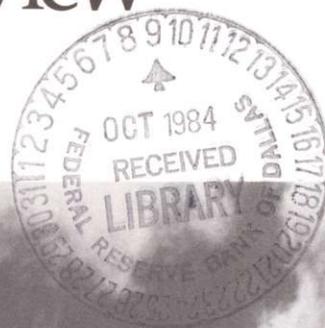


Federal Reserve Bank of Minneapolis

# Quarterly Review

Summer 1984



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

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## *District Conditions / A Strong Recovery*

The pace of the Ninth District's\* recovery seems to have accelerated in the first half of 1984. With the exception of a lagging farm economy, the district's recovery now appears to be at least as strong as the nation's—and may even be stronger. The district's impressive nonagricultural performance has been accompanied by significant gains in employment, particularly in manufacturing. The district's current economic momentum is likely to continue through 1984 and into 1985.

### **The U.S. Recovery Continues**

The national economy continues its recovery from the last recession, which bottomed out in the fourth quarter of 1982. Recently, however, its torrid rate of economic growth showed some signs of slackening to a more sustainable pace. The preliminary estimate for real (inflation-adjusted) gross national product (GNP) for the second quarter of 1984 was 7.6 percent, down from 10.1 percent in the first quarter. Moreover, the government's index of leading economic indicators, which often anticipates future economic developments, declined 1.3 percent in June and 0.8 percent in July. Other indicators, however, suggest that there is still considerable economic momentum remaining in this current recovery: In July, industrial production increased 0.9 percent, personal income rose 0.8 percent, and new orders for durable goods were up 2.2 percent.

### **The District Recovery Accelerates**

Compared with the U.S. recovery, the Ninth District's recovery started out at a slower pace, lagging the nation's throughout 1983. (See our Fall 1983 "District Conditions.") Since the outset of 1984, however, the pace of economic recovery in the Ninth District has begun to accelerate quite sharply<sup>1</sup>—both in relation to the U.S. recovery and to the average of other postwar Ninth District recoveries.<sup>2</sup> Significant gains in personal income and in civilian (nonmilitary) employment, two of the best available indicators of overall economic activity, show that the district may well be approaching and even surpassing the

national rate of recovery, as well as its own average rate in past recoveries.

As shown in Chart 1, the percentage growth in district personal income initially lagged behind the nation's for four quarters after the recession bottomed out at the end of 1982. But in the first quarter of 1984, growth in district personal income caught up with and surpassed the national rate. In addition, Chart 1 shows that the district's current rate of personal income growth also lagged its average rate over past recoveries for roughly four quarters until passing that average after the beginning of 1984.

The district's performance in terms of civilian employment has also been quite strong, as shown in Chart 2. After lagging the U.S. recovery during the four quarters of 1983, the district's percentage growth in civilian employment approached the nation's rate in the first quarter of 1984 and continues close to the national rate. When compared with the district's average growth rate of civilian employment in past recoveries, the current district recovery exceeded the district average by the first quarter of 1984 and continued to exceed that average in the second quarter.

### **Contrasts Within the District Economy**

The overall strength of the district's recovery is not, however, uniformly spread among its sectors: The agricultural sector, in particular, continues to experience problems, whereas the nonagricultural sectors are thriving.

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

<sup>1</sup>Based on the most recent data available as of August 1984.

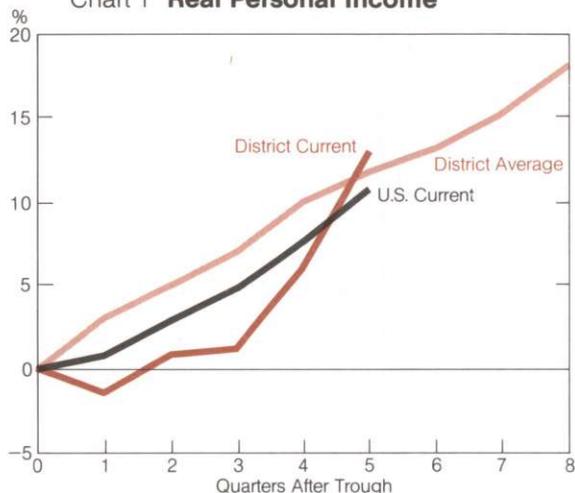
<sup>2</sup>Charts 1-4 compare current district economic variables with national economic variables. Also shown are historical averages of district economic variables experienced in postwar Ninth District recoveries. In each chart, the zero point represents the trough of the national economy. National troughs are used to date postwar Ninth District recoveries because only U.S. recessions and recoveries are officially dated. The number of past district recoveries that are averaged varies by economic indicator, since some time series have more historical data than others. All data are seasonally adjusted and are totals of indicators for the four states completely within the district's borders.

