FEDERAL RESERVE BANK OF MINNEAPOLIS

MONTHLY REVIEW

9th DISTRICT AGRICULTURAL AND BUSINESS CONDITIONS

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BANKING

Bank Profits Up Slightly in 1950

BANKING operations were slightly more profitable in 1950—in terms of total income—but on the basis of profits per dollar of capital accounts member banks lost ground.

This circumstance is attributable to the fact that they boosted their capital accounts, mostly by retaining earnings.

It was reported in the March 31 issue of the Monthly Review that Ninth district member banks had greater gross earnings, gross expenses, and net profits in 1950 than in 1949. Gross earnings were 9% higher and their gross current expenses went up 7%. Net profits were 8% higher.

The report on Operating Ratios of Member Banks for 1950, recently released, compares one figure with another by expressing the one as a percentage of the other. For example, net profits are stated in this report as a percentage of total capital accounts, total earnings, and total assets.

Selected ratios in the report for 1950 and comparable ratios for 1949 appear as follows: [1]

	1950	1949
	(In percentages)	
Net profits to total capital accounts	10.6	10.8
Net profits to total assets	0.69	0.63
Net profits to total earnings	23.1	23.1
Earnings on loans to total earnings	47.9	44.8
Interest on U. S. securities to total earnings	28.9	31.4
Total expenses to total earnings	63.7	64.0
Capital accounts to total deposits	7.0	6.4

- ***Member banks earned more dollars than in 1949, but most of the increased earnings were paid out to meet increased expenses.***
- ***The entire increase in earnings was accounted for by greater revenue from loans, which increased from 23.8% of total assets to 26.3%.***
- ***Liquidity position of Ninth district member banks declined in 1950.***

Profit Ratios Showed Stable Earnings Level

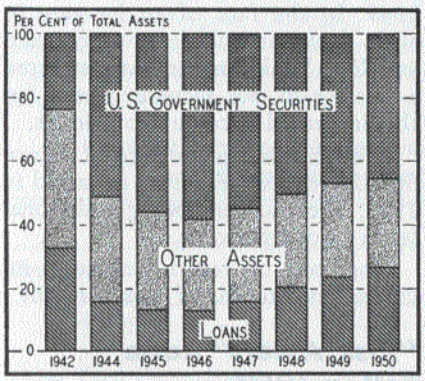
An analysis of profit ratios for member banks in 1950 reveals that these banks earned more dollars than in the previous year, both gross and net, yet they fell back a little in terms of profits per dollar of capital accounts. Accounting for the slight decline in net profits as a percentage of total capital — from 10.8% in 1949 to 10.6% in 1950 — was the rise in the volume of total capital accounts.

The rate of increase in capital accounts must have been greater than the rate of increase in total assets, because net profits on total assets were greater in 1950 than in 1949. Member banks earned net profits of 0.69% on total assets in 1950, compared with 0.63% in 1949.

Net profits as a percentage of total earnings were exactly the same in 1950 as in 1949. In each year this percentage was 23.1%.

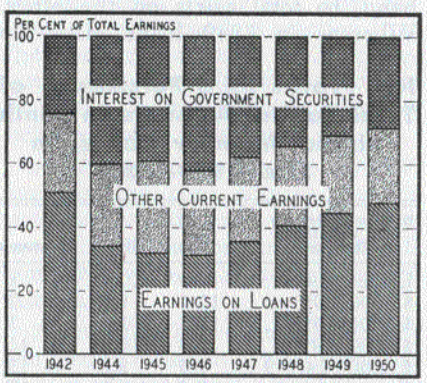
Expense items took very nearly the same percentage of total earnings in 1950 as in 1949. In each year this percentage was 23.1%.

I. DISTRIBUTION OF ASSETS OF NINTH DISTRICT MEMBER BANKS, 1942, 1943-49



THE RATIO of loans to total assets rose further in 1950, while that of government securities has declined, continuing the trend since 1946.

II. SOURCES OF CURRENT EARNINGS OF NINTH DISTRICT MEMBER BANKS, 1942, 1943-49



EARNINGS on loans, steadily rising since 1947, came close to 50% of total earnings in 1950.

[1] Ratios in this study are simple 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, 1949, June 30 and October 4, 1950. A more detailed presentation of the ratios, including a breakdown by bank size group, is available from this bank on request.

same percentage of total earnings in 1950 as in 1949. Salaries and wages took a little larger slice of the larger earnings pie — 30.4% of it as compared with 29.4% in 1949 — while other expenses, percentage-wise, consumed a little less. Total expenses were 63.7% of total earnings in 1950, whereas in 1949 the comparable ratio was 64%. These figures indicate that most of the increase in total earnings was paid out to meet increased expenses.

Loan Volume Gained Substantially in 1950

The most noteworthy change in member banks' operations in 1950 was the rise in loans and the almost equal decline in their holdings of government securities. Before analyzing the ratios reflecting the distribution of total assets of Ninth district member banks, a glance at the absolute figures might prove interesting.

Changes in loans and government security holdings of city and country member banks of the Ninth district on December 31, 1949, and December 31, 1950, were (in thousands of dollars):

City member banks	
Loans and discounts	+124.5
U. S. Gov't securities	—123.8
Country member banks	
Loans and discounts	+102.5
U. S. Gov't securities	—100.6

These dollar figures indicate that banks financed their loan expansion by liquidating a part of their holdings of government securities. This procedure was reflected in ratios of loan-assets and securities-assets on the one hand, to total assets on the other. Whereas in 1949 loans made up 23.8% of total assets, in 1950 they were 26.3% of total assets. The ratio of government securities to total assets fell from 47.3% in 1949 to 45.6% in 1950.

