

NORTHWESTERN Banker Newsletter

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October 25, 1976

Economic Outlook: Moderate Expansion

"The gross national product will increase by \$193 billion in 1977 compared to the \$186 billion increase during 1976."

This is the prediction made by Harvey N. Daniels, vice president, economist and senior investment officer of the First National Bank of Minneapolis.

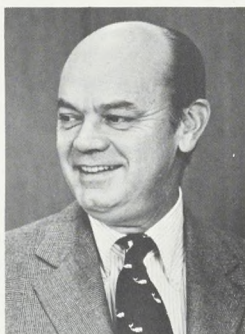
Mr. Daniels' inflation forecast is discouraging in that the expectation is for an extension of the current 6% rate throughout the coming year. The last recession reduced inflation from the double digit range, but the current rate of price increase remains much higher than at similar states of past business cycles.

Other key elements in the inflation forecast are that the good experience of 1976 relative to both food and fuel costs is not likely to repeat in 1977. A 10% increase in imported crude and in controlled domestic oil prices is included as a part of the forecast.

Another important element in our forecast is the belief that the moderation in wage cost increases recently experienced is ending. Compensation rates averaging about a 7¾% increase in 1976 are likely to average in the area of an 8½% gain next year. The excellent productivity gains of 1976 are likely

to moderate to about 2½% in 1977. The rubber and auto strike settlements are probably realistic indicators of the reversal in trend.

The unemployment rate forecast is equally as discouraging as the inflation expectation. The trend is good in that the current 7.9% rate should steadily be worked down to



H. N. DANIELS

about 6½% over the forecast period, but the level remains at a socially and politically undesirable number. A part of the difficulty this year in not achieving more progress has been the extraordinary increases in the size of the work force, making it hard to reduce the unemployment rate in spite of the 4-million increase in the number of employed in the last year and a half.

Housing

Residential construction expenditures have rebounded a strong 30% this year; and, while housing "starts" may flatten out in the second half of next year, spending should rise an additional 18% or so in 1977. This sector will make a stronger than average contribution to the over-all growth rate projected for the economy.

Consumer

Personal disposable income is projected at a 10.5% higher level in 1977, and this growth in income should support the 10.4% expansion in consumer spending which is in our forecast. After adjusting for the inflation factor, the real gain in consumer expenditures declines from the excellent 5.6% number this year to a very satisfactory 4.3% increase in 1977. Consequently, we are suggesting that the consumer sector will slightly underperform the total economic growth rate being projected; and other sectors (such as housing mentioned above) will have to make up the difference. The savings rate, expressed as a portion of disposable income, is expected to remain unchanged at about 7%. In the same vein, it is our expectation that consumer confidence in the period ahead is not expected to show any

[Turn to page 5, please]

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Iowa News

The Iowa Bankers Association 90th annual convention got underway Sunday, October 24, and will conclude Tuesday, October 26. An additional speaker to the outstanding program announced previously is George Will, nationally known syndicated columnist who is part of the Washington Post Writers Group. Mr. Will also is Washington editor for Newsweek magazine and is recognized as one of the leading observers of the scene in the nation's capital. He will speak at 11 a.m. Monday at the Ag Breakfast in Veterans Auditorium.

Mamie Eisenhower plans to be in attendance at the Bob Hope Show Monday night at the Auditorium. The Show is a benefit to raise funds for restoration of Mrs. Eisenhower's home in Boone, Ia. The convention concludes Tuesday evening

at the Auditorium with the President's Reception and "Political Party," featuring The Bank Notes, a choral ensemble from First Bank & Trust Co. of Booker, Tex.

ADEL: J. D. Nichols recently joined the Raccoon Valley State Bank as vice president. He has been an examiner in Des Moines with the Iowa Department of Banking for the last seven years.

DEEP RIVER: Richard Geiger has been named vice president and manager of the Gibson Savings Bank's office here. Mr. Geiger, with the bank since 1972, succeeds Paul S. Light, who died in September.

DES MOINES: Joseph Woodford, Jr., has been elected a director of Capital City Bank. Mr. Woodford has been with Woodford Manufacturing Company since 1964, serving as its president since early 1973.

MARION: John F. Hartmann has joined the Farmers State Bank as assistant vice president. He had been with the Federal Deposit Insurance Corporation since 1970.

