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**FEDERAL RESERVE BANK OF MINNEAPOLIS**  
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# District developments in 1963

**D**uring 1963 the district economy mirrored the behavior of the national economy; each exhibited a growth performance which was generally below both potential and past accomplishments. Within this general parallel of behavior there were dissimilarities of movements of particular series.

For example, employment within the district did not increase as rapidly as in the nation during 1963. District unemployment for the year, however, averaged out below the national figure. This lower average rate of unemployment in the district probably reflects the fact of continued out net migration from the district. Personal income for the four full states of the district, by contrast, appears to have grown slightly more rapidly during 1963 than did the national total.

District cash farm receipts for 1963 are expected to be approximately 1.5 per cent below the 1962 figure, reflecting primarily a decline in livestock receipts. Production of most crops, excepting corn and soybeans, was below 1962 record levels but still above the average of recent years.

The volume of bank loans extended by district banks during 1963 increased at a slightly slower rate than was achieved during 1962, 10 per cent as contrasted to 13 per cent. A slowdown in the rate of expansion of city bank loans accounts for the slower growth of the aggregate figure.

## Business

The economic growth experienced in the Ninth district in 1963 depended to a significant measure on the growth in the nation as a whole. Many of

the manufactured goods and minerals produced in this district are sold in national markets. Credit and security markets also have become largely national in scope. Furthermore, the decisions made by both consumers and business executives are influenced by attitudes and developments transmitted by the national news media. The federal government, through its large-scale collection and expenditure of revenue, has had a far greater influence on economic activity than have state and local governments.

The economic growth in the United States during the current phase of expansion, beginning in February 1961, has not been as vigorous and as consistent as in former periods of expansion. The gross national product, a conventional measure, rose by about \$29 billion, or 5 per cent, in 1963. Since prices rose by less than 1.5 per cent during the year, this growth reflects primarily a larger output of goods and services.

Although national developments have an important bearing on the district's economy, even more significant are changes within the district itself which have resulted in a rate of growth that is faster in some areas and slower in others as compared to that of the country as a whole.

For example, the 1963 weather in the Ninth district was favorable for both agriculture and resort operations. Feed crops were ample for livestock raising, owing to an adequate supply of moisture in most areas. Crop yields, although not of record size, were greater than average as a result of favorable moisture conditions and temperatures during the growing season; increased

agricultural production, in turn, enabled the many manufacturing plants to process a higher volume of food. As a result of temperature extremes in 1963, receipts at resorts were generally higher than in former years: hot summer temperatures stimulated vacationers to move to the region's resorts, while low winter temperatures and sufficient snowfall improved conditions for skiing and other winter sports.

In some district localities the volume of business activity increased as a result of federal government construction projects, such as the Yellow-tail Dam in the Bighorn River Canyon south of Hardin, Montana; the Clark Canyon Dam on the Beaverhead River south of Dillon, Montana; and the Big Bend Dam on the Missouri south of Pierre, South Dakota. Numerous smaller projects involved work in and around reservoirs, irrigation districts, and military bases. The installation of Minuteman missile bases in Montana and North Dakota, for example, has spurred business activity in several localities, and the maintenance of existing military bases has benefited other urban centers.

In a few centers growth has resulted from non-economic factors. Perhaps the best example of this growth has occurred in college and university communities, where mushrooming enrollment has led to a parallel expansion in facilities and services.

### **Population growth**

Business growth directly influences the number of people residing in the district. Large numbers of people in this region have annually shifted their residences, both within and outside the districts in search of employment. Substantial population movement out of the Ninth district states has occurred ever since the thirties.<sup>1</sup> Rural areas have a history of emigration that goes back to the end of the homesteading period. On the other hand, urban centers in Ninth district states have been

growing rapidly but not fast enough to absorb all the migrants from the rural areas.

The district states retained more of their natural population increase in the period from July 1962 to July 1963 than in the previous twelve-month period. Provisional estimates made by the Bureau of the Census on July 1, 1963, show that in all states except North Dakota, population increased significantly; even in North Dakota, the decrease was down from 10,000 in the earlier period to 1,000 in the later. The increase in the four district states averaged 1.1 per cent, compared with 1.5 per cent in the United States as a whole. The recent increase does not indicate long-term population trends because the rate of growth fluctuates widely from year to year.

### **Employment**

Employment in Ninth district urban centers during 1963 rose somewhat more slowly than in the nation. During the first ten months of the year, employment in nonagricultural establishments rose by 1.6 per cent, as compared with 2.3 per cent nationally. In the current period of economic expansion, which began in February 1961, district non-agricultural employment rose at a slower rate than in the nation, but it fell less during the mild recession of 1960. As a result, the rate of growth over the entire period is above the national rate.

As is always the case, employment over short periods and in certain regions fluctuates greatly, particularly in communities where economic activity depends primarily on one or two basic industries.

Because of better-than-average harvests, the total number of workers on district farms—including the farmer and his family—increased in both 1962 and 1963. Farm employment regionally had been declining for many years, although not as rapidly as in some of the southern states. The recent increase in farm labor is temporary.

How extensively the labor force is utilized in this district is revealed by the number of people seeking work here. Since workers continue to leave the district during good times when better

<sup>1</sup> See Larry A. Sjaastad, *Migration and Population Growth in the Upper Midwest: 1930-1960*. Upper Midwest Economic Study, p. 20.

employment opportunities exist elsewhere, during the current economic expansion the percentage of the unemployed in the district's civilian labor force has been consistently below that for the United States. During the first ten months of 1963, the rate, seasonally adjusted, ranged from 5.0 to 5.5 per cent in the district and from 5.5 to 6.1 per cent in the nation.