Net Profits as a Percentage of Total Capital Accounts in Ninth District Member Banks, in Size, 1949-1950

Banks with Average Total Deposits [1] (In Thousands)	1949	1950	% Change
Under $1,000	9.9	10.0	+ 1
$1,000-1,999	12.1	11.3	— 7
$2,000-4,999	11.5	11.1	— 3
$5,000-9,999	9.3	10.3	+ 11
$10,000-24,999	8.5	9.6	+ 13
Over $25,000	7.5	6.2	— 17
Total District	10.8	10.6	— 2

[1] Average deposits of 1950 based on balance sheet figures reported December 31, 1949, June 30, and October 4, 1950.

Selected "Operating Ratios" of All Ninth District Member Banks in 1942, 1948-50

	1942	1948	1949	1950
SUMMARY RATIOS				
Percentage of Total Capital Accounts				
Net current earnings before income taxes	9.2	16.9	16.9	17.2
Net profits	8.7	11.1	10.8	10.6
Cash dividends declared	3.3	3.3	3.2	3.5
Percentage of Total Assets				
Total earnings	3.3	2.50	2.71	2.94
Net current earnings before income taxes	.8	.87	.96	1.07
Net profits	.8	.59	.63	.69
DISTRIBUTION OF ASSETS				
Percentage of Total Assets				
U. S. Government Securities	23.7	50.9	47.3	45.6
Other securities	9.5	6.4	6.6	7.0
Loans	32.6	20.2	23.8	26.3
Cash assets	32.4	21.9	21.6	20.4
Real estate assets	1.6	.5	.5	.5
OTHER RATIOS				
In Percentages				
Capital accounts to total assets less government securities and cash assets	23.1	22.7	21.2	20.8
Capital accounts to total deposits	10.5	5.8	6.4	7.0
Time to total deposits	39.9	36.2	36.6	36.6
Number of Banks	450	474	478	477

Current Earnings and Expenses as Percentages of Total Current Earnings in All 9th District Member Banks in 1942, 1948-1950

	1942	1948	1949	1950
Percentage of Total Earnings				
Interest on U. S. Government Securities	24.8	34.4	31.4	28.9
Interest and dividends on other securities	.....	5.0	5.1	4.9
Earnings on loans	51.4	40.6	44.8	47.9
Other current earnings	23.8	20.0	18.7	18.3
Total earnings	100.0	100.0	100.0	100.0
Salaries and wages	31.9	28.6	29.4	30.4
Interest on time deposits	16.3	13.2	12.5	11.6
Other current expenses [1]	27.0	23.3	22.7	21.7
Total expenses [1]	75.2	65.1	64.6	63.7

[1] Includes charge-offs on banking house, furniture and fixtures for the years 1942 and 1948.
Note: These are simple averages of the individual ratios computed for each bank.

Loans Contributed More To Earnings in 1950

Earnings on loans and government securities as percentages of total earnings underwent similar change. In 1950, banks earned interest on government securities equal to 28.9% of total earnings compared with 31.4% in 1949. Earnings on loans in 1950 were 47.9% of total earnings, whereas the comparable figure for 1949 was 44.8%.

That being the case, it is obvious that higher income on loans accounted for the whole increase in total earnings of banks in 1950 over 1949. In the face of an increase in such costs as salaries, wages, and supplies, banks might have suffered a decline in net income except for the increased income from loans.

A slight rise in the rate of return on government securities occurred in 1950, the increase being only one-tenth of one per cent.

The rate of return on loans increased two-tenths of one per cent.

"Risk Assets" Ratio Fell in 1950

Reflecting the decline in the banks' holdings of government securities and a corresponding rise in loans, the so-

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AGRICULTURE

Broad Demand Matches Crop Plans for 1951

- **Larger crop acreages are in prospect for the coming season.**
- **There will be no "surplus problem," however, with more livestock to feed and an extensive export demand.**
- **Emergency conditions call for greater storage of all grains.**
- **The call for more crop acres must balance against future needs.**

FARMERS are starting the new growing season with plans for more acres in crops, despite probable shortages of farm labor and scarcities in needed materials and equipment.

If the USDA's March 1 survey of farmers' intentions is proved accurate, close to 366 million acres will be planted to crops this year. This would be 8 million acres more than last year, and except for 1949 the largest crop planting since 1933.

Yet there seems little danger of "surpluses." The question is more whether this expanded acreage will actually produce enough.

An expanding livestock industry, along with emergency needs for more food and fibre and a strong export demand for food grains, have focused more than the usual attention on farmers' planting intentions at the beginning of this new crop year.

Since most available crop land is already in use, it is important to get the most effective use of those acres now under cultivation. Too large a shift to tilled crops this year could mean lower yields and less production later on, when the need may be still greater.

The outlook for corn is particularly important because it is the main feed grain. Farmers apparently are holding down their planting intentions because they fear shortages of farm labor and needed operating supplies.

There seems to be a definite swing toward less intensive cropping, with the use of machinery offsetting the loss in labor supply. Farmers who have developed their livestock enterprises on the basis of forage and pasture production may now be reluctant to plow up meadows or pastures in favor of more intensive farming practices.

More Livestock Boosts Feed Requirements

Reserve stocks of 1950 corn and other feeds are disappearing rapidly at the current rate of livestock feeding. These carryover stocks, though high compared with earlier years, are down about one-tenth from the last two years.

Grain consuming units to be fed during the twelve months starting next October are estimated at 177 million head, as against 174 units last year. As a result, concentrate feed supplies per animal unit are down about 10 per cent on the basis of 1951 feed production estimates.

