

Federal Reserve Bank of Minneapolis

Quarterly Review

Fall 1983



Budget Deficit Mythology

Preston J. Miller (p. 1)

*Speculations About the Speculation
Against the Hong Kong Dollar*

David T. Beers
Thomas J. Sargent
Neil Wallace (p. 14)

District Conditions

Growth in 1984

(p. 23)

Federal Reserve Bank of Minneapolis

Quarterly Review Vol. 7, No. 4 ISSN 0271-5287

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

Produced in the Research Department. Edited by Richard M. Todd and Inga Velde.
Graphic design by Phil Swenson and typesetting by Barbara Cahlander and Terri Desormey, Graphic Services Department.

Address requests for additional copies to the Research Department,
Federal Reserve Bank, Minneapolis, Minnesota 55480.

Articles may be reprinted if the source is credited and the Research
Department is provided with copies of reprints.

*The views expressed herein are those of the authors and not necessarily those
of the Federal Reserve Bank of Minneapolis or the Federal Reserve System.*

District Conditions/Growth in 1984

The Ninth District economy has been recovering from the last recession—though not quite as fast as usual—and it should continue to recover throughout 1984.* Just how fast growth will be in the year is hard to estimate because of high uncertainty in a major local industry: agribusiness. Regardless of what happens there, though, another year of healthy economic growth is likely in the district as a whole because it is likely in the nation as a whole and in several other major district industries.

A Recovery Slower-Than-Usual . . .

Compared to previous postwar recoveries, this recovery has begun rather slowly in the district. The accompanying charts compare the quarterly percentage changes of district statistics from their levels in the fourth quarter of 1982, when the last national recession bottomed out, to their average quarterly changes from previous U.S. troughs.¹ Chart 1 shows this comparison for real personal income, one of the best available indicators of general economic activity in the district. Clearly, the recent growth of district activity has been below-average. Three quarters into the nation's recent recovery, district income had risen less than 1 percent whereas it usually rises about 3.5 percent in the first three quarters of recovery.

In part, this below-average growth is due to the fact that agriculture did not recover early in 1983 from its several years of extreme weakness. In Minnesota, for example, net farm income in 1982 was less than \$1.1 billion, its lowest level since 1976. While more current net farm income figures—which would include substantial PIK income—are not available, Chart 2 shows that district farmers' gross receipts fell further in the first three quarters of the nation's recovery. Agribusiness accounts for a significant amount of the Ninth District's gross output. Such weakness in this industry thus undoubtedly helped cause the lower-than-average growth of total district personal income.

. . . But Continuing

Note, though, that Chart 1 also shows that, on average,

district income continues to grow for at least eight quarters after the national economy bottoms out. Most forecasters think that trend will be found in the current recovery as well, so that district income will continue to grow at least through 1984. How fast it will grow compared to past recoveries is too hard to predict, however. In part, that is because of the high uncertainty about the future performance of agribusiness, which is subject much more than other industries to the vagaries of the weather, government programs, and export demand.

The national economic outlook also points to continued growth in the district. A recent consensus of private forecasts is that in the United States real personal income will grow 5.2 percent in 1984. Research done at this Bank shows that, historically, the nation's economic fluctuations have been closely followed by those in Minnesota.² Since this is the district's largest state, its relationship to the nation is probably true for the district as well.

Contributing Industries

More reasons to expect a continued district expansion in 1984 come from conditions in several nonagricultural industries: two key industries which have been strong so far in the recovery are expected to remain so in the new year, and some which have been fairly weak are expected to strengthen.

Construction

One of the strong industries has been construction. As Charts 3 and 4 show, it appears to have so far been