Although the Ninth district has had a relatively low over-all unemployment rate, it nevertheless has had many pockets of high unemployment. In November, the district had 52 areas or communities where the number of job seekers substantially exceeded the number of openings; as a result, the unemployed represented more than 6 per cent of the labor force. Fortunately, these areas are not extensive and comprise a small proportion of the district's total employment market. They are concentrated in the lumber and mining

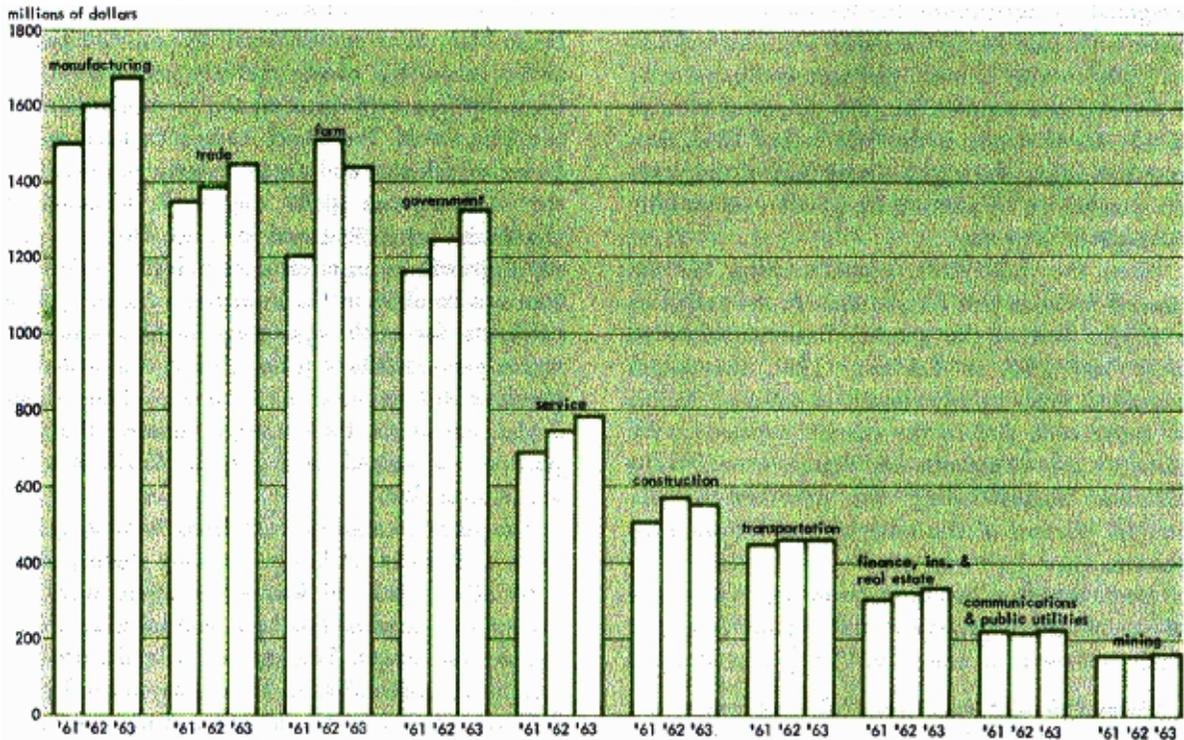
regions of Upper Michigan, Northern Wisconsin, Northeastern Minnesota, and Western Montana. A few isolated communities in other parts of the district also have appeared in the substantial unemployment classification, frequently because of the closing of a large manufacturing plant.

### Personal income

Payroll and proprietors' income represent another measure of economic activity. A breakdown of this income by industry reveals the relative importance of the respective industries in the regional economy and their relative rates of recent growth. (See chart.)

Such income in the four district states rose by 8.0 per cent in 1962 and by 3.6 per cent in 1963, comparable increases in the nation being 6.2 per cent and 4.0 per cent. In Montana, this income rose almost 10 per cent in 1963, but in Minne-

**Ninth district personal income by industry, 1961, 1962, and 1963**



sota and in South Dakota it was up only slightly more than 2 per cent, and in North Dakota it was down about 5 per cent.

The growth of payrolls and proprietors' income in such primary industries as *agriculture, manufacturing, mining, and forestry* is extremely important because the expansion of secondary industries largely depends on such growth.

Developments in *agriculture* strongly influence individual and family income in this district. In 1962, net farm income rose by a record 25 per cent, while in 1963 it declined by 5 per cent from this high level. Crop yields in 1963 were above average in most areas of the district, but they did not reach the record levels of the previous year. While prices received by farmers declined in the first half of the year, prices paid by farmers for equipment, seed, fertilizer, etc., continued to inch upward, averaging about 1 per cent higher in 1963 than in 1962.

Even in this district, whose economy is heavily weighted by agriculture, the largest source of income is derived from *manufacturing*. This income, in 1963, rose by about 5 per cent, compared with 7 per cent one year earlier. The output of durable goods stayed steady in the first half of 1963, then rose noticeably during the latter half of the year; the production of nondurable goods rose steadily throughout the year.

Since the mid-1950's, manufacturing has expanded faster in this district than in the nation as a whole. During the general business recession from May 1960 to February 1961, the output remained fairly steady despite a national decline of 6 per cent, and in the current expansion, the district's rate of growth has slightly exceeded the nation's. Manufacturing has absorbed a substantial portion of the labor released from agriculture.

Much attention has been devoted to the nature of the industrial growth in this region. A special study released in June 1963<sup>2</sup> provides detailed

<sup>2</sup> Research Division, Department of Business Development, State of Minnesota, *Business Growth in Minnesota, 1962*.

information on the growth occurring specifically in Minnesota during 1962. A total of 62 new manufacturing plants, defined as new manufacturing or research operations, were placed in service. An estimated 4,320 new jobs were created, and the estimated valuation of these added facilities was put at \$14,350,000. A wide range of soft and hard products is produced in these plants. The growth was brought about in all but two instances by Minnesota-based companies.

This period in Minnesota witnessed 34 expansions, defined as additions to existing manufacturing or research operations, including the enlargement or remodeling of an existing building, the construction of a new building, or the installation of additional or newer machinery or equipment. These facilities added an estimated 1,661 workers and increased the valuation of the plants by \$19,220,000.

