FEDERAL RESERVE BANK OF MINNEAPOLIS

MONTHLY REVIEW

9th DISTRICT AGRICULTURAL AND BUSINESS CONDITIONS

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1951 OPERATING RATIOS STUDY SHOWS . . .

Typical Member Bank Did Not Improve Earnings on Capital

MEASURED as a percentage of capital accounts, no improvement in net profits was realized in 1951 over 1950 by the typical member bank in the Ninth district.

The Operating Ratios study* recently completed by the Federal Reserve Bank of Minneapolis reveals that, although this was true of the typical bank, a comparatively small number of larger banks enjoyed higher net profits last year. This explains the higher aggregate volume of bank profits reported in the Review last month.

With regard to the typical member bank, the study revealed that:

- Net current earnings on capital accounts before taxes did not rise, because both earnings and capital increased in the same proportion.
- Current expenses were held to a constant proportion of current earnings despite higher salaries and wages, the most important expense item.
- Net profits (after taxes) amounted to a lesser percentage of capital, due primarily to a substantial enlargement of capital and an importantly larger federal tax take.

To elaborate, although gross earnings of the district's member banks were higher last year than those of the previous year, they were partially cancelled by higher expenses. Therefore, net current earnings showed some improvement. However, after the tax collector had taken his toll, the typical member bank's net profits were only slightly better than in 1950—in fact, they were less as a percentage of capital accounts.

Size Differences Important

Perhaps the most pertinent observations that can be made regarding the 1951 operating ratios study concern dissimilarities in the performance of different sized banks.

The report carried in last month's Review—the "Earnings and Dividends" report of district member banks—does not reveal these dissimilarities. It is therefore necessary to explain that two important differ-

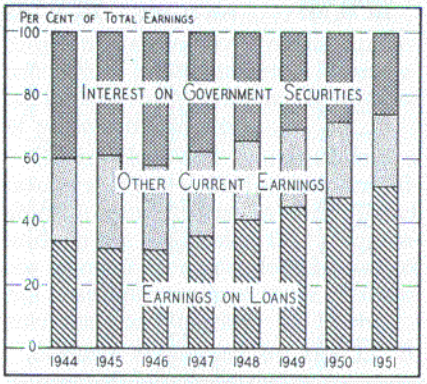
* The complete study which includes the average operating ratios for each of six size groups is available upon request.

Enlarged capital in 1951—not lower earnings—accounted for the slightly lower net profits in relation to capital.

Uneven distribution of net profits gain was shown as a comparatively small number of the larger banks realized higher earnings.

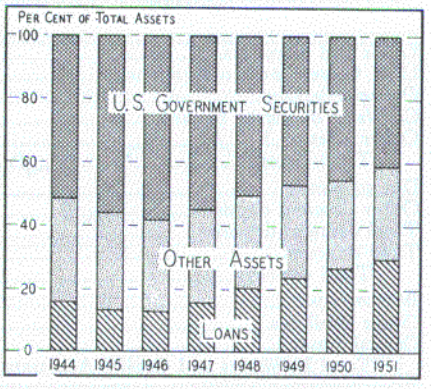
A greater increase in loans explained showing of larger banks. Smallest banks had shown gain earlier.

SOURCES OF CURRENT EARNINGS OF NINTH DISTRICT MEMBER BANKS, 1944-1951



EARNINGS from loans, which have been on the increase since 1946, accounted for more than half of total district member bank earnings in 1951.

DISTRIBUTION OF ASSETS OF NINTH DISTRICT MEMBER BANKS, 1944-1951



CONTINUING the trends which originated in 1946, the distribution of loans and investments at Ninth district member banks changed further last year.

ences exist between that analysis and the operating ratios study.

1) The "E & D" analysis expressed earnings data in dollar amounts or changes in dollar amounts; the operating ratio study expresses such data as percentages of total capital accounts, total assets, or total earnings, which themselves change from one year to the next.

For instance, district member banks had net current earnings in 1951 amounting to 16 per cent more than in 1950; yet, when expressed as a percentage of capital accounts, there was almost no change from one year to the other.

2) The influence of an individual bank on the combined "E & D" report is in proportion to its size; in the operating ratios study each bank carries equal weight, since the ratios appearing in the study are simple averages of the ratios for each bank in the group.

When it is considered that 4.2 per cent of district member banks hold 45 per cent of the district member bank assets, the significance of size differences can be better appreciated.

In 1951, for instance, the earnings picture was much more favorable for the largest banks than for any of the smaller size groups. This situation means that the combined "E & D" report for 1951 presents an earnings picture that might be construed to overstate the profit position of the average district member bank.

Nevertheless, these considerations do not detract from the usefulness of the combined "E & D" report, for this report provides the analyst with a list of sources and uses of earnings which are attributable to the total of district member bank assets, each item assuming an importance commensurate with its importance to total district member bank operations.

Larger Banks Improved Earnings the Most in '51

The ratios study, on the other hand, is particularly useful in that it provides a yardstick with which the individual banker can compare the performance of his bank with others of similar size.

More conspicuous perhaps than any other pattern revealed by the 1951 ratios study was the correlation between size of bank and change in earnings from 1950 to 1951. Invariably, it was found that the larger the size group of banks, the more favorable was the change in the ratio of net current earnings to either total capital accounts or total assets, from a slight decline at the smallest banks to larger and larger increases at successively larger size groups. This is in contrast to last year's study which found that these ratios had changed more favorably at the smallest banks than at some of the larger groups.

In other words, the performance of the smaller banks in 1950 was better in relation to 1949 than was the case with most of the larger banks. Hence the smaller banks did well in 1951 to hold their gains of 1950, while the larger banks in 1951 made a better showing because their 1950 performance was relatively not as good.

It was more than coincidence that another section of the 1951 ratios study, "distribution of assets," disclosed an equally invariable relationship between changes in the ratio of loans to total assets and size groups; that is, as successively larger size groups are considered, the ratios disclose successively larger increases in loan volume.

