May 10, 1973

Montana
North Dakota
South Dakota
Minnesota
Northwestern Wisconsin
Upper Michigan

NINTH DISTRICT CONDITIONS
federal reserve bank of minneapolis

FOOD PRICES: Eating's an Expensive Habit

What the food shopper suspected has been confirmed by recent price statistics: The cost of food has risen sharply since the first of the year. In the Minneapolis-St. Paul area, the food component of the consumer price index (which includes food consumed at home and away from home) rose 5.7 percent in the first quarter of 1973. This accounts for over half the advance chalked up during the entire 12-month period ending in March. Nationally the consumer price index rose 6.7 percent in the first quarter. To place this recent spurt in a longer-run perspective, in each of the last ten years the full-year increase in the food price index in the nation was smaller than the recent three-month advance.

THE RISING PRICE OF FOOD

PERCENT INCREASES IN FOOD COMPONENTS OF CONSUMER PRICE INDEXES

COMPONENT	THREE MONTHS ENDING MARCH 1973		YEAR ENDING MARCH 1973	
	Mpls.-St. Paul	U.S.	Mpls.-St. Paul	U.S.
All food	5.7	6.7	10.0	9.9
Food at home	6.7	8.1	11.4	11.3
Cereals and bakery products	5.5	2.8	6.2	3.7
Meat, poultry, and fish	15.7	16.4	21.6	20.4
Dairy products	2.2	2.7	7.0	3.6
Fruits and vegetables	3.8	7.5	11.2	12.7
Other	1.4	2.5	4.6	5.6
Food away from home	1.7	1.5	4.8	4.9

Not seasonally adjusted

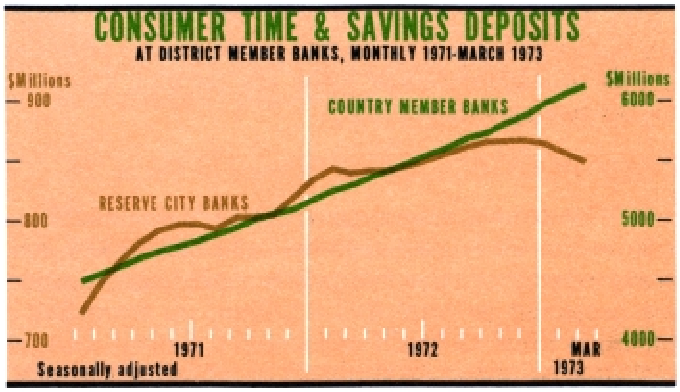
As the accompanying table shows, the increase in the Twin Cities area food price index from December to March primarily reflected higher prices for items purchased for home consumption. Not surprisingly, the meats, poultry and fish component showed the largest increase at 15.7 percent. Although much of this was due to beef and pork prices, as consumers substituted fish and poultry for red meats the prices of these items also moved up. The cost of cereals, bakery products, fruits and vegetables also rose rather sharply.

Food prices are likely to continue climbing over the short-run, but the pace should slacken from that set in the first quarter of 1973. Wholesale prices in the food-related areas rose sharply again in March, and this is expected to mean higher retail prices in the months ahead. Retail prices will be limited somewhat by the Administration's meat price ceiling announced in late March. And, since prices for cattle and hogs have eased from peak levels in recent weeks, there should be some downward pressure on meat prices.

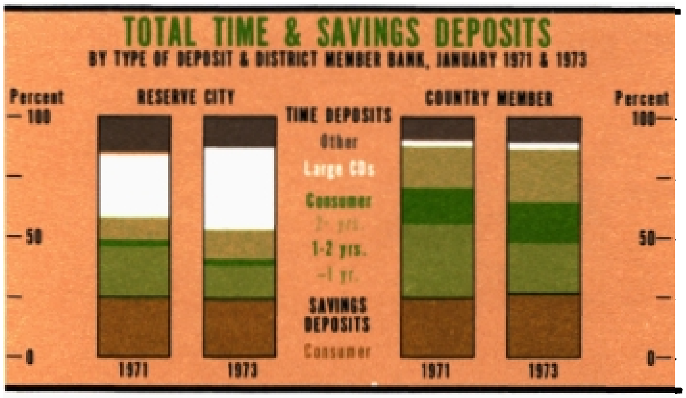
FINANCE: Savers Seek Higher Returns

For the past two years, consumer time and savings deposits (total time deposits less large CDs) have been increasing fairly steadily at district member banks. Deposit inflows at country banks grew at a consistent 15 percent seasonally adjusted annual rate over the period. At city banks, inflows averaged 15 percent from January 1971 to January 1972, but slowed significantly to a 4 percent growth rate in the following twelve months. Most of this drop-off occurred in the latter half of the period when deposits were intermittently withdrawn and, most likely, converted to other types of assets.

