

NORTHWESTERN Banker Newsletter

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December 17, 1973

How Oil Crisis Will Affect 1974 Economy

The following comments are a condensation of the "Economic Outlook" given last week by Robert G. Dederick, senior vice president and economist for The Northern Trust Company, Chicago, at the 15th Annual Iowa Business Trends meeting sponsored by the Iowa-Des Moines National Bank in Des Moines.

Even if more normal oil flows were to get underway within, say, 10 weeks of the October cutoff, it is possible that the United States would experience a recession in 1974. Two major areas of "final demand," i.e., markets ultimately served by business are exhibiting distinct weakness at present. New housing starts are down one-third from their monthly average early in the year, while new car sales have been running about 10% lower than at the like stage of 1973. Such softness is the public's classic response to prior heavy additions to durable goods stocks, prior heavy incurrence of debt, high interest rates, and upward price pressures cutting into consumers' buying power. It is also a classic signal of an oncoming business downturn.

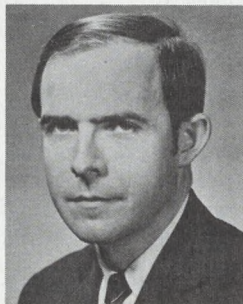
Nonetheless, weakness in consumer-related spending or not, the odds suggest that an oil-adequate American economy would manage to avoid a recession in 1974. Several areas of strength exist that typically are missing at this stage of a business cycle:

1. Business capital spending prospects are relatively favorable, reflecting smaller-than-usual additions to capacity by basic industry over the past several years;

2. With the devaluation of the dollar, the nation's competitiveness in world markets

is greater than at any other time in the past decade;

3. A combination of business caution and faster-than-expected sales growth has resulted in a tight business inventory position, thereby minimizing the chances for a sharp cutback in inventory spending.



R. G. Dederick

Developments in the public sector are also conducive to growth. Federal spending is almost certain to be in a markedly rising trend throughout 1974, in part reflecting the Mideast War's impact — direct and indirect — on demands for military equipment. Meanwhile, the architects of the nation's monetary policy, while definitely canted toward restraint in their actions, have acted in a manner designed to avoid the bone-crushing financial squeezes of the past. Rather than hold to a firm line until a recession has occurred, the authorities this time around appear to be trying to anticipate and, thus, to prevent such a setback.

Thus, while it apparently is too late to avoid some oil-induced difficulties during the first quarter of 1974, a prompt resump-

tion of oil flows would enable the economy to experience nothing more than the earlier anticipated "growth recession" (or "soft landing," as some would describe it) during the year as a whole. That is, real Gross National Product would show a gain on the order of 2%-2½% on a fourth-quarter basis and 1%-2% for the year in its entirety.

In such an environment, annual corporate profits would probably fade by 3%-5%, while the unemployment rate would work up to the neighborhood of 5½%.

Inevitably, inflation would again be severe: Food prices expected to climb further; wages will mount at about a 7%-8% annual rate; productivity held to a 2% improvement; higher oil quotes, no matter what happens to supply. The result is something like a 7%-8% price climb the first half, and perhaps 5%-6% thereafter, depending on crops.

Turning to interest rates, returns on short-term instruments would not decline greatly, perhaps no more than 100-150 basis points before flattening. It is difficult to envisage long-term interest rates changing much at all under this slow growth scenario.

If the Arab oil embargo were to apply to the United States for as long as six months — and it is too discouraging to think of anything more severe — where would we be left? Inevitably, the outlook becomes more bearish. Domestic final demand would weaken still further, the crucial prop of business capital spending would probably lose some of its vigor, and oil supply disruptions domestically would occur. Concern over inflation and the inevitable lag between government action and the

(Turn to Page 4, please)

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IOWA NEWS

ADEL: Bruce A. Bohson has joined the Dallas County State Bank under the officer training program.

AMES: Alvin E. Sluiter, Fisher Controls employees' credit union manager, has joined the Union Story Bank. He will manage the installment loan department.

CRESTON: Joseph G. Knock, president, Iowa State Savings Bank, has been named chairman of United Cerebral Palsy of Union County.

DALLAS CENTER: Michael D. Hunter has joined the Brenton State Bank as an officer trainee.

DES MOINES: Dick Gwinn, well-known regional vice president for Diebold, Inc., suffered a heart attack recently while in Omaha on business. He is hospitalized at Bergan Mercy Hospital, 7500 Mercy Road, Omaha, Nebr. 68124, and will be recuperating there until at least Christmas time. After that he will be moved to his home at 1663 70th Street in Des Moines.