This comes at a time when livestock numbers are on the uptrend. Beef cattle numbers rose more than 4 million head during 1950, and the number of cattle and calves on feed at the present time is an all-time high. The 1951 pig crop is expected to top 1950 output by about 5 million hogs. Sheep numbers, though small, are turning upward for the first time since 1942. In addition to these needs, the emergency situation we are in makes it sound business to carry much larger reserve supplies of storable grains than we have thought practical in the past.

Actually, farmers' intentions to plant are still subject to considerable change. The March 1 survey of planting intentions usually results in some changes in crop plans. And this year the crop reporting board thinks that acreage shifts between March 1 and planting time may be greater than usual. However, planting intentions provide a reasonable estimate of what actual production is likely to be.

Prospective Feed Supplies, Animal Units on Farms and Feed Supplies Per Animal Unit* (Million Tons)

	1937-41 Average	1950	1951
Grain Feeds			
Carryover	16.9	31.2	24.0
Production	99.3	125.0	117.5
TOTAL	116.2	156.2	141.5
Other Feed Concentrates	19.9	27.0	28.5
Total Feed Concentrates	136.1	183.2	170.0
Grain Consuming Animal Units on Farms	153.1	174.0	177.0
Feed Per Animal Unit	.89	1.05	.96

Source: USDA "Feed Situation," March 1951.

* Estimates based on average yields and March 1 planting intentions; carry over as of Oct. 1

Average Yields Give Less Corn Than 1950

As of March 1, farmers planned to grow corn on 1.6 million acres more than last year, a total crop of 85.7 million acres. (The Department of Agriculture had suggested 90 million acres as the 1951 corn acreage goal.)

Besides this increase there will be some further advantage in yields, because more of the total acreage will be concentrated in the high-yielding corn belt. Corn belt intentions are up 3 billion acres; other areas will plant less corn than a year ago. This particular trend is partly a reaction from the abnormal shift of corn acreage out of the corn belt last year, caused by acreage limitations within the corn belt and not in other areas.

Assuming yields at the 1945-49 average, the corn acreage now in prospect would make a harvest of around 3,050 million bushels this fall, compared with 3,131 million bushels last year.

A crop this size would not supply the feed to maintain livestock production at current levels, to say nothing of maintaining the livestock expansion now in progress; carry overs would have to be reduced.

Planting Intentions for 1951, Actual Acreage for 1950 and 1940-49 Average, Compared for Four Ninth District States*

MINNESOTA

Crops	1940-49 Average	1950	1951	1951 in Per Cent of 1950
Spring Wheat				
Durum	59	90	54	60%
Other Spring	1,092	801	1,025	128
Corn	5,280	5,152	5,513	107
Oats	4,751	5,168	5,065	98
Barley	1,213	1,283	1,309	102
Soybeans	539	1,101	1,013	92
Flaxseed	1,426	1,255	1,230	98
Potatoes	181	100	80	80
Sugar Beets	.....	.....	.....	.....
All Hay	4,266	3,812	4,003	105

* Source: USDA "Crop Production," March 19, 1951.

MONTANA

Crops	1940-49 Average	1950	1951	1951 in Per Cent of 1950
Spring Wheat				
Durum	.....	.....	.....	.....
Other Spring	2,913	3,807	4,568	120%
Corn	200	213	204	96
Oats	456	524	435	83
Barley	613	868	538	62
Soybeans	.....	.....	.....	.....
Flaxseed	224	75	65	87
Potatoes	17	14	13	93
Sugar Beets	74	66	56	85
All Hay	2,191	2,601	2,497	96

* Source: USDA "Crop Production," March 19, 1951.

NORTH DAKOTA

Crops	1940-49 Average	1950	1951	1951 in Per Cent of 1950
Spring Wheat				
Durum	2,309	2,382	2,430	102%
Other Spring	7,179	6,533	8,036	123
Corn	1,196	1,350	1,256	93
Oats	2,323	2,225	2,047	92
Barley	2,381	2,148	2,234	104
Soybeans	10	44	40	91
Flaxseed	1,337	1,753	1,823	104
Potatoes	156	120	104	87
Sugar Beets	.....	.....	.....	.....
All Hay	3,194	3,679	3,642	99

* Source: USDA "Crop Production," March 19, 1951.

SOUTH DAKOTA

Crops	1940-49 Average	1950	1951	1951 in Per Cent of 1950
Spring Wheat				
Durum	314	342	410	120%
Other Spring	2,872	2,823	3,388	120
Corn	3,745	3,855	4,125	107
Oats	2,883	3,474	3,231	93
Barley	1,780	1,256	1,042	83
Soybeans	22	68	51	75
Flaxseed	480	533	544	102
Potatoes	30	15	13	87
Sugar Beets	.....	.....	.....	.....
All Hay	3,468	4,677	4,630	99

* Source: USDA "Crop Production," March 19, 1951.

As for oats, barley, and sorghums, these feed grains will get less acreage than last year, if farmers follow their intentions. Although the anticipated oat acreage is down from last year, it is still entirely adequate and about 2 per cent above the USDA's guide. Production of oats was abnormally high in 1950 because of acreage restrictions on corn and the emphasis on getting more acres into grass and forage seedings, for which oats is the major nurse crop.

Food Grains Are In Good Supply

Food grain production for the coming year seems to be in a rather good position, but the demand for these grains will be broad. Export demand for U. S. grain is reported unusually strong, with a number of factors, including war and inflation jitters, affecting demand.

Plantings of all wheat are indicated at 78 million acres, up 9 per cent from 1950. If the per acre yield of spring wheat equals the 1945-49 average, this year's wheat harvest may total 1.2 billion bushels. Also, a record rice acreage is in prospect, so that total output of all food grains looks rather promising.