Savers at city banks appear to be shifting their money from savings accounts and time deposits with shorter maturities to time deposits with maturities of one year or more. By choosing time deposits with longer maturities, they are able to secure higher interest rates. As a result of the slowdown of savings inflows, city banks have had to turn increasingly to large negotiable certificates of deposit (CDs) for funds



to meet rising loan demand. By January of this year, these CDs at city banks accounted for 33 percent of total time and savings deposits, 8 percentage points more than two years ago.



At country member banks, where large CDs have been relatively insignificant during the past two years, savers have been switching from time deposits to savings deposits. Savings deposits, which offer the lowest rate of return and the shortest maturity, increased from 24 percent of total time and savings deposits in January 1971 to 27 percent two years later. This increase in consumer savings at the expense of time deposits tends to indicate an insensitivity to interest rates. Savers that held time deposits, however, did make the switch from shorter to longer maturities to secure higher interest.

AGRICULTURE: Still a Booming Business

Higher livestock and grain prices pushed first quarter farm earnings well above year-earlier levels. According to our recent survey of country bankers, the promise of sustained prosperity through the second quarter has encouraged farmers to spend more freely and incur debt to expand their operations.

Rising operating costs over the past few months have undoubtedly also contributed to the demand for credit. Since even higher costs—especially for fuel and fertilizer—are expected later this spring, credit demand should be substantially stronger in the second quarter. So far, however, higher incomes have outpaced the increased demand for credit and farmers' debt positions have actually improved from last year.

Farm cash flows to country banks appear to be heavy enough to cover increased loan demand. Country banks now have much the same lending power as a year ago even though loans are carrying a slightly higher average interest rate.

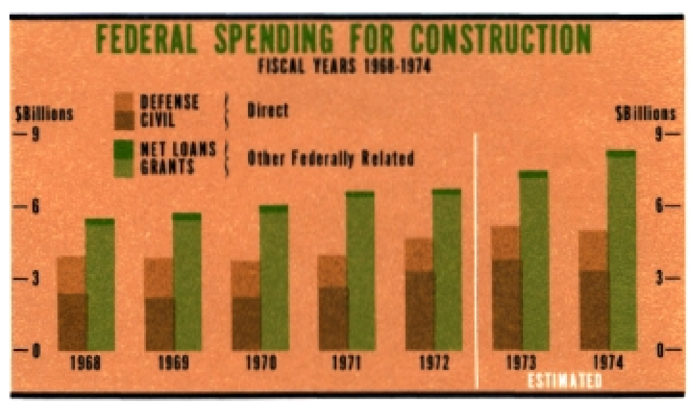
CONSTRUCTION: Federal Projects in Fiscal '74

The federal government is one of the construction industry's biggest customers. In fiscal 1974, federally related outlays for public works construction are projected to total $13.4 billion, up from $12.7 billion in fiscal 1973. Of this amount, federal agencies will directly spend $5.0 billion on construction projects, largely for water resource and power generation facilities. This is down from $5.2 billion in fiscal 1973.

Perhaps more significant than the actual budget figures, which have not changed much from last year, is the proposed realignment of federal construction priorities. Spending for environmental improvement construction, for example, is expected to rise markedly, while money to build medical facilities is to be terminated. Direct civil government construction expenditures will decline by about $468 million with the transfer of Postal Service construction from the budget, but increased spending for defense construction will absorb more than half of this.

Approximately 60 percent of federal construction expenditures take the form of grants-in-aid and loans to help state and local governments construct public facilities. In fiscal 1974 these outlays are estimated to increase to $8.3 billion, 11 percent more than in fiscal 1973. Environmental Protection Agency grants for water treatment facilities are projected to more than double in fiscal 1974, from $727 million to $1.6 billion. Even this level of spending is considerably below the amount authorized by Congress, however, and it is uncertain when these funds will be available.

Although all previously authorized funds will be spent, no new obligatory authority will be requested in fiscal 1974 for a number of construction grant and loan programs that are being discontinued. Some will be incorporated into revenue sharing and others will be terminated or suspended pending review of program deficiencies.