LE MARS: Marvin Nemmers, city clerk the last six years, has joined the First National Bank as a personal loan officer.

OSCEOLA: Jim Schipper has been named agricultural representative at the Clarke County State Bank. He comes from the Farm Home Administration Office in Clarke County where he was assistant supervisor.

SIOUX CITY: Richard A. Waller has been promoted to assistant cashier, customer service department, at the Security National Bank.

NEBRASKA NEWS

Steven Latham, executive vice president of the Pickrell State Bank, has been elected president of Young Bank Officers of Nebraska, a newly formed organization for junior-level management personnel.

Other officers are Joe Rotolo, Plattsmouth State Bank, vice president; Ronald Kranz, York State Bank, Secretary; and Michael Lindahl, First National Bank & Trust Co., Fremont, treasurer.

FORT CALHOUN: Frank O. Starr III

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National Bank of Waterloo

has been elected president of the newly chartered Fort Calhoun State Bank. Mr. Starr, 27, has been a partner with his brother, Mark, in the Omaha law firm of Starr & Starr. Their father is president and chief executive officer of The Omaha National Bank.

MINNESOTA NEWS

BRECKENRIDGE: Wallace R. Ladwig has been appointed vice president and cashier of the First National Bank. Mr. Ladwig joined the bank in 1952 as loan teller and most recently was cashier.

ROCHESTER: Richard K. Plunkett, chairman of Rochester State Bank, has been named 1973-74 chairman of the public policy and legislation committee of the Independent Bankers of Minnesota.

MOORHEAD: Kenneth Fladgard, formerly of Windom, has joined the Moorhead State Bank as vice president. Prior to this appointment he was associated for 16 years with the National Bank of South Dakota in Sioux Falls.

ST. PAUL: An application by the Highland Park State Bank for consent to establish a facility at 1979 Ford Parkway in St. Paul has been approved.

WINONA: The appointment of Robert S. Weeks as vice president and trust officer of The Merchants National Bank, has been announced. Mr. Weeks will replace Jerry Kellum who is returning to private practice of law in Winona. Mr. Weeks comes from the Northwestern National Bank of Minneapolis where he has been an associate internal counsel in the trust department.

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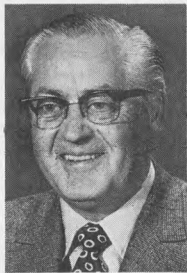


Merchants National Bank

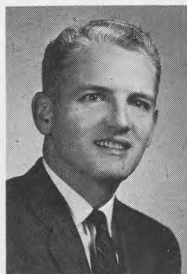


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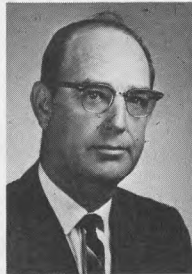
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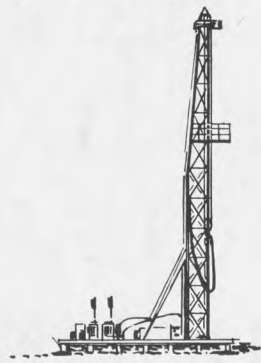


1974 ECONOMY (Continued from Page 1)

economy's reaction and countervailing moves would prove to be too little and too late. Under this scenario, the odds would appear to favor a two-quarter period over which GNP shows a net decline.

More cheerfully, the second half of the year would probably see the economy behave somewhat like a recoil spring, rebounding at least moderately. Adequate oil supplies would enable its basic strengths — large capital spending needs and low inventories — to take hold fully, while a better supply-demand balance would have appeared in markets for housing and consumer durables. For the year as a whole, the result would probably be a virtually flat

real GNP and a profit decline on the order of 15%. The unemployment rate would climb to at least 6% and remain in that area



through year-end. The best guess would be an inflation picture not significantly different from that in the adequate oil-

supply case, about 7%-8% inflation.

At this stage, prudence would suggest that business planning be based on something more toward the pessimistic end of the spectrum laid out above.

Regardless of the actual near-term course of events, our nation is faced with difficult longer-term policy issues on which decisions must soon be reached. Even if Arab oil again becomes readily available, the questionable dependability of this energy supply makes concentration on the development of alternative sources a necessity. The price of energy is irreversibly headed upward. The manner in which these adjustments evolve will have profound effects on both the magnitude and the composition of this nation's economic growth in the remainder of the decade.