ROCKFORD: The First State Bank has announced the addition of Darrel DeWitt to its staff as assistant vice president in the loan department.

TRAER: Loren Lorenzen has joined the First Community Bank & Trust as vice president and agricultural representative, according to M. M. Kupka, president. Mr. Lorenzen formerly was with the Citizens State Bank of Oakland.

Nebraska News

RISING CITY: Allen Laird has joined the Farmers State Bank as vice president and loan officer. He previously was with Gooch's for 20 years. Doris Henderson has been promoted to assistant cashier.

WISNER: Citizens National Cor-

poration here has withdrawn its application for approval to acquire 80% or more of the voting shares of The Citizens National Bank.

Minnesota News

PINE CITY: John Waters, chairman and managing officer, and Sheldon Nascene, president of the First National Bank, have announced the sale of the controlling stock in the bank to F. William Johnson and A. Elwood Lundquist. Mr. Johnson is the new president and managing officer and Mr. Lundquist the chairman. All other staff will remain the same. Mr. Johnson most recently was a correspondent banker for the First National Bank of Minneapolis. Mr. Lundquist is retired and resides in Golden Valley. He formerly was a John Deere territory manager, owned and operated implement and auto dealerships and was a farmer. Both Messrs. Waters and Nascene have resigned from the bank's board.

RUSH CITY: Richard Lucivansky has been promoted to executive vice president of the Merchants State Bank, North Branch, and Joseph V. Kolar has joined the staff as vice president and loan officer. He has been with the Calumet State Bank, Brooklyn Center State Bank and the Bank of Edgar, Wis.

WELLS: Peoples State Bank has announced the following promotions: George Wanzek to executive vice president, Michael W. Smith to vice president and Albert R. Quade to cashier.

Illinois News

About 400 bankers will attend the Illinois Bankers Association's 31st Annual Bank Management Conference, November 3-4, at the Ramada Inn, Champaign. The one and a half day conference begins Wednesday, Nov. 3, at 9 a.m. Topics of discussion will include: Update on IBA Activities, Economic Outlook, Profitable Investment Management, The New National

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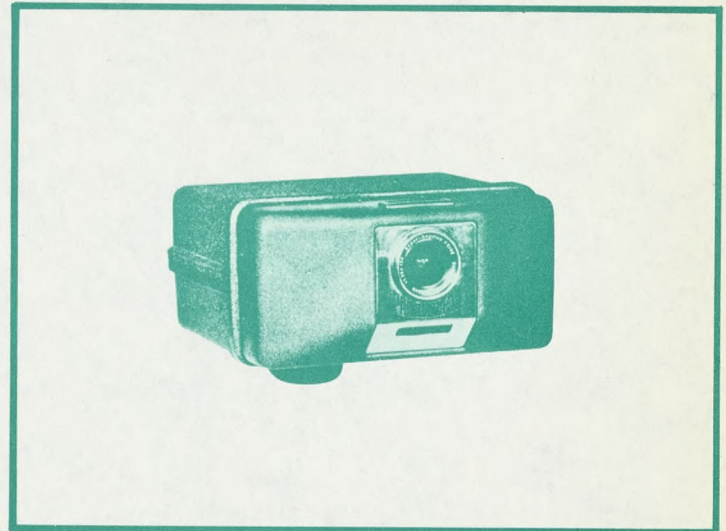
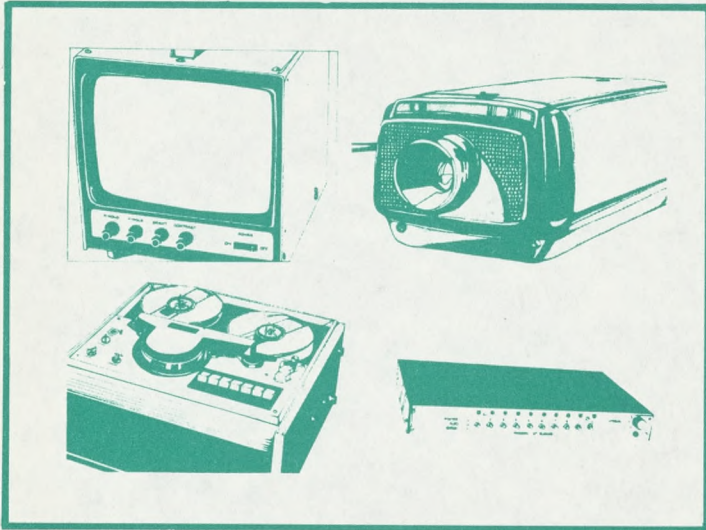
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MORTON: An application for a permit to organize The Morton Trust & Savings Bank at 805 West Jackson Street, has been filed. The bank's capitalization of \$1,000,000 would consist of \$400,000 in both capital and surplus and \$200,000 in reserve. Organizers are Anthony T. LaHood, Morton; Peter J. Couri, Peoria; Edmund J. Joseph, Gerald S. Couri, Sie J. Couri, all of East Peoria.

