

monthly statistical report

NINTH DISTRICT CONDITIONS

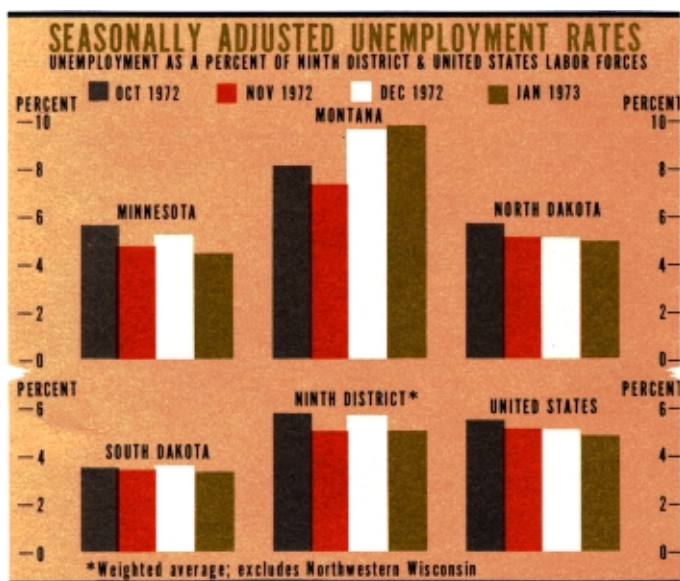
federal reserve bank of minneapolis



DISTRICT UNEMPLOYMENT DROPS TO 5.2%

Preliminary estimates show a seasonally adjusted unemployment rate of 5.2 percent for the Ninth District in January. The district's rate fell from the 5.7 percent high of December 1972 (the fourth quarter averaged 5.5 percent) to come encouragingly close to the nation's 5.0 percent rate.

Most of the improvement in the district's employment situation centered in the Minneapolis/St. Paul metropolitan area, where the manufacturing sector is expanding briskly. The January unemployment rate dropped to 3.5 percent in the Twin Cities and to 4.6 percent in Minnesota. Other district states showed only modest, if any, reduction in unemployment.



District employment conditions for manufacturing workers should continue to improve, according to results of our recent Quarterly Industrial Expectations Survey. During the fourth quarter, sales of manufactured goods in this area were almost 17 percent greater than a year earlier, well above the 13 percent gain anticipated in the previous survey.

Looking ahead, district manufacturers expect year-to-year sales gains of almost 12 percent during

the first quarter and increases of 11 and 10 percent in the second and third quarters, respectively.

EXPORTS: The Dollar Devaluation. . .

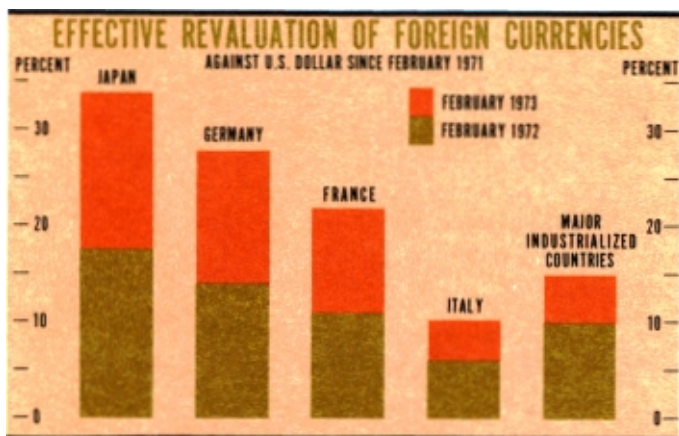
The U.S. government announced on February 12 a 10 percent devaluation of the dollar in foreign exchange markets. Imports will become more expensive and are therefore expected to slow down. On the other hand, exports of American goods, which can be offered at a lower price in foreign markets, should expand. It is hoped that these adjustments in the quantities of imported and exported goods will overall be large enough to make the dollar value of exports grow faster than imports. The move, which follows an earlier devaluation of 8 percent in December 1971, should eventually eliminate the current deficit in the U.S. balance of payments.

