

Federal Reserve Bank of Minneapolis

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District Conditions / Urban Strength, Rural Weakness

Economic activity grew strongly during the first quarter of 1984 in the district* and the nation. Labor market conditions improved in metropolitan areas throughout the district, and the major components of both consumer spending and business investment grew there as well. But rural areas dependent on agriculture continued to suffer from the effects of low income, high debt burdens, and diminished land values.

In the Cities, Stronger Labor Market Conditions . . .

Overall, labor market conditions in both the district and the nation improved during the first quarter. Between December and March, seasonally adjusted employment rose 2.5 percent in the district and 1.2 percent in the nation. During the same period, the seasonally adjusted unemployment rate fell from 7.4 percent to 6.6 percent in the district and from 8.2 percent to 7.8 percent in the nation.

In the district, this improvement was fairly widespread. The latest available data indicate that the seasonally adjusted unemployment rate fell in the metropolitan areas of Minneapolis–St. Paul, Duluth, and Rochester, Minnesota; Sioux Falls, South Dakota; and La Crosse and Eau Claire, Wisconsin. Conditions improved even in the economically depressed, mining-dependent area of northeastern Minnesota; there taconite plants added about 2,000 workers.

Other signs of district labor market improvement appeared early this year, particularly in Minnesota. Initial claims for unemployment compensation in that state fell steadily throughout the first quarter. The Minneapolis help-wanted advertising index held up during the quarter at a level about twice as high as in the first quarter of 1983.

. . . Consumer Spending . . .

Consumer spending seems to have expanded as labor market conditions improved. Nationally, in the first quarter, seasonally adjusted real personal consumption expenditures and retail sales surpassed their levels in the previous quarter. At the same time, consumers in urban

areas of the Ninth District seem to have increased their major types of purchases.

General merchandise sales, for example, were quite strong locally early in the quarter, just as they were nationally. One large retailer reports that its January sales growth rate exceeded the ambitious target set as the year began. Shopping malls in urban areas of the district echo that report; their sales were brisk early in the quarter.

Urban housing activity seems to have grown in the first quarter as well. During that time, unit home sales in the Minneapolis area rose about 12 percent above their level in the first quarter of 1983, while dollar sales rose slightly more. Scattered reports from around the district also indicate that housing activity was strong early in the year. National housing activity in the first quarter was similar. During the quarter, seasonally adjusted annual rates for both housing permits and housing starts rose to their highest levels in years.

Auto sales strengthened in the first quarter, in both the district and the nation. During the quarter, these sales increased at double-digit rates, and inventories were low.

. . . And Business Investment

Business investment was also strong in the first quarter, and for the most part its strength in urban areas of the district paralleled that in the nation.

In the first quarter, most consumer goods inventories increased locally, just as they did nationally. For example, reports from South Dakota indicate that inventories there rose substantially in March. Unanticipated bad weather helped cause the general increase in retail inventories. But another source of the increase was anticipated: the appearance of Easter this year in late instead of early April. Also, some manufacturers raised inventory levels to compensate for lags in material deliveries.

Nonresidential construction expanded at a good clip in much of the district, too, mirroring the national strength.

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

Major projects in the district include an 18-story office building in Montana, hotels and an airport terminal in North Dakota, and a paper mill in the Upper Peninsula of Michigan. In the Twin Cities metro area, many large office buildings were being planned at quarter's end.

On the Farms, Malaise

District areas dependent on agriculture did not have as pleasant a first quarter as the rest of the district. Wheat and milk prices were low, depressing the income of some farmers. According to our survey of district rural bankers, many farmers weren't earning enough to service their debt in the first quarter, and many were being referred to nonbank lenders, such as the Farmers Home Administration, for help. Our survey also indicates that the values of nonirrigated cropland and pasture and grazing land in the district fell in the first quarter. Of course, farmers' problems affected other parts of the rural economy. For example, rural dealers in construction equipment and farm implements report poor sales in the first quarter.