This year's winter wheat acreage is 3 million acres and 6 per cent higher than last year. But unfavorable growing conditions in sections of the southwest caused the USDA to cut its December crop estimate of 900 million bushels to 727 million bushels on April 1. This is slightly under last year's winter wheat harvest, but substantially below the 10-year average crop of 792 million bushels.

March 1 planting intentions suggest 21.8 million acres in spring wheat, an increase of 3.3 million acres and 18 per cent above 1950. Crop prospects are fairly good throughout most of the spring wheat area and throughout the Ninth district generally, with improved moisture conditions partly compensating for some tardiness in the arrival of spring.

Fewer Acres in Soybeans, Flax, and Potatoes

Prospective soybean acreage is down 1.2 million acres from last year, from 13.3 to 12.1 million acres. This is about 7 per cent below the Secretary of Agriculture's guide figure and 9 per cent less than was

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Cash Farm Income for Ninth District — January-February*

(Thousands of Dollars)

State	1935-39 Average	1950	1951	1951 in Per Cent of 1950
Minnesota	$ 49,432	$ 189,644	$ 201,219	106%
North Dakota	10,311	46,439	64,978	140
South Dakota	15,197	75,671	95,247	126
Montana	8,396	35,432	50,581	143
Ninth District[1]	94,875	379,760	452,389	119
United States	1,106,413	3,834,185	4,304,206	112

* Source: "Farm Income Situation"—March 1951.

[1] Includes 15 counties in Michigan and 26 counties in Wisconsin.

BUSINESS

Industrial Activity High; Sales Dropped

- **Large inventories acted as temporary damper on price climb.**
- **Price rises in the past two months were confined largely to retail markets.**
- **Weather and the earlier rush buying largely accounted for disappointing Easter sales.**
- **Current level of defense contract awards remains high; district gets fair share of national totals.**

INFLATIONARY pressures which have driven prices higher and higher since the outbreak of the Korean war have eased temporarily. Since last February, price increases have been restricted primarily to retail markets.

The temporary easing of inflationary pressures may be traced in part to a large supply of merchandise. In the first quarter of this year, manufacturers turned out a record volume of finished goods. In recent weeks, the return of a more normal consumer demand for merchandise has become more important than the large supply of goods available. Households are well stocked with durable as well as nondurable goods.

The news from the Korean front, although not entirely optimistic, has caused consumers to reduce their buying for future needs. With the return of more normal consumer buying, retailers have found themselves well stocked with merchandise. On a few items, stocks have been backing up. This situation in the retail market has led to a leveling off in prices.

Rise in Raw Materials, Wholesale Prices Halted

Prices of raw materials, which are traded in primary markets, fluctuate over a wider range than do wholesale and retail prices. Often they lead the price trend. In the week ending February 24, the index of 28 basic commodities traded in such markets stopped rising and began to decline. Through March and the first half of April, the index of these prices reflected a decrease of 3 per cent. This decrease obviously was small in comparison with the sharp and almost continuous rise of 49 per cent since last June. Nevertheless, this decrease marked a turning point in the trend of raw material prices.

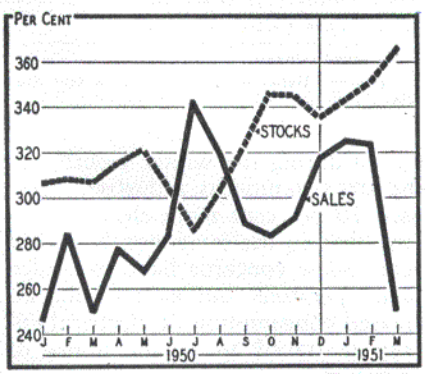
At approximately the same time that raw material prices began to turn down, wholesale prices leveled off for the first time since last October. Since the latter part of February, the index of wholesale prices has remained practically stationary. Farm products and food prices declined some due mainly to market conditions. On the other hand, industrial prices have continued to rise moderately following the issuance of the general price ceiling regulation.

Retail prices have continued to rise. This accounts for recent advances in the cost of living. In comparison with the increase in raw materials and wholesale prices, retail prices rose much more slowly last summer and fall. Generally, changes in retail prices lag behind changes in prices at the wholesale and producers level.

According to the United States Department of Commerce, retail prices have risen approximately 8 per cent since last June. Food prices have risen more than prices of most other commodities. In the Twin Cities, retail food prices have risen by approximately 12 per cent since last June, according to releases made by the United States Department of Labor. Wholesale food prices in the nation reached a peak in the middle of February and turned down slightly during the latter part of the month and in March. Consequently, retail food prices for April may level off or possibly decline slightly.

NINTH DISTRICT DEPARTMENT STORE SALES AND STOCKS, JANUARY 1950 TO DATE

Seasonally Adjusted 1935-39=100



DEPARTMENT stores have accumulated stocks since the first of the year, while sales leveled off in February and dropped sharply in March.

Department Store Sales Reverse Seasonal Trend

Department store sales in most years rise from the first of the year up to Easter, but this year the seasonal trend was reversed. As was reported in a previous issue, Ninth district department store sales in January were exceptionally high. Sales in February did not show the usual seasonal increase from January, and sales in March did not show any increase. In fact, after adjusting for difference in trading days, sales in March were slightly below February sales.

The adjusted index of Ninth district department store sales for February was 324 per cent of the 1935-1939 base period. On the basis of past experience, department store sales in this district during March usually average 3 per cent higher than in February. However, March sales actually were down nearly 2 per cent from the February volume. The index for March, adjusted for this usual seasonal increase, fell to 250 per cent, as may be observed in the accompanying table.

