

December 13, 1973

**Montana
North Dakota
South Dakota
Minnesota
Northwestern Wisconsin
Upper Michigan**

NINTH DISTRICT CONDITIONS

federal reserve bank of minneapolis

A NOTICE TO OUR READERS:

This is the last issue of *Ninth District Conditions* as a monthly publication. Our new quarterly publication will be issued in February. For further details, please see the back page.

Business and industrial loans to private firms may be approved for a variety of purposes—from purchasing and developing land, financing the construction or modernization of plant and equipment and purchasing housing development sites to financing pollution control facilities or transportation services incident to industrial development. Loans will not be guaranteed if they are likely to lead to a transfer of employment from one geographical area to another.

The FHA will make grants directly to public bodies serving rural areas. These include states, counties, cities, townships, incorporated towns and villages, boroughs, authorities, districts, and Indian tribes. Primarily, the grants will be used for site acquisition and development or for construction or expansion of facilities on development sites.

FHA guidelines for making guaranteed farmer loans were also part of the new regulations. Farmer loans may be used to purchase or enlarge a farm, improve farm facilities, develop recreation enterprises on farms, pay for operating inputs or finance the development of land and water resources. Emergency loans to farmers are also authorized. The interest rates will differ according to the type of loan, as indicated in the accompanying table. A special provision of the program makes operating loans available to rural youths participating in such organizations as 4-H,

AG: FHA Gets Into Rural Development

The Farmers Home Administration (FHA) has begun to implement the rural assistance programs provided for in the Rural Development Act of 1972. The final regulations governing the assistance programs were issued by the FHA in early November of this year. FHA involvement in rural industrial development will take two forms: loans to private businesses to encourage them to locate in rural communities and grants to rural public bodies for facilities necessary to attract private businesses.

The federal authorization for the Guaranteed Business and Industrial Loan Program in the current fiscal year is \$200 million; an additional \$10 million will be available for industrial development grants to rural communities. These amounts will be allocated among states on a formula basis, taking into account such factors as the size and income levels of each state's rural population. To be eligible for industrial grants and loans, rural communities must have populations of less than 50,000.

INTEREST RATES ON GUARANTEED FARMER LOANS

Type of Loan	Rate to Borrower	FHA Rate
Operating	6½%	9%
Emergency	5	9
Farm Ownership, Soil-Water, Recreation	5	8

Future Farmers of America and Future Homemakers of America.

The Business and Industrial Loan Program and the Farmer Loan Program are similar in several respects. Both types of loans may be guaranteed up to 90 percent of loan value. In both instances, a guarantee fee must be paid to the FHA by the loan holder, and this fee cannot be passed on to the borrower. The lender may charge the borrower a loan fee on either type of guaranteed loan if it is the lender's established practice to charge such fees.

The Business and Industrial Loan Program and the Farmer Loan Program also differ in two important respects. The interest rate for business and industrial loans is negotiated by the borrower and lender, subject to the approval of the FHA, while the interest rate on farmer loans is established by the FHA. If the market rate exceeds the borrower's rate, the difference will be made good by the FHA in the form of an interest subsidy up to a market rate of 9 percent on operating loans and 8 percent on farm ownership loans.

A second important difference between the two programs: inability to obtain a loan elsewhere is a necessary condition for a guaranteed farmer loan but not for a business and industrial loan.

