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SPECIAL ARTICLE

Bank Earnings Continue to Expand

THE 461 Ninth District member banks in 1944 had gross earnings of almost \$50 million, an increase of 15 percent over the \$43 million for the previous year and a 43 percent increase over the prewar average for the years 1935-39 of \$35 million. Minnesota member banks accounted for \$31 million or about 63 percent of the total for the entire district. The table shows 1944 gross earnings by states for the member banks.

Gross Earnings of Ninth District Member Banks, 1944

| State | Amount (In thousand dollars) | % Total |
|---------------------------------|---------------------------------|--------------|
| Minnesota | \$ 31,407 | 63.3% |
| Montana | 5,414 | 10.9 |
| North Dakota | 3,158 | 6.4 |
| South Dakota | 4,494 | 9.1 |
| Wisconsin (9th Dist. part)..... | 2,658 | 5.4 |
| Michigan (9th Dist. part)..... | 2,448 | 4.9 |
| Total | \$ 49,581 | 100.0 |

The composition or source of these wartime earnings has shifted materially during the last few years. During the base years of 1935 to 1939, earnings on loans were the largest single source, accounting for \$14 million of the \$35 million gross earnings or 40 percent. It is interesting to note that the dollar volume of earnings from loans has changed little over the last few years. In 1944, interest on loans aggregated \$14.5 million; in 1943 the figure was \$14.7 million; and in the 1935-39 period the average was exactly \$14 million. While loan earnings have been stable in terms of dollars, they have

Sources of Ninth District Member Bank Earnings, 1944

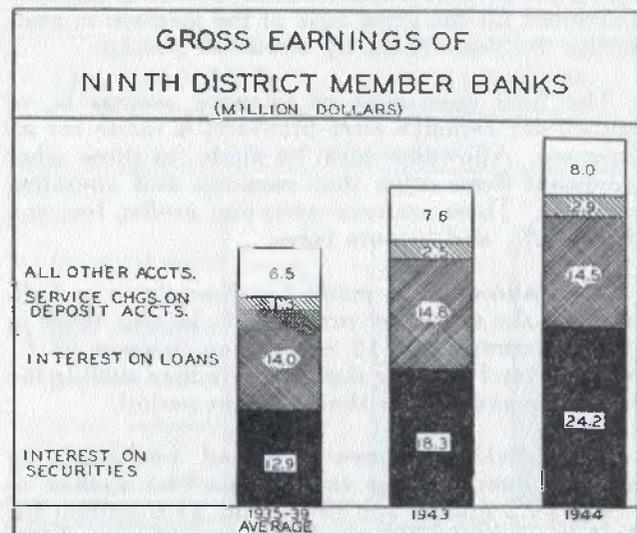
| Source | 1935-39 Average | 1943 | 1944 |
|--------------------------------------------|--------------------|-----------------|-----------------|
| Interest and dividends on securities | \$12,922 | \$18,326 | \$24,230 |
| Earnings on loans..... | 14,012 | 14,754 | 14,476 |
| Service charges on deposit accounts | 1,315 | 2,544 | 2,948 |
| Other earnings | 6,496 | 7,604 | 7,927 |
| Total | \$34,745 | \$43,228 | \$49,581 |

Interest and Dividends on Securities Account for a Large Part—49%—of the Increase in Total Earnings Up to 1944

declined in relative importance because of the substantial expansion in gross earnings. Their relative importance slipped from 40 percent of the total in 1935-39 to only 28 percent in 1944.

The source of earnings accounting for a large part of the increase over the prewar period is interest and dividends on securities, most of which are government bonds. Earnings from this source amounted to \$24 million in 1944, or 49 percent of all earnings. This is about double the \$12.9 million of earnings from this source in 1935-39, and this expansion accounts for about three-fourths of the increase in total earnings to 1944. The \$24 million income from this source in 1944 was \$6 million above the previous year, or an expansion of one-third.

The earnings item exhibiting the largest relative increase over the last few years has been service charges on deposit accounts. In 1944 these earnings amounted to \$2.9 million, a rise of 15 percent over 1943 and considerably more than double the \$1.3 million obtained from this source in the 1935-39 period. A part of this increase arose out of the inevitably greater activity of bank accounts with the rising level of income and business activity, but a



substantial part of it also undoubtedly occurred from the growing number of banks during the period instituting regular service charge schedules for deposit accounts.

Expenses have risen materially during the last few years, although normally, on both the upswing and the downswing, operating expenses cannot be adjusted as rapidly as changes in gross incomes. Total operating expenses in 1944 (excluding income taxes) amounted to \$32 million, a rise of 18 percent over the \$27 million for 1943. This relative rise was greater than the 15 percent rise in earnings.

Salaries and wages again constituted about half of operating expenses in 1944—\$14.5 million of \$32 million total operating expenses—exhibiting a rise of 5 percent over 1943. Interest on time and savings deposits of \$4.9 million was slightly above last year but substantially below the period 1935-39.

Operating Expenses of Ninth District Member Banks, 1944

(In thousand dollars)

| Item | 1935-39 Average | 1943 | 1944 |
|---------------------------------------|-----------------|-----------------|-----------------|
| Salaries and wages | \$10,764 | \$13,752 | \$14,456 |
| Interest on time and savings deposits | 5,816 | 4,226 | 4,899 |
| Other operating expenses* | 9,694 | 9,159 | 12,521 |
| Total | \$26,274 | \$27,137 | \$31,876 |

*Excludes taxes on net incomes.