How big is the effective devaluation of the dollar measured in market rates? At the end of February, the currencies of some major trading partners, notably Canada, Japan and the United Kingdom, were floating, and most other exchange rates were allowed to fluctuate by 2½ percent. It is therefore difficult to give a precise figure of the overall change in the external value of the U.S. dollar.

Currency relations have not changed significantly with Canada, Mexico, Brazil and other Latin American Republics, which together account for close to 30 percent of U.S. foreign trade. Germany, France and most other European countries, however, have changed the dollar value of their currencies by the full 10 percent, and Japan, which accounts for two-thirds of the U.S. trade deficit, let the yen float over 15 percent above previous levels.

The average effective devaluation, if measured against the major industrial nations, amounted to 5 percent by the end of February, compared to exchange rates a year ago.

Because of this devaluation, U.S. consumers and industrial buyers will have to pay higher prices for imported goods. Yet, since imports of goods and services



account for only roughly 7 percent of GNP, and since some foreign suppliers will not increase their prices by the full amount of the devaluation in order to stay competitive, the overall effect on domestic price levels will be small. Domestic producers which are in direct competition with imports should be able to increase their market share.

...And the District's Economy

The immediate effect of the dollar devaluation on the economy of our area will not be very pronounced. For one thing, relatively few manufacturers compete directly with imports. Also, many district exporters—in the computer industry, for example—sell technologically sophisticated products where price competition plays a minor role or where the major competitors are other U.S. manufacturers. In the long run, however, the devaluation should help these exporters to improve their position in foreign markets.

Foreign demand for wheat, feed grains and soybeans is so strong and inelastic at present that the dollar devaluation results in higher export prices, which also means higher domestic prices for these products. The currency realignment increases the competitiveness of U.S. agricultural products and should thus in the long run help to consolidate recent gains in world markets.

AGRICULTURE: Prosperity and the Boxcar Shortage

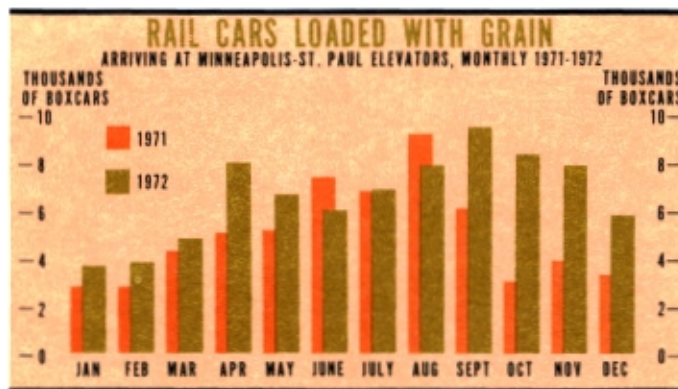
Agricultural prosperity continues as farm prices remain high. Measured in national averages, farm prices rose 5 percent overall in January to boost the U.S. ratio of prices received to prices paid by farmers from 105 to 107 (1967=100). A higher ratio means higher profits.

In the district, prices for a number of commodities increased. The average price received by district farmers for wheat rose a bit further from \$2.14 per bushel to \$2.15; beef cattle moved from \$33.75 per hundredweight to \$35.65 and hogs from \$28.75 to \$31.20. Milk held steady at about \$5.70 per hundredweight, the record high.

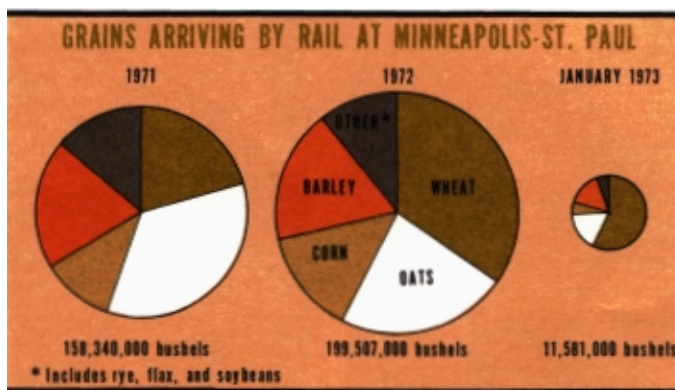
Unfortunately, though, prosperity has brought on some transportation problems: railroad boxcars are

in short supply. Boxcar demand for shipping grain typically remains strong from harvest time through spring with shortages occurring only occasionally. But this year's unprecedented demand to move grain exports has resulted in massive shortages and serious shipping delays.