Manufacturing in this region was also affected by the changing requirements of the national defense program. The fundamental change made by the military from conventional weapons to missiles shifted a portion of the military prime contracts from the Upper Midwest to the Southwest and to the East Coast. The demand for such hard goods items as vehicles and tanks, largely produced in the Midwest, has given way to a demand for electronics equipment and missiles. However, the rapid growth of an electronics industry in Minnesota has resulted in the awarding of some prime contracts for such equipment in this state. In recent years, military prime contracts awarded in the four district states have accounted for about 2 per cent of the total — approximately the proportion maintained during both World War II and Korean War.

The total income derived from *mining operations* in this district has grown only slightly since 1960. The source of income in many iron ore mining communities has been shut off abruptly as mines were closed. The expansion in the production of iron ore pellets in Minnesota and in Upper Michigan, however, has maintained the aggregate

income from this industry during the past three years.

Iron ore shipments from U.S. ports in the Lake Superior region through November totaled 55.4 million gross tons, up almost two million tons from a year earlier. The larger production of pellets more than offset the decline in the tonnage of other types of ore shipped.

In a move that would increase Minnesota's taconite pellet capacity, the Ford Motor Company, in association with Oglebay Norton Company, announced plans in February 1963 to build a taconite plant of from one and one-half to two million tons capacity near Eveleth, Minnesota; ground will be broken for the plant in the spring of 1964. The reserves of taconite ore lie between Eveleth and Virginia, and the beneficiation plant will be built at Forbes on the St. Louis River, south of Eveleth. This proposed expansion of taconite pellet capacity in Minnesota was delayed until Ford and Oglebay Norton received assurance of equal tax treatment with that accorded manufacturing in the state.

The building of other plants in Minnesota may be held up until companies receive similar assurance of equality of tax treatment. If the proposed taconite amendment to the state constitution is adopted in November 1964, construction may begin on several new plants. The Oliver Mining Division of the U.S. Steel Corporation has developed plans for a plant of 4 million tons annual capacity near Mountain Iron, Minnesota, and the Hanna Mining Company is considering building a plant near Nashwauk, Minnesota. In February 1963, the McClouth Steel Corporation in Detroit announced that out of five possible sites for its proposed taconite plant of two to two and one-half millions tons capacity, two sites are located in Minnesota.

The copper industry in the district also is in the transitional stage of installing new equipment and utilizing new deposits. In 1959, a new ore body was discovered close to the White Pine mine near Ontonagon, Michigan. Test cores revealed

this ore to be at least 50 per cent richer in copper than is the ore presently mined. The ore body is more than 2,000 feet below the surface and must be mined by the more costly method of vertical shaft as opposed to the slope technique now employed. When the new ore is mined beginning in 1964, it can be fed into the present crusher and smelter since the ore body is close to existing facilities.

A vein recently discovered near Mohawk, Michigan, on the property of the Calumet and Hecla Mining Company, has brought new hope to the community. Preliminary core tests show that the ore contains about 200 pounds of copper per ton, whereas the ore mined in recent years has contained only 12 to 20 pounds per ton. A new shaft being sunk by the company is scheduled for completion in 1964.

Elsewhere in the district, a copper concentrator has been built in Butte, Montana. Ore concentration in that state gradually shifted from Anaconda to Butte during 1963.

The income derived from *forestry* in this district is small, as most of the processing of timber — sawing, planing and veneering — is classified as manufacturing. Nevertheless, the district's timber resources in recent years have taken on increased importance. Studies show that the current growth of timber is sufficient to sustain and even expand current output of timber products.<sup>3</sup>

The other industries listed on the chart are secondary in that their growth depends largely on the number of workers employed and income received in the primary industries just described. Some of these industries are much larger than the primary ones on which they depend. For instance, in terms of income generated, wholesale and retail trade is the second largest industry in the district.

The growth in income received from services requires a special comment since this income includes receipts from the tourist or vacation indus-

<sup>3</sup> "Timber Resources of the Ninth District West" December 1963 issue of *Monthly Review*, Federal Reserve Bank of Minneapolis.

try. The income of hotels, motels, and resorts rose sharply during the fifties and, on the basis of fragmentary information, apparently continued to increase during the present decade. The receipts at sporting and recreational camps in both Minnesota and South Dakota from 1954 to 1958 not only exceeded the national average but even outranked the averages of many of the states in the Southern and Western regions which have made large gains in this field.

### Summary

People residing in the Ninth Federal Reserve district generally enjoyed economic prosperity during 1963. The exception was mainly in the iron ore and copper mining regions, where the transition in mining operations has led to the closing of mines near traditional mining communities. Although the opening of new ore bodies and the application of new mining techniques has maintained in 1963 the level reached in recent years, the district industry as a whole, has suffered from much unemployment during the transition. The district-wide expansion of about 25,000 workers in nonagricultural employment was somewhat less than the rate of increase nationally. As a result of better-than-average crop harvests the number of agricultural workers rose. Unemployment occurred at a relatively low rate in the district. Personal income derived from current economic activity, while not as high as in 1962, nevertheless approximated the increase in the nation as a whole.