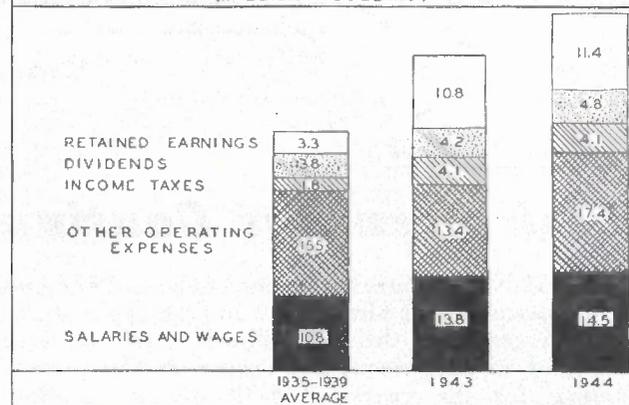
This presumably is a result of reductions in rates of interest paid and restrictions applying to size of accounts eligible for interest payments since these deposits in the aggregate have been rising gradually during the period. Miscellaneous operating expenses accounted for the great bulk of the increase in costs during the year, rising by about 30 percent.

The final barometer of financial success is, of course, net earnings after provision is made for all expenses. Allowance must be made for three other important items other than earnings and operating expenses. These are recoveries and profits, loss and charge-offs, and income taxes.

After allowance is made for these items as indicated by the table, net profits after income taxes in 1944 amounted to \$16 million, an increase of \$1 million over 1943 and slightly more than double the \$7 million average for the base year period.

Cash dividends have remained comparatively constant over the last few years—\$4.8 million in 1944; \$4.2 million for 1943; and \$3.8 million for the base period. This would suggest that banks in

DISPOSITION OF GROSS EARNINGS AND PROFITS OF NINTH DISTRICT MEMBER BANKS
(MILLION DOLLARS)



the area are following a comparatively conservative dividend policy even in the face of substantial increases in net earnings during the last few years.

One result of the rapid rise in net earnings and the conservative dividend policies has been very impressive additions to the capital structure of the banks. In 1944, \$11.4 million in retained earnings was presumably plowed into surplus and undivided profits. This was slightly more than the \$10.8 million in 1943 and about four times the retained earnings during the base period years. This presumably reflects a policy of being prepared with strong banks for the unknown financing and business problems which may lie ahead in the transition and postwar period.

Net Profits and Dividends of Ninth District Member Banks, 1944

(In thousand dollars)

| Item | 1935-39 Average | 1943 | 1944 |
|-------------------------------------------|-----------------|----------|----------|
| Total earnings | \$34,745 | \$43,228 | \$49,581 |
| Less: Operating expenses | 26,274 | 27,137 | 31,876 |
| Equals: Net current earnings | 8,471 | 16,091 | 17,702 |
| Plus: Net recoveries and profits | 517 | 2,972 | 2,696 |
| Equals: Total profits before income taxes | 8,988 | 19,063 | 20,321 |
| Less: Income taxes | 1,792 | 4,073 | 4,068 |
| Equals: Net profits after income taxes | 7,196 | 14,990 | 16,253 |
| Less: Cash dividends declared | 3,847 | 4,212 | 4,844 |
| Equals: Retained earnings | 3,349 | 10,778 | 11,409 |

The expansion of the capital structure, on the one hand, and the investment of additional funds in government securities, on the other, has reduced materially the ratio between the customary risk assets and the capital structure.

SPECIAL ARTICLE

Individuals Hold Third of Demand Deposits

INDIVIDUALS (including farmers) alone during the last six months have expanded their demand deposits in Ninth District member banks by an estimated \$52 million, according to a sample survey conducted by the Minneapolis Federal Reserve Bank. Increased demand deposits of farmers at these banks accounted for about 40 percent or \$19 million of this increase.

These combined personal accounts amounted to \$420 million, 34 percent of all "commercial" demand deposits. Farmers held an estimated \$127 million or 10 percent of the total, while other personal balances accounted for \$293 million or 24 percent.*

Among the various types of businesses in the district, deposits of retail and wholesale trade establishments led the list, accounting for 20 percent of the total of these deposits or \$242 million. This was both a relative and absolute increase when compared with the previous survey taken during the latter part of July, 1944. At that time retailers and wholesalers combined had total deposits at member banks in this area of \$211 million, which represented

Farmers and Other Individuals Hold 34%, Retail and Wholesale Trade 20%, Mining and Manufacturing 15%, with All Other Accounts Totaling Up 31%.

Manufacturing and mining establishments registered a decline of \$24 million during the six months ending January 31, accounting for 15 percent of the total of all these deposits as compared with almost 18 percent last July.

One of the more impressive aspects of these surveys has been the relative consistency and stability of these ownership patterns, and changes which do occur have usually been of a logically seasonal character.

These estimates are based on a sample survey only, and are therefore subject to some margin of error. The "commercial" demand deposits of the 56 banks in the district reporting the ownership of these deposits accounted for exactly 51 percent of the total of these deposits of all member banks in the district, and about 13,000 accounts were actually classified according to ownership. No estimates as to ownership were made of time and savings deposits.

The table and chart accompanying this article indicate in more detail the ownership of these deposits and the shifts which have occurred during the last 12 months in the relative importance of the different types of owners.

With the large expansion in personal accounts (including farmers) individuals are in a favorable financial position to purchase the durable goods they desire as soon as the merchandise appears in the markets.

