

NORTHWESTERN Banker Newsletter

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April 17, 1972

One Last Look at the 1972 Forecasts

By this time all the economists have copied each others figures, made their alterations and mulled over the results. The forecasts for 1972 are set and we will await the next nine months to see what actually happens. Expectations tend to cluster around a 9-10% increase in gross product. However, there is a considerable divergence regarding real growth and price increases. Those who expect the highest real gains anticipate a diminishing inflation pattern. Thus, the most optimistic look is for an inflation factor (GNP deflator) of around 3% with a real advance of 6.0-6.5%. Those more fearful of inflation (and we include ourselves in this group) see lower real gains with the prospect for stronger inflation, particularly late in the year.

For the past three or four months, we have indicated that we believed the GNP deflator would rise by as much as 4% in 1972. Now it appears this figure may be too high. Although the strongly favorable pattern is unlikely to continue for an extended period, the improvement in productivity in recent months has been quite impressive. This will tend to moderate price pressures in manufactured goods. However, the significant question for purposes of investment and business planning is not whether the GNP deflator is up 3.0% or 3.5% or 4.0% in 1972. The primary consideration is whether a new surge in inflation will develop late this year or early next. We believe this is a major risk. Also, it is important to make a judgment as to how

effective fiscal and monetary policy can be in dealing with it. The record of the past six years does not inspire confidence.



By Arnold C. Schumacher
Vice President & Economist
Halsey, Stuart & Co., Inc., Chicago

The economy undoubtedly will perform well in 1972. Prior to the announcement of huge government deficits we were estimating a real growth of 5%, but the heavy flow of dollars in the government sector would seem to assure an increase of at least 5.5% or more. At the same time, the impact of federal spending will be greater in the second half of the year rather than the first. It is reasonable to expect a time lag of 3-5 months before the full effect is felt. Contracts must be signed, orders placed and production schedules raised. All this takes time. However, federal outlays will be a potent factor in speeding the recovery.

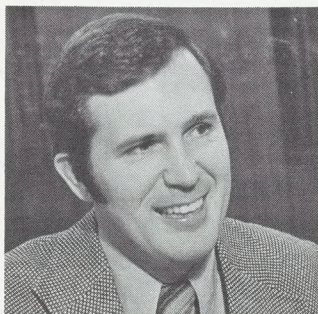
To the extent that our ideas have changed over the past three or four months, we are now a little more optimistic, both with respect to a short-term moderation of inflation and greater real

growth. But the respite in the rate of price advances is not likely to persist beyond the third or fourth quarters of the year. Percentage gains in wage increases for organized labor are still going up (and the Pay Board has all but caved in). Food prices will rise more this year than last. World metal prices are again firming. The need for capital in all developed nations is staggering. There is no evidence that any of these trends are going to reverse themselves in the near future.

At certain times economic forecasts are more crucial than at others. For example, at the top of a cyclical expansion it becomes very important for the forecaster to define the character and timing of the cyclical downtrend which lies ahead. However, the present is one of those intervals in which precise forecasts (for purposes of business planning) really do not vitally affect decisions. There is widespread agreement based on very convincing evidence that the recovery will continue in 1972. Businesses are planning for an expansion. As to whether inventory gains will amount to \$8 billion or \$10 billion or whether plant and equipment spending will be up 8% or 11% is not all that critical. The year 1973 will pose more difficult questions.

The manner in which government officials constantly attempt to kid the public and minimize serious problems is a never ending lesson in the artful use of political propaganda. It was evident immediately upon the announcement of the federal budget figures in January that

(Continued on back page)



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MINNESOTA NEWS

BURNSVILLE: The new First Burnsville State Bank will open for business this week according to President John A. Gargaro.

Located in the southwest corner of Nicollet and the Burnsville Crosstown in the Burnsville Office Park Building, First Burnsville State will have \$600,000 in capital structure.

President Gargaro said that plans are underway for a grand opening celebration to be held within the next several weeks at a date to be announced later.

HUTCHINSON: W. T. Richards, president, First National Bank, Hutchinson, will serve as a director of Mid America Bancorporation, Inc.

Walter G. Andrews, chairman of the board of Mid America, said Richards will fill the unexpired term of Blake Shepard.

First National Bank of Hutchinson, with deposits of \$12,900,000 at Dec. 31, 1971, became an affiliate of Mid America Bancorporation last November.