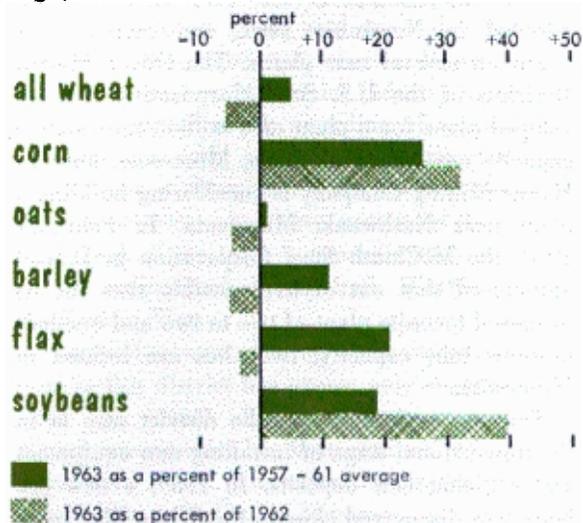
## Agriculture

During 1963 lower price levels held for most of the major agricultural commodities produced in the Ninth district. Beef cattle witnessed a drop of about \$1.50 per hundredweight in the average 1963 price received by district farmers. Hog prices were down about \$1.30 per hundredweight on the average, while milk prices just about reached the level attained in 1962. Crop prices, except for corn

and soybeans, were also generally weaker. The average 1963 price for wheat was about \$2.00 per bushel, nearly \$.10 below 1962. Corn and soybeans, on the other hand, experienced stronger price movements with the average price per bushel running about \$.10 higher for corn and \$.16 higher for soybeans.

Corn and soybean production was up considerably from the levels attained in 1962. Total corn production reached a record 517.2 million bushels, up 32.4 per cent from the 1962 crop and 26.3 per cent higher than the average output of the 1957-61 period. Soybean production also reached a new record high of 64.8 million bushels, an increase of 40.1 per cent over 1962 and 19.5 per cent from the 1957-61 average. The production of other grains was generally down from exceptional levels of 1962 although higher than the 1957-61 average (see chart). Total wheat production amounted to 265.8 million bushels, down 5.7 per cent from 1962. The sharpest cutback occurred in durum wheat, which was down 28.9 per cent;

Percent change in crop production, 1963 compared with 1962 and 1957 - 61 average, district states\*



\*Minnesota, Montana, North Dakota and South Dakota

spring wheat production was down 7.1 per cent from 1962, while the district winter wheat output rose by 39.3 per cent.

Total livestock marketings rose slightly during 1963, but milk production lagged behind the figure for 1962.

### Cash farm receipts

Total cash farm receipts from marketings in the district for the year 1963 are expected to amount to \$3.4 billion, a decline of 1.5 per cent from the 1962 total. The entire reduction is attributable to a 4 per cent drop in livestock receipts, estimated at \$2,123 million for 1963 as

TABLE 1—ESTIMATED 1963 CASH RECEIPTS FROM FARM MARKETINGS

	(thousands of dollars)	
	1962	1963
<b>Minnesota</b>		
Crops	393,227	383,035
Livestock	1,064,513	1,026,766
Total	1,457,740	1,409,801
<b>Montana</b>		
Crops	192,198	229,150
Livestock	207,777	190,864
Total	399,975	420,014
<b>North Dakota</b>		
Crops	433,506	475,428
Livestock	203,731	190,399
Total	637,237	665,827
<b>South Dakota</b>		
Crops	171,764	147,864
Livestock	499,621	478,039
Total	671,385	625,903
<b>District*</b>		
Crops	1,218,797	1,255,623
Livestock	2,211,034	2,123,024
Total	3,429,831	3,378,647

\*Includes western Wisconsin and Upper Michigan

compared to \$2,211 million in 1962. Crop receipts at \$1,256 million reflect a 3 per cent increase over the \$1,219 million figure for 1962; this estimate of crop receipts depends greatly on the timing of

corn and soybean marketings during the fall and winter months and is based on the assumption that the marketing pattern will be normal.

### State summaries

*Montana:* A 14.8 per cent increase in wheat production over that of 1962 greatly increased the total value of crops marketed by Montana farmers in 1963. That figure, estimated at nearly \$230 million, is more than 19 per cent greater than the 1962 crop receipts. Most of the increased wheat output was in winter wheat production, which rose by 32.4 per cent, as yield per acre increased from 22 bushels in 1962 to 26 bushels in 1963. Spring wheat yields were down 2 bushels per acre from the 23.0 bushels per acre produced in 1962, but an expanded acreage led to a 7.8 per cent rise in output. Durum output was down 44.7 per cent, and barley output fell by 18.7 per cent from the 1962 levels.

Livestock receipts were estimated at \$191 million for 1963, down 8.1 per cent from 1962. This reflects sharply lower prices for feeder cattle and reduced marketings as compared to the fall of 1962. In spite of lower livestock receipts, however, total cash farm receipts in Montana are estimated at about \$420 million, a 5 per cent increase over 1962.

*North Dakota:* An estimated 4.5 per cent increase in cash farm marketings largely reflects the excellent crop production North Dakota has experienced for its second consecutive year. While grain production was generally below the exceptional levels of 1962, it was well ahead of the average output of the 1957-61 period. For example, although the total wheat production of nearly 125 million bushels was almost 20 per cent below that of 1962, it still exceeded the 1957-61 average by 11.3 per cent. Flax production surpassed the 1957-61 average by 23.9 per cent but fell 14.5 per cent short of the 1962 crop. Thus, crop marketings during the first half of 1963, together with the sales from the 1963 crop, gave rise to an estimated 10 per cent increase in crop receipts. Off-

setting that increase to some extent was an estimated 6.5 per cent decline in livestock receipts, a drop caused primarily by lower livestock prices.

TABLE 2—BUSHEL YIELDS PER ACRE IN DISTRICT STATES, 1962 AND 1963

	Minn.		Mont.		No. Dak.		So. Dak.	
	1962	1963	1962	1963	1962	1963	1962	1963
All wheat	24.6	24.7	22.6	23.5	28.7	22.2	17.3	14.6
Corn	59.5	69.0	50.0	55.0	31.0	41.0	42.5	48.0
Oats	45.5	51.0	41.0	40.5	51.0	37.5	41.0	35.0
Barley	26.0	36.0	30.5	29.5	36.0	31.0	27.0	25.0
Flax	10.0	12.0	10.0	10.0	12.0	9.0	10.5	10.0
Soybeans	19.5	24.5	n.a.	n.a.	13.5	19.0	20.5	24.0

*Minnesota:* Lower livestock receipts in Minnesota were primarily responsible for a 3.3 per cent decline in the estimated cash receipts from farm marketings. Although the number of livestock marketings was large, it could not offset sharply lower prices for most livestock classes. Milk production was also down, and milk prices decreased slightly. In consequence, total livestock receipts are expected to run 3.5 per cent below those of 1962.