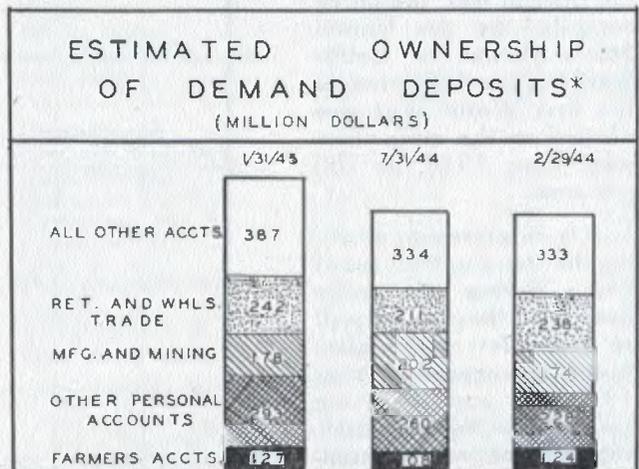
Ownership of "Commercial" Demand Deposits, January 31, 1945

(In million dollars)

| Classification | Feb. 29, 1944 | | July 31, 1944 | | Jan. 31, 1945 | |
|----------------------------------------------------|----------------|--------------|----------------|--------------|----------------|--------------|
| | Amt. | % Total | Amt. | % Total | Amt. | % Total |
| Manufacturing and mining | \$ 174 | 15.8 | \$ 202 | 18.1 | \$ 178 | 14.5 |
| Public utilities, transportation and communication | 116 | 10.5 | 128 | 11.4 | 96 | 7.8 |
| Retail and wholesale trade | 238 | 21.7 | 211 | 18.9 | 242 | 19.7 |
| Other non-financial businesses | 83 | 7.6 | 74 | 6.8 | 107 | 8.8 |
| Insurance companies | | | 28 | 2.5 | 31 | 2.5 |
| Other financial business | 96 | 8.8 | 48 | 4.3 | 67 | 5.5 |
| Trust funds of banks | | | 21 | 1.9 | 34 | 2.8 |
| Non-profit associations, clubs, churches, etc. | 38 | 3.5 | 35 | 3.1 | 52 | 4.2 |
| Personal | 352 | 32.1 | 368 | 33.0 | 420 | 34.2 |
| Farmers | 124 | 11.2 | 108 | 9.7 | 127 | 10.3 |
| Others | 228 | 20.9 | 260 | 23.3 | 293 | 23.9 |
| Total | \$1,097 | 100.0 | \$1,115 | 100.0 | \$1,227 | 100.0 |

only 19 percent of the total of all demand "commercial" (individuals, partnerships, and corporations) deposits.

*"Commercial" demand deposits is here used as a short term for demand deposits of individuals, partnerships, and corporations—deposits entering into item 18 of the Call Reports.



*Demand deposits of individuals, partnerships, and corporations in Ninth District member banks.

SPECIAL ARTICLE

Cost of Living Controlled by Price Ceilings

IN time of war, when there are constant pressures to raise prices, the cost of living is of major concern to the vast number of American people who are on fixed money incomes. In the final analysis, it determines the quantity of goods and services that they may enjoy.

Since the cost of living occupies such an important place in the lives of many American people, a number of questions are frequently asked. What has been the rise in the cost of living since the outbreak of the present war? Have the price controls been effective? How does the recent trend compare with that of the first World War?

The upward trend in the cost of living since the beginning of the war can be observed at a glance on the accompanying line chart. The index compiled by the United States Bureau of Labor Statistics has been plotted for the period of the present war with June, 1939, as 100 percent. By January of this year an increase of 28.9 percent had taken place.

This increase has been largely concentrated within the period of two years. For the last six months of 1939 and for the year of 1940, the rise was only one percent for each period. During the two subsequent years the rise in living costs was 10 percent for each year. In 1943 the upward trend tapered off materially, for the increase was only 4 percent, and in 1944 the increase was reduced still more to 2½ percent. From these data it is evident that the bulk of the upward surge in living costs occurred during the time when the economy was converted to the production of war materials and before the price controls were imposed.

In order to study the relative rise in the cost of living during the first World War and compare it with the trend during the present war, the index compiled by the United States Bureau of Labor Statistics for the period of the first World War was plotted on the same chart with June, 1914, as 100 percent.

It is of interest to examine the trend in the cost of living during the entire period of the war as well as for a few years after hostilities ceased. After 1916 the cost of living rose, almost without interruption, at an approximate constant rate throughout the war period

Cost of Living in Minneapolis Has Increased Over 23% Since June, '39

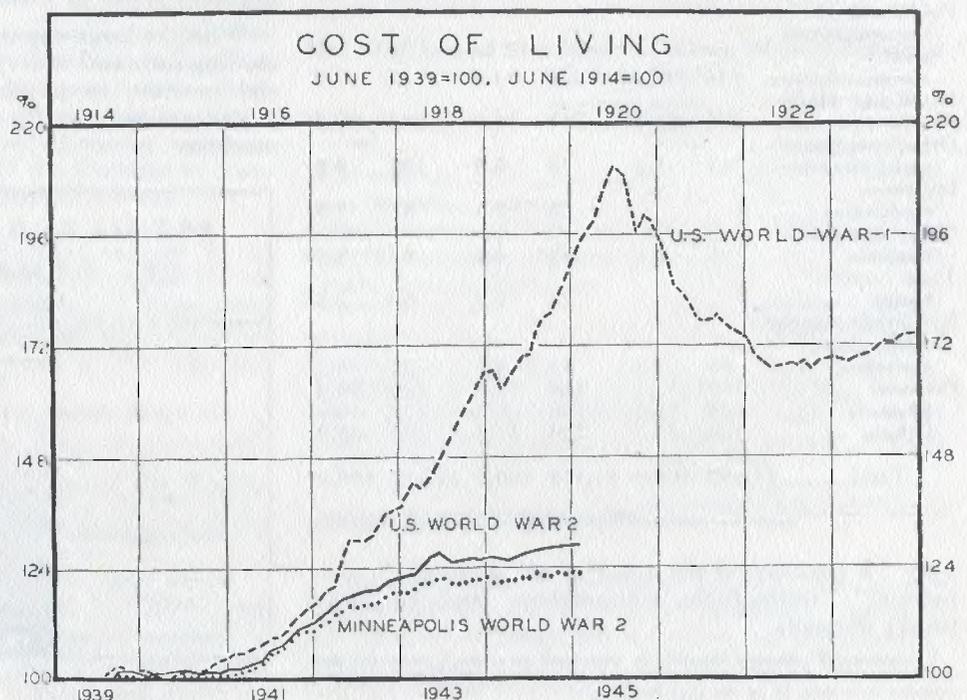
and for about one and one-half years afterwards. The measures used to control prices after the United States entered the war apparently did not check the upward trend in the living costs. The peak was reached in June, 1920, with an increase of 110.4 percent above June, 1914.