These patterns further confirm the principal disclosure of last month's "E & D" analysis—namely, that a shift to more loans and fewer investments was chiefly responsible for higher aggregate member bank earnings in the district.

The ratio of earnings on loans to total earnings described a pattern similar to the loan-asset ratio mentioned previously. The larger the size group of banks considered the larger was the increase in the ratio of earn-

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Assets and Liabilities of Member Banks in the Ninth Federal Reserve District

(In Millions of Dollars)

ITEM	All Member Banks		City Banks (weekly reporting)		Country Banks (non-weekly reporting)	
	Feb. 27, 1952	Change Since Jan. 30, 1952	Feb. 27, 1952	Change Since Jan. 30, 1952	Feb. 27, 1952	Change Since Jan. 30, 1952
Loans and discounts	$1,224	+ 6	$ 594	+ 6	$ 630	....
U. S. Government obligations	1,394	— 40	515	— 33	879	— 7
Other securities	281	— 3	133	....	148	— 3
Cash and due from banks	892	— 7	453	— 8	439	+ 1
Other assets	34	— 1	16	— 1	18	....
Total assets	$3,825	— 45	$1,711	— 36	$2,114	— 9
Due to banks	$ 367	— 11	$ 324	— 9	$ 43	— 2
Other demand deposits	2,253	— 40	1,011	— 28	1,242	— 12
Total demand deposits	2,620	— 51	1,335	— 37	1,285	— 14
Time deposits	929	+ 6	241	+ 1	688	+ 5
Total deposits	$3,549	— 45	$1,576	— 36	$1,973	— 9
Borrowings	$ 3	— 1	$ 2	....	$ 1	— 1
Other liabilities	35	+ 2	24	+ 1	11	+ 1
Capital funds	238	— 1	109	— 1	129	....
Total Liabilities and Capital Accounts	$3,825	— 45	$1,711	— 36	$2,114	— 9

Reporting bank data are from balance sheets submitted weekly. Non-reporting bank data are 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 in the process of collection, 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 required 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.

Ninth District Experiences Slump

WINTERTIME EMPLOYMENT

Returns to a More Nearly Normal Seasonal Pattern

A NORMAL seasonal decline in employment experienced this winter in the Ninth district, caused in part by the contraction in construction activity, has been cushioned by the high level maintained in manufacturing.

The decrease in construction employment has appeared large in view of the almost complete absence of seasonal contraction in the corresponding period of last year. In comparison with the number employed in winters prior to 1950-51, however, this industry's employment this winter has been high.

Production of defense materials has enabled management to retain a full labor force in some manufacturing industries. In some other cases, the existence of ample stocks of civilian goods has caused management to reduce their staffs below the usual seasonal low point.

Unemployment Not Cause Of Lower Retail Sales

The decrease in employment during the winter months has been receiving much attention in district business circles. Some observers have expressed concern that the present weakness in employment may continue into spring and possibly summer. They have attributed lower retail sales to the increase in the number of persons out of work.

Other observers contend that a careful study of the information available on employment in this district leads to the conclusion that the present number of unemployed workers has been only a minor cause of slackened consumer buying.

Surveys conducted by the U. S. Bureau of Labor Statistics on manpower conditions in the nation's major production centers have disclosed a growing number of unemployed workers in some areas, although total unemployment in February was lower than in any other February since 1945. Centers that have 6 per cent or more of the working force out of work or soon expected to be jobless are classified as areas with a substantial labor surplus.

In January, 18 metropolitan centers in the nation fell into this classification. In February, the number increased to 23. Several of these areas are located in lower Michigan, but most of them are concentrated in states along the Atlantic coast. The Ninth district has one center, Iron Mountain, Michigan, classified as an area with a substantial labor surplus.

The Ninth district has three metropolitan centers — Minneapolis - St. Paul, Duluth-Superior, and Sioux Falls—which are classified by the U. S. Bureau of Labor as areas with moderate labor surpluses. A small per cent of the total labor force has been unemployed in these centers during the winter months. What makes it appear quite large to some observers may be that the number of unemployed workers is concentrated within relatively few industries.

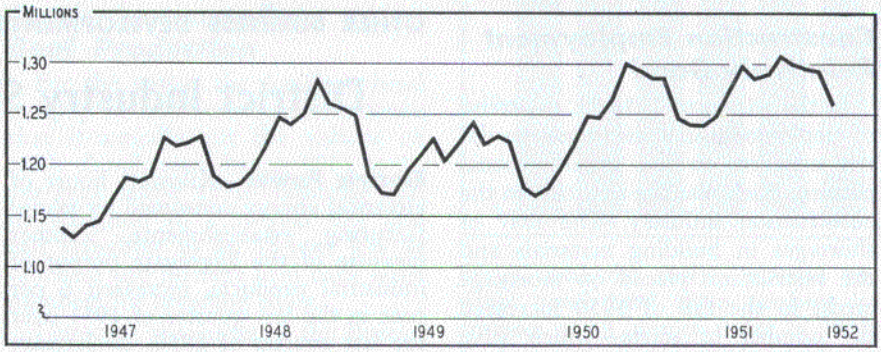
It is not unusual for both large and small cities of this district to have moderate labor surpluses during the winter months. The severe winter weather of this region makes it impractical to do many types of outdoor work. Construction, mining, and transportation industries find it not only expensive but also physically impossible in some cases to operate

Normal seasonal decline in employment in Ninth district was caused in part by contraction in construction activity.

Production for national defense has enabled management of some manufacturing industries to retain full labor force.

Present numbers of unemployed have been relatively minor cause of slackened consumer buying.

EMPLOYMENT IN DISTRICT'S NON-AGRICULTURAL ESTABLISHMENTS*



EMPLOYMENT in this district rose to a peak in 1948, receded in 1949, again rose materially in 1950, and (subject to the usual seasonal variation) has remained at this high level. During the past winter, employment has remained steadily above the level of previous winters.

* Does not include figures for 26 counties in Wisconsin.

through those months. As a result, these industries have a sharp seasonal decline in employment.