South Dakota News

The South Dakota Bankers Association is holding a Bank Management Conference at Kings Inn Convention Center in Pierre November 10. Registration begins at 8:30 a.m. followed by the call to order at 9:30 by Ed Newell, chairman, bank management committee and vice president, First Mitchell National Bank.

Speakers include: Jerry Simmons, president, Jerry Simmons and Associates, Sioux Falls, who will speak on Strategies for Motivation; Beanie Cooper, director of HPER&A, University of South Dakota, Vermillion; Gunnar E. Kronholm, president, Drovers State Bank, South St. Paul, Minn.,

who will speak on Kidnap/Extortion—An Actual Experience, and Alex Sheshunoff of Sheshunoff and Company, Inc., Austin, Tex., who will speak on How To Become a High Performance Bank. A workshop will follow.

Montana News

LEWISTOWN: Bryan Dvirnak has joined the First National Bank as agricultural loan officer. He formerly was with the First National Bank of Dickinson, N.D.

North Dakota News

GRAND FORKS: Mark L. Dahl is the new assistant vice president in the commercial department at Red River National Bank & Trust Co. He previously was timepay manager of the First National Bank of Miller, S.D.

LEEDS: Farmers State Bank here has received permission to establish a paying and receiving station at Churchs Ferry.

Colorado News

DENVER: William J. Lunsford and Richard C. Reed have been promoted to assistant vice president of United Bank of Denver.

LAKEWOOD: Jefferson Bank and Trust has announced the following promotions: Tina Flores to operations officer, Helen Sipes to assistant vice president and Mary Good to corporate secretary. Doyle Souser, formerly with Peat, Marwick and Mitchell, has joined the bank as auditor.

ECONOMIC OUTLOOK [Continued from page 1]

Corporate Profits

Profits have fully recovered to the prerecession level and year-over-year improvement is estimated at close to 30% this year. The improvement in profits is the result of volume increases, productivity gains, some moderation of significant improvement, nor deterioration.

Consumer acceptance of new

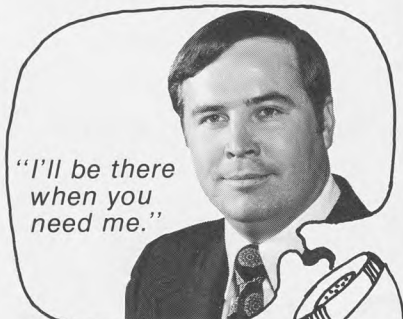
model cars cannot be accurately assessed at this writing, but our assumption (and this is another risk area in the forecast) is that sales in 1977 will only improve modestly from a level of 10.3-million units this year to 10.6 in 1977.

Capital Investment

The First Minneapolis forecast is more optimistic than most in projecting a 24% increase for 1977 expenditures on plant and equipment. Surveys of 1977 plans for fixed investment conducted by McGraw Hill and the Commerce Department should be available in about a month. While the early surveys may not reveal such strong numbers, we believe that subsequent surveys will carry upward revisions.

Corporate profits, cash flows and liquidity positions are much improved, making for a better financial climate in which to make investment decisions. Capital market conditions and bank credit availability are favorable. No upside explosion of bank loan demand is expected, but 1977 total bank loans should rise from \$171-billion to \$188.3-billion—a 10% increase.

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wage increases and a resultant recovery in profit margins. In the coming year unit labor costs should exert some pressure, but volume gains and relatively favorable pricing should permit a small further improvement in margins. The First Minneapolis forecast is for a very satisfactory further increase in profits of about 15%.

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