In fiscal 1974, new commitments will not be approved under the neighborhood facilities and basic water and sewer categorical grant programs or the public facility loan program. Instead, the Administration is advocating consolidating these programs and others into urban development revenue sharing in order to strengthen the capacity of communities to meet their own development needs. Aid for higher education construction will be terminated as will medical facilities construction assistance provided by the Hill-Burton Act. Economic development grants will be phased out and these efforts consolidated under the Rural Development Act.

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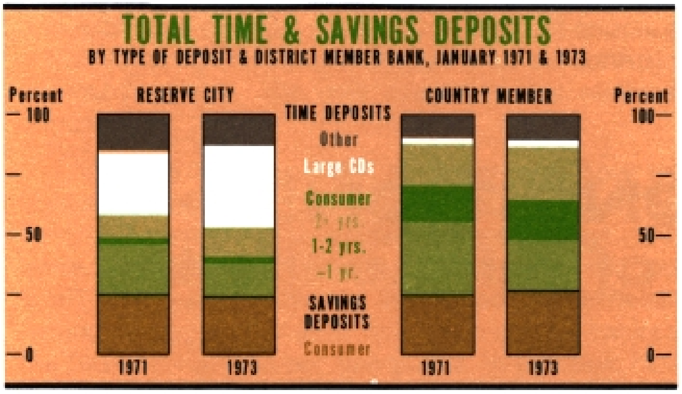

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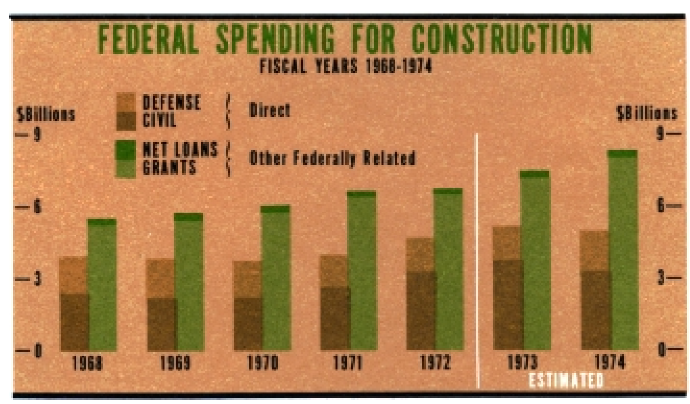

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UNITED STATES income and finance

Percent Change MAR.-MAR.	1973 APR.	1973 MAR.	1973 FEB.	1972 MAR.	UNIT	INDICATOR	
+ 9.6	n.a.	1,001.2p	994.5	913.6	Billion $, saar	Total Personal Income	MEASURES OF CONSUMER INCOME & FINANCIAL POSITION
+ 9.5	n.a.	971.1p	964.6	887.1	Billion $, saar	Nonagricultural Personal Income	
+ 7.7	n.a.	162.38p	161.18	150.72	Dollars	Average Weekly Earnings in Manufacturing	
	n.a.	n.a.	60.6	51.8	Billion $	Consumer Installment Credit Outstanding[2]	
+18.1	n.a.	258.5	251.5	218.8	Billion $	Time and Savings Deposits at Member Banks	
	n.a.	n.a.	n.a.	184.8	Billion $	Savings Balances at Savings & Loan Assoc.	
	n.a.	n.a.	4.7	3.9	Billion $	Cash Farm Receipts	
						CITY BANKS[4,5]	MEASURES OF FINANCIAL CONDITION OF MEMBER BANKS
+22.5	n.a.	238.3	232.7	194.5	Billion $	Adjusted Loans and Discounts[6]	
+19.2	n.a.	99.9	96.2	83.8	Billion $	Commercial and Industrial Loans	
+19.6	n.a.	47.5	47.0	39.7	Billion $	Real Estate Loans	
+ 3.8	n.a.	149.4	157.1	143.9	Billion $	Gross Demand Deposits	
+20.3	n.a.	174.3	168.2	144.9	Billion $	Time Deposits	
- 8.3	n.a.	25.4	25.7	27.7	Billion $	U.S. Government Securities	
+ 3.0	n.a.	55.3	55.2	53.7	Billion $	Other Securities	
						COUNTRY BANKS[4,7]	
+17.6	n.a.	87.6	86.9	74.5	Billion $	Loans and Discounts	
+ 9.1	n.a.	55.0	56.8	50.4	Billion $	Gross Demand Deposits	
+13.9	n.a.	84.2	83.3	73.9	Billion $	Time Deposits	
+ 1.1	n.a.	17.9	18.0	17.7	Billion $	U.S. Government Securities	
+11.5	n.a.	31.9	31.6	28.6	Billion $	Other Securities	
	n.a.	n.a.	31,732p	31,837	Million $	Total Reserves[8]	MEASURES OF RESERVE POSITION AND "LIQUIDITY" OF MEMBER BANKS
	n.a.	n.a.	31,537p	31,657	Million $	Required Reserves	
	n.a.	n.a.	195p	180	Million $	Excess Reserves	
	n.a.	n.a.	1,593p	96	Million $	Borrowings from FRB	
+ 9.2	n.a.	78.2	76.1	71.6	Percent	Ratio of Loans to Total Deposits—City Banks[4]	
+ 5.0	n.a.	62.9	62.0	59.9	Percent	Ratio of Loans to Total Deposits—Country Banks[4]	
+ 4.7	n.a.	129.8	128.6	124.0	Index	Consumer Price Index[9]	MEASURES OF PRICE LEVELS
+32.5	n.a.	159	149	120	Index	Prices Received by Farmers[9]	

