MONTHLY REVIEW

of Ninth District Agricultural and Business Conditions

FEDERAL RESERVE BANK OF MINNEAPOLIS

Vol. 9 MARCH 31, 1949 Serial No. 87

Sound Banking Seen in Operating Ratios

Although Loans Accounted for a Greater Share of Total Bank Assets, Liquidity of Assets and Safety of Deposits in '48 Were Undeniably High

THAT Ninth district member banks as a whole during 1948 were "hale and hearty" is reflected in the Operating Ratio study made by the Federal Reserve Bank of Minneapolis.

This study covered capital, deposit, and total asset ratios, distribution of assets, and sources and distribution of earnings.[1] Using the thermometer of operating ratios, the triple-criterion of good health in banking—safety, liquidity or shiftability, and earning power—can be roughly measured.

The safety of depositors' money is the first obligation of bank operations. Two ratios—(a) capital accounts to total deposits and (b) capital accounts to total assets less government securities and cash assets—shed light on the capital margin of protection afforded depositors.

In 1948 the average ratio of capital accounts to total deposits in all Ninth district member banks was 5.8 per cent; that is, in the average bank, for every $100 of deposits there was $5.80 in capital funds. The average ratio of capital accounts to total assets minus government securities and cash assets in 1948 was 22.7 per cent; that is, for every $100 of such assets there was $22.70 in capital funds.

CAPITAL-DEPOSIT RATIO DECLINED DURING WAR

The capital-deposit ratio amounted to 10.5 per cent at the start of World War II. Owing to the rapid expansion of deposits in the following years, this ratio dropped steadily, hitting 5.5 per cent in 1946 then leveled off in 1947 and rose slightly in 1948.

During the war, deposits climbed upward in seven-league boots, each year breaking previous record-highs. Comparatively, capital accounts increased at a creeping pace, even though member banks retained two-thirds of their net profits as additional capital funds.

The result: a steady decline in the capital-deposit ratio. The postwar leveling off in this ratio reflected the flattening out of the deposit trend coupled with the continued steady increase in capital accounts.

Thus, in recent years, the capital-deposit ratio has reached relatively low levels. However, concurrent with the shrinkage of the capital buffer, investments in liquid government securities rose sharply, thereby increasing the "safety" of bank assets. As banks accumulated greatly enlarged government portfolios, emphasis shifted from the capital-deposit ratio to the ratio of capital to total assets minus cash and government securities. In this way capital accounts are measured against the assets on which losses are most likely to occur.

In 1942 the average capital-risk assets ratio in all Ninth district member banks was 23.1 per cent. It rose steadily during the war to a peak of 37.7 per cent in 1945, then turned downward, dropping to 22.7 per cent in 1948. The postwar falling trend was due for the most part to the reductions in government security holdings and the increase in loans.

Selected "Operating Ratios" of All Ninth District Member Banks in 1942, 1946-1948

	1942	1946	1947	1948
SUMMARY RATIOS				
Percentage of Total Capital Accounts				
Net current earnings before income taxes	9.2	15.6	16.3	16.9
Net profits	8.7	12.2	11.7	11.1
Cash dividends declared	3.3	3.3	3.1	3.3
Percentage of Total Assets				
Total earnings	3.3	2.2	2.3	2.5
Net current earnings before income taxes	.8	.8	.8	.9
Net profits	.8	.6	.6	.6
DISTRIBUTION OF ASSETS				
Percentage of Total Assets				
U. S. Government securities	23.7	58.5	55.2	50.9
Other securities	9.5	4.2	5.4	6.4
Loans	32.6	12.7	15.8	20.2
Cash assets	32.4	24.0	23.0	21.9
Real estate assets	1.6	.5	.5	.5
CAPITAL AND DEPOSIT RATIOS—				
In Percentages				
Capital accounts to total assets less government securities and cash assets	23.1	36.2	28.3	22.7
Capital accounts to total deposits	10.5	5.5	5.5	5.8
Number of Banks	450	469	471	474

Note: These are simple averages of the individual ratios computed for each bank.

[1] Ratios in this study are arithmetic averages of the ratios of individual banks rather than single ratios of aggregate dollar amounts. Ratios are computed on the basis of annual earnings data and an average of the balance sheet figures reported December 31, 1947, June 30 and December 31, 1948. A more detailed presentation of the ratios, including a breakdown by bank size group, is available from this bank on request.

LIQUIDITY REFLECTED IN ASSET DISTRIBUTION

A general yardstick of bank liquidity or shiftability is provided by the distribution of total bank assets. Generally, the greater the proportion of cash and near-cash assets, the higher the degree of liquidity; the greater the proportion of risk and fixed assets, the lower the degree of liquidity. Beyond this, of course, liquidity is determined by the maturity schedule and marketability of securities and the quality of loan portfolios. Such analysis, however, is outside the scope of this study.

In 1948 in all Ninth district member banks the distribution of total assets on the average was: about one-half of total assets in government securities, over a fourth in loans and other securities, a fifth in cash, and less than one per cent in real estate assets.

Banking as a whole achieved the most liquid position in its history as a result of World War II. War financing swelled government security portfolios to unprecedented proportions, while demand for private credit was generally sluggish. In 1946—the peak of the trend toward liquidity—government securities in Ninth district member banks accounted for almost 60 per cent of total assets, cash assets accounted for close to 25 per cent and loans and other securities for only 17 per cent.