According to reports issued by the state employment offices of this district, the region has not experienced more than the usual winter contraction in employment. In comparison with former years, district employment in non-agricultural establishments has remained high in recent months. In Minnesota, South Dakota, and Wisconsin, such employment during each month of the current winter has remained above the total number employed during the corresponding months of a year ago.

In Montana and on the Upper Peninsula of Michigan, employment has fallen below the total number employed a year ago, but it has remained well above the level of employment in other postwar winters. For example, January and February 1952 employment in Montana was about 1 per cent below the total for the corresponding months in 1951. However, it was 8 per cent above the corresponding months in 1950 and 5 per cent above the first two months of 1949, which was a peak year in employment prior to the Korean war.

On the Upper Peninsula of Michigan, employment in January 1952 was down about 3 per cent from the total number employed in January 1951, but it was nearly 3 per cent above the total for January 1950 and 2 per cent above the total for January 1949. Comparable figures are not available for North Dakota, but other data indicate that employment in this state may be at or close to the 1951 level.

Construction Employment Relatively Good

In the winter of 1950-51, the trend of employment in some industries did not conform to the usual seasonal pattern. Such was the situation in the construction industry. The fear of shortages in building materials and the restrictions placed on mortgage credit in the fall of 1950 increased the number of starts—which gave residential building an impetus that extended through the winter.

As a result, the construction industry experienced almost no seasonal contraction in employment during the winter of 1950-51. Beginning late last fall, there has been the usual contraction and, consequently, employment on construction projects during the past winter has been lower than that of a year ago.

The Minnesota Division of Employment and Security has pointed out that in this state the number of workers employed on construction projects in January 1952 was 3.7 per cent below the total number employed in January 1951. However, it was 25 per cent above the January levels of earlier years.

In Montana, employment on construction work in January 1952 was 18 per cent below the number employed in January 1951, but it was 28 per cent above the total number employed in January 1950 and 12 per cent above the total in January 1949.

In both Wisconsin and on the Upper Peninsula of Michigan, employment in construction has set a new winter record. High last winter, employment has remained even higher this winter. For example, January 1952 employment in Wisconsin was up 4 per cent from a year ago, and on the Upper Peninsula of Michigan it was up as much as 12 per cent.

In South Dakota, employment in construction during the first part of the winter was about equal to the level of a year ago. Figures for this winter are not available for North Dakota, but employment on construction work last summer and fall was above that of previous post-war years.

Defense Work Sustains Manufacturing Employment

Employment in many manufacturing industries of this district has not followed the usual seasonal pattern the last few months. Production of goods for national defense has permitted some firms to retain their full labor force.

In a few industries, however, management reduced employment below the usual seasonal low point, because certain items of civilian merchandise were in ample supply.

In Minnesota, manufacturing employment during the past winter has remained steadily above the total number employed in this field a year ago. In Wisconsin, such employment was above a year ago until January, when it declined to the January 1951 total.

In contrast to this, manufacturing employment in Montana since last summer has been below the employment level of a year ago, but it has remained well above the pre-Korean total. For example, in January 1952, manufacturing employment in this state was down 7 per cent as compared with the corresponding month of 1951, but it was 4 per cent above the January 1950 figure.

The reduction in working forces of manufacturing concerns has been concentrated among firms producing textile mill products, apparel, lumber and wood products, and furniture and fixtures. In these industries, the cutback in production was caused by insufficient demand rather than shortages of raw materials. END

OTHER BUSINESS DEVELOPMENTS

District Industry Shows Good Output

Electric Power—Kilowatt hours of electrical energy consumed by manufacturing establishments, another measure of the aggregate output of industrial products, increased 6 per cent in the last quarter of 1951 over the last quarter of 1950. In January of this year, district industry used 9 per cent more than a year ago.

It is interesting to observe that industrial firms increased their use of electrical energy more than other users in this district did. Total electrical power produced and consumed in the last quarter of 1951 in the four states wholly within this district was only 3 per cent above the total for the same period in 1950. In January this year, total electrical energy produced and consumed was up 7 per cent from the corresponding period last year. Continued on Page 279

District Shares in Livestock Increase

RECORD CATTLE BUILDUP

Is Consistent with the Current Trends in Production 'Cycle'

Although accentuated by special conditions, the herd buildup in 1951 was in line with basic trends.

Patterns of past cycles suggest further increases — at a slowing rate — with increased marketings of beef.

Understanding the relationships within a typical livestock cycle can help to appraise current situation more accurately.

THE production of livestock, like so many natural phenomena, tends to move in cycles—broad swings in the level of output that, when plotted on the dimension of time, appear as a succession of swells, peaks and troughs in repeating series.

Cattle cycles normally run the longest, from 14 to 16 years. Hogs have the shortest cycle, from 4 to 6 years. Sheep cycles are the least regular but average about 9 years in length.

All three of these cycles were very evident during 1951, though each at a different stage. Farmers and ranchers added 6 million head of cattle to their herds. This was the sharpest rise ever recorded in a single year, and brought total cattle numbers to a record 88 million head.

Many circumstances contributed to this remarkably sharp increase — price ceilings, soft corn, good forage and pasture conditions, plus a general confidence in beef prices. However, the increase was also entirely consistent with the "buildup" phase of the cattle cycle which we are now witnessing. The special conditions merely accentuated the underlying trend.

Hog numbers also increased during 1951, but the trend of hog production actually reached its peak toward year's end, as unfavorable hog prices and short feed supplies caused producers to cut back their plans for farrowing spring pigs by an estimated decrease of 9 per cent.

Sheep numbers, after resting at the lowest level in history for the past few seasons, have once again started to climb.

The tides and cross currents of these national trends ebbed and flowed among the farms and commerce of the Ninth district, where livestock producers have shared fully in the numbers increase. Total cattle numbers in this area rose 9 per cent during the year, compared with 7 per cent for the nation. All the increase was in beef cattle—dairy cow numbers declined slightly in all states except Wisconsin.