SOURCES

PERSONAL INCOME: U.S. Department of Commerce, Office of Business Economics

AVERAGE WEEKLY EARNINGS: Michigan, Minnesota, Montana, North Dakota, and South Dakota Employment Security Departments; U.S. Department of Labor, Bureau of Labor Statistics

COMMERCIAL BANK FINANCIAL DATA: Federal Reserve Bank of Minneapolis; Board of Governors of Federal Reserve System

SAVINGS AND LOAN ASSOCIATIONS: Federal Home Loan Bank Board

CASH RECEIPTS FROM FARM MARKETINGS: U.S. Department of Agriculture

CONSUMER PRICE INDEX: U.S. Department of Labor, Bureau of Labor Statistics

PRICES RECEIVED BY FARMERS: U.S. Department of Agriculture; Minnesota Farm Price Report

NINTH DISTRICT income and finance

INDICATOR	UNIT	1973 APR.	1973 MAR.	1973 FEB.	1972 MAR.	Percent Change MAR.-MAR.
MEASURES OF CONSUMER INCOME & FINANCIAL POSITION						
Total Personal Income*						
Nonagricultural Personal Income*						
Average Weekly Earnings in Manufacturing[1]	Dollars	n.a.	167.36e	165.51p	158.03	+ 5.9
Consumer Installment Credit Outstanding[2]	Million $	n.a.	n.a.	1,832	1,504	
Time and Savings Deposits at Member Banks	Million $	7,921	7,885	7,714	6,646	+18.6
Savings Balances at Savings & Loan Assoc.[3]	Million $	n.a.	n.a.	5,301	4,654	
Cash Farm Receipts[3]	Million $	n.a.	n.a.	460	355	
MEASURES OF FINANCIAL CONDITION OF MEMBER BANKS						
CITY BANKS[4,5]						
Adjusted Loans and Discounts[6]	Million $	3,673	3,654	3,574	2,865	+27.5
Commercial and Industrial Loans	Million $	1,721	1,670	1,623	1,277	+30.8
Real Estate Loans	Million $	642	628	639	526	+19.4
Gross Demand Deposits	Million $	2,098	2,023	2,199	2,042	- 0.9
Time Deposits	Million $	2,289	2,289	2,204	1,837	+24.6
U.S. Government Securities	Million $	414	438	477	462	- 5.2
Other Securities	Million $	825	866	823	647	+33.8
COUNTRY BANKS[4,7]						
Loans and Discounts	Million $	5,345	5,288	5,181	4,391	+20.4
Gross Demand Deposits	Million $	2,710	2,688	2,789	2,374	+13.2
Time Deposits	Million $	5,632	5,591	5,510	4,809	+16.3
U.S. Government Securities	Million $	1,127	1,153	1,191	1,223	- 5.7
Other Securities	Million $	1,759	1,743	1,728	1,516	+15.0
MEASURES OF RESERVE POSITION AND "LIQUIDITY" OF MEMBER BANKS						
Total Reserves[8]	Million $	725p	720	716	783	- 8.0
Required Reserves	Million $	722p	717	711	779	- 8.0
Excess Reserves	Million $	3p	3	5	4	-25.0
Borrowings from FRB	Million $	37p	61	51	1	-6,000.0
Ratio of Loans to Total Deposits—City Banks[4]	Percent	84.6	85.3	82.6	74.9	+13.9
Ratio of Loans to Total Deposits—Country Banks[4]	Percent	64.1	63.9	62.4	61.1	+ 4.6
MEASURES OF PRICE LEVELS						
Consumer Price Index—Minneapolis[9,10]	Index	n.a.	n.a.	n.a.	n.a.	
Prices Received by Farmers—Minnesota[9]	Index	n.a.	166	155	118	+40.7

