

Minneapolis Retailers Association - August 12, 1965

One of the injunctions passed on to me by a former President of the Minneapolis Bank was to avoid making short-run predictions. If you are right, the fact will be forgotten; and if you are wrong, the number of intervening factors that can be blamed are unfortunately few. However, having been assigned a specific topic, which requires a specific projection, I have no choice.

As a general statement, retailers can take considerable comfort from the prospects for the fall. It looks as though it is going to be a good retail season. Before going into a discussion of why this may be so, I would like to make two caveats. Both of these have to do with elements of the international scene. First, on the monetary side, where the problems of Great Britain and our own international balance of payments continue to give concern. The latter problem has improved, at least in the short run, with a surplus projected for the second quarter at an annual rate of six-tenths of a billion, the first in fifteen quarters. Unfortunately, the measures taken by the British Government to solve their problem have not had the same degree of success, and the concern continues. The second, of course, is Viet Nam. I mention these two only because it is important to emphasize the fact that we are members of a world community, and what happens in it will affect the condition of our regional community.

But back to the regional community. The reasons for a projection are more important than the projection itself, for they help the listener make up his mind as to the weight to be attached to the projection. The two most

important elements are the numbers of people employed, and the amount of income they have to spend. In order to make concrete the basis for the projection, some recourse has to be made to numbers. I will try to keep them to a minimum, but they are the stuff from which economic projections are made. The first is to personal income. Personal income is the primary factor in determining the volume of consumer expenditures and of retail sales. The American people in past years have spent from 92 to 93 per cent of their disposable income -- that is, total personal income after personal taxes.

In the first quarter of this year, the American people spent well over 93 per cent of their disposable income, a larger proportion than was spent in any time since the third quarter of 1963. When spending exceeds the 92 to 93 per cent range, it soon swings back. It did recede in the second quarter of 1965 and may continue to drop more in the latter half of the year. However, action taken by the federal government may offset any decline in total expenditures by directly or indirectly increasing disposable income. The excise tax cut and the step-up in social security payments will provide more purchasing power for the public. The increase in purchasing power of older people as a result of larger social security payments is expected to stimulate the purchases of soft goods.

The aggregate amount of personal income (and, thus, the potential buying power) is closely related to the number of individuals at work in this metropolitan area. Employment in July totaled about 637,000, up by more than 25,000 from the total in July, 1964. The monthly increase in employment since September, 1964 has been 3 per cent or more from a year earlier. In recent months, it has been almost 4 per cent, indicating an exceptionally rapid expansion.

As I will show in a moment, there has been a true increase in the number of persons employed. Apart from this, there has been an over-all increase in payrolls because of an increase in overtime. In Twin Cities manufacturing plants, average weekly hours worked since the first of the year has ranged from slightly under 41 to 42 hours. The 42 hours in June was the longest average workweek since October, 1952, when industrial production was very high because of the Korean War demands. Average weekly earnings in Twin Cities manufacturing plants rose to a new high of \$121.17 in June. Income derived from overtime is often used to purchase the extras which boosts total retail sales.

There is still a demand for skilled help. Perhaps one of the best clues to labor demand is the help wanted advertising. The demand for an increasing number of skills in relation to the available supply of such labor has been rising, according to the increasing volume of such advertising appearing in the Minneapolis-St. Paul newspapers, as well as in the other standard metropolitan newspapers in the Ninth District.

Indexes have been compiled on the number of help wanted ads and on the total lines in such ads since January, 1959. The index of help wanted ad count has been at a record high during the first six months of 1965. As compared with the first half of 1964, the increase in the index this year has ranged from 14 per cent to 31 per cent. The index on the total number of lines in these ads has risen to a higher level than on the ad count, indicating that the ads have become longer, apparently giving more description of the skills wanted. As compared with the first half of 1964, the increase in the index this year has ranged from 26 per cent to 40 per cent.

Both indexes on ad count and on ad lines have risen to about the same level in the other four standard metropolitan centers as in Minneapolis-St. Paul. The other centers include Billings, Duluth, Fargo-Moorhead, and Great Falls.

Furthermore, no significant differences are observed between the rise in the indexes for the Ninth District and for the nation. It appears that an increasing number of skilled workers have become scarce in all regions of the United States.

There is a close relationship between retail sales in the Twin Cities and the trends in purchasing power throughout the District. This, of course, drops as the distance from the metropolitan area increases, but nevertheless, as a generalization, it may be said that the level of prosperity in the District is reflected in some measure in retail sales in the Twin Cities. There have been a number of developments in that part of the District substantially tributary to the Twin Cities which will help support retail sales: the impetus given the taconite industry by the taconite amendment; the renewed interest in the copper industry in the Upper Peninsula; but perhaps the most important is the improvement in the agricultural sector. Livestock prices have advanced materially, which has improved the purchasing power of the farmer.

Farm crop ratings have been "good" to "excellent". The yields on small grains were generally good in most areas, although in a few sections of Minnesota and in south central South Dakota, inadequate moisture was reported and in a few others, excessive moisture. Warm weather in the latter half of July accelerated the growth of corn and soybeans, planted late because of the cold, wet spring, thereby making an encouraging recovery.

In late July most county extension agents reported that these two crops were about a week or 10 days later than normal.

While the increases in the prices for livestock have advanced substantially from the fall of 1964, their impact on purchasing power has a historic lag because marketings and cash will not occur in substantial numbers until fall. This will supply continued support to the retail market, however, and should cause a substantially high level to continue through the next six months.

It is with some relief I leave the short-term prospects, and turn to the long-term prospects. Here it is easier to generalize with less fear of contradiction, because of the increase in the number of variables. The long-term outlook is favorable. Employment is going to continue to expand, according to projections made in the Upper Midwest Economic Studies, at an annual rate of 2.08 per cent from 1960 to 1975, as compared with an annual rate of only 1.89 per cent from 1950 to 1960. Hennepin County, according to a projection made by the Twin Cities Metropolitan Planning Commission, will experience a population increase of about 162,000 from 1970 to 1980, bringing the total to 1,180,500. This is a gain expected to exceed that of any one of the other four counties in this metropolitan area.

A few of the variables that could alter the even progress towards this rosy future are: the possibility of a slow-down in the basic steel industry because of an inventory liquidation following settlement of the threatened labor strike. There has been a rise in installment credit, which might point to a slow-down in the purchase of new cars in early 1966.

Failure to find satisfactory solutions to our international monetary problems, could be dampeners, as could an expansion of the Viet Nam war. The effect to be given these variables depends upon the degree of your native optimism or pessimism.

There is a danger in overlooking some of these short-run factors, even though the long-run may be promising. I am reminded of the retort made by the late Maynard Keynes, the famous British economist, to a point of refuge claimed by one of his critics, who sought to minimize the impact of his statement concerning short-run developments by saying, "After all, these are only short-run factors, and in the long run they will all smooth out." "Yes" said Mr. Keynes, "but in the long run we'll all be dead."

We must not blind our eyes to the fact that these larger problems do impinge upon our own area, and solutions to them must be actively sought if the individual business managers in this room, as individuals, are to enjoy these long-run, admittedly bullish projections.