected to grow significantly the rest of 1982.

#### *Farming*

The prospects for agriculture are not bright. Forecasters have predicted that U.S. net farm income could fall to \$16 billion in 1982 from its already low level of \$25 billion in 1981 and the prerecession peak of \$32 billion in 1979. The expected slump in farm income stems mainly from the crop sector, where income should decline because of abundant supply and sagging export demand. Thanks to a record-high 1981 crop harvest, the U.S. supply of major crops was much greater than a year before in the first half of 1982, and it is expected to remain substantial in the second half. The U.S. Department of Agriculture (USDA) expects this summer's harvest of winter wheat to approach record levels; and spring wheat, corn, and soybeans have benefited from good growing conditions.

Abundant supply alone might be sufficient to reduce farm income. This is true because consumption of crops tends to be fairly insensitive to price changes. As a result, when supply is as large as it is expected to be in 1982, crop

\*The Ninth Federal Reserve District consists of Minnesota, Montana, North and South Dakota, northwestern Wisconsin, and the Upper Peninsula of Michigan. For a discussion of the historical relationship between the national economy and the Minnesota economy, see "As the Nation's Economy Goes, So Goes Minnesota's," an article by Robert B. Litterman and Richard M. Todd in this *Quarterly Review*.