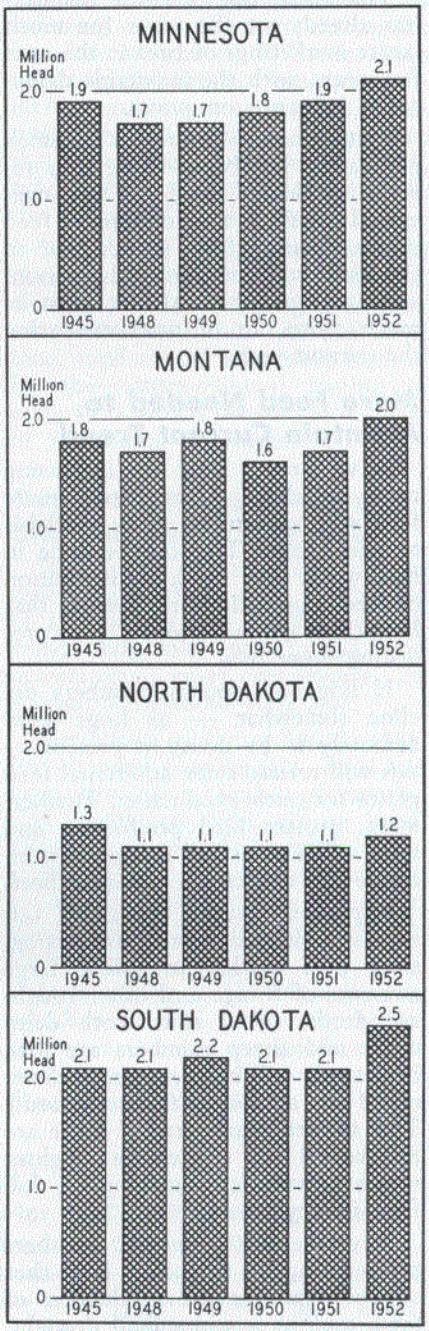
There were also 8 per cent more hogs on district farms this January 1 than a year earlier, compared with a 2 per cent increase for the nation. And sheep numbers—up 23 per cent in Minnesota—increased 12 per cent in the four states wholly within the district, and 3 per cent nationally.

Cattle Increase Cuts Beef Production

For the nation the 6-million head buildup in numbers was so extreme that it actually cut the volume of cattle slaughtered during 1951 to 11 per cent below 1950—reducing cattle slaughter to a 10-year low and calf slaughter to an 18-year low as ranchers and farmers held back large numbers for breeding stock.

Livestock specialists of the Bureau of Agricultural Economics have estimated that the rise in numbers may continue until 1955, when they believe the current upswing is likely to reach a peak of about 100 million

BEEF CATTLE NUMBERS ON NINTH DISTRICT FARMS ON JANUARY 1, OF RECENT YEARS



REFLECTING the sharply upward national trend, beef cattle numbers increased in all district states in 1951. Farmers and ranchers added to herds at a record rate, setting the stage for greater beef production and slaughter in the years immediately ahead.

Source: USDA "Livestock on Farms."

head. It is estimated that annual slaughter will then reach around 40 million head, compared with 26½ million head in 1951.

This rising tide of cattle numbers has already set the stage for much larger marketings of beef in the next few years, with the inevitable dampening influence on prices.

Furthermore, our present livestock population has been eating into reserve stocks of feed. They consumed 2 million tons of reserve feed grains during 1951, in addition to the feed produced during the season, and will probably take at least as much more out of reserves during the current year.

More Feed Needed to Maintain Current Trend

If we are to keep on increasing cattle numbers as predicted, more feed will have to be made available to beef cattle. This can be done in two ways: (1) by a redistribution of feeds now being produced so that beef cattle get more, and (2) by producing more feed.

If hog and poultry numbers decline somewhat — as hogs seem definitely to be doing at present — this will release some additional feed grains for cattle production. Furthermore, greater feed production and more efficient use of forages can increase our capacity to produce beef.

Improved forages, especially, can support additional beef production, since beef cattle can utilize large amounts of forage and other roughage feeds. (And since both dairy cattle and sheep numbers are low, beef cattle will be the main consumers of any additional forages raised.) This is particularly true if cattle are marketed at somewhat lighter weights, with less finishing on full feed in drylot.

Nevertheless, livestock numbers are building up to such a level that a poor year for the production of feed, such as a widespread drought, could cause heavy liquidation of cattle now on farms and ranches and bring an early reversal of the present rise in cattle numbers.

Assuming that no extremely adverse feed conditions develop, however, previous cattle cycles suggest that cattle numbers will continue to increase for three or four more years —though at a slowing rate. Previous buildup periods have lasted from six to eight years, and the present one is but three years old.

Rate of Buildup Affects Marketings

The rapid increase of cattle numbers during 1951 was consistent with the buildup phase of the typical cattle cycle. The development served to illustrate how each phase or swing of the cycle has its own special characteristics, with special effects on prices, slaughter volume, and feed consumption.

Analyzing some of the main forces and relationships within these swings makes it possible to appraise the livestock outlook more intelligently. This appraisal is made in terms of the cattle cycle, although the principles apply in a general way to other livestock as well.

Obviously, over any prolonged period the volume of cattle slaughter is related to cattle numbers. For the years 1927-51 the slaughter of cattle and calves **averaged** about 37 per cent of total cattle numbers.

For any particular year, however, the rate at which cattle producers increase or liquidate their herds influences the volume of slaughter more directly than does the general level of cattle numbers.

Thus, with 84 million cattle on farms at the beginning of 1951, slaughter during the year amounted to only 26½ million head.

In contrast, cattle slaughter totaled 36 million head in 1947, with only 81 million head on farms on January 1 of that year. In one case farmers and ranchers were adding to their herds; in the other they were liquidating.

