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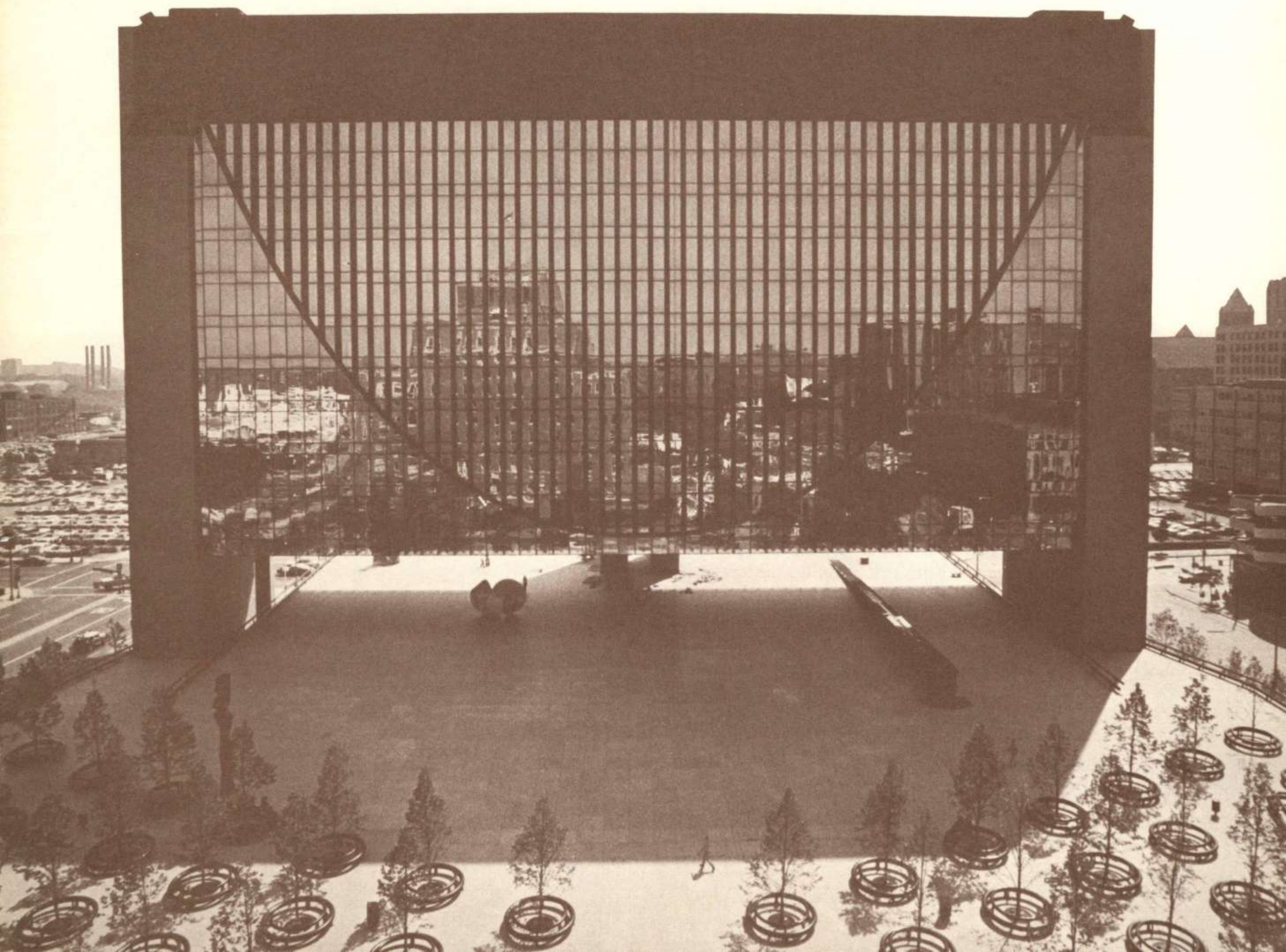
Looking for Evidence of Noncompetitive Behavior in Minnesota's Banking Industry (*p. 1*)

District Conditions (*p. 8*)



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

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District Conditions*

Continued Strength in the Third Quarter . . .
Most of the district's economy remained stronger than a year ago in the third quarter.

The homebuilding boom continued. Nearly 50 percent more permits were issued for residential units in the third quarter than a year ago. At an annual rate, the number issued in the third quarter also beat both the first half's rate and the record level of 1972.

Manufacturing activity, while not at record rates, still ran ahead of last year too. In our August survey, manufacturers said sales would finish the quarter 13 percent greater than a year ago, about the same gain reported in the first half.

The strength in district industries showed up in the labor market. Many more people had jobs in the third quarter than a year ago, and seasonally adjusted unemployment shrank from 6.4 to 5.3 percent of the labor force. The number of people employed slipped a little between the second and third quarters, though, mostly because of the August 1 strike by about 18,000 Minnesota and Michigan iron ore workers (which also affected about 2,000 workers in related industries). Still, the district's unemployment rate held steady at 5.3 percent in both quarters.

Consumer spending reflected these labor market conditions. In the third quarter district consumers did not spend much more than in the second, but they spent much more than last year at this time. Retailers reported excellent fall sales, especially in urban areas.

Rural areas of the district, of course, were still troubled by farmers' money problems. As expected, crops were coming in much bigger than last year, but grain prices remained much lower. Farmers were therefore storing their crops to wait for higher prices. So receipts to district crop farmers through the third quarter were still somewhat below a year earlier.

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

. . . and the Rest of the Year
Even the ag sector now looks like it will end 1977 better than a year ago, however.

Crop farmers' income outlook has improved. Signs of bigger export demand turned grain prices up somewhat recently, and further increases are likely. More money will be available from the government too: the new target price on wheat (which triggers subsidies) could bring district farmers as much as $300-$350 million in December. With these payments, 1977 receipts to district crop farmers will probably reach—and may even exceed—last year's.

Other industries will certainly end 1977 stronger than last year, though some may not change much from the third quarter. With mortgage loan commitments still high at savings and loan associations, district homebuilding shows no signs of weakening soon; it may even set a new record. Manufacturing activity will also continue to grow, but at a slightly smaller rate. In August manufacturers expected fourth-quarter sales to beat sales a year ago by 10 percent instead of the 13 and 14 percent gains recorded so far this year.

Employment and consumer spending, therefore, will at least stay at their current higher-than-a-year-ago levels through 1977. Once the iron ore workers' strike is settled, of course, employment will increase. And both the strike settlement and better farm receipts should boost retail spending by the end of the year.

Implications for Banks
Better income for farmers would help rural banks too, for with heavy loan demand and slow saving and loan repaying, some have been pretty short of funds. According to our October survey of ag bankers, creditworthy farmers have still been able to get loans; more than half the bankers were seeking new accounts. But a quarter reported referring more than the usual number of loans to nonbank credit agencies. Nearly half had 70 percent or more of their deposits loaned out. And 35 percent called their loan-to-deposit ratio "high."

Thanks to the relatively good shape of other district businesses and consumers, both loans and deposits have been very strong at urban banks, and they are expected to stay that way through 1977.