The preponderance of government securities chiefly of short maturities, assured the banks that the investments could be converted into cash by redemption, by sale to other investors, including the Federal Reserve banks, or by use as collateral for borrowing.

In the postwar period the trend turned again toward private lending. Security portfolios were reduced due to sales as well as retirements, while loans increased rapidly. Nonetheless, compared with prewar years, Ninth district member banks in 1948 still had a high proportion of total assets invested in government securities, with a relatively modest proportion in loans.

EARNING POWER GAUGED BY EARNINGS TO CAPITAL RATIOS

There are numerous "operating ratios" which provide a measure of the earning power of bank assets. Important among these are the ratios of current earnings and net profits to total capital accounts.

Since 1942 the average ratio of net current earnings before income taxes to total capital accounts in all Ninth district member banks has year by year scaled new heights. Rising from 9.2 per cent in 1942 to 16.9 per cent in 1948, the steady improvement in this ratio mirrored primarily the upward march of net current earnings.

Paralleling the war and early postwar experience of the current earnings-capital ratio, the ratio of net profits (current earnings minus income taxes and adjusted for nonrecurring profits and recoveries and losses and charge-offs) to total capital accounts also registered yearly advances from 1942 through 1946. At an average of 8.7 per cent in 1942 this ratio rose to 12.2 per cent in the subsequent four years. In 1947, however, net profits to capital accounts fell to 11.7 per cent and in 1948 declined again to 11.1 per cent.

NET PROFIT RATIOS IN 1948 AFFECTED BY TRANSFERS TO RESERVES FOR BAD DEBTS

The net profit ratio in 1948 was materially influenced by sizeable transfers to reserves for bad debts. In accordance with the Treasury ruling dated December 8, 1947, many banks during 1948 adopted the reserve method of providing for possible future loan losses. Initial transfers were charged against current earnings. Thus net profits were shaved down, and accordingly the shrinkage was reflected in the net profit ratio.

In the absence of transfers to reserves for bad debts, the ratio of net profit to total capital accounts in 1948 would have registered 12.9 per cent —surpassing both 1946 and 1947

LITTLE CHANGE IN OTHER EARNING POWER INDICATORS

The percentage comparison of earnings and profits to total assets provides an additional indication of earning power. The ratio of net current earnings to total assets in 1948 in all Ninth district member banks averaged 0.9 per cent—an edge above the preceding year. The ratio of net profits to total assets averaged 0.6 per cent—holding even with 1947. Again lower net profits due to the transfers to reserves for bad debts dampened down the net profit ratio.

One further significant operating ratio is the relation of total current expenses to total current earnings —the barometer of expense control. In this respect, banks generally have made a good showing in recent years.

In the postwar period, which has been characterized by mounting operating costs and high break-even points in many industries, member banks in the Ninth district have managed to hold the ratio of current expenses to current earnings steady at close to 65 per cent.

Moreover, this is considerably below the experience in pre-war, when current expenses absorbed in the

Continued on Page 678, Column 3

Sources and Disposition of Total Current Earnings in All Ninth District Member Banks in 1942, 1946-1948

	1942	1946	1947	1948
Percentage of Total Earnings				
Interest and dividends on:				
(a) U. S. Government Securities	24.8	42.2	38.2	34.4
(b) Other securities		4.7	4.7	5.0
Earnings on loans	51.4	30.7	35.4	40.6
Other current earnings	23.8	22.4	21.7	20.0
Total earnings	100.0	100.0	100.0	100.0
Salaries and wages	31.9	28.4	28.4	28.6
Interest on time deposits	16.3	14.8	14.3	13.2
Other current expenses[1]	27.0	22.5	22.9	23.3
Total expenses[1]	75.2	65.7	65.6	65.1

[1] Includes charge-offs on banking house, furniture and fixtures.

Note: These are simple averages of the individual ratios computed for each bank.

AGRICULTURE

Market Supplies of Livestock Favorable in '49

POTENTIALLY, farmers and ranchers in the Ninth district are in a position to produce a large beef calf crop in 1949. This is true because cattle ranges in the Ninth district, in comparison with a recent pre-war average, are well stocked with breeding cows. On Jan. 1, 1949, beef cow numbers, two years old and over, in the Dakotas and Montana are double to treble the 1939-41 average. (See chart.)

It is important, also, that during 1948 numbers of beef cows, 2 years and older, increased approximately 6 per cent in these three states during the year of 1948.

In Minnesota, there were 65 per cent more beef cows, 2 years old and over, on farms Jan. 1, 1949, compared with the 1939-41 average and the number was up 5 per cent from a year earlier.

Not only are district ranges and farms well stocked with mature beef cows capable of turning out a big calf crop this spring, but beef heifer replacement numbers are also large. (See chart.) In the Dakotas and Montana, for example, beef heifers 1 to 2 years of age, are more than double the recent pre-war average, 1939-41. Furthermore, beef heifers 1 to 2 years of age in these three states increased approximately 6 per cent during 1948 compared with only 2 per cent for the U. S. as a whole.

Steers over one year of age on district farms Jan. 1, 1949, were up in numbers approximately 17 per cent from a year earlier, and there were 75 per cent more compared with the pre-war average. From the viewpoint of potential steer marketings in 1949, this should exercise a healthy influence on district cash farm income from cattle sales during next fall and winter.

It is evident from the chart and table that the increase in numbers of beef breeding stock and steers from pre-war and during 1948 is much more pronounced in the Ninth Federal Reserve district compared with the country as a whole.