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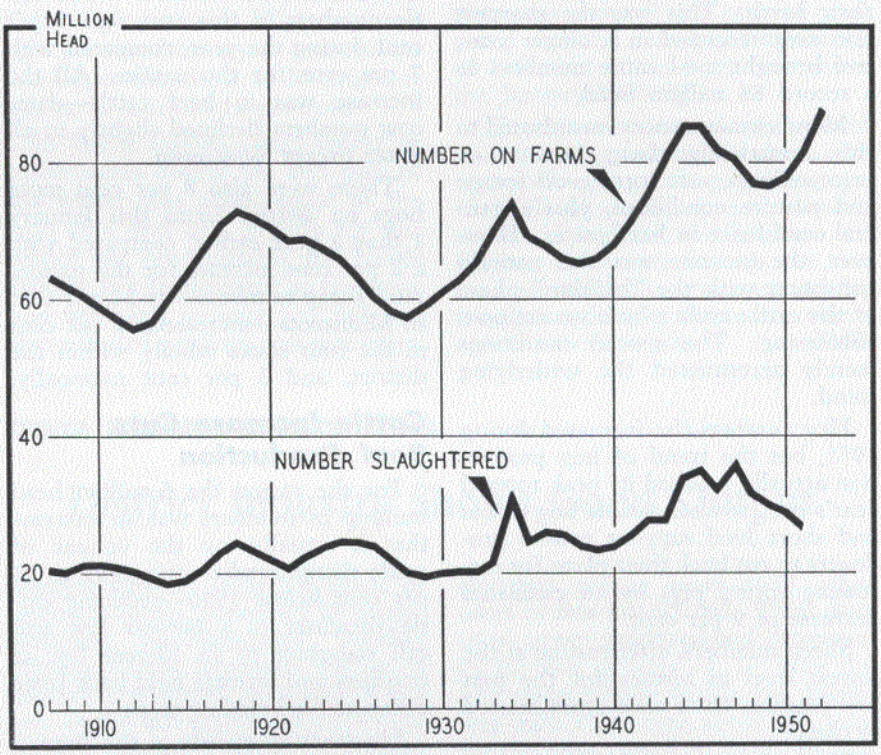
CATTLE AND CALVES ON FARMS, AS OF JANUARY 1, COMPARED WITH ANNUAL SLAUGHTER



THE VOLUME of cattle slaughter depends not only on the number of cattle on farms but also on the rate at which farmers are adding to their herds. Thus, while total cattle numbers have been building up since 1949, slaughter volume has declined in each of those years. Source: USDA Bureau of Agricultural Economics.

1951 Retail Credit Survey Shows . . .

CHANGES IN SALES, RECEIVABLES, STOCKS VARIED BY BUSINESSES

TIGHTENING of credit, along with softening of consumer demand the latter part of 1951, noticeably influenced operations of credit-granting retail stores in the Ninth Federal Reserve district last year.

Chief among the effects, aside from lower sales, were substantial reductions in accounts receivable and, in some types of business, in inventories.

Dollar volume of sales at credit-granting stores in which the sale of apparel and other soft goods predominated was slightly larger in 1951 than in the previous year.

The contrary was true of stores in which consumer durable goods such as appliances, automobiles, and hardware were paramount. At these stores sales declines ranged from 9 per cent for household appliance stores to 1 per cent for hardware stores. Sales of furniture stores remained unchanged from last year.

Reflecting to some extent the imposition of credit regulations on September 18, 1950, year-end accounts receivable declined markedly from 1950 to 1951 at stores retailing articles covered by these regulations.

For example, furniture store receivables declined 11 per cent, receivables at household appliance stores declined 12 per cent, and unpaid accounts at automobile tire and accessory stores were down 20 per cent from December 31, 1950 to December 31, 1951.

Contrasted with these decreases, men's and women's apparel stores had moderate increases in the amounts due from customers.

No Uniformity Shown by Sales-Stocks Comparison

There were noticeable changes from one year to the next in the level of inventories held on December 31. These changes, however, followed no uniform pattern in relation to changes in the sales of different types of reporting stores. For example, with sales volume above that of 1950, department stores curtailed their stocks of goods, while women's apparel stores acquired additional inventories.

A similar situation prevailed among the cases which showed that 1951 sales had dropped below those of the previous year—some stores increased and others decreased their stocks of merchandise.

These sales-inventory comparisons may be interpreted more clearly by referring to developments during the last few months of 1951. In cases where annual figures are supplemented by regular monthly reports on inventories and sales, it is apparent that inventories December 31, 1951, echo the effects of depressed sales in the latter half of the year.

When sales declined, stores pared their purchases of additional merchandise, thereby causing a drop in year-end inventories. At the same time, total annual sales were buoyed by the contra-seasonal buying in early 1951 which resulted from fears of impending shortages.

Dealers' Stocks of Cars Showed Sharp Increase

Inventories of automobile dealers reflect a special situation. At the end of 1950, many new models were already out, sales were good, and dealers could move cars readily. As a result, inventories were low.

Conditions on December 31, 1951, had changed considerably. Sales had been slow for a number of months. Old model cars were still on hand. Dealers had trouble in selling automobiles. These new circumstances account in large part for the 32 per cent increase in inventories of automobile dealers.

In summary, 1951 was a year in which a gradual weakening in the consumer demand for goods caused credit-granting retail stores to reduce their inventories.

● The accompanying discussion of 1951 retail credit developments in the Ninth Federal Reserve district is based on the results of the 1951 Retail Credit Survey. This has been conducted by the Federal Reserve Bank of Minneapolis as a part of a national survey made by the Board of Governors of the Federal Reserve System.

With the exception of 1950, this study has been carried on annually since 1942. It covers credit-granting stores in nine lines of trade as follows: automobile dealers, automobile tire and accessory stores, furniture stores, hardware stores, household appliance stores, department stores, jewelry stores, men's clothing stores, and women's apparel stores.

The 1951 survey is based on reports received from 425 firms in this district. A more detailed tabulation of data by kind of business is available on request from the Research department.

