

9th Fed's New Statistical Model Predicts—

More Growth for Upper Midwest

ABOVE-AVERAGE growth without an acceleration in inflation is expected for the U.S. economy in 1985 and 1986, according to a new statistical model developed by Robert B. Litterman, senior economist at the Federal Reserve Bank of Minneapolis. Like all forecasts, though, this one is subject to much uncertainty. A special feature of the new model, however, is its ability to quantify the uncertainty of its forecasts, he states.

The model predicts that real growth—measured by the inflation-adjusted gross national product (real GNP)—is likely to be near 3.7 percent in 1985 and 3.9 percent in 1986. These rates are slightly higher than the post-World War II average of 3.5 percent.

The model expects the strongest growth in those parts of the economy most likely to benefit from the recent decline in interest rates—such as the auto and housing industries and investment in plant and equipment. However, the model expects the trade deficit to continue to moderate growth somewhat.

Despite the prediction of above-average growth, the model indicates a high probability that actual growth in any given quarter could differ widely from its forecast. For example, the model estimates that there's roughly a 3-in-4 chance that

economic activity will decline during one quarter over the next two years.

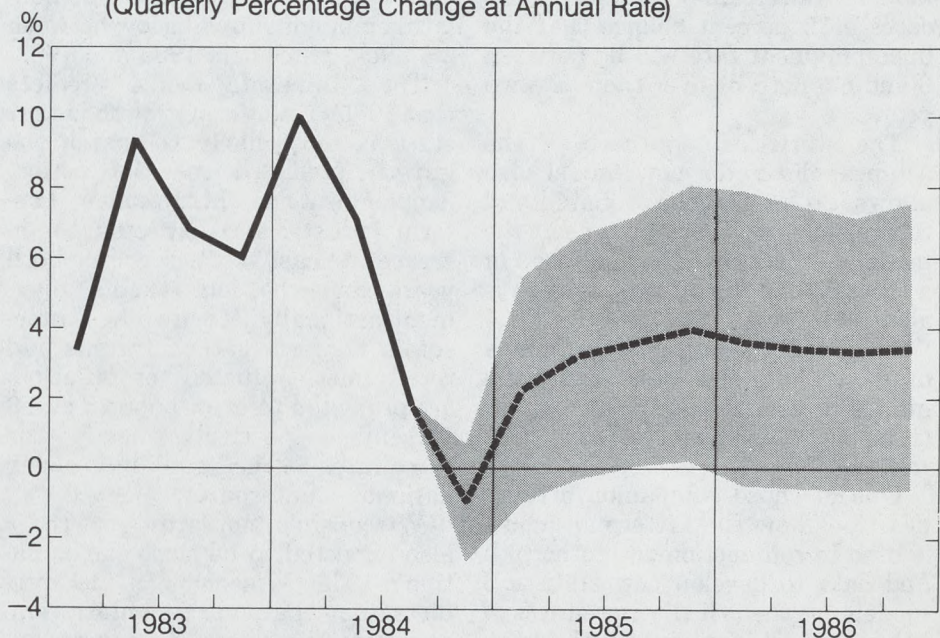
The model is relatively optimistic about inflation over 1985 and 1986.

It expects the inflation rate to be between 3 and 3.5 percent in both years. The model indicates less uncertainty about its inflation forecast than about real growth for 1985 and 1986. It estimates a 1-in-2 chance that the inflation rate (measured by

The New Model's Forecasts for Growth, Inflation, and Unemployment*

Growth (Real GNP)

(Quarterly Percentage Change at Annual Rate)



*Most likely forecast surrounded by a range within which the variable is likely to fall 70 percent of the time, based on 1,000 simulations

Sources: Forecast—Federal Reserve Bank of Minneapolis
Basic Data—U.S. Departments of Commerce and Labor

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the GNP deflator) will be between 2 and 4 percent and only a 1-in-16 chance that inflation will exceed 5 percent in either of the next two years.

Even though growth is expected to be above-average, the model predicts only modest declines in the civilian unemployment rate. The rate is projected to decline only slightly from its October 1984 level of 7.4 percent to just above 7 percent throughout 1985 and 1986. The model's uncertainty measure indicates a 70 percent chance that the unemployment rate will be between 6 and 8.5 percent over the next two years.

The statistical approach of the Minneapolis Fed's new model also allows it to predict the probability of future events. For instance, the model predicts that the likelihood of a recession in the next two years is about 1-in-6.