Following the high point the costs declined sharply for a number of months and then slackened significantly. The low point was reached in August, 1922, still 67.0 percent above the prewar level, and during the decade of the Twenties the costs were stabilized at 75 percent above the former base period. Thus the violent price changes which occurred in the war economy in large part became a permanent part of the price structure in the postwar economy.

A comparison of the two war periods reveals some similarity. Immediately after the outbreak of war the cost of living moved up some, but within a few months it tended to settle back to the former level. After the economy had been converted to the production of war materials in 1915, and again in 1941, living costs began their upward spiral. However, during the present conflict this upward spiral was broken by the end of 1942.

According to the trend of the index in the following years, the imposition

(Continued on Page 212)



AGRICULTURE

Cash Farm Income Lags; Crop Outlook Bright

SUMMARY

FARMERS' cash income in the Ninth District during 1944 was only a fraction of a percent above that of 1943, according to preliminary statistics furnished by the United States Department of Agriculture. Cash income from marketings for the month of December in most states of the district was slightly below that of December, 1943. This reflects reductions in hog and chicken sales and also a slowing up in grain marketings due in part to increasing scarcity of railroad cars as well as an inclination on the part of farmers to carry over stored grain into the new year.

In Minnesota, 1944 cash farm income is estimated 4 percent less than it was in 1943. Minnesota farm income totaled approximately 41 percent of the total district cash farm income. Minnesota's contribution to the district's agriculture is so important that the decline in income last year almost entirely offset increases in the other states of the district.

For the United States as a whole, 1944 cash farm income is estimated at 7 per cent above the 1943 total and nearly 2½ times larger than the 1935-1939 average (see table).

1944 Cash Farm Income with Comparisons¹

(Thousands of dollars)

| State | 1935-1939 Average | 1943 | 1944 | 1944 In percent of 1943 |
|---------------------------------|----------------------|------------|------------|----------------------------|
| Minnesota | \$ 346,863 | \$ 836,693 | \$ 804,680 | 96% |
| North Dakota ... | 113,247 | 401,997 | 411,287 | 102 |
| South Dakota ... | 110,244 | 331,107 | 340,849 | 103 |
| Montana | 92,904 | 230,493 | 237,820 | 103 |
| Ninth District ² ... | 744,407 | 1,983,297 | 1,990,007 | 100 |
| United States.... | 8,476,000 | 19,003,765 | 20,284,728 | 107 |

¹ Data from "The Farm Income Situation," United States Department of Agriculture.

² Includes 15 counties in Michigan and 26 counties in Wisconsin.

Prices received by farmers in the Ninth District in mid-February were slightly higher for most products compared with a month earlier. Most farm prices were also slightly higher compared with a year earlier, and are now the highest since mid-1920.

For the United States as a whole, prices received by farmers declined slightly from January levels as a result of lower prices for truck crops, cotton and eggs. Farm product prices averaged 116 percent of parity on February 15 compared with 117 a month ago and 115 in February, 1944. In this district, most prices of farm products except the grains were above parity (see table at right).

Prices of most farm products are likely to continue at or near ceilings as long as consumer incomes and military and lend-lease requirements are maintained at present levels according to a recent report by the Bureau of Agricultural Economics. There are no

DECEMBER cash farm income was below that of a year earlier, but total 1944 income was slightly larger compared with 1943.

Prices received by farmers in mid-February were steady to slightly higher.

Ample subsoil moisture promises a good start to spring crops.

Livestock numbers were reduced during 1944—especially hogs and chickens. Cattle numbers were slightly higher in the Dakotas.

Storage stocks of grain on farms January 1 were the largest on record.

indications as yet of any important change in the demand for farm products, but what the situation will be at the end of hostilities of one or both wars is a matter of speculation.