Most critical in the wheat-producing areas of the district, boxcar shortages prevent country grain-buying firms from accepting more grain since storage facilities at rail loading points are full. Most available cars have already been loaded and are moving either to terminal marketing locations, such as Minneapolis/St. Paul, or from terminals to ports on the East Coast or the Gulf.



Arrivals of loaded cars at Minneapolis/St. Paul terminal elevators are running 30 to 100 percent ahead of last year. The bulk of this increase is still coming from wheat shipments to fill Soviet purchases contracted last fall. From September 1972 through January 1973, almost twice as much wheat and more than twice as much corn arrived at Twin Cities elevators as in the same period a year ago.



In areas near the Twin Cities, increasing amounts of grain are being trucked to terminal elevators since rail cars are unavailable. Grain truck arrivals in Minneapolis/St. Paul were twice as numerous in January 1973 as in January 1972.

The transportation problem should ease in the spring when district waterways open. Barges will replace rail cars now carrying grains from terminal elevators to ports in the East and South. The river system from the Minneapolis/St. Paul area usually opens March 20-25; seaway traffic from Duluth, April 20-25.

Also due in part to transportation problems, demand for inventory financing by area grain merchants, shippers and processors is exceptionally strong. District lenders point out that delayed shipping has swelled grain firm inventories and raised the demand for financing. Higher grain prices have an even greater influence on inventory financing and are responsible for about a 60 percent increase in demand since last year.

BANKING: Lending Up 20% in January

Business is booming, and as a result lending at district banks has been unusually heavy since the first of the year. Rising personal incomes, employment and spending—added to credit demands for grain exporting—have contributed considerably to this loan expansion.

Loans outstanding at district member banks grew more than 20 percent on a seasonally adjusted annual basis in January, following a 17 percent gain in December. Reserve city banks registered a gain of over 30 percent for the month, to more than compensate for a lending slowdown at country member banks.

Much of the loan growth at reserve city banks came from consumer installment and business loans. Business lending largely reflected the vigorous manufacturing activity in the Minneapolis/St. Paul area and a stronger-than-seasonal demand by firms involved in grain exporting for inventory financing at exceptionally high prices.

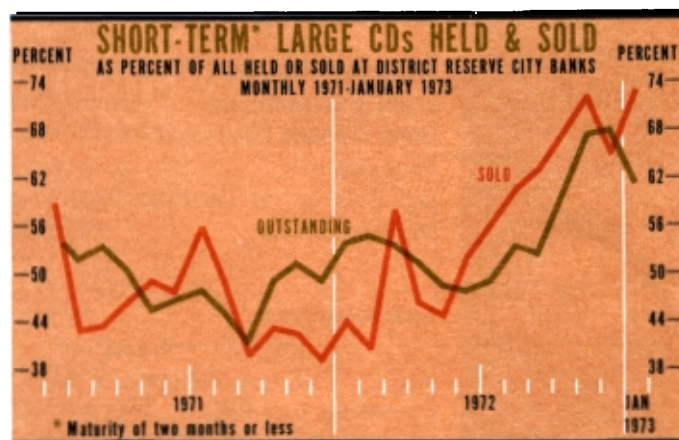
Juggling Loan Demand, Liquidity & Interest Rates

Because of the strong demand, liquidity positions at district reserve city banks have remained relatively tight. Measured by loan-to-deposit ratios, liquidity declined in January. (Loan-to-deposit ratios are related inversely to liquidity changes: as bank liquidity rises the ratio declines and as liquidity decreases the ratio rises.) In December, the ratio for large banks stood at 82.7 percent, about 3 points below the peak reached the previous month. Instead of signaling an easing in loan demand, however, this drop reflected the normal deposit buildup at year-end. In January, the ratio again approximated its November level.