NOTES

e—Partially estimated; all data not available

n.a.—Not available

p—Preliminary; subject to revision

r—Revised

sa—Seasonally adjusted

*—District and U.S. data not comparable

saar—Seasonally adjusted annual rate

FOOTNOTES

1. Excluding Northwestern Wisconsin
2. All commercial banks; estimated by sample
3. Excluding Northwestern Wisconsin and Upper Michigan
4. Last Wednesday of the month figures
5. Selected banks in major cities
6. Net loans and discounts less loans to domestic commercial city banks
7. All member banks, excluding the selected major city banks
8. Average of daily figures of the four or five weeks ending on Wednesday which contain at least four days falling within the month
9. Index: 1967 Base Perioa
10. Quarterly

NINTH DISTRICT production and employment

INDICATOR		UNIT	1973 MAR.	1973 FEB.	1972 MAR.	Percent Change MAR.-MAR.
MEASURES OF PRODUCTION AND FACTOR INPUTS TO PRODUCTION	Total Industrial Production*					
	Electrical Energy Consumption: Mfg. and Mining[1]	Index, sa	142	140	135	+ 5.2
	Production Worker Manhours:[1]	Index, sa	n.a.	104p	98	
	Manufacturing	Index, sa	n.a.	106p	99	
	Mining	Index, sa	n.a.	93p	90	
	Total Construction Contracts Awarded	Million $, sa	n.a.	228.6	148.1	
	Residential Buildings	Million $, sa	n.a.	107.8	69.7	
	Nonresidential Buildings	Million $, sa	n.a.	53.1	54.7	
	All Other Construction	Million $, sa	n.a.	617.7	23.7	
	Bldg. Permits: New Housing Units[2]	Number	2,847	1,295	3,110	- 8.5
MEASURES OF MANPOWER UTILIZATION	Civilian Work Force[3]	Thousands, sa	2,726e	2,722p	2,656	+ 2.6
	Total Civilian Employment	Thousands, sa	2,593e	2,589p	2,504	+ 3.6
	Number Unemployed	Thousands, sa	133e	133p	152	-12.5
	Unemployment Rate[3]	Percent, sa	4.9e	4.9p	5.7	-14.0
	Average Weekly Hours in Manufacturing[3]	Hours, sa	41.1e	40.8p	40.6	+ 1.2
EMPLOYMENT BY INDUSTRY SECTOR	Wage and Salary Employment, Nonfarm[3]	Thousands, sa	2,085e	2,089p	1,998	+ 4.4
	Manufacturing	Thousands, sa	392e	390p	370	+ 5.9
	Mining	Thousands, sa	32e	32p	30	+ 6.7
	Construction	Thousands, sa	102e	104p	104	- 1.9
	Transport., Comm., & Public Utilities	Thousands, sa	134e	135p	132	+ 1.5
	Trade	Thousands, sa	514e	517p	484	+ 6.2
	Finance, Insurance & Real Estate	Thousands, sa	96e	96p	93	+ 3.2
	Service Industries	Thousands, sa	367e	368p	348	+ 5.5
	Government	Thousands, sa	448e	447p	437	+ 2.5
MEASURES OF SPENDING	Total Retail Sales*					
	New Passenger Car Registrations	Thousands, sa	n.a.	n.a.	n.a.	
	Bank Debits[4]	Billion $, saar	n.a.	264.6	201.7	

NOTES

e—Partially estimated; all data not available

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sa—Seasonally adjusted

*—District and U.S. data not comparable

saar—Seasonally adjusted annual rate

FOOTNOTES

1. Index: 1967 Base Period; Weights: 1967
2. A sample of permit-issuing centers
3. Excluding Northwestern Wisconsin
4. Six standard metropolitan statistical areas
5. A sample of centers blown up to represent total permits issued
6. 226 standard metropolitan statistical areas, excluding the seven leading centers