DAIRY BREEDING STOCK IN SHARP DECLINE

In contrast to the substantial increase that has occurred in beef breeding stock, numbers of dairy cows and dairy heifer replacements in the Ninth district show a definite decline.

Dairy cow numbers in the district reached a peak of over 3.1 million head in 1945, and since then there has been a decrease of more than 600,000 head. On January 1, 1949, milk cows 2 years and older were down in numbers approximately 16 per cent from the 1939-41 average (see chart), with a 5 per cent reduction occurring in 1948.

The reduction in milk cow numbers on farms has been and appar-

▶ *Ranges and farms are well stocked with steers, breeding cows, and heifer replacements.*

▶ *Substantially more sows and gilts promise more pork and favorable market supplies.*

▶ *Dairy and sheep enterprises continued downward adjustments in 1948.*

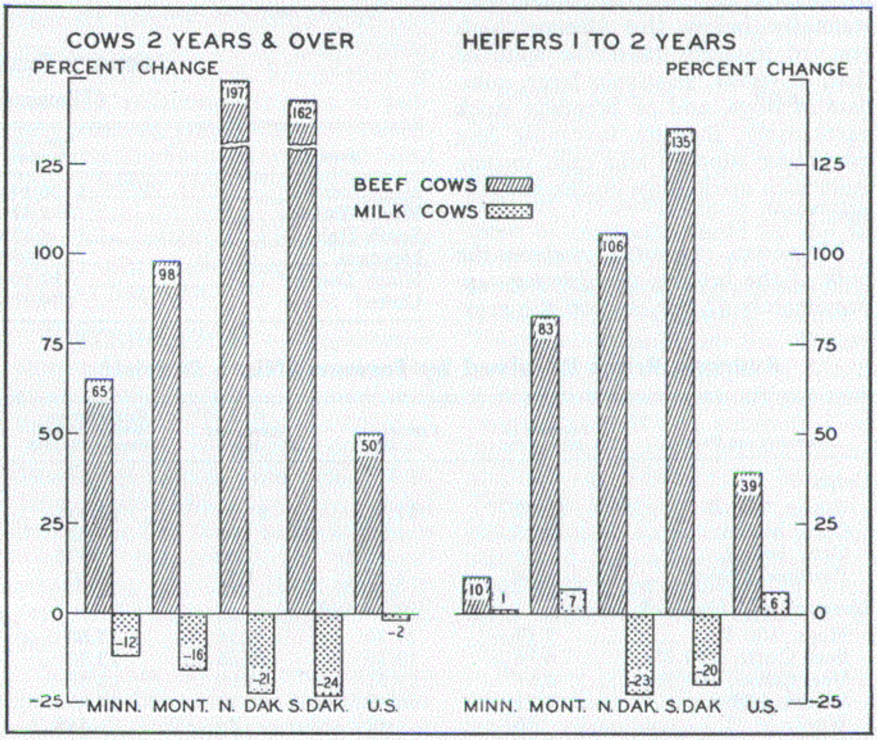
Per Cent Change in Steer Numbers

Over 1 Year of Age from:

	1948	1939-41 Average[1]
Minnesota	+17	+ 17
Montana	+19	+107
No. Dakota	+ 4	+ 51
So. Dakota	+27	+174
U. S.	+10	+ 34

[1] Source: American Meat Institute, Chicago and USDA, Washington, D. C.

CHANGE IN COW NUMBERS IN NINTH DISTRICT STATES, JAN. 1, 1949, IN PER CENT OF 1939-41 AVERAGE*



BEEF COWS and heifer replacement numbers are more than double the pre-war 1939-41 average. In contrast, dairy cow numbers are substantially below the pre-war figure.

*Source: Bureau of Agricultural Economics, USDA.

ently continues to be drastic in the Dakotas and Montana, but even in the dairy regions of the district the percentage decline has been substantially greater than it has been for the country as a whole. (See chart.)

HOG POPULATION ON WAY UP

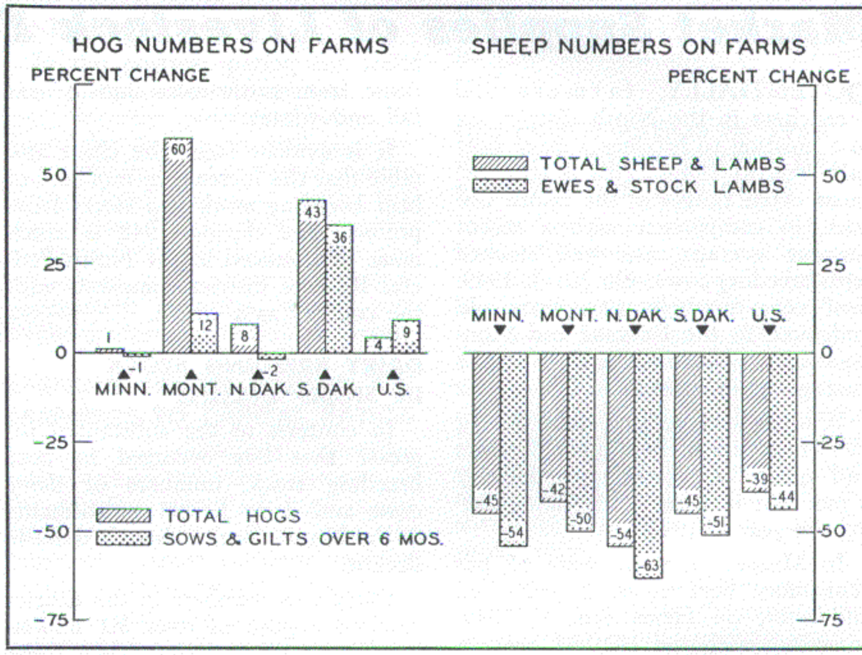
Hog numbers on farms are influenced primarily by favorableness or unfavorableness of the corn-hog ratio. In recent months this ratio has been favorable, and as a result hog numbers, and especially breeding stock numbers, are being increased. This is indicated by sow and gilt numbers on farms over 6 months of age Jan. 1, 1949—about 15 per cent more compared with a year earlier.