When loan demand strengthens in a period of rising interest rates (the current situation), the cost of additional funds becomes crucial for banks. In recent months and throughout much of 1972, loans have expanded more rapidly than inflows of demand deposits and consumer-type time and savings deposits. Therefore, district reserve city banks have relied principally on large negotiable certificates of deposit (CDs) and federal funds purchases as sources of liquidity.

Uncertainty accompanying rising interest rates also leads investors to prefer relatively liquid short-term investments. This preference currently appears in the shorter maturity structure of large CDs at reserve city banks. At the end of January 1973, approximately 61 percent of the CDs held by reserve city banks were scheduled to mature within two months, a 7 percentage point increase from January a year ago. More significantly, 73 percent of the large CDs sold this January carried maturities of two months or less, compared to only 44 percent sold in January 1972. Such a shortened maturity structure increases the potential burden on banks to roll over large amounts of maturing certificates in the near future.



As an alternative to purchasing liquidity to meet expanding loan demand, banks can liquidate portions of their investment portfolios. U.S. government securities are easiest to liquidate because they are readily marketable. To date, this has not occurred on any significant scale at district banks.

Another variable in a bank's ability to meet loan demand is the U.S. Treasury's need for financing. Originally, government financing was expected to be quite heavy during the first half of 1973, but it will probably be scaled down somewhat due to recent developments. Speculation in foreign exchange markets has caused foreign central banks to make sizable purchases of U.S. Treasury securities in the open market and hold special Treasury issues. There is no certainty how long these securities will be held, but foreign purchases should diminish the need for raising funds in domestic markets to finance the federal deficit. If fewer than anticipated Treasury issues come to market in the near future, the pressure on banks will ease.

NINTH DISTRICT income and finance

I N D I C A T O R		UNIT	1973		1972		Percent Change	
			FEB.	JAN.	DEC.	JAN.	JAN., -JAN.	
MEASURES OF CONSUMER INCOME & FINANCIAL POSITION	Total Personal Income *							
	Nonagricultural Personal Income *							
	Average Weekly Earnings in Manufacturing ¹	Dollars	n. a.	167.03e	169.14e	154.54	+ 8.1	
	Consumer Installment Credit Outstanding ²	Million \$	n. a.	1,825	1,811	1,481	+23.2	
	Time and Savings Deposits at Member Banks	Million \$	7,714	7,540	7,454	6,581	+14.6	
	Savings Balances at Savings & Loan Assoc. ³	Million \$	n. a.	5,261	5,179	4,481	+17.4	
	Cash Farm Receipts ³	Million \$	n. a.	n. a.	517	456		
MEASURES OF FINANCIAL CONDITION OF MEMBER BANKS	CITY BANKS ^{4,5}							
	Adjusted Loans and Discounts ⁶	Million \$	3,574	3,504	3,439	2,812	+24.6	
	Commercial and Industrial Loans	Million \$	1,623	1,583	1,565	1,234	+28.3	
	Real Estate Loans	Million \$	639	631	625	501	+25.9	
	Gross Demand Deposits	Million \$	2,199	2,162	2,386	2,083	+ 3.8	
	Time Deposits	Million \$	2,204	2,082	2,126	1,898	+ 9.7	
	U.S. Government Securities	Million \$	477	514	582	499	+ 3.0	
	Other Securities	Million \$	823	798	845	623	+28.1	
	COUNTRY BANKS ^{4,7}							
	Loans and Discounts	Million \$	5,181	5,066	5,080	4,301	+17.8	
	Gross Demand Deposits	Million \$	2,789	2,738	2,873	2,469	+10.9	
	Time Deposits	Million \$	5,510	5,457	5,328	4,683	+16.5	
	U.S. Government Securities	Million \$	1,191	1,240	1,232	1,245	- 0.4	
	Other Securities	Million \$	1,728	1,723	1,706	1,496	+15.2	
	MEASURES OF RESERVE POSITION AND "LIQUIDITY" OF MEMBER BANKS	Total Reserves ⁸	Million \$	716	743	721	838	-11.3
		Required Reserves	Million \$	711	738	715	829	-11.0
Excess Reserves		Million \$	5	5	6	9	-44.4	
Borrowings from FRB		Million \$	51	21	3	1	+2,000.0	
Ratio of Loans to Total Deposits—City Banks ⁴		Percent	82.6	83.8	77.0	74.1	+13.1	
Ratio of Loans to Total Deposits—Country Banks ⁴		Percent	62.4	61.8	61.9	60.1	+ 2.8	
MEASURES OF PRICE LEVELS		Consumer Price Index—Minneapolis ^{9,10}	Index	n. a.	127.8	n. a.	123.8	+ 3.2
	Prices Received by Farmers—Minnesota ⁹	Index	155	146	137	116	+25.9	