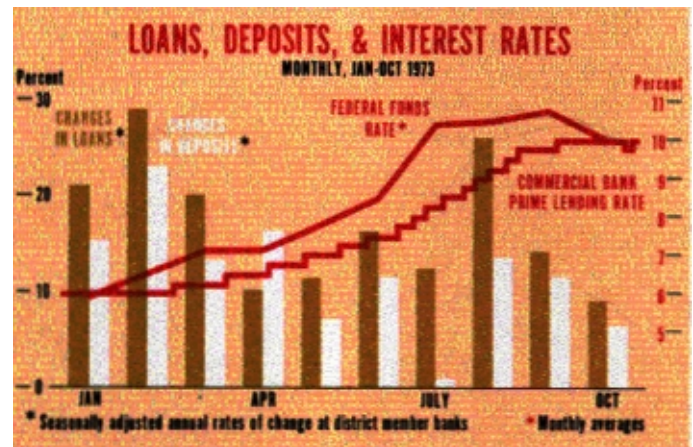
FINANCE: Bank Credit Costs Waver

In the first three quarters of the year, Ninth District member banks were faced with a growing demand for credit and a less rapidly increasing supply of loanable funds. Total loans increased \$1,105 million from January to October while total deposits, excluding large negotiable certificates of deposit (CDs) at large commercial banks, grew only \$680 million. The average loan-to-deposit ratio among district member banks increased slightly, from 67.6 percent in January to 70.3 percent in October. This suggests that banks were expanding loans at the expense of other assets.

During this same period, large CDs at large district banks increased from 8.4 percent of total district time deposits to 12.3 percent. These deposits, like the consumer-type "wild-card" CDs that were offered for sale in late summer and early fall, are more costly to the bank than are ordinary consumer-type deposits. Consequently, higher costs may have been an incentive for banks to charge borrowers a higher rate.

Many banks have access to and use other non-deposit sources of funds such as federal funds and Eurodollars for making loans. The current rates on these are also higher than rates paid on consumer-type deposits; the federal funds rate in October averaged slightly more than 10 percent compared to the maximum of 6.5 percent on deposits of less than four

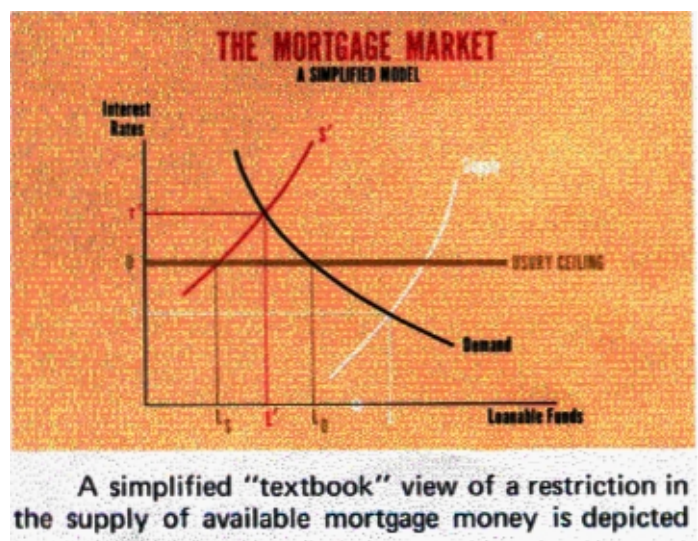
years maturity. This increases costs for banks seeking to finance loans or acquire reserves through these sources.



In October, credit demand began to show signs of weakening. Late in that month, many large banks lowered their prime lending rates to 9.5 percent. In addition, the secondary market rate on large CDs fell and the volume declined for the second month in a row, again suggesting that banks were not feeling pressures from credit demand. These trends were short lived, however. Rising CD rates and announcements of higher prime rates in November were interpreted in the press as signifying a renewed increase in the demand for credit.

Buying a Home? Think Again

One credit market that has not shown signs of wavering is the mortgage market. As reported last month, better alternative investments led many depositors to withdraw savings from thrift institutions late this summer. The resulting decline in available mortgage money, relative to demand, caused upward pressure on mortgage rates. Rates on conventional mortgages in Minnesota continued upward until they bumped into the 8 percent state usury ceiling.



A simplified "textbook" view of a restriction in the supply of available mortgage money is depicted

on the accompanying chart by a shift in the supply curve back to S' . The market rate (r') exceeds the usury ceiling (U), and lenders may send funds out of state to obtain returns closer to the market rate. More loans are requested (LD) than thrift institutions are willing to make locally (LS). Lenders may make credit terms stricter to reduce the risk of loan loss or, since market rates no longer allocate credit effectively, to ration credit locally.

Last October the average percent down payment nationally exceeded the Twin Cities' total; this October it was lower. These divergent trends illustrate the usury ceiling's effect.