INTERNATIONAL FALLS: H. E. Sandstrom, manager of a local furniture store, has been elected a director of International State Bank.

MANKATO: First National Bank has received permission from the Comptroller to relocate its main offices to a new building it plans to erect on Second Street. Its new home will be adjacent to its drive-in facility.

MINNEAPOLIS: First National Bank has announced that Dennis E. Evans, Chicago, has been named as vice president in the trusts and investment management group. John R. Danielson, New York City, has joined the bank as a commercial banking officer. Raul Aguilar, Milwaukee, Wis., was named an international banking officer. Richard M. Irvin was elected a commercial banking officer and R. Scott Jones has been named personal banking officer.

IOWA NEWS

ANITA: W. Ben McLuen, president of Anita State Bank, announced last week he is selling his controlling interest in the bank to an investment group headed by Frank L. Farrar of Britton, S. D., and Robert R. Kruger, Omaha. Mr. McLuen will become chairman of the board. He joined the bank in 1947 as cashier and became president in 1957. Mr. McLuen started with the Iowa banking department in 1935, serving as an assistant examiner and later as senior examiner before joining the Anita State Bank. Mr. Farrar is a former Governor of South Dakota. Mr. Kruger is president of Bank Brokers, Inc.

AVOCA: The Avoca State Bank will observe its 100th year in the banking business this year, since it was founded in 1872. The bank has named Edwin E. Doll as vice president. Succeeding Mr. Doll as cashier is Kenneth Woltmann, formerly assistant cashier.

DES MOINES: Agricultural Credit Conferences will be held this week as follows: April 18, Montrose Hotel, Cedar Rapids; April 19, Rogers Famous Foods, New Hampton, and April 20, Red Lyon Inn, Ottumwa. On April 25, a conference will be held at the Memorial Union in Ames. Registration starts at each place at 9:00 A.M.

EARLVILLE: In last week's issue it was stated that The State Bank of Earlville has received FDIC authority to exercise limited trust powers. This is incorrect. The bank's application for such powers was denied by the FDIC.

ELGIN: Verlon L. Britt has purchased controlling interest in the Elgin State Bank from numerous stockholders and was elected president of the bank at a meeting April 11. He succeeds T. F. Pollock, who is also retiring from the board. Mrs. Verlon (Lolly) Britt was elected vice president. Other officers continue the same.

NEBRASKA NEWS

OMAHA: The Nebraska Department of Banking has approved the charter application for The Community Bank of Nebraska. This is the first black-owned bank in the state.

ILLINOIS NEWS

CHICAGO: Sears Bank & Trust Co. has elected Donald L. Whetstone as an asst. vice pres.

ROCKFORD: Lloyd L. Heiser was named president of Southgate Bank to succeed Bruce F. Eshelman, who resigned to become president of the Rockton Centre Bank of the Northwest under construction in the Rockton Avenue shopping center.

Mr. Heiser, 35, has served 10 years with Central National Bank and Trust

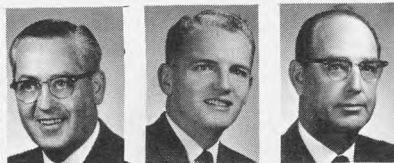


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MINNEAPOLIS: The U.S. Dept. of Labor announced \$257,238 JOBS contract with the Minneapolis Chapter of A.I.B. to hire 114 persons as general office clerks. JOBS stands for Job Opportunities in the Business Sector.

The JOBS program will last 18 months and follows an earlier program of equal length sponsored by the Minneapolis banks.

Of 132 persons hired in the first program, 86 completed the training and are still on the job. Sixty of the 132 are black; 58 white, 14 Indian and two listed as "other."

The new employees train 40 hours a week for four to six weeks.

Trainees, mostly women, are paid regular salaries by the banks from their first day in the program. Starting wages in the current contract range from \$1.73 to \$2.12 per hour during training and \$1.93 to \$2.32 per hour after training.

MINNEAPOLIS: Funeral services were held last week for Richard I. Rose, executive vice president, Midland National Bank. Mr. Rose, 44, had open heart surgery one week before his death and was recovering.

ST. PAUL: First National Bank of Saint Paul is holding its correspondent bank conference at the St. Paul Hilton today, April 17.

ST. PAUL: Gerald E. Mark was named assistant vice president, Valley National Bank, Eagan Township.