Despite significant improvement in corn and soybean production, the state's crop receipts are estimated at 2.6 per cent below the 1962 figure. This estimate reflects much lower crop receipts for the first half of 1963 than for the same period in 1962. Corn and soybean production in 1962 were 8.5 and 9 per cent, respectively, under the 1957-61 average. This year corn output of nearly 354 million bushels exceeded the 1962 production by 29.9 per cent. This increase is due to nearly a half million-acre expansion in corn land and an increase in per acre yields from 59.5 bushels in 1962 to 69 bushels in 1963. An increment in soybean land of about 175 thousand acres and a 5 bushel increase in per acre yield resulted in a 35.7 per cent increase in total production over that of 1962. Soybean output amounted to 58.2 million bushels in 1963. Significant increases were

also experienced for virtually all other crops produced in the state.

*South Dakota:* Total cash receipts from farm marketings are estimated at 6.8 per cent below those of 1962, with crop receipts down 8.6 per cent and livestock receipts down 4.3 per cent. The decline was due to reduced grain output and lower prices. For the second straight year the state's wheat crop was adversely affected by natural conditions: In 1962, the winter wheat crop was severely damaged by rust, while in 1963 the spring and durum wheat crops were reduced by unfavorable weather conditions. As a result, the 1963 spring wheat crop of 18 million bushels was 18 per cent below that of 1962, and durum output was down 47 per cent to 1.5 million bushels. The 1963 winter wheat production of 9.8 million bushels however, was about twice that of 1962. In all, the 1963 South Dakota wheat crop totaled 29.3 million bushels as compared with 29.8 million bushels in 1962 and an average of 38.5 million bushels during 1957-61. Similar reductions in output occurred in many of the other small grains. Corn and soybean production, as in Minnesota, was exceptionally good in 1963. Corn yields in South Dakota increased from 42.5 bushels per acre in 1962 to 48.0 bushels in 1963, and total output reached 151.9 million bushels, up 34.4 per cent from 1962. Soybean production of 3.6 million bushels exceeded the 1962 crop by 44.2 per cent.

## Banking

Economic growth in the Ninth district and in the nation has proceeded with only minor interruptions in recent years. Personal income, production, employment, and spending all have moved forward to new highs and have raised living standards. Member banks in the Ninth district have contributed to and shared in this growth (see chart). By increasing their outstanding loans, they have enabled businessmen and consumers to complete spending plans that might otherwise have been abandoned; and in turn, customers served

by banks have enlarged their deposits as income and employment have risen to new levels.

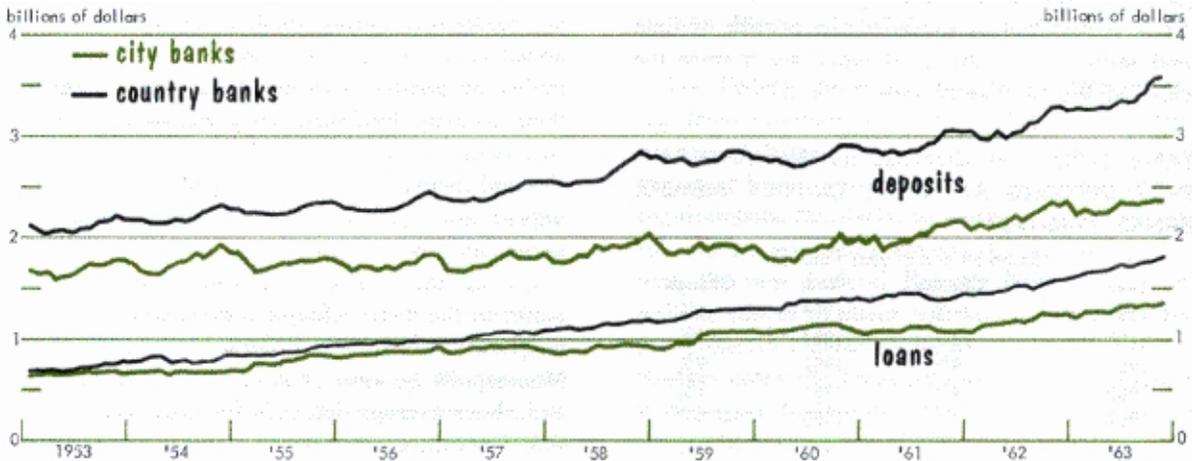
The past year was no exception to this general pattern. Bank credit and deposits gained substantial amounts as economic activity in the district advanced.

Total loans at district member banks, excluding loans to other banks, rose during 1963 by

served by country rather than city banks, as, for example, in the suburban communities surrounding Minneapolis and St. Paul.

The expansion of loan portfolios in the district's city banks also fell short of that occurring among city banks nationally (8 per cent versus 12 per cent, respectively). A comparison is presented in Table 1. As expected, agricultural loans gained

### Deposits and loans\* of city and country district member banks



\*Total loans after deducting valuation reserves and loans to other commercial banks

slightly more than 10 per cent — somewhat less than the 13 per cent gain of 1962 but considerably better than the 2 per cent rise of 1961. At member banks classified as country banks, loans expanded 12 per cent, about the same relative increase as in 1962. City banks, on the other hand, increased their outstanding loans by about 8 per cent, only half of the previous year's 16 per cent gain.