TERMS ON CONVENTIONAL NEW HOME MORTGAGES*		
	Mpls./St. Paul	U.S.
Effective interest rate**		
October 1972	7.78%	7.62%
October 1973	7.92	8.29
Loan-to-price ratio		
October 1972	80.3%	77.3%
October 1973	74.4	76.6
*Averages for all major lenders		
**Includes initial fees and charges		
Source: Federal Home Loan Bank Board		

According to an October survey conducted by local realtors, Minneapolis mortgage companies and thrift institutions, the few institutions still making conventional mortgage loans, expected as much as 50 percent down payment. This suggests that only those buyers who can afford a large initial payment have access to the mortgage market.

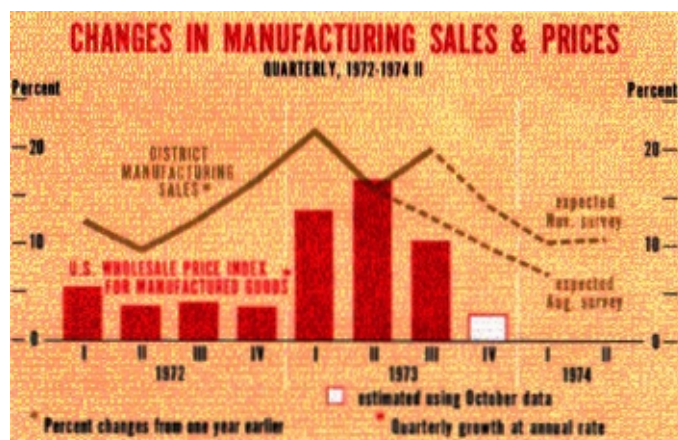
MFG: Expectations Before the Fuel Crisis

When our fourth quarter Industrial Expectations Survey was taken in early November, the prospect of widespread fuel shortages had not yet made its imprint on business psychology. District businessmen responding to the survey reported continued economic expansion through the third quarter. They also raised their sales expectations from the previous survey for the last quarter of 1973 and the first half of 1974. These revisions were at least partly based on recent price increases for industrial products.

Industrial sales were up 20.6 percent from a year ago in the third quarter and were expected to advance 14.5 percent in the fourth quarter. Sales gains of about 8.5 percent were expected during the first half of 1974. Because all of these estimates were larger than those made in the last survey, price increases do not seem to have weakened the demand for district industrial goods yet. It should be noted, though, that

many survey replies were received before the Arab oil embargo.

District manufacturing sales, the major component of industrial sales, were up 20.1 percent in the third quarter, following comparable first and second quarter gains, and were expected to increase 14.1 percent in the fourth quarter. During the first half of 1974, sales of manufactured goods may surpass year-earlier levels by 10.5 percent. Although sales growth seems to be slowing, gains of approximately 30 percent were still expected over the 1973-1974 period. Price increases are undoubtedly partially responsible for this outlook, but gains this large also represent substantial growth in real output. Some of the slowing in sales expansion, therefore, may be due to capacity constraints.



A breakdown of manufacturing sales into durable and nondurable goods shows that durable sales increased 23.7 percent from a year ago in the third quarter and were predicted to rise 19.5 percent in the fourth. A 14 percent year-to-year increase was expected during the first half of 1974. Sizable gains in sales of electric and nonelectric machinery, transportation equipment and fabricated metals were anticipated.

Nondurable good manufacturers had 16.3 percent better sales in the third quarter, thanks to a 19.0 percent expansion in food and kindred products sales. Respondents in early August anticipated only an 8.5 percent sales gain from a year ago in the third quarter, but that was before the summer price freeze was lifted and food prices soared. Nondurable sales were expected to expand 8.2 percent in the fourth quarter and 7.0 percent in the first and second quarters of 1974.

Mining respondents looked for sizable sales gains during the last half of 1973. Fourth quarter sales were expected to be up 16.6 percent from a year ago; third quarter sales grew by 23.8 percent. Respondents expected no growth in mining sales in early 1974, possibly because of production constraints. (First half 1973 sales gains were very large.) Mining sales estimates should be interpreted cautiously because they tend to be revised considerably each quarter.