Crop prospects in the Ninth District for 1945 appear optimistic if a guess this early in the season may be made. Of course it is impossible to forecast the weather, but excellent subsoil moisture conditions promise a good crop start. The condition of winter wheat in the district is reported as good to excellent and much better than at this same time last year. Apparently very little acreage abandonment due to winter killing is expected this year and the crop has developed a splendid root system, which together with deep subsoil moisture gives the crop a bright outlook. The Government's December 1 estimate was for a winter wheat crop close to last

Average Prices Received by Farmers¹

| Commodity and Unit | Ninth District | | | Parity Prices ² United States Feb. 15, 1945 |
|---------------------------------------------|--------------------------|-----------------|-----------------|--------------------------------------------------------------|
| | Feb. 15 1937-1941 Av. | Jan. 15 1945 | Feb. 15 1945 | |
| Crops | | | | |
| Wheat, bushel | \$.83 | \$ 1.40 | \$ 1.42 | \$ 1.52 |
| Corn, bushel | .55 | .86 | .83 | 1.10 |
| Oats, bushel | .31 | .64 | .65 | .686 |
| Potatoes, bushel | .64 | 1.35 | 1.41 | 1.25 |
| Livestock and Livestock Products | | | | |
| Hogs, 100 lbs..... | 7.17 | 13.67 | 13.84 | 12.50 |
| Beef cattle, 100 lbs..... | 6.76 | 11.27 | 11.79 | 9.32 |
| Veal calves, 100 lbs..... | 8.65 | 12.76 | 13.05 | 11.60 |
| Lambs, 100 lbs..... | 7.73 | 12.61 | 12.95 | 10.10 |
| Wool, lb. | .26 | .42 | .43 | |
| Milk, wholesale, 100 lbs. | 1.57 | 2.72 | 2.70 | 2.82 |
| Butterfat, lb. | .31 | .52 | .52 | .463 |
| Chickens, live, lb..... | .116 | .214 | .211 | .196 |
| Eggs, dozen | .156 | .350 | .320 | .340 |

¹ Data compiled from "Agricultural Prices," United States Department of Agriculture.

² The term parity as applied to the price of an agricultural commodity is that price which will give to the commodity a purchasing power equivalent to the average purchasing power of the commodity in the base period, 1910-1914.

year's, which was the second largest on record. The next Government wheat estimate will be released April 10.

Other crop conditions indicating optimism are the large acreage that will be planted with better seed such as hybrid corn and improved varieties of oats, wheat, and other crops. A near-record production of fertilizers will aid crop production. Government price guarantees of farm products and the need for food will encourage continued maximum efforts of farmers to produce to the limit.

In this district, however, the weather factor is most important and anything can happen between now and the harvesting season. A large carry-over of subsoil moisture helps but rainfall this spring and summer and the amount and extent of hot winds this summer is all important. It is reported that the Great Plains states, as a group, have had more rain during the last four crop years than in any previous four-year period during the last 50 years.

In the Great Plains states an excess of three inches of rainfall in any one year is equivalent to an extra inch of rainfall in the succeeding year. The Bureau of Agricultural Economics estimates that because of abundant rainfall in 1944 and prior years the crop prospects are 5 percent and possibly 6 to 8 percent over what they otherwise would be.

Rough estimates for states in the Great Plains area indicate that crop prospects vary approximately 4 percent with each inch of rainfall above or below average after January 1. If temperatures during the summer are one degree below normal it is equivalent to an extra inch of rain, according to a study by the Bureau of Agricultural Economics.

Yields of individual crops depend, of course, on the distribution of rainfall with late maturing crops such as corn and sorghums more dependent on summer rainfall compared to the small grain crops.

A study of the table below indicates the prospective crop yields per acre in 1945 throughout the

United States with average weather conditions. The indicated 26 percent increase in average yields per acre of 28 crops from the 1923-1932 average is almost phenomenal and indicates the rapid strides made during recent years in farm technology.

Livestock numbers in Ninth District states were reduced during 1944. Hog numbers were drastically reduced—around 35 percent—from the previous year's figures, but numbers are still substantially above the prewar average. Sheep numbers were down from last year, particularly in the western part of the district. Cattle numbers were down slightly in Wisconsin, Minnesota, and Montana, but slight increases from the previous year's figures were reported in the Dakotas. For the entire district, cattle numbers are probably 30 to 40 percent above average. Chicken numbers are also reduced, with the greatest reduction occurring in the western part of the district.

Reduction in livestock numbers together with record feed grain production and grain storage stocks has greatly changed the feeding situation from what it was a year ago. Feeding ratios are generally more favorable compared with a year earlier. The serious corn storage situation in the corn growing sections of the district and lack of sufficient transportation may develop even more favorable feeding ratios this spring.

Range and livestock conditions this winter in most areas of the Ninth District have been above average. Ranges, until recently, have been fairly open, which has helped conserve hay and reduce supplemental feeding. Livestock losses due to bad weather have been relatively light. South Dakota reported on March 1 that ranges had ample feed for the remaining winter and early spring months, but snow storms in late February necessitated much supplemental feeding. Reports from Montana and North Dakota indicate range conditions on March 1 were above average.

Storage stocks of grains on farms the first of the year in the Ninth District were at an all-time high for the January 1 period. For the United States as a whole, grain stocks on January 1 were slightly lower than the peak of January 1, 1943. There are several reasons why grain stocks in this district were at a peak at the year's beginning: One, the record grain production in 1944; two, shortage of cars; and three, an inclination on the part of many of the larger wheat producers to hold back on marketings in order to equalize as much as possible the income tax burden in the event of a poor crop in 1945.

The present serious car shortage in the Northwest is indicated by estimated first quarter grain carloadings in the Northwest of only about 50,000 cars as compared with 110,000 a year earlier and 85,000 cars two years ago even though grain stocks on farms January 1 in those years were less than is the case this year. Grain men are pessimistic about getting enough cars to meet grain transportation needs during the second quarter of this year. They believe considerable spoilage of soft corn is likely to result when warmer weather returns.