UNITED STATES production and employment

Percent Change MAR.-MAR.	1973 MAR.	1973 FEB.	1972 MAR.	UNIT	INDICATOR	
+ 9.4	121.7p	120.9	111.2	Index, sa	Total Industrial Production	MEASURES OF PRODUCTION AND FACTOR INPUTS TO PRODUCTION
					Electrical Energy Consumption: Mfg. and Mining*	
	n.a.	101p	95	Index, sa	Production Worker Manhours:[1]	
	n.a.	102p	95	Index, sa	Manufacturing	
	n.a.	93p	98	Index, sa	Mining	
+20.0	8,405.3	8,368.0	7,003.2	Million $, sa	Total Construction Contracts Awarded	
+29.1	4,516.4	4,346.2	3,498.5	Million $, sa	Residential Buildings	
+25.2	2,682.9	2,565.0	2,143.6	Million $, sa	Nonresidential Buildings	
-11.4	1,206.0	1,456.8	1,361.1	Million $, sa	All Other Construction	
	n.a.	n.a.	184.7	Thousands	Bldg. Permits: New Housing Units[5]	
+ 2.3	88,268p	87,569	86,264	Thousands, sa	Civilian Work Force	MEASURES OF MANPOWER UTILIZATION
+ 3.3	83,889p	83,127	81,216	Thousands, sa	Total Civilian Employment	
-13.3	4,379p	4,442	5,048	Thousands, sa	Number Unemployed	
-15.3	5.0p	5.1	5.9	Percent, sa	Unemployment Rate	
+ 1.2	40.9p	40.9	40.4	Hours, sa	Average Weekly Hours in Manufacturing	
+ 4.0	74,901p	74,693	72,011	Thousands, sa	Wage and Salary Employment, Nonfarm	EMPLOYMENT BY INDUSTRY SECTOR
+ 5.0	19,620p	19,557	18,685	Thousands, sa	Manufacturing	
- 0.3	612p	612	614	Thousands, sa	Mining	
+ 2.5	3,601p	3,589	3,512	Thousands, sa	Construction	
+ 2.0	4,576p	4,582	4,487	Thousands, sa	Transport., Comm., & Public Utilities	
+ 4.5	16,212p	16,121	15,508	Thousands, sa	Trade	
+ 3.8	4,031p	4,012	3,885	Thousands, sa	Finance, Insurance & Real Estate	
+ 4.6	12,695p	12,687	12,139	Thousands, sa	Service Industries	
+ 2.8	13,554p	13,533	13,181	Thousands, sa	Government	
+16.2	42.3	41.3	36.4	Million $, sa	Total Retail Sales	MEASURES OF SPENDING
	n.a.	981.9	818.3	Thousands, sa	New Passenger Car Registrations	
	n.a.	5,021.3	4,220.3	Billion $, saar	Bank Debits[6]	

SOURCES

INDUSTRIAL PRODUCTION: Board of Governors of Federal Reserve System

ELECTRICAL ENERGY CONSUMPTION: Federal Reserve Bank of Minneapolis

PRODUCTION WORKER MANHOURS: Federal Reserve Bank of Minneapolis

CONSTRUCTION CONTRACTS AWARDED: Board of Governors of Federal Reserve System; F. W. Dodge Corporation

NEW HOUSING UNITS AUTHORIZED: Federal Reserve Bank of Minneapolis; U.S. Department of Commerce, Bureau of Census

EMPLOYMENT, UNEMPLOYMENT, AND HOURS: Michigan, Minnesota, Montana, North Dakota, and South Dakota Employment Security Departments; U.S. Department of Labor, Bureau of Labor Statistics

RETAIL SALES: U.S. Department of Commerce, Bureau of Census

NEW PASSENGER CAR REGISTRATIONS: Automotive News Magazine

BANK DEBITS: Board of Governors of Federal Reserve System

DEVALUATION, FLOATING EXCHANGE RATES, & ALL THAT

The rules by which foreign currencies are bought and sold have changed markedly in the past couple of years. Although floating exchange rates are confusing to many people, the new system is not really so complicated.