NOTES

e—Partially estimated; all data not available
n.a.—Not available
p—Preliminary; subject to revision
r—Revised
sa—Seasonally adjusted
*—District and U.S. data not comparable
saar—Seasonally adjusted annual rate

FOOTNOTES

1. Excluding Northwestern Wisconsin
2. All commercial banks; estimated by sample
3. Excluding Northwestern Wisconsin and Upper Michigan
4. Last Wednesday of the month figures
5. Selected banks in major cities
6. Net loans and discounts less loans to domestic commercial city banks
7. All member banks, excluding the selected major city banks
8. Average of daily figures of the four or five weeks ending on Wednesday which contain at least four days falling within the month
9. Index: 1967 Base Period
10. Quarterly

UNITED STATES income and finance

Percent Change JAN.-JAN.	1973		1972		UNIT	I N D I C A T O R	
	FEB.	JAN.	DEC.	JAN.			
+ 9.6		985.4p	982.9	898.9	Billion \$, saar	Total Personal Income	MEASURES OF CONSUMER INCOME & FINANCIAL POSITION
+ 9.5		956.4p	953.9	873.4	Billion \$, saar	Nonagricultural Personal Income	
+ 8.1		159.20p	163.15	147.26	Dollars	Average Weekly Earnings in Manufacturing	
+17.4		60.1	59.8	51.2	Billion \$	Consumer Installment Credit Outstanding ²	
+14.3		245.0	242.1	214.3	Billion \$	Time and Savings Deposits at Member Banks	
		n.a.	n.a.	177.7	Billion \$	Savings Balances at Savings & Loan Assoc.	
		n.a.	5.7	4.8	Billion \$	Cash Farm Receipts	MEASURES OF FINANCIAL CONDITION OF MEMBER BANKS
+19.1		225.6	227.2	189.4	Billion \$	CITY BANKS ^{4,5}	
+12.8		92.3	91.0	81.8	Billion \$	Adjusted Loans and Discounts ⁶	
+19.8		46.5	45.9	38.8	Billion \$	Commercial and Industrial Loans	
+ 6.9		156.9	166.0	146.8	Billion \$	Real Estate Loans	
+14.1		162.9	161.3	142.8	Billion \$	Gross Demand Deposits	
+ 4.0		28.9	28.6	27.8	Billion \$	Time Deposits	
+ 5.9		55.4	55.9	52.3	Billion \$	U.S. Government Securities	
						Other Securities	
+17.1		85.4	85.6	72.9	Billion \$	COUNTRY BANKS ^{4,7}	
+13.1		57.0	58.9	50.4	Billion \$	Loans and Discounts	
+15.0		82.1	80.8	71.4	Billion \$	Gross Demand Deposits	
+ 2.8		18.4	18.3	17.9	Billion \$	Time Deposits	
+14.6		31.4	31.1	27.4	Billion \$	U.S. Government Securities	
						Other Securities	
+ 0.1		32,903p	31,506	32,859	Million \$	Total Reserves ⁸	MEASURES OF RESERVE POSITION AND "LIQUIDITY" OF MEMBER BANKS
+ 0.1		32,674p	31,199	32,645	Million \$	Required Reserves	
+ 7.0		229p	307	214	Million \$	Excess Reserves	
+377.4		1,098p	1,097	23	Million \$	Borrowings from FRB	
+ 8.6		74.8	73.5	68.9	Percent	Ratio of Loans to Total Deposits—City Banks ⁴	
+ 2.5		61.4	61.2	59.9	Percent	Ratio of Loans to Total Deposits—Country Banks ⁴	
+ 3.7		127.7	127.3	123.2	Index	Consumer Price Index ⁹	MEASURES OF PRICE LEVELS
+21.0		144	137	119	Index	Prices Received by Farmers ⁹	