The model's forecasts, estimates of uncertainty, and forecasting techniques are described in several articles in the Minneapolis Fed's *Quarterly Review*.

One of those companion articles describes how the Litterman model is used in conjunction with other 9th Fed data to develop new statistical models for the 9th District states of Minnesota, Wisconsin, South Dakota, North Dakota and Montana. The five new statistical models developed by researchers at the Minneapolis Fed show that the nonfarm economies of those five upper midwest states are all likely to grow in 1985 and 1986, but not all as fast as the national economy. Again, these individual state models feature the ability to estimate how uncertain their own forecasts are.

The models say, for example, that in the next two years total employment in nonfarm industries has a 70 percent chance of growing at an annual rate between about 1.5 and 4.5 percent in Minnesota and Wisconsin and between about minus 1 and plus

4 percent in Montana, North Dakota, and South Dakota.

All economic forecasts are uncertain, of course. Quantifying the uncertainty as these new models can, however, is not possible with conventional forecasting procedures, the Fed researchers say.

The forecasts of the new state models depend on a forecast of continued growth in the national economy which comes from a national model also developed at the Fed. This U.S. model projects that nonfarm employment will grow between 2.5 and 3 percent in 1985 and 1986.

The Minnesota model predicts that 1985-86 nonfarm growth in that state is most likely to match the growth predicted for the nation. Employment in Minnesota's nonfarm industries is expected to increase at least 3.5 percent in both years, somewhat more than employment nationally. Meanwhile, Minnesota's nonfarm earned income and retail sales, adjusted for inflation, are projected to grow about 6 and 9 percent, respectively, nearly the same rates as their rapidly growing national counterparts.

Wisconsin's nonfarm growth is also expected to be close to the nation's. The Wisconsin model predicts that the state's nonfarm employment and earned income adjusted for inflation, will most likely grow about 2.5 and 4.5 percent, respectively, in both 1985 and 1986. Growth in Wisconsin's retail sales, adjusted for inflation, is projected to accelerate between the two years, from about 5.5 percent in 1985 to about 9 percent in 1986. Most of these Wisconsin figures are not far below the corresponding figures in the national forecast.

The most likely growth forecasts for Montana, North Dakota, and South Dakota are all somewhat alike and somewhat weaker than those for Minnesota and Wisconsin. In both 1985 and 1986, nonfarm employment in these states is most likely to

grow roughly between 1.5 and 2.5 percent, while nonfarm earned income, adjusted for inflation, grows between 2.5 and 3.5 percent. Unlike the projected growth rates for Minnesota and Wisconsin, all of these rates are below the projected rates for the corresponding national variables.

The state models were constructed by Richard Todd and Hossein Amirzadeh, an economist and a research associate, respectively, at the bank. □

ABA Offers Bank Compliance Teleconference

The American Bankers Association, in cooperation with several state associations, will be offering the first of an annual series of symposiums on January 24 entitled, "Bank Compliance Symposium 1985." This video teleconference will provide compliance professionals with important information on recent regulatory and legislative developments in the compliance arena. Panelists from banking, legal and regulatory professions will outline methods your bank can use to comply with recent regulatory changes.

Locations for the teleconference symposium are as follows:

Iowa:

Des Moines Area Community College Conference Center, Ankeny.

Minnesota:

Radisson South, Bloomington.

Illinois:

Hyatt Lincolnwood, Chicago;
Ramada Inn, Mount Vernon;
Holiday Inn, Decatur.

South Dakota:

Holiday Inn City Centre, Sioux Falls.

Colorado:

Denver.

For more information contact individual state banking associations.

Iowa News

Iowa Bankers Insurance and Services will be conducting a Pension Compliance Seminar to be held January 16 at the Highlander Inn, Iowa City; January 30 at the Airport Hilton Inn, Des Moines, and February 6 at the Carrollton Inn, Carroll.

Fee for the seminar is \$15. The agenda includes: Retirement Plans Today to begin the seminar at 10:30 a.m., followed by a noon lunch which

is provided. At 1:15 p.m. the seminar resumes with IBA Revised Plan and at 3:00 will be questions and individual reviews.

* * *

A Permanent Life Licensing School, which includes the general section, will be held January 28-29 at the office of Iowa Bankers Insurance and Services at 104 East Locust Street in Des Moines. Insurance licensing examinations can be taken on Wednesday, January 30.

Registration will be accepted by mail only on a first-come, first-served basis to room capacity, and must be received by January 21.