VIRGINIA: In the April 3 issue it was stated that "Norman J. Swanson has joined the State Bank of Virginia's management training program." This was incorrect. The item should have read:

"Norman J. Sampson, vice president of the State Bank of Virginia, announces that Robert J. Rich, Jr., has joined the staff under the Northwest Bancorporation management trainee program. Mr. Rich was graduated from the University of Minnesota in his native Duluth in 1965 and has spent the past six years in the United States Air Force. He was released in February, 1972, with the rank of Captain."

MONTANA NEWS

HELENA: Fred Heinecke, 78, who retired in 1959 as president of the First National Bank & Trust Co., died in a Denver hospital April 8. Mr. Heinecke started his banking career in Montana in 1918, joining a predecessor of the First National Bank & Trust in 1923. He served as president of the Montana Bankers Association in 1943-44.

NORTH DAKOTA NEWS

FARGO: David A. Lee has been elected assistant vice president, The Merchants National Bank. Most recently, he has been employed by the First Bank System in Minneapolis as a credit analyst. Previously, he was cashier of the First National Bank of East Grand Forks.

SOUTH DAKOTA NEWS

CLEAR LAKE: Harold F. Anderson, executive vice president, Deuel County National Bank, retired as of April 1. Joining the bank in 1932, he has served as executive officer for the past 12 years.

HURLEY: Plans have been made to build an addition on the Hurley State Bank.

RAPID CITY: Funeral services were held recently for John M. Ryan, retired president of the First National Bank of the Black Hills. Mr. Ryan, 71, suffered a heart attack in Pine, Arizona. He was associated with the bank for 39 years and retired in 1960. He was named president of the bank in 1950.

COLORADO NEWS

BOULDER: United Bank of Boulder has named two new directors. They are Homer B. Ball, business manager at the University of Colorado, and J. Edward Mock, president of Mock Realty.

DENVER: Robert D. Bammerlin has been named vice president of the commercial loan and real estate department of Lakeside National Bank. He was previously with the Continental National

Bank of Englewood and the Jefferson County Bank.

DENVER: Three new officers have been appointed at United Bank of Denver. They are: Charles H. (Todger) Anderson, trust investment officer; Donald J. Perring and Eugene V. Wazeka, personal banking officers.

WYOMING NEWS

LOVELL: Western National Bank has started an \$85,000 expansion program, and completion is expected June 1.

LUSK: The Fed has approved the acquisition of the Stockman's National Bank by Wyoming Bancorporation. The Fed has also approved acquisition of the First National, Rawlins, and the First National, Lander, bringing to eight the number of banks in Wyoming affiliated with the holding company.

NEWCASTLE: Max Miller has resigned as exec. vice president of the National Bank of Newcastle to join the First Security Corp. Banking System, Cedar City, Utah.

IMPORTANT NOTICE!

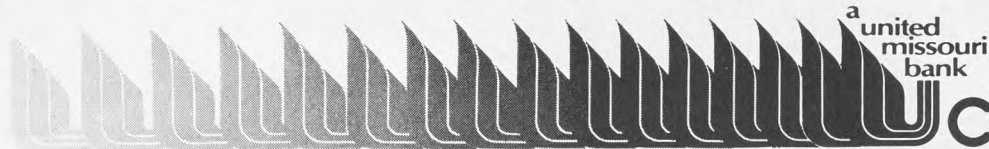
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1972 FORECASTS . . .

(Continued from front page)

the Treasury faced enormous strains in its financing operations in the current year. However, last week the Treasury began a series of softening up speeches and press conferences to tell the public there is really nothing to worry about. Under Secretary Volcker said more emphasis would be placed on regularizing financing by applying the same type of weekly offerings now confined to the bill area to other segments of the market.

Following Mr. Volcker's soothing balm another Treasury official assured a group of Chicago investment bankers that "although unusual Treasury borrowing pressures on the market will occur from now through June, this will not be impinging on already overloaded credit markets." Now we have the official word and can all relax.

The facts are that the Treasury's combined direct and agency financing in the present calendar year will call for raising about \$45 billion in new money, nearly one billion dollars every week. In this situation officials will try to "regularize" financing, twist the yield curve, rely heavily on the short end of the market, and perhaps even come up with some new savings bond gimmicks for individuals. Obviously, every trick in the book will be used to avoid market disruptions. But, any way you cut it, a substantial amount of this new debt will have to be monetized through the banking system and this precludes any meaningful restrictive monetary policy for as far ahead as anyone can see.

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