The total number of all hogs on Ninth district farms at the first of the year is estimated to be 5 per cent more compared with a year earlier, and approximately 11 per cent more compared with the pre-war average 1939-41. (See chart on hog numbers.)

Hog numbers in the district at the present time are, of course, substantially below the all-time high reached in early 1946. In spite of that, however, relatively large numbers of hogs, and of breeding stock particularly, indicate favorable hog marketing supplies and cash income from such marketings during the current year.

Minnesota, of course, produces the bulk of the hogs in the district—approximately 62 per cent on the average. In recent years of good feed crops, however, there has been a tendency for the Dakotas and Montana to boost hog population on farms. (See chart.)

CHANGE IN HOG AND SHEEP NUMBERS IN NINTH DISTRICT STATES, JAN. 1, 1949, IN PER CENT OF 1939-41 AVERAGE*



HOG NUMBERS on farms are substantially above pre-war, but sheep population is only about one-half the pre-war level.

*Source: American Meat Institute, Chicago, and USDA.

January Cash Farm Income[1]

(Thousands of Dollars)

State	1935-1939 Average	1948	1949	1949 in Per Cent of 1948
Minnesota	$ 26,141	$ 129,753	$ 111,539	86%
North Dakota	5,421	64,519	56,744	88
South Dakota	8,378	64,769	64,706	100
Montana	4,306	30,473	47,154	155
Ninth District[2]	50,300	310,652	298,709	96
United States	604,258	2,545,110	2,537,983	100

[1] Data from The Farm Income Situation, dated February, 1949.
[2] Includes 15 counties in Michigan and 26 counties in Wisconsin.

Average Prices Received by Farmers, Ninth District*

Commodity and Unit	February 15 1937-41 Av.	February 15 1948	February 15 1949	Parity Prices[1] United States February 15, 1949
Crops				
Wheat, bushel	$0.83	$2.20	$1.94	$2.17
Corn, bushel	.55	1.78	.99	1.57
Oats, bushel	.31	.97	.60	.978
Potatoes, bushel	.64	1.59	1.51	1.80
Livestock and Livestock Products				
Hogs, 100 lbs.	7.17	21.36	19.26	17.80
Beef Cattle, 100 lbs.	6.76	19.39	17.63	13.30
Veal Calves, 100 lbs.	8.65	23.52	24.90	16.50
Lambs, 100 lbs.	7.73	20.43	21.21	14.40
Wool, lb.	.26	.42	.54	.448
Milk, wholesale, 100 lbs.	1.57	4.25	3.15	3.92
Butterfat, lb.	.31	.90	.68	.644
Chickens, live, lb.	.116	.195	.253	.279
Eggs, doz.	.156	.376	.366	.527

*Data compiled from February 28, 1949—Agricultural Prices.—USDA.
[1] The term parity as applied to the price of an agricultural commodity is that price which will give to the commodity a purchasing power equivalent to the average purchasing power of the commodity in the base period, 1910-14.

SHEEP ENTERPRISE STILL LOSING IN POPULARITY

The amazing reduction in sheep numbers in the district that got underway early in 1942, when sheep population was at an all-time peak, continued throughout 1948. A 7 per cent further decline occurred last year and total sheep numbers now are just a little more than half what

Concluded on Page 678, Column 3

BUSINESS

Fewer Scarcities Causing Readjustments

THE decline in business indicators has led many to the conclusion that this may be the beginning of a business recession. However, the figures for February and some preliminary figures for March indicate that the decline, thus far, can be traced mainly to the reappearance of the usual winter slump.

February is usually a slack business month. The winter weather and no holiday season to stimulate buying causes a contraction in business activity.

Department store sales in this region during February fall approximately 25 per cent below the average monthly sales for the year. In only two months of the year, January and July, does the sales volume fall slightly lower.

February employment in non-agricultural industries prior to the war was generally at the lowest level for the year. For instance in this month in 1940, a typical pre-war year, employment in the district was six per cent below the monthly average for the year. March was the second lowest month with employment five per cent below the monthly average. The seasonal slump in employment was about the same in each of the states in the district.

Since the close of the recent war, the great demand for merchandise and services has moderated the winter slump in employment. In the past three years, February employment has dropped only four per cent below the monthly average for these years.

With the return of a buyers' market for most types of merchandise, the pre-war winter slump in employment has reappeared. Prior to the war, February employment declined about 1.5 per cent from January. This year the employment in non-agricultural industries in Minnesota was down by 1.0 per cent and in Montana by 1.4 per cent. The shrinkage in jobs was concentrated in manufacturing, retail trade, and construction.