Charts 1-4

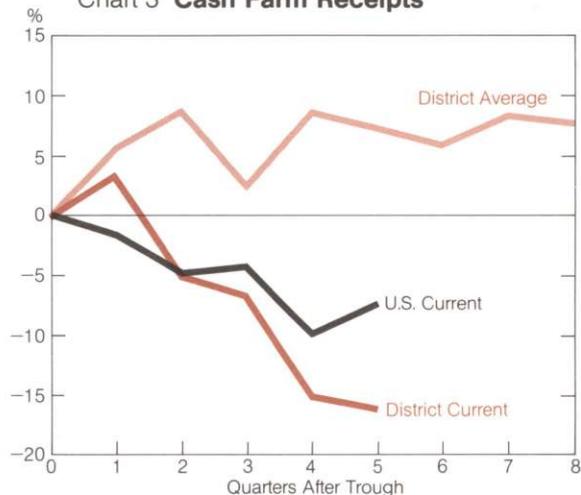
**How This Recovery Compares to the Current U.S. Recovery and to Past Recoveries in the Ninth Federal Reserve District**

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

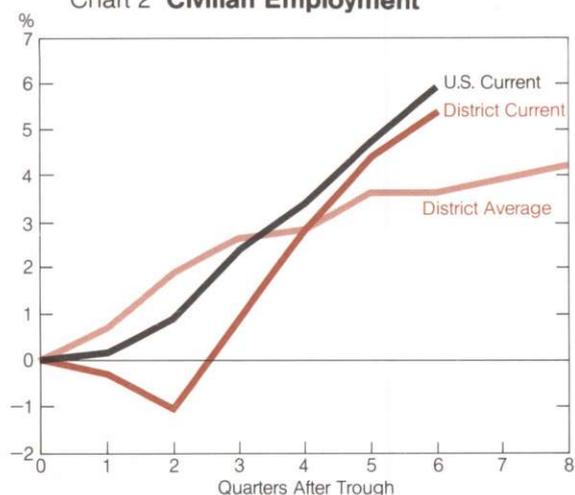
**Chart 1 Real Personal Income**



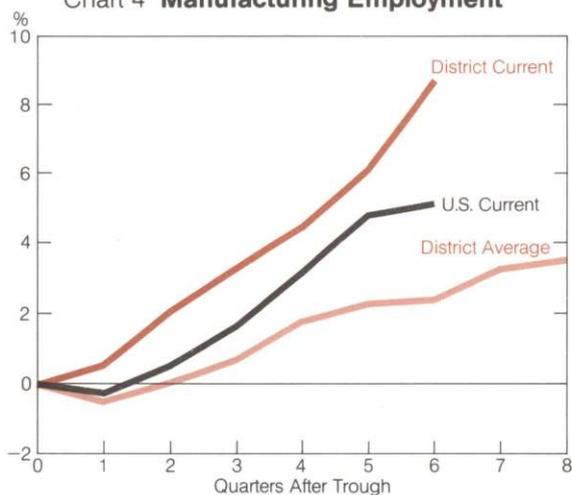
**Chart 3 Cash Farm Receipts**



**Chart 2 Civilian Employment**



**Chart 4 Manufacturing Employment**



\*The trough of the last U.S. recession was the fourth quarter of 1982. Because of data limitations, the average of past district recoveries on these charts is based on a varying number of past recoveries: five for personal income and manufacturing employment, and three for civilian employment and cash farm receipts. 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 Agriculture, Commerce, and Labor.

ing at a pace that seems to be outstripping the nation's.

#### *Agriculture Still Weak . . .*

Although crop conditions improved throughout the district, farmers here—and around the nation—continue to experience problems. District farmers and ranchers are still suffering from poor cash flow relative to the nation and the district average in past recoveries, as shown in Chart 3. They also are troubled by reduced land values and high debt-service burdens. In mid-July, Minnesota's farm price index dropped a full 3 percent from its June level, compared with a 1 percent drop in the national level during that period. A drought in northeastern Montana has severely reduced that area's income from crops and livestock. These problems in the agricultural sector hurt the district proportionally more than the nation because agribusiness is more than twice as large a component of the district economy as it is nationwide.

#### *. . . But Nonagricultural Sectors Thriving*

If, for purposes of analysis, we exclude the agricultural sector, the Ninth District's nonfarm recovery has been surprisingly strong and appears to have exceeded the national recovery, as well as its own average growth rate in past recoveries. One way we can roughly determine the strength of this nonfarm recovery is to examine employment data that exclude the agricultural sector—data such as district employment in manufacturing. As shown in Chart 4, district manufacturing employment, from the very beginning of the U.S. recovery, has surged ahead of both the national growth rate and the district historical average.

The strength of the current recovery in nonagricultural sectors is also evident from improvements in other district employment conditions. In the Twin Cities, substantial employment gains were made in business services and computer manufacturing. In two of the worst-hit areas of the last recession, encouraging gains in employment have also been reported: In the Duluth area of Minnesota, total employment rose to its highest level in 18 months, partly as a result of heavy public construction activity. And in the Upper Peninsula of Michigan, the unemployment rate fell from about 17 percent in June 1983 to a preliminary estimate of 12 percent this June; about 7,000 new jobs were created there during this year-long period.

#### **District Recovery to Continue**

Economists are predicting that the U.S. recovery will continue through 1984 and into 1985. The *Blue Chip Economic Indicators*, which consolidates the forecasts of

many private-sector economists, predicts 7.2 percent growth in real GNP for the whole of 1984 and 3.4 percent growth for 1985. If the consensus forecast of a 7.2 percent increase in real GNP were realized in 1984, this would be the largest, full-year increase in real GNP since 1951.

The district economy will probably continue to ride the current momentum of recovery at least until the end of 1984 and probably beyond. The surprising strength of the district's nonagricultural recovery, when compared with the nation's recovery, augurs well for continued strong economic growth.