TABLE I

Sales, Receivables, and Inventories of Credit-Granting Stores in the 9th District, 1951 as Per Cent of 1950

Kind of Business	Number of Stores Reporting	RETAIL SALES				INV'S. AT RETAIL	TOTAL ACCTS. REC.
		Total	Cash	Charge Account	Installment		
Department Stores	45	102	101	102	105	99	92
Men's Clothing Stores	11	102	96	108	—	104	104
Women's Apparel Stores	37	102	101	104	—	102	114
Furniture Stores	18	100	101	98	100	89	97
Household Appliance Stores	93	91	94	88	91	88	97
Hardware Stores	53	99	101	98	92	93	105
Automobile Dealers	69	98	94	105	100	93	132
Automobile Tire and Accessory Stores	18	97	100	98	87	80	79

It is noticeable that in stores where total sales were below those of 1950 —that is, stores in which sales of consumer durable goods were foremost—much of the decline was attributable to smaller credit sales volume. The fact that credit sales dropped off while cash sales were maintained near 1950 levels suggests that more rigorous credit terms in 1951 had a dampening effect on consumer credit. END

TABLE II

Cash, Charge Account, and Instalment Sales as a Percentage of Total Sales in 9th District Credit-Granting Retail Stores, 1950 and 1951

Kind of Business	Number of Stores Reporting	1950			1951		
		Cash Sales	Charge Account Sales	Instalment Sales	Cash Sales	Charge Account Sales	Instalment Sales
Department Stores	45	43	48	9	43	48	9
Men's Clothing Stores	11	46	54	0	43	57	0
Women's Apparel Stores	37	48	51	1	47	52	1
Furniture Stores	18	21	21	58	22	20	58
Household Appliance Stores	93	22	32	46	22	31	47
Hardware Stores	53	57	31	12	58	31	11
Automobile Dealers	69	52	13	35	50	14	36
Automobile Tire and Accessory Stores	18	45	36	19	46	37	17

BUSINESS

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Industrial production in the nation for the last quarter of 1951 was 1 per cent above the output in the last quarter of 1950, according to the index compiled by the Board of Governors of the Federal Reserve System. The index reflected a slight decline of one-half per cent in the output in January 1952 over January 1951.

Judging by high employment in our manufacturing establishments and a rising consumption of electrical energy, manufacturers of this district, it is safe to say, have maintained output which compared quite favorably with that of other regions.

Department Store Sales — The lower volume of retail sales of recent months can be attributed largely to conservative buying on the part of consumers rather than to the rise in unemployment. As has been pointed out in previous issues of the Monthly Review, consumers still are saving a large proportion of their current earnings.

In January, the level of department store sales in this district declined in comparison with that prevailing in the last quarter of 1951. The seasonally adjusted index of district sales for January was 97 per cent of the 1947-49 base period. The adjusted index for December stood at 104 per cent, indicating a drop in sales of about 7 per cent in January.

District department store sales in February showed a recovery from the January slump, with the adjusted index rising from 97 per cent in January to 113 per cent in February. Weekly sales in the four large cities in March fell below those for the corresponding weeks in 1951.

New Passenger Car Registrations —Sales of cars in this district during the winter months were lower than in a corresponding period last year. A seasonal upturn normally occurs in this area in April or May. Since the period of generally brisk car sales is about to begin, it should be taken into consideration that the seasonal upturn this year will likely be great, beginning as it will from a period of relatively low sales.

The most recent figures available on new car registrations, by states, are for January. In comparing registrations in January 1952 with those for January 1951, it is evident that there was considerable variation in sales among states. Registrations were down 45 per cent in Montana, 41 per cent in Michigan, and 35 per cent in North Dakota. In Wisconsin, however, registrations were up 23 per cent.

Registrations in January 1951 may not be a good bench-mark for comparing sales in the past winter, because that month was one of two periods of abnormally high consumer buying. In early 1951, new car sales were stimulated by the fear of impending shortages. Nevertheless, it may be observed that registrations for January 1952 for both Michigan and Montana also fell below the figures for January 1950 by 27 per cent and 26 per cent respectively. In North Dakota and Wisconsin, registrations were up only 2 per cent and 4 per cent respectively.[1]

More recent figures on new car registrations are available for the Twin Cities metropolitan area. In February the number of new cars registered to individuals and business firms, exclusive of automobile dealers, was down over 17 per cent from the total for February 1951. For the first 18 days in March, registrations were down 10 per cent from the same number of days last year. END

[1] New car registrations for January were not available for Minnesota and South Dakota.

Ninth District Business Indexes

(Adjusted for Seasonal Variation—1947-49=100)

	Feb. '52	Jan. '52	Feb. '51	Feb. '50
Bank Debits—93 Cities	115	116	121	103
Bank Debits—Farming Centers	114	117	117	101
Ninth District Dept. Store Sales	113p	97	117	104
City Department Store Sales	120	98	120	110
Country Department Store Sales	101p	94	113	94
Ninth District Dept. Store Stocks	102p	106	113	100
City Department Store Stocks	102p	104	116	101
Country Department Store Stocks	102p	109	110	100
Lumber Sales at Retail Yards (Bd.Ft.)	95p	70	99	90
Miscellaneous Carloadings	104	103	91	97
Total Carloadings (excl. Misc.)	93	91	88	79
Farm Prices (Minn. unadj.)	104	103	107	84

p—preliminary

NATIONAL SUMMARY OF BUSINESS CONDITIONS

COMPILED BY THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM, MAR. 31, 1952

■ INDUSTRIAL production rose slightly in February and early March and was at about the high level reached in the second quarter of 1951. Wholesale prices decreased further over this period, and consumer prices also declined. Total retail sales increased in February, while sales at department stores declined somewhat. Bank credit outstanding has changed little since early February.

Industrial Production — The Board's preliminary seasonally adjusted index of industrial production in February was 222 per cent of the 1935-39 average, as compared with 220 in January and 221 a year ago. Durable goods output increased in February to a new postwar record level, and production of nondurable goods was up slightly from the level reached at the end of 1951.