According to the report issued by the Unemployment Compensation Commission of Montana, the winter weather, which broke all existing records for severity, has been responsible for a substantial share of the decline in employment. The interruption in transportation caused numerous firms to reduce their labor force temporarily. The seasonal decline since last October has been 50 per cent greater than a year ago.

In spite of this contraction in employment, the number employed in non-agricultural industries during the past month in the states of this district was still above the total for a year ago.

- ***January-February unemployment increased, although no more than for the same period in pre-war years.***
- ***Department store sales dropped by more than the seasonal amount, following the national pattern.***
- ***Consumer credit outstanding, for items other than automobiles, contracted.***
- ***The number of business failures in 1948 increased, but the total was still less than in any pre-war year.***

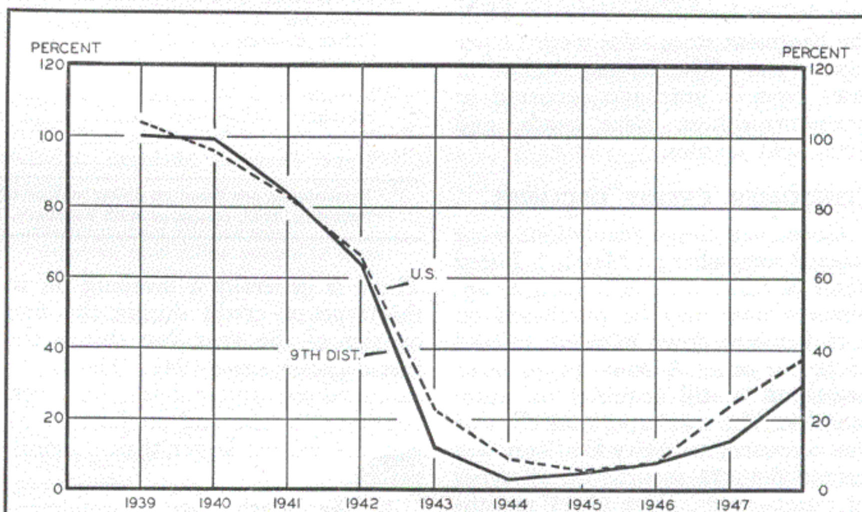
DEPARTMENT STORE SALES APPROXIMATE '47 LEVEL

Department store sales in this district continued to run below year ago levels. Last October the steady rise in sales over a year ago came to an abrupt termination. Since the first of November, sales have been lower as compared with the amount for the preceding year except for a few weeks in December, when the Christmas buying rush was at the peak.

In February, Ninth district sales fell four per cent below those for the same month in 1948. The decline in sales has been quite uniform in this region. For instance, there has been no noticeable difference in contraction between rural and urban areas.

Preliminary figures for March indicate that sales are falling below last year's volume. For the four weeks ending March 19, sales were six per cent below the corresponding period in 1948. Sales during this

NUMBER OF BUSINESS FAILURES IN NINTH DISTRICT AND UNITED STATES (1939-1940 = 100)



WITH inventory losses appearing in place of inventory profits, the number of business failures is rising, though still below the pre-war level.

Source: Dun and Bradstreet.

month are expected to make a poor showing against those of last year, since Easter is three weeks later this year. With Easter on April 17, the usual seasonal rise resulting from the holiday buying will be largely concentrated in April.

The index of department store sales, corrected for the usual February slump in sales, was 160 per cent above the 1935 to 1939 base period. February sales fell by more than the usual seasonal amount. The adjusted index was four per cent lower than in January and seven and one-half per cent lower than in December.

Consumers apparently are spending a smaller share of their total income, since consumer incomes have not declined as much as department store sales.

The present lag in department store sales is a nation-wide phenomenon. Sales in the nation for the four weeks ending March 12 were eight per cent below those for the corresponding period in 1948. The adjusted index for February was 173 per cent above the pre-war base. In terms of this base period, the present level of sales in this district is about five per cent below the national level.

An examination of sales by departments reflects a continued shift in consumer buying to the lower-priced items. In January, main store sales, according to a small sample of stores in this district, were six per cent below last year's volume, while the basement store sales were 11 per cent above. The largest decline in sales from a year ago occurred in housefurnishings, piece goods, and household textiles.

Northwest Business Indexes
(Adjusted for Seasonal Variations—1935-39 = 100)

	Feb. '49	Jan. '49	Feb. '48	Feb. '47
Bank Debits—93 Cities	307	310	325	281
Bank Debits—Farming Centers	378	368	384	339
Ninth District Dept. Store Sales	261	271	267	261
City Department Store Sales	274	300	287	273
Country Department Store Sales	248	241	246	250
Ninth District Department Store Stocks	307p	311	324	269
City Department Store Stocks	267	267	277	251
Country Department Store Stocks	340p	346	361	284
Country Lumber Sales	146p	137p	171	163
Miscellaneous Carloadings	133	142	146	144
Total Carloadings (excl. Misc.)	75	78	91	100
Farm Prices (Minn. unadj.)	226	240	268	238

p—preliminary.