NINTH DISTRICT income and finance

I N D I C A T O R		UNIT	1973			1972	Percent Change
			NOV.	OCT.	SEPT.	OCT.	OCT. -OCT.
MEASURES OF CONSUMER INCOME & FINANCIAL POSITION	Total Personal Income*						
	Nonagricultural Personal Income*						
	Average Weekly Earnings in Manufacturing ¹	Dollars	n.a.	174.80e	172.43e	166.66	+ 4.9
	Consumer Installment Credit Outstanding ²	Million \$	n.a.	n.a.	2,003	1,796	
	Time and Savings Deposits at Member Banks	Million \$	8,451	8,461	8,297	7,185	+17.8
	Savings Balances at Savings & Loan Assoc. ³	Million \$	n.a.	5,625	5,613	5,064	+11.1
	Cash Farm Receipts ³	Million \$	n.a.	1,220	987	689	+77.1
MEASURES OF FINANCIAL CONDITION OF MEMBER BANKS	CITY BANKS ^{4,5}						
	Adjusted Loans and Discounts ⁶	Million \$	3,940	3,957	3,917	3,250	+21.8
	Commercial and Industrial Loans	Million \$	1,771	1,773	1,780	1,506	+17.7
	Real Estate Loans	Million \$	696	695	690	604	+15.1
	Gross Demand Deposits	Million \$	2,224	2,293	2,129	2,216	+ 3.5
	Time Deposits	Million \$	2,435	2,521	2,455	1,999	+26.1
	U.S. Government Securities	Million \$	403	368	358	424	-13.2
	Other Securities	Million \$	1,018	982	895	753	+30.4
	COUNTRY BANKS ^{4,7}						
	Loans and Discounts	Million \$	5,945	5,867	5,788	4,939	+18.8
	Gross Demand Deposits	Million \$	3,001	3,025	2,897	2,806	+ 7.8
	Time Deposits	Million \$	6,015	5,938	5,841	5,186	+14.5
	U.S. Government Securities	Million \$	1,068	1,016	1,018	1,185	-14.3
	Other Securities	Million \$	1,953	1,950	1,888	1,652	+18.0
MEASURES OF RESERVE POSITION AND "LIQUIDITY" OF MEMBER BANKS	Total Reserves ⁸	Million \$	800	796	783	819	- 2.8
	Required Reserves	Million \$	798	792	778	812	- 2.5
	Excess Reserves	Million \$	2	4	5	7	-42.9
	Borrowings from FRB	Million \$	15	18	31	4	+350.0
	Ratio of Loans to Total Deposits—City Banks ⁴	Percent	88.0	85.9	86.9	79.0	+ 8.7
	Ratio of Loans to Total Deposits—Country Banks ⁴	Percent	65.9	65.5	66.2	61.8	+ 6.0
MEASURES OF PRICE LEVELS	Consumer Price Index—Minneapolis ^{9,10}	Index	n.a.	136.3	n.a.	127.2	+ 7.2
	Prices Received by Farmers—Minnesota ⁹	Index	n.a.	191	200	126	+51.6

NOTES

- e—Partially estimated; not all data 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 Period
- 10. Quarterly