Passenger auto assembly increased substantially in February and March; total output for the first quarter will be close to the authorized limit of about one million units. Production of household goods was maintained in February at about the January rate—one-fourth above last summer's low but 30 per cent under the exceptional rate of a year ago. Over-all activity in machinery lines showed a small increase, reflecting partly further gains in military equipment.

Steel production, which reached an annual rate of 108.7 million tons in February, continued to expand in March. Refinery output of non-ferrous metals also rose further in February and lumber production showed a strong seasonal rise.

The slight increase in nondurable goods output in February reflected mainly a 4 per cent rise in cotton consumption and an unusually large volume of meat production for this season. Pork production in March continued to exceed substantially the year-ago amount. Petroleum refining was maintained at peak rates in February and stocks of gasoline rose to a new high. A decline in chemicals output reflected mainly a sharp further curtailment in rayon output.

Employment — Seasonally adjusted employment in non-agricultural establishments in February was 46.5 million, about the same number as in other recent months. The average work week at manufacturing plants at 40.8 hours was little changed from January or from the level of a year ago; average hourly earnings remained at $1.64. Unemployment was unchanged at 2.1 million, the lowest for February since 1945.

Construction—Value of construction contract awards showed little change in February as increases for most types of public construction partly offset declines in private nonresidential awards. The number of nonfarm housing units started rose to 77,000 from 68,000 in January and compares with 81,000 in February 1951.

Expenditures for construction work put in place, allowing for seasonal influences, continued unchanged from January at $2.5 billion and were as large as a year earlier.

Distribution—Department store sales declined somewhat in February and early March, after allowance for the usual seasonal change. In the first three weeks of March, sales were 12 per cent below the corresponding period a year ago owing in part to the later date of Easter this year.

Preliminary estimates indicate a moderate decline in February in value of department store stocks after seasonal adjustment. Seasonally adjusted sales at retail stores selling automotive goods and building materials increased substantially in February.

Commodity Prices — The average level of wholesale commodity prices declined slightly further from mid-February to the fourth week of March, reflecting chiefly decreases in industrial commodities. Wholesale food prices changed little. While some farm products strengthened, hog prices decreased further.

The consumers price index, which had advanced 11 per cent from June 1950 to last December, was unchanged in January and then declined .6 per cent in February. The February decline reflected chiefly decreases in retail food prices. Since mid-February, there have been reductions in prices of television sets, appliances, and textile products.

Bank Credit and the Money Supply — Total credit outstanding at banks in leading cities has shown little change since early February. Bank holdings of United States government securities have declined somewhat while loans and other securities have increased moderately.

The volume of new bank loans to finance defense and defense-related activity in such manufacturing lines as metal and metal products, petroleum, and chemicals has continued its steady upward movement and exceeded further seasonal repayments of loans by commodity dealers and food, liquor, and tobacco processors.

The total money supply has also changed only slightly since early February, reflecting in large part the stability in outstanding bank credit. The deposit and currency holdings of businesses and individuals, however, declined sharply as a result of a large seasonal transfer of funds from private to government accounts. Demand deposit turnover outside New York City rose in February following a decline from November to January.

Security Markets—Common stock prices rose moderately during the first three weeks of March. Yields on short- and intermediate-term government securities which had risen somewhat during the early part of March subsequently declined sharply as money market conditions eased. Yields on long-term Treasury issues were little changed, while yields on high-grade corporate bonds rose slightly.

CATTLE BUILDUP

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Production Geared To Swings in Cycle

During the early part of the buildup phase of a cycle, the actual slaughter increases but little—may even decrease as it did in 1951—as cows and heifers are held back to add to breeding herds. Actual marketings and slaughter do not increase much until after the rate of herd buildup begins to level off.

During the "liquidation" phase of the cycle—when numbers are declining—more cows, heifers, and other breeding stock are sold than are replaced, thus adding to marketings.

As the volume of beef marketings gets larger, calves tend to make up more of total slaughter numbers. For example, calves made up 42 per cent of the combined cattle slaughter in 1944—when cattle marketings were at their peak and numbers held about even for the year. But in 1947, when cattle were being liquidated, calves made up 38 per cent of the total slaughter—and in 1951 they were only 34 per cent of the total.

Also, the average dressed weight of cattle slaughtered can be expected to drop some as marketings increase. The slaughter weight of beef cattle averaged 479 pounds during 1940-45. But during the record buildup of 1951 the average slaughter weight was 517 pounds.

In a typical cycle, the volume of marketings and slaughter dips lowest during the first two or three years that cattle numbers are turning upward. Marketings are highest when cattle numbers turn down from their high point, and again at the point when cattle are being liquidated most rapidly.

Prices begin to reflect the effect of increased marketings in the latter part of the buildup phase of the cycle. This may not immediately discourage the buildup, but as marketings become heavier, the decline in prices often helps to speed the liquidation process on its way and adds further to the volume of marketings.

This also affects feeding ratios—the ratio between slaughter-cattle prices and feed prices—which tend to be high during the early, buildup part of the cycle, then lower as increased numbers put pressure on feed supplies and increased marketings tend to lower prices.

Beef-corn ratios during the past few years have been as high as 20 to 1, whereas the 20-year average is about 15 to 1. Later on when larger numbers on feed put pressure on feed supplies, this ratio may be expected to slip back to a more normal figure, or even lower.

Special Conditions Marked Past Cycles

The phenomenon of "the cattle cycle" didn't really appear until the cattle industry had expanded into most of the land area available in this country. Since then, although the long-run trend of production has continued to rise, periodic readjustments have been common within the cattle industry.

The first peak seems to have been reached in about 1890—followed by a succession of peaks in 1905, 1917, 1934, and 1945. But while the cycles have recurred with a general regularity, the actual span has varied from 10 to 17 years between peaks. Each buildup and decline has been associated with special circumstances.

Early cycles were marked by regional shifts in cattle production. As more intensive farming took over the corn belt, grazing shifted farther west.

More recently, the decline in horses and mules, along with greater crop production, has made it possible to support larger cattle populations.