Past and 1945 Prospective Crop Yields per Harvested Acre, United States Average¹

| | All Corn Bu. | All Wheat Bu. | Oats Bu. | Barley Bu. | Timothy Hay Tons | Potatoes Bu. | 28 crops (percent of 1923-32 Average) ² Pct. |
|----------------------------------|--------------------|---------------------|-------------|---------------|------------------------|-----------------|---------------------------------------------------------------------|
| 1880-1899 | 25.9 | 13.4 | 27.5 | 23.7 | 1.25 | 82.5 | |
| 1900-1919 | 26.6 | 14.3 | 29.9 | 23.2 | 1.31 | 96 | |
| 1920-1929 | 26.8 | 14.0 | 29.7 | 22.7 | 1.31 | 111 | 100.6 |
| 1930-1936 | 21.4 | 13.1 | 26.1 | 19.9 | 1.19 | 108 | 94.2 |
| 1937-1941 | 28.9 | 14.6 | 31.6 | 23.3 | 1.39 | 126 | 117.7 |
| 1942 | 35.2 | 19.8 | 35.6 | 25.5 | 1.53 | 137 | 136.2 |
| 1943 | 32.1 | 16.6 | 29.6 | 21.9 | 1.43 | 140 | 124.1 |
| 1944 | 33.2 | 18.2 | 29.9 | 23.0 | 1.41 | 130 | 132.7 |
| Prospective 1945 ³ | 32.0 | 16.1 | 32.0 | 23.0 | 1.40 | 133 | 125.9 |

¹ Source: "The Agricultural Situation," February, 1945, Bureau of Agricultural Economics, U. S. D. A.

² Crops included in the average, in addition to the 10 listed in the table, are sorghums for grain, rye, flaxseed, rice, wild hay, peanuts, sweet potatoes, sugar beets, apples, 3 citrus fruits as a group, and 6 other fruits as a group.

³ Indications in January 1945. Actual yields can be expected to be higher or lower to the extent that subsequent weather conditions are more favorable or less favorable than average.

BUSINESS

Civilian Output and Stocks Face Reduction

THE prosecution of the war during the past few months has had a direct bearing on business activity. Schedules for the production of war materials have been revised upward. During the past two years the output of civilian goods and services was well maintained. However, with the increased production of war materials it is now doubtful if the former volume can be continued.

The output in most industries and services in 1944 was close to maximum capacity. Thus, the larger war production schedules in many instances will be met only by reducing the civilian goods and services. These facts have led the Research department of the Board of Governors of the Federal Reserve System to the conclusion that both civilian output and stocks during this year will be reduced to the lowest point of the war period.

The aggregate income paid to individuals has continued to expand steadily. The United States Department of Commerce index adjusted for the normal seasonal variation for last December was 238.6 percent of the 1935-1939 average. Since September the index has shown a steady increase. The income paid to individuals over the course of a year has increased by 6.2 percent, as is indicated by a comparison of the index for December, 1943, and for December, 1944. The source of the greater income, according to the Research Department of the Board of Governors of the Federal Reserve System, has been primarily the result of larger Federal payments to the armed forces and their dependents.

The anticipated greater shortages of civilian goods and services, on the one hand, and the larger individual incomes, on the other, have stimulated more active consumer buying. This tendency has been observed in the Ninth Federal Reserve District since the beginning of the year. For February the index of combined city and country department store sales for the first time was over 200 percent of the 1935-1939 average.

Department store sales in February over the district exceeded those of the same month last year by 15 percent. In the two metropolitan areas, Minneapolis—St. Paul and Duluth—Superior, the sales were 19 percent larger than those of a year ago. In the country stores the expansion in receipts was less—only 9 percent.

A comparison of the trend in sales among the states reveals noticeable differences. In South Dakota the February sales were 18 percent larger this year as compared to last year. In the area of Michigan and Wisconsin within the Ninth Federal Reserve District, the dollar volume, on the contrary, remained at approximately the same amount. In fact, a one percent decrease was reported. In the other three states, Montana, North Dakota, and Minnesota an increase of 16, 12, and 9 percent respectively was recorded.

SUMMARY

BUSINESS in the Ninth District has been stimulated by anticipated future shortages of civilian goods and by larger individual incomes.

Department store sales have set a new record. February sales were 15 percent larger than a year ago.

Industrial production has continued at a high level of output.

An analysis of sales by departments shows continued strong buying of piece goods. The January dollar volume was 42 percent more than a year ago. Sales of ready-to-wear clothing likewise have been large. The January receipts in men and boys' wear were 28 percent above those of a year ago and in women and misses merchandise 24 percent above the last year figures.

Bank debits, the dollar volume of checks debited against demand deposits, reflect a high level of business activity. For February the 93 city bank debits index, adjusted for the normally smaller volume of debits during the month, was 208 percent of the 1935-1939 average. In the farming centers over the district the debits have expanded even more than in the over-all cities. The adjusted index for February was 231 percent above the prewar average.

A comparison of the bank debits for February with those for the previous January shows that more than the usual decline occurred during the month. However, the smaller debits very likely do not reflect a contraction in business activity. The last quarter payment of the unwithheld 1944 personal income tax was extended to January 15. The tax payments no doubt were a significant factor in the amount of January bank debits.

Industry in the Ninth Federal Reserve District continues to maintain a high level of output. As may be estimated from figures on over-all production, the aggregate product during the past year approximately equalled the record volume turned out during 1943.

The electrical power generated and imported into the four states of Minnesota, Montana, North and South Dakota was only .7 of one percent less in 1944 than in the preceding year. The figures available on electrical energy used by all commercial and industrial firms in three of the above states, Minnesota, North and South Dakota, indicated an increase of 5.8 percent. However, plants devoted entirely to the production of war materials consumed 2.4 percent less kilowatt hours. In a few cases, plants were reconverted to the production of civilian goods during the summer and autumn of last year. Others were closed temporarily when a sufficient stockpile had been accumulated.