The high January sales reflected some business borrowed from the future. Consumers anticipated some shortages in both durable and nondurable merchandise, and also higher prices. Consequently, they concluded that it was to their advantage to buy at that time for future needs. In such a situation, there is always danger of overbuying which invites a reaction

later on. No doubt the decline in March sales, in part, may be attributed to such a reaction.

Inclement weather accounted for some of the decline in March sales. Heavy snowfalls extended over large areas of this district blocking roads and streets and preventing the public from going to stores. For a number of days, traffic was bogged down in southwestern Minnesota. As a result, department store sales in this section of the state were down decidedly more than in northeastern Minnesota, which was not hit by heavy snowfalls.

The decline in March carried district department store sales below the level prevailing prior to the outbreak of the Korean war. March 1951 sales were approximately equal to the dollar receipts for March 1950. Since prices rose in the interim, the public apparently purchased less merchandise this year. Sales at weekly reporting Ninth district stores during the four weeks ending April 21 were 3 per cent below last year.

Department Stores Hold Large Stocks

Department stores in this district continued to accumulate stocks during March. Valued in terms of prevailing retail prices, stocks held by stores set a new record. The adjusted district index at the end of February stood at 350 per cent of the 1935-1939 base period, while at the end of March it rose to 365 per cent.

The relationship between the level of stocks and sales, both valued in terms of retail prices, may be quickly observed on the accompanying chart. Stocks rose sharply last summer following the terrific surge in consumer buying last July. Since that time, stocks have remained high in relation to sales. They dipped slightly during November and December 1950, but again have risen sharply since the first of the year.

Industry Turns to Defense Work

Industrial production has been very high in this district as well as in the entire nation. Shortages of raw materials resulted in few industrial shutdowns or layoffs of labor.

The amount of electrical power generated in this district set a new record during the winter months. In the first two months, industrial plants used 10 per cent more electrical energy than in the same months of last year. Some concerns have expanded their operatons, but most of the increased consumption of electrical energy is traced to longer hours of operation.

The increase in the number of people employed is in a large measure traced to the expansion in industrial activity. Such plants have absorbed a large proportion of additional number of workers. In the Twin Cities, the increase in the number of workers employed in manufacturing has exceeded the expanded employment in all other types of business concerns combined. In Minnesota and Montana, employment in manufacturing during March was larger by 2,024 and 1,400 respectively than a year ago.

As more defense contracts are awarded in this district, industrial production undoubtedly will continue

Sales at Ninth District Department Stores*

	% Mar. 1951 of Mar. 1950	% Jan.-Mar. 1951 of Jan.-Mar. 1950	Number of Stores [1] Showing Increase	Decrease
Total District	103	114	185	96
Mpls., St. Paul, Dul.-Sup.	101	112	14	12
Country Stores	106	116	171	84
Minnesota (City and Country)	101	112	42	46
Minnesota (Country)	101	111	32	34
Central	95	104	4	3
Northeastern	111	111	5	0
Red River Valley	98	106	1	5
South Central	104	115	8	4
Southeastern	105	115	7	3
Southwestern	93	109	7	19
Montana	116	122	29	4
Mountains	124	132	10	0
Plains	113	116	19	4
North Dakota	102	116	33	16
North Central	111	126	7	3
Northwestern	93	117	4	2
Red River Valley	104	112	13	5
Southeastern	100	116	7	5
Southwestern	109	131	2	1
Red River Valley-Minn. & N. D.	103	111	14	10
South Dakota	97	117	27	22
Southeastern	96	117	8	7
Other Eastern	94	117	14	13
Western	120	117	5	2
Wisconsin and Michigan	114	118	50	8
Northern Wisconsin	114	112	11	3
West Central Wisconsin	113	119	28	3
Upper Peninsula Michigan	117	121	11	2

* Percentages are based on dollar volume of sales.
[1] March 1951 compared with March 1950.

Ninth District Business Indexes

(Adjusted for Seasonal Variation—1935-39=100)

	Mar. '51	Feb. '51	Mar. '50	Mar. '49
Bank Debits—93 Cities	367	381	318	314
Bank Debits—Farming Centers	416	454	363	375
Ninth District Dept. Store Sales	250p	324	250	267
City Department Store Sales	264	341	270	277
Country Department Store Sales	235p	306	231	256
Ninth District Dept. Store Stocks	365p	350	307	300
City Department Store Stocks	339p	322	272	263
Country Department Store Stocks	385p	373	335	330
Country Lumber Sales	112p	183	140	154
Miscellaneous Carloadings	134	107	125	126
Total Carloadings (excl. Misc.)	105	96	95	105
Farm Prices (Minn. unadj.)	279	277	221	232

p—preliminary.
Source: Department of Research and Statistics, Federal Reserve Bank, Minneapolis, Minnesota, April 19, 1951.

to expand. The munitions board has tabulated, by states, value of military prime contracts awarded totaling 5,000 and over for Army and Navy and $10,000 and over for the Air Force. From June 1950 through January 1951, the value of these contracts awarded in the four states wholly within this district totaled $129.5 million. Of this amount, $125.5 million was awarded to industrial concerns in Minnesota. Each of the other three states — namely, Montana, North Dakota, and South Dakota — were awarded between $1 million and $1.6 million. Since this district has a large number of small industrial plants, additional amounts no doubt were awarded in the form of small contracts which were not included in these totals.

The number of unclassified government contracts awarded by weeks shows that the defense program is gaining momentum. Unclassified contracts are those which are not classified as top secret, secret, confidential, or restricted. A substantial number of military contracts are so classified.