CEDAR RAPIDS: Richard E. "Dick" Retz has been promoted to vice president in the correspondent banking division of Merchants National Bank. Mr. Retz joined Merchants in 1983 after ten years prior experience with Home State Bank at Jefferson.

DES MOINES: Charles H. Leibold has been promoted to vice president and trust officer in the trust division of Valley National Bank. Mr. Leibold joined the bank in 1981 as trust officer.

INDEPENDENCE: Dolph Leytze has been named executive vice president of Farmers State Savings Bank. Currently vice president and a member of the board, Mr. Leytze also is vice president and a director of Fidelity Ban Corp, the bank's holding company affiliate. Also announced at the bank was the advancement of Monte R. Cue, cashier, to vice president, and Malcolm G. Risk to vice president and cashier. Mr. Risk previously was a vice president.

Nebraska News

WILBER: At Saline State Bank in Wilber, David Stubbs has been promoted from vice president to senior vice president, and Al Skrabal has been advanced to vice president, according to Harley Bergmeyer, president. Mr. Stubbs has been with the bank four years and previously was a bank examiner. Mr. Skrabal will continue to serve as manager of Saline State Insurance Agency, Inc.

Minnesota News

LAKE CRYSTAL: Lake Crystal National Bank recently announced the election of Roger Schmeising as vice president and agricultural loan officer. Mr. Schmeising previously

was engaged in farming in the St. James area since 1959. Also announced were the following elections: Pat J. Crowley as assistant vice president; Mary Landkamer as cashier, and Gail Thompson as customer service officer.

Illinois News

CHICAGO: Harris Bankcorp, Inc. and the First National Bank and Trust Company of Barrington have signed a letter of intent under which Harris would acquire 100 percent of the Barrington bank's stock for \$32 million in cash. On September 30, 1984, First National Bank and Trust of Barrington had assets of \$335 million and deposits of \$304 million. The acquisition is subject to signing of a definitive agreement and regulatory approval.

ROSCOE: Dale L. Blachford has been elected president and chief executive officer of First Bank of Roscoe, effective January 7. He began his banking career in 1976 at Belvidere National Bank and joined First Community National Bank of Rockford in 1979. He was named vice president/cashier in January of 1984.

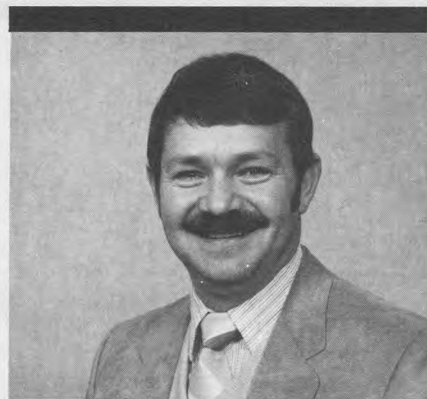
Wisconsin News

LA CROSSE: Robert W. Burg has joined Norwest Bank here as vice president of loan administration. He has served as legal counsel for the bank since 1978 and has been in private practice with the law firm of Johns, Flaherty & Gillette, S.C. since 1976.

SHAWANO: John A. Hennessy has been elected president and chief executive officer of Valley Bank here. He succeeds William Blythin, who has been elected chairman. Mr. Blythin has served as president and CEO for nine years. Mr. Hennessy transferred to Valley Bank of Shawano as executive vice president this past summer and previously was president of Valley Northern Bank, Appleton.

South Dakota News

SIOUX FALLS: Gary L. Scofield has been elected president of the northeastern division of First Bank of South Dakota, according to David S. Birkeland, president and CEO. The northeastern division is comprised of First Banks in Aberdeen, Redfield and Clark. Mr. Sco-



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field joined First Bank System in 1973 at First Bank Huron. Most recently he was elected president and chief operating officer of First Bank Aberdeen earlier this past year.

Wyoming News

JACKSON: At First Wyoming Bank here, Ona Lee Kelley has been named senior vice president in charge of lending. A credit specialist with First Wyoming Bancorp since June, Ms. Kelley brings 18 years of banking experience to her new position. During her career she has served as president of banks in Chicago and Wisconsin.

Montana News

FORT BENTON: Harold A. Brown, senior vice president of First Bank Fort Benton, has been elected president and managing officer of the bank. Mr. Brown has been with the bank since 1972.

SIDNEY: Diane G. Ford has been promoted to vice president and cashier of Richland National Bank & Trust. She has been with the bank since 1973, when she joined the bank as a bookkeeper. She has also served as head bookkeeper, assistant cashier and cashier.

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