UNITED STATES income and finance

Percent Change OCT.-OCT.	1973			1972	UNIT	I N D I C A T O R	
	NOV.	OCT.	SEPT.	OCT.			
+10.4		1,067.7p	1,058.5	967.0	Billion \$, saar	Total Personal Income	MEASURES OF CONSUMER INCOME & FINANCIAL POSITION
+10.0		1,030.8p	1,021.8	937.1	Billion \$, saar	Nonagricultural Personal Income	
+ 6.7		168.09p	169.33	157.49	Dollars	Average Weekly Earnings in Manufacturing	
		n.a.	67.9	58.3	Billion \$	Consumer Installment Credit Outstanding ²	
+17.5		278.0	279.0	236.5	Billion \$	Time and Savings Deposits at Member Banks	
		n.a.	222.6	202.0	Billion \$	Savings Balances at Savings & Loan Assoc.	
+58.3		11.4	7.8	7.2	Billion \$	Cash Farm Receipts	
							MEASURES OF FINANCIAL CONDITION OF MEMBER BANKS
+21.6		259.4	259.6	213.3	Billion \$	CITY BANKS ^{4,5}	
+21.9		106.7	108.3	87.5	Billion \$	Adjusted Loans and Discounts ⁶	
+20.3		53.9	52.9	44.8	Billion \$	Commercial and Industrial Loans	
+ 8.1		162.1	151.1	150.0	Billion \$	Real Estate Loans	
+19.9		188.7	190.9	157.4	Billion \$	Gross Demand Deposits	
-10.8		23.2	22.2	26.0	Billion \$	Time Deposits	
+ 7.5		59.1	57.2	55.0	Billion \$	U.S. Government Securities	
						Other Securities	
+16.1		95.4	94.4	82.2	Billion \$	COUNTRY BANKS ^{4,7}	
+ 4.6		58.9	56.8	56.3	Billion \$	Loans and Discounts	
+12.9		89.3	88.2	79.1	Billion \$	Gross Demand Deposits	
- 8.5		16.2	16.1	17.1	Billion \$	Time Deposits	
+ 9.7		33.8	33.9	30.8	Billion \$	U.S. Government Securities	
						Other Securities	
+ 3.6		34,967	34,065	33,760	Million \$	Total Reserves ⁸	MEASURES OF RESERVE POSITION AND "LIQUIDITY" OF MEMBER BANKS
+ 3.6		34,765	33,812	33,547	Million \$	Required Reserves	
- 5.2		202	253	213	Million \$	Excess Reserves	
+170.1		1,472	1,853	545	Million \$	Borrowings from FRB	
+ 8.1		78.7	80.3	72.8	Percent	Ratio of Loans to Total Deposits—City Banks ⁴	
+ 6.1		64.4	65.1	60.7	Percent	Ratio of Loans to Total Deposits—Country Banks ⁴	
+ 7.9		136.6	135.5	126.6	Index	Consumer Price Index ⁹	MEASURES OF PRICE LEVELS
+41.5		184	191	130	Index	Prices Received by Farmers ⁹	

SOURCES

PERSONAL INCOME: U.S. Department of Commerce, Bureau of Economic Analysis

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 DATA: 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 production and employment

I N D I C A T O R		UNIT	1973		1972	Percent Change OCT.-OCT.
			OCT.	SEPT.	OCT.	
MEASURES OF PRODUCTION AND FACTOR INPUTS TO PRODUCTION	Total Industrial Production*					
	Electrical Energy Consumption: Mfg. and Mining ¹	Index, sa	145p	146	137	+ 5.8
	Production Worker Manhours: ¹	Index, sa	n.a.	107p	104	
	Manufacturing	Index, sa	n.a.	109p	106	
	Mining	Index, sa	n.a.	97p	92	
	Total Construction Contracts Awarded	Million \$, sa	n.a.	352.1	198.4	
	Residential Buildings	Million \$, sa	n.a.	85.2	83.0	
	Nonresidential Buildings	Million \$, sa	n.a.	87.1	62.1	
	All Other Construction	Million \$, sa	n.a.	179.8	53.3	
	Bldg. Permits: New Housing Units ²	Number	3,203	2,293	4,055	-21.0
MEASURES OF MANPOWER UTILIZATION	Civilian Work Force ³	Thousands, sa	2,761e	2,734p	2,673	+ 3.3
	Total Civilian Employment	Thousands, sa	2,617e	2,594p	2,520	+ 3.8
	Number Unemployed	Thousands, sa	144e	140p	153	- 5.9
	Unemployment Rate ³	Percent, sa	5.2e	5.1p	5.7	- 8.8
	Average Weekly Hours in Manufacturing ³	Hours, sa	41.0e	41.2	41.7	- 1.7
EMPLOYMENT BY INDUSTRY SECTOR	Wage and Salary Employment, Nonfarm ³	Thousands, sa	2,116e	2,100p	2,041	+ 3.7
	Manufacturing	Thousands, sa	401e	398p	379	+ 5.8
	Mining	Thousands, sa	32e	31p	31	+ 3.2
	Construction	Thousands, sa	97e	96p	99	- 2.0
	Transport., Comm., & Public Utilities	Thousands, sa	139e	139p	133	+ 4.5
	Trade	Thousands, sa	526e	519p	505	+ 4.2
	Finance, Insurance & Real Estate	Thousands, sa	98e	98p	94	+ 4.3
	Service Industries	Thousands, sa	381e	378p	363	+ 5.0
	Government	Thousands, sa	442e	441p	437	+ 1.1
MEASURES OF SPENDING	Total Retail Sales*	Thousands, sa	n.a.	n.a.	n.a.	
	New Passenger Car Registrations	Thousands, sa	n.a.	n.a.	n.a.	
	Bank Debits ⁴	Billion \$, saar	n.a.	303.6	224.5	