Perhaps the best way to understand how this new system works is to look at the way it evolved from the system that existed before August 1971 when President Nixon shut the U.S. gold window. Until that time, the United States had been officially willing to buy or sell gold to foreign central banks at the fixed rate of $35 per fine ounce. In practice, however, the United States had actually been discouraging foreign central banks from asking to buy our gold for a number of years.

Four months of very difficult negotiations between the major industrial nations followed the closing of the gold window. In December 1971, after a conference at the Smithsonian Institute in Washington, D.C., these nations agreed to alter the exchange rate relationships that had previously existed. The U.S. dollar was devalued 7.9 percent by raising the price of one ounce of gold to $38. Many other countries also changed the price of their currencies, and several became more expensive to buy with dollars. The Japanese yen and the German deutschmark rose most in terms of the dollar.

The Smithsonian Agreement permitted currency values to rise or fall by 2¼ percent from their newly established central rates—an amount greater than had previously been permitted by the rules of the International Monetary Fund (IMF). When a currency reached the top of the new IMF band (that is, had risen by the full 2¼ percent) the foreign exchange authorities of the country were required to sell their own currencies in exchange for all foreign currencies offered at that rate. Conversely, if a currency fell to the bottom of the permitted range, the authorities were required to buy up all of their own currency offered at the low rate and pay in foreign currency. These support requirements were designed to stabilize international exchange markets by countering private attempts to dump weak currencies in favor of stronger ones.

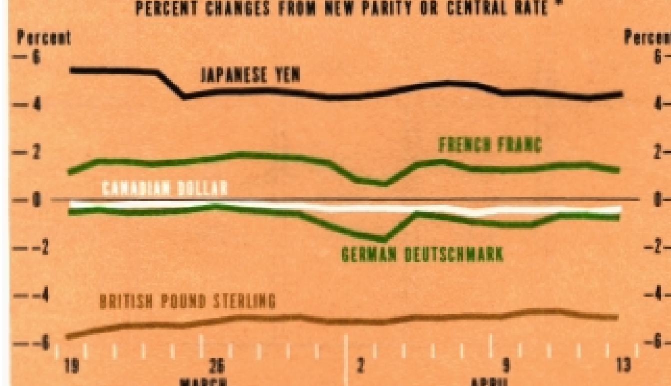
Unfortunately, the Smithsonian Agreement did not provide the hoped for stability. Large flows of funds from one currency to another caused repeated foreign exchange crises. In an attempt to stop these flows of foreign currencies, many nations adopted foreign exchange controls that either limited the kinds of assets which foreigners could purchase or the amount of interest they could earn.

Even these controls were not always sufficient. In June 1972, the British government announced that the pound sterling would be allowed to float. After it was floated, the price declined. The price or value of a floating currency is determined by supply and demand in foreign exchange markets much as it is for all other commodities.

Throughout 1972 and early 1973, large sums of money, mostly in U.S. dollars, continued to flow into countries with currencies that were considered to be worth more than the price permitted by the IMF ceiling. Germany and Japan had particularly large inflows. Once more, foreign exchange and capital controls were imposed or tightened in an effort to stabilize conditions in foreign exchange markets.

In February, the United States announced a second devaluation, this time by 10 percent. This action did not stop large foreign currency movements, however, and continuing inflows of dollars caused all major trading nations to close their official foreign exchange markets in early March. When these markets reopened two weeks later, all major countries had adopted floating exchange rates. Some countries, such as Germany and France, declared official central rates for their currencies. Others, including the United Kingdom, Ireland, Italy and Japan, simply permitted their currencies to float without announced central rates. Most of the member countries of the European Economic Community agreed to keep the difference between their own foreign exchange rates within a narrow band of 2¼ percent.

RECENT EXCHANGE RATE CHANGES
PERCENT CHANGES FROM NEW PARITY OR CENTRAL RATE *



* These exchange rates have been adjusted to reflect the two dollar devaluations before March 19, 1973; the new rates are at least 11.1 percent higher than their December 1971 par values. The Deutschmark is 14.4 percent higher than its December value, due to a further 3 percent revaluation last March. The Canadian dollar was floated June 1, 1970, and has not had a par value since then; the February 1973 spot exchange rate has been used to indicate its previous central rate. The distance between the Franc and the Deutschmark depicts the narrower band maintained by the jointly floating European currencies.

With floating exchange rates, price relationships between currencies are primarily determined by market forces. Governments are not required to support their currency rates. The graph depicts the way in which these exchange rates have moved since March of this year. To date, there has not been a recurrence of large flows of money between countries.