SOURCES

PERSONAL INCOME: U.S. Department of Commerce, Office of Business Economics

AVERAGE WEEKLY EARNINGS: Michigan, Minnesota, Montana, North Dakota, and South Dakota Employment Security Departments; U.S. Department of Labor, Bureau of Labor Statistics

COMMERCIAL BANK FINANCIAL DATA: Federal Reserve Bank of Minneapolis; Board of Governors of Federal Reserve System

SAVINGS AND LOAN ASSOCIATIONS: Federal Home Loan Bank Board

CASH RECEIPTS FROM FARM MARKETINGS: U.S. Department of Agriculture

CONSUMER PRICE INDEX: U.S. Department of Labor, Bureau of Labor Statistics

PRICES RECEIVED BY FARMERS: U.S. Department of Agriculture; Minnesota Farm Price Report

NINTH DISTRICT production and employment

I N D I C A T O R		UNIT	1973	1972		Percent Change
			JAN.	DEC.	JAN.	JAN.-JAN.
MEASURES OF PRODUCTION AND FACTOR INPUTS TO PRODUCTION	Total Industrial Production *					
	Electrical Energy Consumption: Mfg. and Mining ¹	Index, sa	143	144	134	+ 6.7
	Production Worker Manhours: ¹	Index, sa	n.a.	108p	99	
	Manufacturing	Index, sa	n.a.	111p	99	
	Mining	Index, sa	n.a.	90p	97	
	Total Construction Contracts Awarded	Million \$, sa	n.a.	239.6	215.9	
	Residential Buildings	Million \$, sa	n.a.	112.3	68.5	
	Nonresidential Buildings	Million \$, sa	n.a.	78.8	76.4	
	All Other Construction	Million \$, sa	n.a.	48.5	71.0	
	Bldg. Permits: New Housing Units ²	Number	1,428	8,571	1,093	+30.6
MEASURES OF MANPOWER UTILIZATION	Civilian Work Force ³	Thousands, sa	2,717e	2,693p	2,628	+ 3.4
	Total Civilian Employment	Thousands, sa	2,583e	2,539p	2,487	+ 3.9
	Number Unemployed	Thousands, sa	134e	154p	141	- 5.0
	Unemployment Rate ³	Percent, sa	4.9e	5.7p	5.4	- 9.3
	Average Weekly Hours in Manufacturing ³	Hours, sa	41.6e	41.3e	40.2	+ 3.5
EMPLOYMENT BY INDUSTRY SECTOR	Wage and Salary Employment, Nonfarm ³	Thousands, sa	2,073e	2,046p	1,981	+ 4.6
	Manufacturing	Thousands, sa	388e	385p	366	+ 6.0
	Mining	Thousands, sa	32e	30p	32	
	Construction	Thousands, sa	105e	96p	104	+ 1.0
	Transport., Comm., & Public Utilities	Thousands, sa	135e	134p	131	+ 3.1
	Trade	Thousands, sa	511e	503p	481	+ 6.2
	Finance, Insurance & Real Estate	Thousands, sa	96e	96p	92	+ 4.3
	Service Industries	Thousands, sa	361e	359p	344	+ 4.9
	Government	Thousands, sa	445e	443p	431	+ 3.2
MEASURES OF SPENDING	Total Retail Sales*					
	New Passenger Car Registrations	Thousands, sa	n.a.	n.a.	n.a.	
	Bank Debits ⁴	Billion \$, saar	260.7	246.3	198.7	+31.2

NOTES

- e—Partially estimated; all data not available
- n.a.—Not available
- p—Preliminary; subject to revision
- r—Revised
- sa—Seasonally adjusted
- *—District and U.S. data not comparable
- saar—Seasonally adjusted annual rate