This lower rate of loan expansion at city banks than at country banks was not unusual. As indicated in the chart, country banks have fairly consistently turned in the better record since 1953. At least part of this difference is due to the growth of population and business in areas primarily

TABLE 1—PERCENTAGE CHANGE IN LOANS AT WEEKLY REPORTING MEMBER BANKS, NINTH DISTRICT AND UNITED STATES, DECEMBER 1962 TO DECEMBER 1963

	District	United States
Loans, Adjusted*	7.6%	12.3%
Commercial and Industrial Loans	4.2	7.5
Real Estate Loans	14.5	15.8
Loans to Nonbank Financial Institutions	16.5	18.3
Loans to Purchase or Carry Securities	18.6	41.3
Agricultural Loans	15.6	6.3
All Other Loans	1.4	9.5

\*Exclusive of loans to domestic commercial banks and after deduction of valuation reserves; individual loan item changes are shown gross.

relatively more in the district than they did in the nation. But the smaller district advances in other types of loans (see Table 1) resulted in the smaller total advance for district city banks.

Deposits in the district increased 6 per cent over the past year, somewhat less than the total loans increased. Demand deposits, the largest component of the total, advanced 1 per cent, as in the preceding year. Time and savings deposits, on the other hand, rose almost 14 per cent. While this gain was less than the 24 per cent increase of 1962, it matched or exceeded the growth of time and savings deposits in all other years since the close of World War II (see Table 2).

TABLE 2—RELATIVE CHANGE IN TIME AND SAVINGS DEPOSITS AT NINTH DISTRICT MEMBER BANKS, 1946-1963

(Based on end of year figures)

Year	Change	Year	Change
1963	14%	1954	6%
1962	24%	1953	6%
1961	9%	1952	9%
1960	4%	1951	1%
1959	3%	1950	— 3%
1958	13%	1949	— 1%
1957	14%	1948	0%
1956	4%	1947	7%
1955	3%	1946	15%

Increases in interest rates paid contributed importantly to the expansion of time and savings deposits during the past two years. On January 1, 1962, the Board of Governors of the Federal Reserve System substantially revised Regulation Q to permit the payment of higher interest rates to depositors. A sample survey taken in February 1962 indicated that after the change in regulation many banks lifted their deposit rates in order to attract additional funds for new loans and investments: about 31 per cent of district member banks raised rates on savings deposits,

while 93 per cent boosted rates on time deposits.\* After these initial changes, rates remained fairly stable until July, 1963. At that time Regulation Q was again modified to permit the payment of 4 per cent interest on time deposits having a maturity of 90 days or more. Incomplete evidence indicates that many of the larger district banks subsequently raised their rates on this class of deposits to compete more effectively.

As a result of the increase in deposits and rates, the total interest expense of Ninth district member banks rose during 1963. In order to meet the added expense, district banks not only expanded their loan portfolios as noted but also rearranged their security holdings. They reduced by 3 per cent their ownership of U. S. Government securities and increased by about 17 per cent their holdings of municipal and other securities that provide higher after-tax income.

During the last half of 1963 many member banks in the district found it necessary to borrow temporarily from the Federal Reserve Bank of Minneapolis because of unexpected deposit shifts and above average demands for loan accommodation. Over the entire year borrowings averaged approximately \$5 million daily—considerably less than the \$30 million daily average of 1960, a peak year, but more than the \$1 million daily average of 1962.

Borrowing from the Federal Reserve Bank of Minneapolis also became more costly during the year. On July 17, 1963, the discount rate was raised from 3 to 3½ per cent. Similar increases were made at other Federal Reserve Banks between July 17 and July 26 as one in a series of steps taken by both the Federal Reserve System and the U. S. Treasury to help reduce the deficit in the United States balance of payments.

\*Federal Reserve Bulletin, February, 1962, pp. 147-151.

# Bank

## operations in 1963

**I**n December the Federal Reserve Bank of Minneapolis began issuing its newest money, the \$1 Federal Reserve Notes authorized by Congress last June. While the backs of the new notes are identical with those of the \$1 silver certificates they eventually will replace, the face of the new dollar has several changes. George Washington is the same, but a symbol appearing to the left of the portrait identifies the issuing Federal Reserve Bank, and the wording above and below the portrait is different. The language of the silver certificate, "*This certifies that there is on deposit in the Treasury of the United States of America one dollar in silver payable to the bearer on demand*" has been replaced with two briefer notations, "*The United States of America*" and "*one dollar.*"

Congress passed the legislation authorizing the new notes in order to free for use in coinage the silver that is presently backing the \$1 silver certificates. This silver, amounting to approximately 1,300 million ounces, cannot be used so long as the \$1.5 billion of silver certificates are in circulation.

Current usage of silver for coin, currency and industrial uses has been increasing and now exceeds 200 million ounces annually. This amount is far more than the 35 million ounces produced in the United States each year. Industrial use of silver has increased because of growing demand for silver in the electrical, photographic, and jewelry fields. For coin production, the United States Treasury uses 75 million ounces annually—a figure that increases with the rising demand for coins. In addition, the number of \$1 bills in cir-

ulation has been increasing, adding about 38 million ounces a year to the silver backing requirements on the silver certificates outstanding.

The Federal Reserve Banks have been removing from circulation the \$5 and \$10 silver certificates that they have received, thereby freeing the silver backing to meet the Treasury's currency requirements. Similarly, as worn-out \$1 silver certificates are removed from circulation and replaced with the new Federal Reserve Notes, the 1,300 million ounces of silver will become available for the Treasury's needs. Without these new Federal Reserve notes, the Treasury soon would have found it necessary to import silver, thus adding to the United States balance of payments deficit.

The worth of the dollar depends not upon the silver backing to the \$1 silver certificates, but upon the United States international reputation of financial responsibility and confidence that the dollar will not be devalued. While these silver certificates constitute about 45 per cent of the number of pieces of currency in circulation, they represent only about 5 per cent of the actual dollar value. Prior to the issuance of the new \$1 notes, 85 per cent of the dollar value of outstanding currency was in the form of Federal Reserve Notes.