*Season's Greetings
and Best Wishes for the New Year*

Northwestern Banker

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ILLINOIS NEWS

CHICAGO: Harris Bank has named eight new vice presidents: William A. Crane, trusts; Anthony Falco and George D. Smith, II, investments, Chicago; Jerry LaForgia and Mel J. Swanborn, investments, New York; Richard J. Egan, general administration, and John W. Glenn, Jr., and Harvey R. Untiedt, operations.

CHICAGO: Clayton F. Woodward has joined Beverly Bancorporation as vice president and senior financial officer. He had been with Ernst & Ernst in Hartford, Conn.

CHICAGO: Maynard I. Wishner has been elected president of Walter E. Heller & Co., a principal subsidiary of Walter E. Heller International Corp. He fills the post held by Franklin A. Cole who will become chairman and chief executive officer. Mr. Cole holds the same position with the parent company.

CHICAGO: Central National Bank has named the following new senior vice presidents: Howard H. Beermann, John W. Thompson, Harry L. Hatton and Christopher W. Roberts.

CHICAGO: Lawrence Spohr has been promoted to assistant vice president and head of the data processing department at Northwest National Bank.

CHICAGO: An application for a permit to organize has been filed for the Community Bank of Lawndale at Homan and Roosevelt. Total capitalization would be \$4 million, consisting of \$2 million in capital and \$1 million in surplus, and \$1 million in reserve. Applicants are Shelvin J. Hall, Maywood; Cecil Butler, Walter L. Smith, Sr., W. L. Upshire and Maurice Glover, all of Chicago.



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CLARENDON HILLS: Robert K. Buhke has been named cashier, operations division, at the Bank of Clarendon Hills.

PALOS HILLS: An application for a permit to organize the 1st State Bank and Trust Company at 104th and Roberts Road has been filed. Total capitalization of the bank will be \$1 million, consisting of \$400,000 in capital, \$400,000 in surplus and \$200,000 in reserve. Applicants are: Marvin A. Siensa, Palos Heights; George W. Salerno, Elmwood Park; Frank A. Motto, Sr., Elk Grove Village; Frank J. Salerno, Chicago and James T. Adams, Glenview.

WINNETKA: Robert N. Burchmore has joined the First National Bank as vice president and director of marketing. Most recently Mr. Burchmore served as director of marketing at the Glenview State Bank.

COLORADO NEWS

D. H. Baldwin Co. of Cincinnati has received approval from the Federal Reserve Board to acquire four additional banks in Colorado. They are: Central Colorado Bank and Academy Boulevard Bank, both of Colorado Springs; Rocky Ford National Bank and State Bank of Greeley.

DENVER: Larry Varnell, vice president, Central Bank & Trust Co., has been named president of the Denver Convention and Visitors Bureau.

DENVER: First National Bank has elected John B. Hyde, vice president and director of the insurance firm of Sam Jones Agency, Inc., Pueblo, to its board of directors.

GREELEY: Richard Mollander has been appointed agricultural representative of the First National Bank.

NORTH DAKOTA NEWS

FARGO: The First National Bank and Trust Co. has announced the addition of Jon Goodman to its installment loan department, and Harley Danielson to its marketing department.

WAHPETON: Richard Johnson has been named assistant cashier of the First National Bank.

SOUTH DAKOTA NEWS

ABERDEEN: The Aberdeen National Bank has filed an application for permission to establish an office on the northwest corner of Roosevelt and Sixth Avenue.

LAKE NORDEN: Roger Siefkes has been named president for the First State Bank. He has been a bank examiner with the FDIC for 10 years.

WYOMING NEWS

MIDWEST: State Examiner Dwight Bonham says he has received an application for a state bank charter for the towns of Midwest-Edgerton in Natrona County. The application was filed by Wynn Terwilliger,

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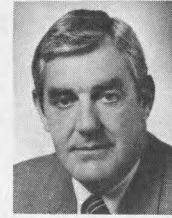
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officer and stockholder of the Western National Bank of Lovell and president of the Rancheater State Bank. Mr. Terwilliger also is the agent for a group which applied August 30 for a state bank charter at Thermopolis. The new bank would be called Salt Creek State Bank.

SHERIDAN: The Bank of Commerce has appointed Neal Thielen loan officer. Mr. Thielen most recently was assistant vice president of the B. M. Behrends Bank in Juneau, Alaska.

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MAN WANTED

Recent purchase of Iowa bank with footings of \$4-1/2 million creates immediate need for Executive Officer. (Out-of-town owner) The bank note case is very "clean"—facilities are new and the earnings are excellent. There could be stock available. Located in town of 700, but not essential to live there.

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SEASON'S GREETINGS

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