FOOTNOTES

1. Index: 1967 Base Period; Weights: 1967
2. A sample of permit-issuing centers
3. Excluding Northwestern Wisconsin
4. Six standard metropolitan statistical areas
5. A sample of centers blown up to represent total permits issued
6. 226 standard metropolitan statistical areas, excluding the seven leading centers

UNITED STATES production and employment

Percent Change JAN.-JAN.	1973	1972		UNIT	I N D I C A T O R	
	JAN.	DEC.	JAN.			
+10.2	119.8p	119.2	108.7	Index, sa	Total Industrial Production	MEASURES OF PRODUCTION AND FACTOR INPUTS TO PRODUCTION
+ 5.3	99p	99p	94	Index, sa	Electrical Energy Consumption: Mfg. and Mining*	
+ 6.5	99p	100p	93	Index, sa	Production Worker Manhours: ¹	
- 5.1	93p	94p	98	Index, sa	Manufacturing	
					Mining	
+12.5	8,586.1	7,593.1	7,635.2	Million \$, sa	Total Construction Contracts Awarded	
+20.6	4,300.1	3,888.9	3,565.3	Million \$, sa	Residential Buildings	
+40.0	2,725.2	2,443.0	1,946.9	Million \$, sa	Nonresidential Buildings	
-26.5	1,560.8	1,261.2	2,123.0	Million \$, sa	All Other Construction	MEASURES OF MANPOWER UTILIZATION
	n.a.	n.a.	133.6	Thousands	Bldg. Permits: New Housing Units ⁵	
+ 1.5	86,921p	87,267	85,644	Thousands, sa	Civilian Work Force	
+ 2.5	82,555p	82,780	80,579	Thousands, sa	Total Civilian Employment	
-13.8	4,366p	4,487	5,065	Thousands, sa	Number Unemployed	
-15.3	5.0p	5.1	5.9	Percent, sa	Unemployment Rate	
+ 0.2	40.2p	40.7	40.1	Hours, sa	Average Weekly Hours in Manufacturing	
+ 3.7	74,221p	74,024	71,552	Thousands, sa	Wage and Salary Employment, Nonfarm	EMPLOYMENT BY INDUSTRY SECTOR
+ 4.8	19,440p	19,421	18,551	Thousands, sa	Manufacturing	
	615p	608	615	Thousands, sa	Mining	
- 0.8	3,495p	3,468	3,523	Thousands, sa	Construction	
+ 3.0	4,590p	4,559	4,455	Thousands, sa	Transport., Comm., & Public Utilities	
+ 3.7	15,943p	15,924	15,379	Thousands, sa	Trade	
+ 3.3	3,995p	3,989	3,867	Thousands, sa	Finance, Insurance & Real Estate	
+ 4.6	12,619p	12,562	12,069	Thousands, sa	Service Industries	
+ 3.3	13,524p	13,493	13,093	Thousands, sa	Government	MEASURES OF SPENDING
+16.0	40.5	39.3	34.9	Million \$, sa	Total Retail Sales	
	n.a.	839.3	828.4	Thousands, sa	New Passenger Car Registrations	
+24.0	5,009.4	4,683.4	4,040.6	Billion \$, sa	Bank Debits ⁶	

SOURCES

INDUSTRIAL PRODUCTION: Board of Governors of Federal Reserve System

ELECTRICAL ENERGY CONSUMPTION: Federal Reserve Bank of Minneapolis

PRODUCTION WORKER MANHOURS: Federal Reserve Bank of Minneapolis

CONSTRUCTION CONTRACTS AWARDED: Board of Governors of Federal Reserve System; F. W. Dodge Corporation

NEW HOUSING UNITS AUTHORIZED: Federal Reserve Bank of Minneapolis; U.S. Department of Commerce, Bureau of Census

EMPLOYMENT, UNEMPLOYMENT, AND HOURS: Michigan, Minnesota, Montana, North Dakota, and South Dakota Employment Security Departments; U.S. Department of Labor, Bureau of Labor Statistics

RETAIL SALES: U.S. Department of Commerce, Bureau of Census

NEW PASSENGER CAR REGISTRATIONS: Automotive News Magazine

BANK DEBITS: Board of Governors of Federal Reserve System

RCPCs & REGULATION J SPEED CHECKING

During the past few years, the Federal Reserve System has promoted major changes in the nation's check collection procedures. The most recent changes, establishment of Regional Check Processing Centers (RCPCs) and revision of Regulation J, are designed to speed check processing.