Sales at Ninth District Department Stores[1]

	% Feb. 1949 of Feb. 1948	% Jan.-Feb. 1949 of Jan.-Feb. 1948	Number of Stores[2] Showing Increase	Decrease
Total District	96	94	127	149
Mpls., St. Paul, Dul.-Sup.	95	95	6	23
Country Stores	98	92	121	126
Minnesota	101	97	34	33
Central	91	91	3	5
Northeastern	114	104	3	1
Red River Valley	90	92	1	3
South Central	100	99	5	8
Southeastern	103	98	4	6
Southwestern	102	98	18	10
Montana	94	91	14	23
Mountains	102	94	5	7
Plains	91	89	9	16
North Dakota	94	86	28	21
North Central	92	78	6	5
Northwestern	86	72	2	3
Red River Valley	95	89	11	7
Southeastern	103	95	9	3
Southwestern	63	63	0	3
Red River Valley-Minn. & N. D.	94	89	12	10
South Dakota	103	94	27	17
Southeastern	106	96	8	6
Other Eastern	100	91	15	10
Western	106	96	4	1
Wisconsin and Michigan	97	93	18	32
Northern Wisconsin	103	98	5	5
West Central Wisconsin	96	92	9	21
Upper Peninsula Michigan	99	94	4	6

[1] Percentages are based on dollar volume of sales.
[2] February, 1949, compared with February, 1948.

CONSUMER CREDIT DECLINES

Consumer credit regulations were relaxed somewhat on March 7. Listed items of furniture and household appliances now may be purchased on a 15 per cent down payment instead of 20 per cent. A down payment of one-third is still required on automobiles. The maximum time allowed the consumer to repay the loan was extended to 21 months on all types of purchases in place of 15 months for balances of less than $1,000 and 18 months for balances in excess of that amount.

The amount of instalment credit outstanding in the nation during January declined by $145 million. There is generally a levelling off in this type of credit during the first quarter of the year, but this is the first decrease since 1945. The credit extended on automobiles, however, continued to rise and on January 31 was $14 million larger than a month earlier.

In the Ninth district, instalment credit outstanding at commercial banks decreased by two per cent during February. The decrease was concentrated largely in direct retail instalment paper originating on items other than automobiles. The net amount outstanding on automobiles remained close to the January figure.

BANK DEBITS APPROACH 1947 LEVEL

The adjusted index of bank debits* for February was 207 per cent above the 1935 to 1939 base period. This was lower than for any month since July 1947.

Since last October, after an adjustment is made for the usual seasonal variation, the amount of debits has steadily declined, reflecting the contraction in the volume of business transacted and the decline in prices.

During the first quarter of this year, smaller income tax payments have further reduced the aggregate amount of debits. For example, in January and February of 1948, federal income tax collections in Minnesota totaled $70 million and $14.2 million respectively, whereas, in the first two months of this year, the collections were $59.4 million and $12.7 million respectively.

The lower tax liability was largely the result of the reduction in the federal personal income tax rates by approximately 10 per cent.

1948 NEW BUSINESS INCORPORATIONS STILL HIGH

With the return of competition to the marketing of most commodities, the wave of new businesses which followed the recent war has tapered off. According to the figures compiled by Dun and Bradstreet, new business incorporations in the states wholly within this district in 1948 were 15 per cent less than in the preceding year.

There was a similar decline for the United States. The number of incorporations, nevertheless, was still impressive.

1948 BUSINESS FAILURES UP BY 45 PER CENT

The number of business liquidations is still small in comparison with pre-war, but it has risen steadily since the end of the war. The chart reveals the extent of the rise and the comparable level prior to the war. In this district 70 firms failed last year, with their current liabilities totaling $2,107,000. This was roughly one-third as many firms as failed in 1940.

The business failures during the past year shifted from manufacturing to retail trade firms. In 1948 more than twice as many retail trade firms were liquidated as in the previous year. On the other hand, only 16 manufacturing firms were liquidated as compared with 20 in the previous year.

An examination of the geographic location of the failing firms in this district during the past year indicates that the large majority, or 48 of them, were in Minnesota. No failures were reported in Montana, three in both North Dakota and South Dakota, and 16 in the northwest 26 counties of Wisconsin and on the Upper Peninsula of Michigan.

This rise in failures is part of a national trend. The number last year aggregated 5,252 as compared with 3,476 in the preceding year. This represents an increase of 51 per cent.

During the period of rapidly rising prices, nearly all business firms were operating at a profit. Even though the volume of business transactions for some firms was not above the break-even point, the profits accruing on inventory appreciation were sufficient to keep their operations in the black.

With prices now quite stable or declining slightly, inventory losses often arise which must be offset by the net income from the volume of business transacted.

END

*Bank debits, which include the amount of checks drawn against the demand deposit accounts of individuals, firms, corporations, and governmental units, the withdrawals made from savings accounts, and payments made from trust accounts and certificates of deposit, constitute a measure of the payments made for goods, services, debts, taxes, etc.

Index of Department Store Sales by Cities

(Unadjusted 1935-39 = 100)

	Feb. [1]	Per Cent Change [2] From Year Ago Feb.	Jan.-Feb.
Minneapolis	236	— 3	— 4
St. Paul	192	—10	— 9
Duluth-Superior	201	+ 4	0
Aberdeen	282	— 6	—13
Bismarck	168	— 8	—19
Fairmont	210	+ 3	— 6
Grand Forks	210	+ 6	— 4
Great Falls	190	—17	—17
La Crosse	169	— 5	— 7
Mankato	191	— 3	— 2
Minot	145	—16	—26
Rapid City	307	0	—15
Rochester	215	+ 5	— 2
St. Cloud	219	—11	—12
Sioux Falls	280	+ 8	— 1
Valley City	135	+14	— 3
Willmar	189	+ 2	— 4
Winona	179	— 3	—12
Yankton	212	— 8	—18

[1] Based on daily average sales.
[2] Based on total dollar volume of sales.