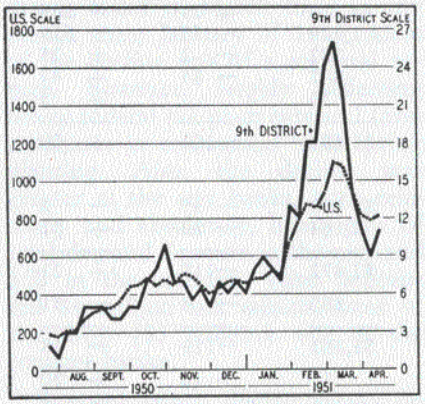
As may be observed on the chart depicting the trend of awarding unclassified contracts in this district and in the nation, the rate of awarding contracts rose sharply in late summer and fall of last year. For about three months, from November to February, the number awarded leveled off only to be followed by another burst of activity. In some weeks, the number of contracts awarded in this district reached 25 and over. In recent weeks, there has been another slight letup, but the number awarded continued high in view of the number awarded last fall.

A more detailed tabulation of unclassified government contracts awarded to concerns in this district was analyzed. These contracts were awarded during the week ending January 12. The information was compiled in Public Contracts bulletin No. 2-1951, issued by the Wage and Hour and Public Contracts divisions of the United States Department of Labor.

During the week ending January 12, unclassified contracts awarded to companies in this district totaled $2,637,641, or 1.79 per cent of $147,614,290 in the nation. A listing of these contracts by type of manufacturing establishments receiving them showed that companies producing transportation equipment in this district were awarded over three-fourths of the $2,600,000 total.

NUMBER OF UNCLASSIFIED GOVERNMENT CONTRACTS AWARDED IN NINTH DISTRICT AND U. S. July 1950 Through April 1951

(Three-week Moving Average)



INDUSTRIAL concerns in the four states entirely within the Ninth district do approximately 1½% of the nation's manufacturing. They have received a comparable proportion of unclassified government contracts.

Slightly over $250,000 worth of contracts were awarded to companies producing metals and metal products, exclusive of machinery and vehicles. Another $180,000 worth of contracts were awarded to companies producing machineries other than electrical. A relatively small number of contracts was awarded to firms producing numerous other kinds of products.

The awarding of many government contracts always stimulates speculation on the proportion awarded to the various regions of the nation. The four states entirely within this district produce about 1½ per cent of the nation's manufactured goods according to the 1947 Census of Manufacturing. In 1947, manufacturing concerns in these four states employed 1.5 per cent of the manufacturing labor force, paid 1.5 per cent of the wages and salaries, spent 1.6 per cent of the total expenditures made for plant and equipment, and added 1.6 per cent of the value added to finished goods through manufacturing.

The value of military prime contracts awarded from July 1, 1950, through January 1951, to industrial establishments located in the four states constituted 1.4 per cent of the total value awarded. The number of unclassified contracts awarded in this district in 1950 also aggregated 1.4 per cent of the total number. Since the first of the year, the number awarded here has averaged 2 per cent of the total.

On the basis of this information, it appears that Ninth district industry is receiving its proportionate share of unclassified government contracts. It may not be receiving a proportionate share of classified government contracts, for this region does not have some industries which produce such commodities. It may, however, be getting an amount of sub-contracting on classified awards.

One of the recent developments in the construction field is the large expenditures anticipated for new manufacturing plants and equipment. Since the first of the year, numerous building permits have been issued in this district for new factory buildings, or extension to factory buildings, and for new warehouses. No restrictions have been placed on industrial building, but some action is now contemplated by the Federal Reserve Board's national voluntary credit restraint committee.

Inflationary Pressures May Reappear

In this period, when consumer buying has returned to a more normal level, the awarding of government contracts and industrial expansion programs constitute motivating factors in the current high industrial activity.

As a result of defense work and industrial expansion, consumer incomes may rise in relation to the available supply of consumer goods. The production of defense materials creates purchasing power, but it does not increase the available supply of merchandise in retail markets. Likewise, the expansion of industrial plants and equipment creates purchasing power, but it does not immediately add to the supply of consumer merchandise. Nevertheless, the success of executing the defense program and of holding or raising current living standards ultimately hinges on the expansion of industrial plants and equipment. END

Assets and Liabilities of All Ninth District Member Banks*

(In Million Dollars)

	Feb. 28, 1951	Mar. 28, 1951	$ Change Feb. 28, 1951 Mar. 28, 1951	$ Change Mar. 29, 1950 Mar. 28, 1951
ASSETS				
Loans and Discounts	$1,169	$1,208	+ 39	+ 264
U. S. Government Obligations	1,384	1,329	— 55	— 319
Other Securities	284	282	— 2	+ 25
Cash and Due from Banks & Res.	887	802	— 85	+ 47
Other Assets	33	33	....	+ 3
Total Assets	$3,757	$3,654	—103	+ 20
LIABILITIES AND CAPITAL				
Due to Banks	$ 343	$ 308	— 35	— 8
Other Demand Deposits	2,244	2,164	— 80	+ 31
Total Demand Deposits	$2,587	$2,472	—115	+ 23
Time Deposits	894	890	— 4	— 51
Total Deposits	$3,481	$3,362	—119	— 28
Borrowings	21	37	+ 16	+ 30
Other Liabilities	27	27	....	+ 4
Capital Funds	228	228	....	+ 14
Total Liabilities & Capital	$3,757	$3,654	—103	+ 20

Assets and Liabilities of Twenty Reporting Banks

(In Million Dollars)