Before the recent changes, banks that relied on the Fed's check collection facilities paid for their checks by mailing a draft drawn on another bank to their Federal Reserve office. Assuming overnight mail delivery, payment was received at the Fed on the second day after checks were dispatched. To make the receipt of payment coincide with the passing of credit, the Fed customarily deferred credit to depositors for two days.

An exception to this procedure, banks in the same city as a Federal Reserve office met daily at a specified clearing house and simply exchanged checks. Net payment was made the same day by settling through a common account.

This dual system of check collection resulted in an obvious accounting inequity. In effect, banks outside a Federal Reserve city (country banks) paid for checks one day after receipt, while banks within the city (city banks) paid the same day. The inequity became more pronounced as urban populations spread to the suburbs. Because suburban banks typically did not participate in the daily clearing house exchange, payment for their checks was delayed one day longer than for city banks a short distance away.

Beginning in the 1950s and through the 1960s, a few Federal Reserve Banks recognized this inequity and encouraged clearing house operations to expand throughout their metropolitan areas. The Twin Cities Clearing House, operated by the Minneapolis Fed, expanded in 1955 to include 12 suburban banks and further expanded in 1971 to include 111 banks within a 15-mile radius of Minneapolis and St. Paul.

Because the clearing house allows for overnight check collection, funds are available to depositors earlier and dishonored checks are returned to the depositor sooner. This decreases "bad check" losses and the possibilities for check kiting (writing a check in excess of deposits and making up the deficiency, temporarily, by depositing another check in excess of deposits written on some other bank).

MODERNIZING CHECK COLLECTION

A logical expansion of the clearing house concept is the Regional Check Processing Center. RCPCs allow all banks within a reasonable geographic radius of a central city (75 to 125 miles, for example) to forward checks drawn on each other to a common processing

center upon the close of business daily. Checks arrive at the center in the evening and are processed and shipped to the drawee bank in time to be received shortly after the opening of business the following morning.

The keys to smooth RCPC operations are automated equipment, trained personnel to process a large number of checks in a short period of time, and specialized transportation to handle deliveries on a rigid time schedule. When the system is perfected, a merchant should be able to deposit a check drawn on any bank within his radius in the afternoon and have it received by the drawee bank early the following morning.

On August 21, 1972, the Minneapolis Fed announced that it would establish an Upper Midwest RCPC to be operated from the new Federal Reserve Bank building in Minneapolis. The first phase of implementation occurred October 1, 1972 with the conversion of the then-existing clearing house to the RCPC format. The second phase, presently scheduled for August 15, 1973, will expand operations to include the 121 banks within a 50-mile radius of the Twin Cities.

Unlike country banks that pay for checks by mailing a draft to the Fed, banks using a Regional Check Processing Center or a clearing house pay for their checks on the day of receipt. The Fed charges either their reserve account at a Federal Reserve office (if a member bank) or their account at a correspondent bank which is a member of the Federal Reserve System.

MAKING THE SYSTEM MORE EQUITABLE

With the expansion of RCPCs, increasing numbers of banks were required to pay for checks the same day, but the inequities were not completely eliminated. The Board of Governors decided that it was both desirable and technologically possible to standardize account settling by requiring all banks to pay for their checks on the day of receipt.

To accomplish this, the Board instituted changes in Regulation J, effective November 9, 1972. These changes require all banks receiving checks from the Fed to arrange to pay with immediately available funds. The most convenient way to pay is for each drawee bank to designate an account—either a reserve account or the reserve account of a correspondent bank—which the Fed can charge.

Thus RCPCs and the changes in Regulation J work hand in hand. RCPCs speed both the delivery of checks to the banks on which they were drawn and account settling, and Regulation J accelerates accounting procedures for all banks.