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The number of employees in manufacturing concerns located in this region declined materially in 1944. This contraction was brought about by the continued induction of men into the armed forces and the hiring of fewer individuals who previously were not in the labor force.

In the accompanying table is listed the average monthly employment in the past two years for the states wholly within the Ninth District. The averages are based on estimates made by the United States Bureau of Labor Statistics.

The one exception to the general downward trend in factory employment occurred in North Dakota, where the number of employees in such firms actually increased by nearly 2 percent. In the other three states the decline ranged from 8.8 and 6.1 percent respectively for Montana and South Dakota to 2.3 percent for Minnesota.

Most of the decline in factory employment came in the early part of 1944. Preliminary information now indicates that there has been little change since last November.

The decrease in the number of factory employees did not necessarily result in a smaller aggregate product. Since the conversion to the production of war materials largely has been completed, it was possible to improve production techniques. The diminishing labor supply also stimulated more efficient utilization of the available manpower. Moreover, some rise occurred in the average number of hours worked per week in 1944 as compared with the preceding year.

Employment in Manufacturing Industry

Average Monthly Employment*

(In Thousands)

| State | 1943 | 1944 |
|--------------------|-------|-------|
| Minnesota | 191.6 | 187.2 |
| Montana | 14.8 | 13.5 |
| North Dakota | 5.2 | 5.3 |
| South Dakota | 9.9 | 9.3 |

*Based on the report of "Employment and Pay Rolls" by the United States Bureau of Labor Statistics. It was necessary to estimate the December, 1944, figures from the preceding monthly figures.

Payrolls in the manufacturing industry have risen steadily, which is additional evidence of a longer work-week. The only data available at the present time are for Minnesota, which show that 1944 payrolls were 4 percent larger than in the previous year.

Production of war materials dominates the industrial picture in this region as well as in the other regions over the United States. It is impossible to determine what proportion of the present output constitutes war materials. However, some conception may be gained by comparing the total dollar value of active war supply contracts as tabulated by the War Production Board with the total value of manufactured products in 1939 as reported by the United States Bureau of Census.

Sales at Department Stores

| | Number of Stores showing | | % Feb. 1945 of Feb. 1944 | % Jan.-Feb. 1945 of Jan.-Feb. 1944 |
|----------------------------------|--------------------------|----------|--------------------------|------------------------------------|
| | Increase | Decrease | | |
| Total District | 166 | 68 | 115 | 117 |
| Mpls., St. Paul, Dul.-Sup. | 18 | 0 | 119 | 120 |
| Country Stores | 148 | 68 | 109 | 110 |
| Minnesota | 51 | 20 | 109 | 112 |
| Central | 6 | 3 | 124 | 125 |
| Northeastern | 2 | 4 | 88 | 98 |
| Red River Valley | 3 | 2 | 103 | 112 |
| South Central | 17 | 3 | 118 | 120 |
| Southeastern | 8 | 4 | 104 | 106 |
| Southwestern | 15 | 4 | 108 | 108 |
| Montana | 20 | 3 | 116 | 118 |
| Mountains | 8 | 1 | 123 | 122 |
| Plains | 12 | 2 | 111 | 115 |
| North Dakota | 27 | 18 | 112 | 110 |
| North Central | 2 | 7 | 98 | 98 |
| Northwestern | 4 | 0 | 123 | 114 |
| Red River Valley | 12 | 5 | 115 | 114 |
| Southeastern | 7 | 6 | 106 | 105 |
| Southwestern | * | * | | |
| Red Riv. Val.-Minn. & N. D. | 15 | 7 | 112 | 114 |
| South Dakota | 20 | 3 | 118 | 118 |
| Southeastern | 4 | 0 | 118 | 115 |
| Other Eastern | 8 | 2 | 118 | 121 |
| Western | 8 | 1 | 117 | 117 |
| Wisconsin and Michigan | 30 | 24 | 99 | 101 |
| Northern Wisconsin | 10 | 5 | 92 | 94 |
| West Central Wisconsin | 12 | 19 | 99 | 101 |
| Upper Pen. Michigan | 8 | 0 | 111 | 114 |

*Not shown, but included in totals. Insufficient number reporting.

At the end of last year the total value of active war supply contracts in the hands of Minnesota manufacturers and contractors constituted 86 percent of the total value of 1939 products. In the other three states wholly within the Ninth District, the volume of war contracts in comparison with the total output, on the contrary, is almost insignificant. In Montana the value of active war supply contracts in the hands of manufacturers and contractors at the end of the year comprised only 5½ percent of 1939 output. In North and South Dakota a similar comparison results in 5 and .8 of one percent respectively. The war supply contracts, however, do not include the awards for foodstuffs and food processing.

The nature of the governmental expenditures in each state is as important as the amount spent. In Minnesota over three-fourths of the expenditures were made for ordnance. About 7 percent was spent for aircraft parts and another 3½ percent for combat vehicles. Direct military expenditures in the state comprised only a little over 3 percent of the total. In the other three states direct military expenditures have been the greatest public outlay. In both North and South Dakota during the past year they were more than 90 percent of the respective totals and in Montana they were slightly over 70 percent of the total. In the latter state over 20 percent of the other public funds were spent for copper and another 6½ percent for public housing. In South Dakota 5.6 percent of the other expenditures were also devoted to housing. In addition to the direct military expenditures in North Dakota, 7 per-

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BANKING

Shifts in Deposit Liabilities Not Unusual

CHANGES in the banking picture during the last month have followed a comparatively regular and predictable trend. Total deposits of the 20 reporting city banks in the district declined \$15 million during the month, all of which was centered in the deposits of the U. S. Government, most of which presumably was war loan accounts. These government deposits fell from \$271 million in the middle of February to \$220 million in the middle of March, a decline of \$51 million. This of course was to be expected.