	Feb. 28, 1951	Mar. 28, 1951	Apr. 11, 1951	$ Change Feb. 28-Mar. 28
ASSETS				
Comm., Ind., and Ag. Loans	$ 323	$ 353	$ 361	+ 30
Real Estate Loans	105	106	107	+ 1
Loans on Securities	10	11	11	+ 1
Other (largely consumer) Loans	168	165	163	— 3
Total Gross Loans & Discounts	$ 606	$ 635	$ 642	+ 29
Less Reserves	8	8	8	....
Total Net Loans & Discounts	$ 598	$ 627	$ 634	+ 29
U. S. Treasury Bills	15	4	4	— 11
U. S. Treasury C. of I.'s	....	....	....	....
U. S. Treasury Notes	156	138	135	— 18
U. S. Government Bonds	334	329	319	— 5
Total U. S. Gov't Securities	$ 505	$ 471	$ 458	— 34
Other Investments	144	143	140	— 1
Cash and Due from Banks	483	427	437	— 56
Miscellaneous Assets	17	16	16	— 1
Total Assets	$1,747	$1,684	$1,685	— 63
LIABILITIES				
Due to Banks	$ 299	$ 269	$ 293	— 30
Demand Deposits, Ind., Part., Corp.	876	797	802	— 79
Demand Deposits, U. S. Gov't	70	83	89	+ 13
Other Demand Deposits	118	136	123	+ 18
Total Demand Deposits	$1,363	$ 1,285	$1,307	— 78
Time Deposits	238	237	237	— 1
Total Deposits	$1,601	$1,522	$1,544	— 79
Borrowings	20	37	15	+ 17
Miscellaneous Liabilities	19	18	18	— 1
Capital Funds	107	107	108	....
Total Liabilities & Capital	$1,747	$1,684	$1,685	— 63

BANK PROFITS UP SLIGHTLY IN 1950

Continued from Page 164

called "risk asset" ratio of Ninth district member banks fell in 1950. This ratio compares the volume of total capital accounts with total assets less government securities and cash assets.

The decrease in the risk asset ratio occurred despite a substantial rise in the volume of total capital accounts. Apparently accretions to capital accounts failed to compensate for the expansion in loans and the decline in government security holdings of the banks of this district. Thus the liquidity position of our banks, as was true elsewhere in the nation, suffered a decline in 1950.

Ratios Differed Among Size Groups of Banks

It is interesting to observe differences in the operating ratios of banks belonging to different size-groups. Neither the smallest banks nor the largest ones displayed the best records as measured by net profits per dollar of total capital accounts. Instead, the middle-sized banks enjoyed the best return on capital.

A study of the division of the earnings pie for each group of banks reveals that the larger banks declared higher dividends on capital stock. Among the larger banks, interest on government securities contributed more to total earnings than was the case among the smaller banks, whereas interest on loans contributed more to the earnings of smaller banks than was the case among the larger banks. In all groups of banks, however, earnings on loans in 1950 were greater than in 1949, while earnings on government securities declined.

It may be stated as a general rule that the smaller the bank the greater

* 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.

was the volume of loans to total assets and the larger the bank the greater was the volume of government securities to total assets.

Another interesting observation — one contrary to widespread opinion— is that capital accounts as a percentage of total deposits were greater for the smaller banks than for the larger banking institutions. END

March Banking Developments

Loans and discounts at Ninth district member banks continued to increase in March. The increase of $39 million represents the continuation of a trend that has been prevailing for many months; the rate of increase in March, however, was the greatest since September of 1950.

As was the case last month, the lion's share (75%) of the increase occurred at the 20 weekly reporting banks. As was also true last month, the increase at the city banks was entirely accounted for by commercial, industrial, and agricultural loans, with minor increases in real estate and securities loans being more than offset by a further decline in other (largely consumer) loans. That Ninth district bankers are accommodating the unprecedented demand for credit by businessmen and farmers is demonstrated by the 22% increase in loans during the past 12 months.

Demand deposits were withdrawn faster in March than in any month since January of 1949. Most of the decline was of a seasonal nature, however, largely reflecting heavy federal tax payments and farm purchases in connection with spring planting. Also, the decline was greater at the city banks, both relatively and absolutely, being 6% of total demand deposits in the city and 3% in the country. Time deposits fell $4 million last month; most of the drop ($3 million) was at the country banks.

Selected Ninth district banks report that their deposits were turned over more rapidly in March than in February; the annual rate for March being 15.3, up 2.1 from the preceding month. The higher velocity indicates that the diminshed volume of deposits at district banks is being used more intensively.

Government security holdings of Ninth district banks continued lower in March. Sales here amounted to $55 million in March as compared with disposals of $62 million in February. This action, in addition to more borrowing, helped to relieve the downward pressure on reserves generated by more loans in the face of heavy deposit withdrawals.

Discounts and advances at the Minneapolis Federal Reserve bank more than doubled in March, rising from $12 million to $31 million, an increase of $19 million, which accounts for $3 million more than the addition to member borrowing in March. This indicates that member banks have shifted some of their borrowing to the Federal Reserve bank while reducing their borrowing from sources other than the Reserve bank.

The latest figures for the 20 reporting banks indicate that the trends in loans and government security holdings have continued into April, but the trend in demand deposits has reversed itself to the extent that these deposits increased by $22 million between March 28 and April 11 at the reporting banks. If this reversal marks the beginning of the seasonal rise, it is somewhat premature, since the statements for April ordinarily register the low point in Ninth district demand deposits. END

BROAD DEMAND MATCHES CROP PLANS FOR 1951

Continued from Page 166

actually planted in 1950.

Flax plantings are also indicated at a lower acreage this year. But the drop from 4.1 to 3.9 million acres would be only 4 per cent under 1950.

The intended potato acreage of 1.6 million acres for 1951 represents a 15 per cent acreage drop from last year. Still, many producers are concerned about their market outlet, since the present federal potato price support program may be suspended after the 1950 crop is marketed.