The decade of 1918-28 was a period of readjustment in which cattle raisers shifted to marketing younger steers. Thus the proportion of cows to cattle numbers increased; herds had become more productive.

During the early Thirties, extremely low prices made many producers reluctant to sell cattle. They built up their herds instead. In 1934, however, widespread drought cut the buildup short and caused heavy liquidation of cattle numbers.

From the low of 1937 to the peak of 1945, good prices and good weather encouraged cattle production. Furthermore, under the price ceilings of World War II many cattle raisers held back cattle in anticipation of relaxed ceilings and higher prices.

The subsequent downswing after World War II came despite better-than-average grazing conditions and high prices. Part of the sell-off may have been merely a completion of previous plans made under price controls. But many producers sold down their herds at this time because they felt that the high price levels could not be maintained.

Dairy herds were also being culled severely during this period, 1945-49

Livestock on United States Farms, as of January 1

		All Cattle	Dairy Cows	Hogs	Sheep
		Thousand Head			
MINNESOTA:	1952	3,472	1,412	3,922	924
	1951	3,307	1,441	3,735	749
	% '52 of '51	105%	98%	105%	123%
MONTANA:	1952	2,107	119	188	1,861
	1951	1,881	123	145	1,716
	% '52 of '51	112%	98%	130%	108%
NORTH DAKOTA:	1952	1,613	410	425	439
	1951	1,480	414	401	406
	% '52 of '51	109%	99%	106%	108%
SOUTH DAKOTA:	1952	2,826	350	1,774	1,039
	1951	2,479	368	1,543	933
	% '52 of '51	114%	95%	115%	111%
4-STATE TOTAL:	1952	10,018	2,291	6,309	4,263
	1951	9,147	2,346	5,824	3,804
	% '52 of '51	109%	98%	108%	112%
UNITED STATES:	1952	88,062	23,407	63,903	31,725
	1951	82,025	23,722	62,852	30,635
	% '52 of '51	107%	99%	102%	103%

Source: USDA—"Livestock on Farms"—February 14, 1952.

—adding to the total cut in cattle numbers. For the most part, dairy cattle numbers have remained stable in past years, however, so that the cattle cycle, so-called, has been almost entirely a "beef cycle."

Thus it is seen that the conditions important to successive cattle cycles have been quite different—drought, tractors, price controls, dairy herd liquidation, and both high and low prices have all had their effect at one time or another.

Present Cycle Also Unique

The present buildup is also influenced by its own special set of conditions. It has taken place in a period when feed supplies have been good, feed ratios favorable and beef prices generally high and rising, and when at least temporary confidence in future prices has been inspired by the economic stimulation of the national defense program.

Special circumstances of the times frequently modify and distort the basic cycle pattern, to make trends more prolonged and extreme or to cut them short.

The future of the present upswing may be equally individual, depending on circumstances. Drought, slumping demand, or a feed shortage could shorten the buildup in cattle numbers. Abundant feed and continued strong demand supported by still higher consumer incomes could prolong it and ease the eventual downturn when it comes.

In time, however, the cycle will have its way. And those who note these characteristic relationships between cattle numbers, marketings, and prices, while still allowing for the special market conditions which may modify and alter the trend, will have an additional basis for making intelligent business plans. END

OPERATING RATIOS

Continued from Page 273

ings on loans to total earnings.

Interest on U. S. government securities as a percentage of total earnings decreased at all size groups, but the decrease was greater the larger the size group considered. This pattern illustrates very nicely the close relationship between loan expansion and liquidation of governments.

Profits-Earnings Ratio Varies Considerably

On the expense side, it was found that, with the exception of one size group, the smaller the bank the larger was the increase in the ratio of salaries and wages to total earnings. This doubtless partially reflected the fact that earnings increased less at the smaller banks. At the largest size group the ratio of salaries and wages to total earnings actually decreased slightly.

As might be expected since the larger banks increased earnings more, there was a tendency for their ratio of taxes to earnings to increase more. This was true of every size group except one.

At the largest size group of banks, those with deposits in excess of $25 million, the ratio of taxes to earnings increased 45 per cent. This is in contrast to an average increase of 18 per cent for all district members.

In all size groups save the largest, net profits amounted to a lesser percentage of earnings than in the previous year. This ratio, net profits to total earnings, increased by 31 per cent at the largest size group of banks. By way of comparison, the ratio declined by 3 per cent at the average district member bank.

In consequence of the liquidation of governments which accompanied the loan expansion, the "risk-asset-capital" ratio declined at all but the smallest group of banks. This ratio, capital to total assets less governments and cash, tended to deteriorate more at the larger banks, since these were the banks which liquidated the most governments in order to finance their larger loan expansion. All groups, however, improved the ratio of capital to deposits.

In conclusion it can be stated that, in general, the larger the bank the greater was the improvement shown. This was because these were the banks which expanded high-yielding assets (loans) the most. In spite of the lack of uniformity in the experience of the size groups, however, every size group had earnings sufficient to permit a continued strengthening of capital. END

BANKING DEVELOPMENTS

Seasonal Deposits Decline Continued

Deposits at district member banks in February were characterized by a continuation of the seasonal decline which began in December of last year. Most of the February withdrawals ($36 million out of $45 million) occurred at the city (weekly reporting) banks, which reported the largest decline in those deposits which are owned by individuals, partnerships, and corporations.

Demand deposit withdrawals at the country banks amounting to $14 million were offset to a considerable extent by additions to time deposit accounts, which amounted to $5 million. Such accounts were up only $1 million at city banks.

Pressure on the reserve balances of city banks resulting from withdrawals was augmented somewhat by an expansion of loans amounting to $6 million. Loan expansion was almost entirely confined to that category of credit which is chiefly composed of consumer loans.

Government securities were liquidated by district member banks in an amount almost sufficient to offset deposit withdrawals.

Reserve balances of district member banks declined by $6 million more than required reserves. This brought excess reserves down to $28 million at the end of February. END