MARKET SUPPLIES OF LIVESTOCK

Continued from Page 675

they were in early 1942.

The reduction in total sheep numbers, as well as breeding stock numbers, is fairly uniform between the four full states in the district, and the decrease is about the same as for the U. S. as a whole. (See chart on sheep numbers.)

It is interesting to observe, however, that breeding ewes and stock lamb numbers in South Dakota and in Montana were up 4 and 14 per cent respectively during 1948. Whether this indicates a definite reversal in the downward trend in sheep numbers remains to be seen. The 14 per cent increase for Montana is especially important, however, since almost half of all sheep raised in the district come from that one state. END

SOUND BANKING SEEN IN OPERATING RATIOS

Continued from Page 673

neighborhood of 75 per cent of current earnings.

February Banking Developments

DIVERGENT trends between city and country banks characterized Ninth district member banking developments during February. While city banks experienced a slight decline in loans and an increase in "other" demand deposits, country banks—with the reverse pattern—saw loans rise and "other" demand deposits fall off.

TOTAL LOANS . . . in the district declined $3 million during February —the net result of minus $8 million in city banks and plus $5 million in country banks. The decline in city banks was partly concentrated in consumer loans—not a surprising development in view of the rather sharp drop this month in total consumer credit outstanding. City bank commercial loans also declined, reflecting some seasonal influence as well as the generally cautious sentiment prevailing in the business community. In country banks, loans increased in February as farmers' purchases of seed, tools and machinery created demand for credit. In addition, country banks continued to participate in Commodity Credit Corporation loans.

'DUE TO' BANK DEPOSITS . . . decreased $27 million in February. City banks, holding the bulk of correspondent balances, suffered most of this decline.

"OTHER" DEMAND DEPOSITS . . . in city banks rose $1 million, while in country banks such deposits were off $16 million. An increase in deposits of the U. S. government was the major factor in the city banks deposit rise, reflecting the continued inflow of tax receipts. In country areas, a seasonal decline in cash farm income combined with a seasonal increase in farmers' expenditures drew down deposits. The fact that country bank deposits decreased at the same time that loans increased indicated that funds were being shifted out of the country area.

GOVERNMENT SECURITIES . . . for all district member banks declined $46 million this month, $30 million in city banks and $16 million in country. The major influence causing liquidation of governments in both city and country banks was loss of deposits. In the city banks, bills and certificate portfolios bore the brunt of the liquidations, their combined decline being $26 million. Regarding Treasury financing, on February 14 an announcement was made of a redemption call for June 15, 1949, of 2% Treasury bonds 1949-51. An exchange offering was indicated; however, the terms have not been announced. END

Assets and Liabilities of Twenty Reporting Banks

(In Million Dollars)

	Jan. 26, 1949	Feb. 23, 1949	Mar. 16, 1949	$ Change Jan. 26-Feb. 23
ASSETS				
Comm., Ind., and Ag. Loans	$ 250	$ 247	$ 256	— 3
Real Estate Loans	64	64	64	..
Loans on Securities	14	13	14	— 1
Other (largely consumer) Loans	117	113	118	— 4
Total Gross Loans & Discounts	$ 445	$ 437	$ 452	— 8
Less Reserves	5	5	5	..
Total Net Loans & Discounts	$ 440	$ 432	$ 447	— 8
U. S. Treasury Bills	28	18	38	—10
U. S. Treasury C. of I.'s	151	135	127	—16
U. S. Treasury Notes	14	14	14	..
U. S. Government Bonds	449	445	444	— 4
Total U. S. Gov't. Securities	$ 642	$ 612	$ 623	—30
Other Investments	79	81	83	+ 2
Cash and Due from Banks	422	433	450	+11
Miscellaneous Assets	15	16	21	+ 1
Total Assets	$1,598	$1,574	$1,624	—24
LIABILITIES				
Due to Banks	$ 269	$ 246	$ 270	—23
Demand Deposits, Ind., Part., Corp.	763	766	770	+ 3
Demand Deposits, U. S. Govt.	26	36	39	+10
Other Demand Deposits	167	155	176	—12
Total Demand Deposits	$1,225	$1,203	$1,255	—22
Time Deposits	256	256	256	..
Total Deposits	$1,481	$1,459	$1,511	—22
Borrowings	4	2	1	— 2
Miscellaneous Liabilities	14	15	14	+ 1
Capital Funds	99	98	98	— 1
Total Liabilities and Capital	$1,598	$1,574	$1,624	—24

Assets and Liabilities of All Ninth District Member Banks*

(In Million Dollars)

	Jan. 26, 1949	Feb. 23, 1949	$ Change Jan. 26, 1949 Feb. 23, 1949	$ Change Feb. 25, 1948 Feb. 23, 1949
ASSETS				
Loans and Discounts	$ 888	$ 885	— 3	+115
U. S. Government Obligations	1,635	1,589	— 46	—166
Other Securities	199	200	+ 1	+ 8
Cash and Due from Banks	849	855	+ 6	+ 19
Other Assets	29	30	+ 1	+ 1
Total Assets	$3,600	$3,559	— 41	— 23
LIABILITIES AND CAPITAL				
Due to Banks	$ 306	$ 279	— 27	— 49
Other Demand Deposits	2,128	2,113	— 15	+ 10
Total Demand Deposits	$2,434	$2,392	— 42	— 39
Time Deposits	939	941	+ 2	+ 9
Total Deposits	$3,373	$3,333	— 40	— 30
Borrowings	4	3	— 1	+ 1
Other Liabilities	19	20	+ 1	+ 1
Capital Funds	204	203	— 1	+ 5
Total Liabilities and Capital	$3,600	$3,559	— 41	— 23

*This table is in part estimated. Data on loans and discounts, U. S. Government obligations, and other securities are obtained by reports directly from the member banks. Balances with domestic banks, cash items, and data on deposits are largely taken from semi-monthly reports which member banks make to the Federal Reserve bank for the purpose of computing reserves.