Intended sugar beet acreage is also down, from 1.0 million actual acres last year to .89 million acres in prospect for 1951.

Hay Production About the Same

The number of acres in hay and forage crops that farmers plan for 1951 is roughly the same as they had in 1950, indicating again that farmers are reluctant to give up their forage crops.

There has been a great deal of emphasis placed on livestock production using grass silage and other low-cost forages as a basis for livestock feeding programs. With price ceilings a definite part of the livestock outlook, producers are not likely to give up their plans for hay and pasture acres that are a necessary part of such low-cost operations.

Ninth District Farmers Ahead of Trend

For most major crops, planting intentions of Ninth district farmers are running ahead of the national acreage trends. Ninth district farmers planted 9 per cent more winter wheat last fall, compared with a 6 per cent rise for the nation. If yields equal the 1940-49 average, bushel output will be 23 per cent above last year in the four states. (See tables.)

Spring wheat, a much more important crop in the Ninth district, will also be planted on more acres. Intentions are to increase both durum and other spring wheat plantings in the Ninth district just slightly more than the national average increase of 2 and 20 per cent respectively.

For the states of Montana, South Dakota and North Dakota, spring wheat acreages for the coming year are decidedly above the 1940-49 average.

Corn planting intentions are higher by 5 per cent in the Ninth district,

Concluded on Page 172

National Summary of Business Conditions

COMPILED BY THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM, MAY 1, 1951

ECONOMIC activity and incomes were maintained at record levels in March and early April. Retail sales showed a less than seasonal rise. Wholesale commodity prices continued to show little change, while consumer prices rose further. Bank loans to business continued to rise somewhat, although a decrease is usual at this season. Bond yields continued to rise.

INDUSTRIAL PRODUCTION—The Board's seasonally adjusted industrial production index was 222 per cent of the 1935-39 average in March, as compared with 221 in January and February. Preliminary data indicate little change for April. Output has increased 3 per cent in the past six months and is about 20 per cent higher than a year ago.

Activity in the textile industries has decreased since February partly reflecting labor disputes. Production of other nondurable goods generally has continued at about the high February rate. Crude petroleum output rose further during March and early April, while production of coal, stocks of which are large, remained well below the January volume.

CONSTRUCTION — Value of contract awards for most types of private construction rose less than seasonally in March. The number of housing units started totalled 93,000 as compared with 80,000 in February and 117,000 in March 1950. The value of construction work put in place, reflecting earlier record awards and starts, rose to a new peak in March, after allowing for seasonal influences.

EMPLOYMENT — Employment in non-agricultural establishments, seasonally adjusted, continued to increase moderately in March, reflecting mainly further gains in durable manufacturing industries and in government employment. Hours of work in manufacturing remained unchanged at 41 hours per week, slightly below the 1950 year-end level, while hourly earnings continued the moderate increases of recent months. Unemployment at 2.1 million in March was 2 million below a year ago and at the lowest level for this month since 1945.

DISTRIBUTION—Retail sales of housefurnishings have declined from the exceptionally high rates at the beginning of the year, and sales of apparel and automobiles have shown a less than seasonal expansion since that time. Demand for foods and various other goods has remained at advanced levels. Distributors' stocks have increased further. Preliminary seasonal adjusted figures on the value of department store stocks at the beginning of April were about 12 per cent higher than at the beginning of January and 30 per cent above year-ago levels.

BANK CREDIT and the MONEY SUPPLY — Expansion in business loans slackened in late March and the first half of April. These loans usually decline at this time of year. Business loans declined slightly at New York City banks, but increased somewhat further at banks in other leading cities. Preliminary data collected in connection with the voluntary credit restraint program indicate that borrowing to finance defense contracts is much more important now than it was last fall and that commodity loans are currently being repaid. Retailers and wholesalers have been important borrowers in recent weeks, as have textile manufacturers. Real estate loans and bank holdings of corporate and municipal securities continue to increase moderately.

Average interest rates charged by commercial banks on short-term business loans rose from 2.84 per cent in the first half of December to 3.02 per cent in the first half of March.

Member bank reserve balances increased somewhat further in late March and early April. Federal Reserve purchases of Treasury bonds during this period supplied reserve funds to banks. The effect of these additional reserves was offset only in part by an outflow of gold and an increase in Treasury and other deposits at the Reserve banks.

COMMODITY PRICES — Wholesale commodity prices have generally continued to show little change during the past month at a level 20 per cent above a year ago. Prices of some materials which had declined in March have strengthened during the past ten days.

Consumer prices advanced .4 per cent further in March, reflecting chiefly increases in retail prices of apparel, housefurnishings, and miscellaneous goods and services. Foods showed little change for the first time since last November. The all-items index was 10 per cent above a year ago, with food prices 15 per cent higher.

SECURITY MARKETS—Yields on long-term Treasury bonds increased during the first three weeks of April. While yields on outstanding high-grade corporate bonds rose only slightly, there was a marked increase in yields on new corporate issues. Prices of common stocks advanced rapidly during the first two weeks of April to the peak level of early February, and then declined slightly during the third week.

AGRICULTURE

Continued from Page 171

compared with a 2 per cent increase over the nation. Barley, oats, and hay are all closely in line with the U. S. trend — less oats and barley, hay about the same.

Flax seedings are intended at just 1 per cent above 1950 acreages in the Ninth district, but that's the reverse of a lower national trend. Soybean acreage is in line with the over-all acreage shifts — down 9 per cent. But even with this reduction, Ninth district acreages would be about twice the 1940-49 average.

Prospective acreages of both potatoes and sugar beets are down about 15 per cent, and that's in line with the national picture. END