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

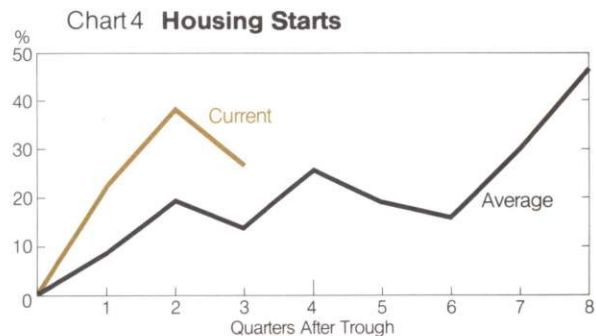
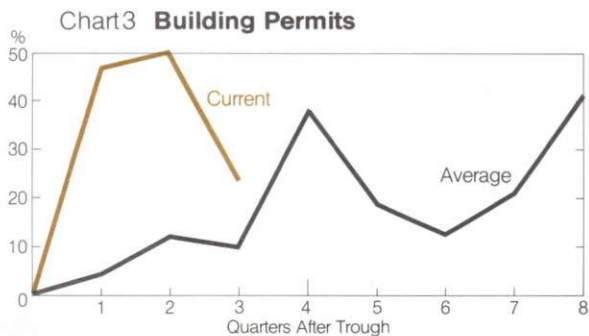
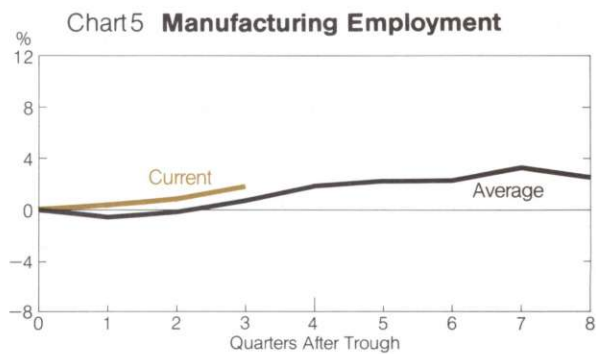
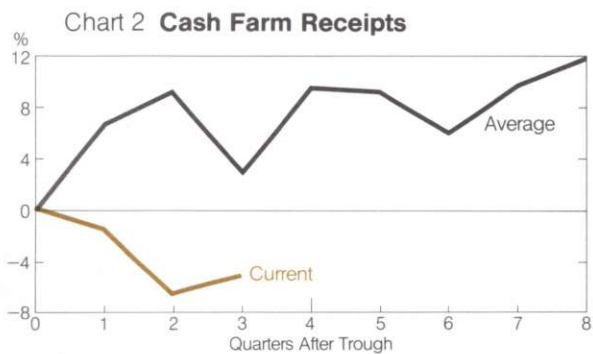
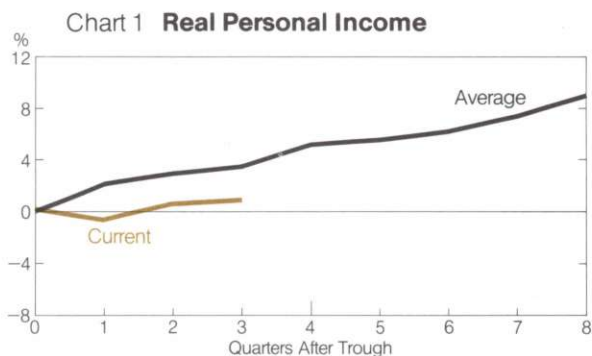
¹We use the quarters of U.S. troughs because only national recessions and recoveries are officially dated. We use varying numbers of past recoveries to calculate the average recoveries because some time series have more historical data than others. All basic data are seasonally adjusted and are totals of indicators for the four states completely within the district's borders.

²See Robert B. Litterman and Richard M. Todd, "As the Nation's Economy Goes, So Goes Minnesota's," *Federal Reserve Bank of Minneapolis Quarterly Review* 6 (Spring-Summer 1982): 1-9.

Charts 1-5

**How This Recovery Compares to Past Recoveries
in the Ninth Federal Reserve District**

Quarterly Percentage Changes From the Level in the Trough of the U.S. Recession
During the Current Recovery and on Average in Postwar Recoveries*



*The trough of the last U.S. recession was the fourth quarter of 1982. Because of data limitations, the average of past recoveries on these charts is based on a varying number of past recoveries: five for personal income and manufacturing employment, four for building permits, and three for cash farm receipts and housing starts. All basic data are seasonally adjusted and are totals of indicators for the four states completely within the district's borders: Minnesota, Montana, North Dakota, and South Dakota.

Sources of basic data: U.S. Departments of Commerce, Agriculture, and Labor