Reserve balances and data on borrowings from the Federal Reserve banks are taken directly from the books of the Federal Reserve bank. Data on other borrowings are estimated. Capital funds, other assets, and the other liabilities are extrapolated from call report data.

National Summary of Business Conditions

COMPILED BY THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM, MARCH 25, 1949

OUTPUT and employment in industry declined somewhat further in February and were slightly below the levels of a year ago. Value of department store sales in February and the early part of March continued substantially below earlier advanced levels. Wholesale prices of meats and livestock advanced moderately from mid-February to mid-March, while prices of numerous other commodities declined somewhat further.

INDUSTRIAL PRODUCTION—Industrial production, according to preliminary figures for the Board's seasonally adjusted index, was 189 per cent of the 1935-39 average in February, down 2 points from January and 6 points from the peak last autumn. A further decline is indicated for March, reflecting sharp curtailment in the output of coal, and also reductions in output of some other products including petroleum and rayon.

In February, output of durable goods was down slightly, reflecting further declines in output of machinery—mainly electrical machinery—and of lumber, furniture, and stone, clay and glass products. Steel production, however, advanced further to a record rate of 101.2 per cent of capacity and was maintained at about this rate in March. In the automotive industry, activity declined slightly in February, but with the completion of model changeovers showed a small gain during the first three weeks in March.

Nondurable goods production also declined somewhat in February, petroleum refining operations were reduced, and small declines occurred in activity in the rayon textiles, chemicals, rubber products, and paper industries. Output at cotton textile mills and most other nondurable goods industries showed little change from January levels.

Minerals production declined moderately in February and was sharply reduced in March. Crude petroleum output was lowered further in February to a rate approximately equal to that in the same month a year ago, and was reduced substantially in March. Coal production continued to decline in February and the early part of March, reflecting large accumulation of stocks and reduced demand, and was sharply curtailed beginning March 14 as the result of a work stoppage affecting most mines east of the Mississippi. Output at copper mines increased substantially in February following a settlement of a prolonged strike at the mines of a leading producer.

EMPLOYMENT — Employment in non-agricultural establishments, as reported by the Bureau of Labor Statistics, declined more than seasonally in February and was 300,000, or one per cent less than in February 1948. The decline from January reflected mainly further reductions in manufacturing, construction, and railroad transportation. The number of persons unemployed increased by 550,000 to 3,200,000, according to Census Bureau estimates.

CONSTRUCTION — Value of contract awards in February, according to the F. W. Dodge Corporation, was about one-sixth larger than in January, reflecting increases in publicly-financed construction. Awards for privately-financed activity showed little change from the sharply reduced level reached in January. Total awards in January and February were 19 per cent smaller than in the same months last year.

DISTRIBUTION — Department store sales declined further in February after allowance for usual seasonal changes. The Board's adjusted index was 273 per cent of the 1935-39 average as compared with 287 in January and 286 a year ago. Sales during the first three weeks in March were 11 per cent below the corresponding period of 1948, owing in part to the later date of Easter this year.

Shipments of railroad revenue freight in February and the first half of March declined somewhat further and were 10 per cent below the level of a year ago. Loadings of coal, forest products, and merchandise in less than car-load lots were sharply reduced, as compared with a year ago, and there were less marked declines in miscellaneous freight and livestock shipments. Loadings of grain, coke, and ore were above year ago levels.

COMMODITY PRICES — The average level of wholesale prices, as measured by the all-commodity index of the Bureau of Labor Statistics, was unchanged from mid-February to mid-March. Reflecting in part a seasonal reduction in supplies, prices of meats and livestock rose somewhat, but prices of a wide range of industrial commodities declined. Prices of steel scrap and nonferrous metals scrap showed further marked decreases. Refined lead and zinc prices were lowered and there were reductions also in prices of various metal products, such as storage batteries and household appliances.

The consumers' price index declined 1 per cent in February, reflecting further decreases in retail prices of food, apparel, and housefurnishings. The February level was 169 per cent of the 1935-39 average, as compared with the high point of 174.5 reached last summer.

BANK CREDIT — Federal Reserve holdings of government securities declined sharply during the first half of March, reflecting principally sales of Treasury bonds and retirement of certificates held by the Reserve banks. The effect of these sales in absorbing bank reserves was largely offset by a substantial decline in Treasury deposits at the Reserve banks. After the middle of March, seasonally large income tax payments caused the shift of a substantial volume of funds from private deposit accounts at commercial banks to Treasury balances at the Reserve banks. Federal Reserve sales of bonds continued and, although the system purchased large amounts of short-term securities, bank reserves declined.

Business loans were reduced somewhat further at reporting banks in leading cities during February and the first half of March. Demand deposits of businesses and individuals declined substantially, reflecting tax payments, repayment of bank loans, and net purchases by nonbank investors of government securities from the banking system.