NOTES

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- 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. 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 OCT.-OCT.	1973		1972	UNIT	I N D I C A T O R	
	OCT.	SEPT.	OCT.			
+ 7.2	127.8p	127.1	119.2	Index, sa	Total Industrial Production	MEASURES OF PRODUCTION AND FACTOR INPUTS TO PRODUCTION
	n.a.	103p	99	Index, sa	Electrical Energy Consumption: Mfg. and Mining ¹	
	n.a.	103p	99	Index, sa	Production Worker Manhours: ¹	
	n.a.	103p	98	Index, sa	Manufacturing	
	n.a.	103p	98	Index, sa	Mining	
+11.3	9,002.0	8,303.1	8,088.5	Million \$, sa	Total Construction Contracts Awarded	
-13.4	3,501.4	3,623.5	4,040.9	Million \$, sa	Residential Buildings	
+16.3	2,794.3	2,708.2	2,403.4	Million \$, sa	Nonresidential Buildings	MEASURES OF MANPOWER UTILIZATION
+64.6	2,706.3	1,971.4	1,644.2	Million \$, sa	All Other Construction	
	n.a.	n.a.	202.6	Thousands	Bldg. Permits: New Housing Units ⁵	
+ 2.9	89,764p	89,403	87,236	Thousands, sa	Civilian Work Force	
+ 4.0	85,695p	85,127	82,397	Thousands, sa	Total Civilian Employment	
-15.9	4,069p	4,276	4,839	Thousands, sa	Number Unemployed	
-18.2	4.5p	4.8	5.5	Percent, sa	Unemployment Rate	
- 0.2	40.6p	40.8	40.7	Hours, sa	Average Weekly Hours in Manufacturing	EMPLOYMENT BY INDUSTRY SECTOR
+ 3.6	76,277p	75,972	73,630	Thousands, sa	Wage and Salary Employment, Nonfarm	
+ 4.0	19,981p	19,876	19,210	Thousands, sa	Manufacturing	
+ 4.9	638p	633	608	Thousands, sa	Mining	
+ 3.6	3,689p	3,694	3,561	Thousands, sa	Construction	
+ 2.8	4,666p	4,632	4,540	Thousands, sa	Transport., Comm., & Public Utilities	
+ 4.0	16,468p	16,393	15,839	Thousands, sa	Trade	
+ 2.9	4,086p	4,077	3,969	Thousands, sa	Finance, Insurance & Real Estate	
+ 4.4	13,053p	12,996	12,497	Thousands, sa	Service Industries	
+ 2.2	13,696p	13,671	13,406	Thousands, sa	Government	
+11.0	43.4	42.5	39.1	Million \$, sa	Total Retail Sales	MEASURES OF SPENDING
	n.a.	889.8	786.1	Thousands, sa	New Passenger Car Registrations	
	n.a.	5,692.6	4,522.3	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

NOTICE TO READERS:

This is the final issue of *Ninth District Conditions* as a monthly publication. Beginning in February 1974, our periodic analysis of economic conditions in the Ninth Federal Reserve District will be published quarterly.

The new quarterly publication will present a more comprehensive review and outlook of the district's economy. From time to time it will also include special reports or studies of interest to the financial community and the general public.

The statistical pages now published in *Ninth District Conditions* will be discontinued. For the most part, complete data series are available directly from the original sources. Any readers who use these numbers regularly can write to our Research Department for information on how to secure the original releases.

All current subscribers to *Ninth District Conditions* will receive the first issue of the quarterly. At that time they will be asked to indicate by return postcard whether they wish to receive future issues.