Like the silver certificate, the new note carries the legend that it is "*legal tender for all debts public and private.*" This is in keeping with Congressional legislation of 1933, which provided that "all coins and currencies of the United States (including Federal Reserve notes and circulating notes of Federal Reserve Banks and national banking associations) heretofore and hereafter coined

or issued shall be legal tender for all debts, public and private, . . .”\*

While the issuance of the new notes will enable the Treasury to avoid having to make foreign purchases of silver and adding to the United States balance of payments problem, the new notes will require additional gold certificate collateral of at least 25 per cent as is required by law. The annual requirement due to the new \$1 Federal Reserve Notes, however, will probably not exceed \$35 million, compared to a current United States gold position of approximately \$15½ billion.

With the release of silver for coinage purposes, the Treasury will have a sufficient supply to meet the growing demand for coins. The Federal Reserve Bank of Minneapolis received \$6 million in coin from mints during 1963, twice the amount received as recently as five years ago. This amount, together with the excess coin received from member banks, is used to fill requests for coin from member banks. Over this period coin received from banks has remained at about the same level, \$15 million. Meantime, to meet the growing demand for coin, the mints have been working around the clock and Congress has authorized the Treasury to add to its minting facilities.

As coin and currency has increased during the year, demand deposits — that other component of the traditional “money supply”— has been grow-

ing, along with demand deposit turnover. Thus the Federal Reserve Bank of Minneapolis has had to handle an increasing number of checks. The 150 million of checks handled in 1963, up 7 per cent from the year before, would have presented serious operational problems if the Bank had continued to process checks with the traditional type of equipment. Long range preparation for handling the anticipated volume increases in checks by high speed electronic equipment has enabled the Federal Reserve Bank of Minneapolis to process this larger volume with increasing efficiency. The bank’s ability to handle on this equipment most of the checks it now receives has been due largely to the excellent co-operation it has received from the entire banking community.

At year end the chairman of the board of directors announced that effective January 1, 1964, Maurice H. Strothman, Jr. would be promoted to the position of First Vice President to succeed Albert W. Mills, who is retiring; Ralph J. Dreitzler to the position of General Auditor to succeed Arthur J. McNulty, who is also retiring; John A. MacDonald to the position of Assistant Vice President; and Roland D. Graham to the official position of Assistant Counsel and Assistant Secretary.

Harold C. Refling was re-elected as Class A director and Ray C. Lange as Class B director for three-year terms beginning January 1, 1964. The Board of Governors of the Federal Reserve System reappointed Judson Bemis as a Class C director for a three-year term, and Edwin G. Koch, President of Montana School of Mines, Butte, Montana, as a director of the Helena Branch for a two-year term. Atherton Bean was redesignated as chairman and Federal Reserve Agent and Judson Bemis as deputy chairman for 1964. The Board of Directors of the Federal Reserve Bank of Minneapolis appointed B. Meyer Harris, President of the Yellowstone Banks at Absarokee, Columbus, and Laurel, Montana, as a director of the Helena Branch for a two-year term and re-elected John A. Moorhead as the Federal Advisory Council member for 1963.

\*This legend is a bit shorter than that on the larger denomination Federal Reserve Notes, which goes on to state that the note “is redeemable in lawful money at the United States Treasury, or at any Federal Reserve bank.” This additional statement does not imply, as is sometimes assumed, that Federal Reserve Notes are not “lawful money.” The term “lawful money” is generally regarded as meaning any medium of exchange which freely circulates from hand to hand as money under sanction of law, and may thus be a broader concept than “legal tender.” This language on the larger denomination Federal Reserve Notes was an alteration of the language appearing on Federal Reserve Notes printed before 1933 that stated they were redeemable in gold. But with the 1933 legislation all Federal Reserve Notes, even though they might carry the “redemption in gold” statement, are redeemable in other lawful monies of the United States and specifically those defined as “legal tender.” Thus if a person comes to the Treasury or a Federal Reserve Bank demanding lawful money, he may receive in return any coins or currency of the United States including Federal Reserve Notes.

## Volume of Operations\*

	Number		Dollar Amounts	
	1962	1963	1962	1963
Discounts and advances	195	359	\$ 118,793,000	612,234,000
Currency shipments, outgoing	17,290	17,598	431,578,000	451,523,000
Coin shipments, outgoing	27,866	32,118	30,068,000	34,861,000
Checks handled, total	160,131,976	173,998,830	46,443,008,000	49,118,987,000
Collection items handled	838,541	875,419	628,666,000	621,316,000
Issues, redemptions, exchanges of U. S. Government securities	245,229	253,356	7,837,183,000	8,553,228,000
Securities held in safekeeping	159,751	151,462	1,682,810,000	1,683,079,000
Transfers of funds	89,713	100,026	35,362,708,000	47,938,261,000

## Earnings and Expenses

<b>CURRENT EARNINGS</b>	1962	1963
Discounts and advances	\$ 53,485	\$ 169,804
United States Government securities	21,999,161	22,713,451
All other	92,056	60,886
<b>Total Current Earnings</b>	<b>22,144,702</b>	<b>22,944,141</b>
<b>CURRENT EXPENSES</b>		
Operating Expenses	6,734,047	7,000,591
Assessment for expenses of Board of Governors	152,100	176,300
Federal Reserve Currency	245,505	77,640
<b>Total Current Expenses</b>	<b>7,131,652</b>	<b>7,254,531</b>
Less: reimbursement for certain fiscal agency and other expenses	634,389	611,557
<b>Net Expenses</b>	<b>6,497,263</b>	<b>6,642,974</b>
<b>CURRENT NET EARNINGS</b>	<b>15,647,439</b>	<b>16,301,167</b>
<b>NET ADDITIONS TO CURRENT NET EARNINGS</b>		
Profits on sales of U. S. Government securities (net)	41,395	32,201
All other	— 13,459	— 2,450
<b>NET EARNINGS BEFORE PAYMENTS TO UNITED STATES TREASURY</b>	<b>15,675,375</b>	<b>16,330,918</b>
<b>PAID TO U. S. TREASURY (Interest on Federal Reserve Notes)</b>	<b>13,564,350</b>	<b>14,332,545</b>
<b>DIVIDENDS PAID</b>	<b>634,325</b>	<b>673,472</b>
<b>TRANSFERRED TO SURPLUS</b>	<b>1,476,700</b>	<b>1,324,900</b>
<b>SURPLUS January 1</b>	<b>20,232,500</b>	<b>21,709,200</b>
<b>SURPLUS December 31</b>	<b>21,709,200</b>	<b>23,034,100</b>

\*All figures are for Minneapolis and Helena combined.

## Statement of Condition

	Dec. 31, 1962	Dec. 31, 1963
<b>ASSETS</b>		
Gold certificate account	\$ 360,614,670	\$ 282,319,984
Redemption fund for Federal Reserve Notes	28,295,783	29,060,033
<b>Total Gold Certificate Reserves</b>	<b>388,910,453</b>	<b>311,380,017</b>
Federal Reserve Notes of other Federal Reserve Banks	31,637,000	40,875,000
Other cash	9,963,666	6,741,723
Discounts and advances		
Secured by U. S. securities	— 0 —	300,000
Other	23,000	736,000
United States Government securities	628,151,000	649,489,000
<b>Total loans and securities</b>	<b>628,174,000</b>	<b>650,525,000</b>
Foreign currencies	1,854,917	3,510,267
Cash items in process of collection	209,142,027	211,296,152
Bank premises	4,285,704	3,941,667
Other assets	5,689,567	4,769,627
<b>Total Assets</b>	<b>1,279,657,334</b>	<b>1,233,039,453</b>
<b>LIABILITIES</b>		
Federal Reserve Notes in actual circulation	\$ 577,402,225	\$ 592,150,850
Deposits:		
Member banks — reserve accounts	431,532,606	403,595,507
United States Treasurer — general account	32,983,176	45,899,470
Foreign	5,980,000	3,680,000
Other deposits	1,682,795	1,572,322
<b>Total deposits</b>	<b>472,178,577</b>	<b>454,747,299</b>
Deferred availability cash items	195,753,021	149,474,469
Other liabilities	1,759,711	2,115,685
<b>Total Liabilities</b>	<b>1,247,093,534</b>	<b>1,198,488,303</b>
<b>CAPITAL ACCOUNTS</b>		
Capital paid in	10,854,600	11,517,050
Surplus	21,709,200	23,034,100
<b>Total Liabilities and Capital Accounts</b>	<b>1,279,657,334</b>	<b>1,233,039,453</b>
Ratio of gold certificate reserves to deposit and Federal Reserve Note liabilities combined	37.1%	29.7%



## Officers of the Federal Reserve Bank of Minneapolis

Frederick L. Deming	President
Albert W. Mills	First Vice President
Kyle K. Fossum	Vice President
Clarence W. Groth	Vice President and Cashier
Melvin B. Holmgren	Vice President
Arthur W. Johnson	Vice President
Harold G. McConnell	Vice President and Secretary
Franklin L. Parsons	Vice President
Maurice H. Strothman, Jr.	Vice President, General Counsel and Assistant Secretary
Roger K. Grobel	Chief Examiner
Arthur J. McNulty	General Auditor
Frederick J. Cramer	Assistant Vice President
John J. Gillette	Assistant Vice President
Oscar F. Litterer	Assistant Vice President
Milford E. Lysen	Assistant Vice President
John P. Olin	Assistant Vice President and Assistant Secretary
Earl O. Beeth	Assistant Cashier
Carl E. Bergquist	Assistant Cashier
William C. Bronner	Assistant Cashier
Howard L. Knous	Assistant Cashier
John A. MacDonald	Assistant Cashier
William A. O'Brien	Assistant Cashier
Marcus O. Sather	Assistant Cashier
Christopher E. Bjork	Assistant General Auditor
Ralph J. Dreitzler	Assistant General Auditor

### Officers at the Helena Branch

Clement A. Van Nice	Vice President
John L. Heath	Assistant Cashier
Robert W. Worcester	Assistant Cashier

As of December 31, 1963

## Directors of the Federal Reserve Bank of Minneapolis

		Term expires December 31
<b>Class A:</b>		
Harold C. Refling	Executive Vice President, First National Bank in Bottineau Bottineau, North Dakota	1963
Rollin O. Bishop	Consultant, The American National Bank of Saint Paul St. Paul, Minnesota	1964
Curtis B. Mateer	Executive Vice President, The Pierre National Bank Pierre, South Dakota	1965
<b>Class B:</b>		
Ray C. Lange	President, Chippewa Canning Company, Inc. Chippewa Falls, Wisconsin	1963
T. G. Harrison	Chairman of the Board, Super Valu Stores, Inc. Minneapolis, Minnesota	1964
Hugh D. Galusha, Jr.	Lawyer and Certified Public Accountant Helena, Montana	1965
<b>Class C:</b>		
Judson Bemis	DEPUTY CHAIRMAN President, Bemis Bro. Bag Co. Minneapolis, Minnesota	1963
John H. Warden	Chairman of the Board, Upper Peninsula Power Company Houghton, Michigan	1964
Atherton Bean	CHAIRMAN AND FEDERAL RESERVE AGENT President, International Milling Company Inc. Minneapolis, Minnesota	1965

## Directors of the Helena Branch

### Appointed by Federal Reserve Bank:

O. M. Jorgenson	Chairman of the Board Security Trust and Savings Bank Billings, Montana	1963
Roy G. Monroe	Chairman of the Board and President The First State Bank of Malta Malta, Montana	1964
Harald E. Olsson	President, Ronan State Bank Ronan, Montana	1964

### Appointed by Board of Governors

John M. Otten	CHAIRMAN Farmer and Rancher Lewistown, Montana	1963
C. G. McClave	VICE CHAIRMAN President and General Manager, Montana Flour Mills Co. Great Falls, Montana	1964

## Member of the Federal Advisory Council

John A. Moorhead	President, Northwestern National Bank of Minneapolis Minneapolis, Minnesota
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As of December 31, 1963



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