War loan accounts which had been built up to a peak during the Sixth War Loan, will gradually be reduced as the Treasury transfers these balances to the Federal Reserve Bank and spends them in financing the war. The result is that non-government deposits tend to gain between drives. This has occurred during the last month. Deposits of individuals and businesses which were \$791 million in the middle of February rose \$26 million to \$817 million by March 14. "Other" deposits also increased by approximately \$10 million. The gain in these non-government deposits lacked \$15 million of making up the loss in government accounts, causing total deposits thereby to decline.

With these shifts in deposit liabilities and a consequent increase in the required reserves, two other developments occurred. Borrowings of these member banks, which during the war loan drive were reduced to zero, have been gradually increasing since then and by March 14 had risen to \$11 million, \$7 million above the borrowings on February 14.

Assets and Liabilities of Selected Ninth District Member Banks

(In million dollars)

| Assets | 2/14/45 | 3/14/45 | Change |
|-------------------------------------------|-------------|-------------|------------|
| U. S. Treasury bills..... | \$ 15 | \$ 11 | \$- 4 |
| U. S. Treasury Certificates of | | | |
| Indebtedness | 187 | 227 | + 40 |
| Other U. S. Government securities.. | 698 | 656 | -42 |
| Total U. S. Government securities | 900 | 894 | - 6 |
| Other investments | 43 | 43 | 0 |
| Loans | 213 | 206 | - 7 |
| Cash and due from banks..... | 324 | 328 | + 4 |
| Miscellaneous assets | 15 | 16 | + 1 |
| Total | 1495 | 1487 | - 8 |
| Liabilities | | | |
| Deposits of U. S. Government..... | 271 | 220 | -51 |
| Deposits of individuals & businesses | 791 | 817 | +26 |
| Other deposits | 342 | 352 | +10 |
| Total deposits | 1404 | 1389 | -15 |
| Borrowings | 4 | 11 | + 7 |
| Miscellaneous liabilities | 7 | 7 | 0 |
| Capital accounts | 80 | 80 | 0 |
| Total liabilities and capital..... | 1495 | 1487 | - 8 |
| Excess reserves | 2 | 3 | + 1 |

SUMMARY

WAR loan deposits are gradually declining after the Sixth War Loan peak and other deposits of banks are rising.

Bank borrowings increased and holdings of Treasury bills declined as the transfer from war loan accounts to other accounts required the banks to build up their reserves.

As a part of this same process, banks were also gradually liquidating their holdings of U. S. Treasury bills. Most of this reduction presumably arose out of a run-off of maturities or through selling to the Federal Reserve Bank on repurchase option. Treasury bill holdings declined \$4 million during the month.

Investments in U. S. Government notes, bonds, and guaranteed obligations (securities of longer maturity) declined \$42 million during the month, but this decline was largely offset by a \$40 million increase in holdings of certificates of indebtedness. This would suggest that the longer-maturity obligations had simply been replaced by added purchases of the short-term certificates of indebtedness.

Since holdings of government securities other than bills remained essentially unchanged, the \$4 million liquidation of Treasury bills resulted in an exactly equivalent addition to cash reserves and amounts due from banks, which went up \$4 million during the month.

These shifts, as mentioned above, are to a large extent inevitable changes in the composition and character of assets during the intervals between war loan accounts and have thereby no unusual significance relative to fundamental changes in the business or banking situation in the District.

Excess reserves of these reporting city banks increased from \$2 million to \$3 million during the month.

Total deposits of country member banks averaged \$1,301 million during the last two weeks of February, virtually no change over January although

(Continued on Next Page)

Daily Average Reserve Position for All Ninth District Member Banks for the 13-Day Period Ending February 28, 1945

| Type of Bank | Average Reserves Carried (000) | Average Reserves Required (000) | Average Excess Reserves (000) |
|---------------------------|--------------------------------|---------------------------------|-------------------------------|
| Reserve City Banks..... | \$146,815 | \$144,787 | \$ 2,028 |
| Other City Banks..... | 23,773 | 20,874 | 2,899 |
| Total City Banks..... | 170,588 | 165,661 | 4,927 |
| Total Country Banks..... | 164,648 | 133,061 | 31,587 |
| Total Ninth District—1945 | 335,236 | 298,722 | 36,514 |
| Total Ninth District—1944 | 266,033 | 226,769 | 39,264 |

there was an increase of \$15 million in time deposits largely offset by a similar decrease in demand deposits. Required reserves increased slightly, again presumably because of a slight shift from war loan accounts not requiring reserves to accounts of individuals and businesses which do require reserves. Since reserves carried with the Federal Reserve Bank remained virtually unchanged, excess reserves declined from \$32 million to \$29 million during the month, reflecting of course the increase in deposits subject to reserves. Earning assets of the country member banks increased \$29 million during the month, and were \$221 million above the similar figure for last year.

COST OF LIVING

(from Page 206)

of price ceilings has been effective in preventing the recurrence of retail price inflation experienced during the first World War.

Information on the cost of living in the Ninth Federal Reserve District is limited to one of its large cities; namely, Minneapolis. However, the trend of the cost of living in Minneapolis is somewhat indicative of what is taking place in the surrounding territory. A special project was undertaken by the United States Bureau of Labor Statistics to examine the rise in living costs in a few representative small towns over the nation. The findings tended to show that the trend in the living costs in small towns is fairly comparable to that found in nearby large cities.

In Minneapolis the cost of living rose by 23.1 percent from June, 1939, to January of this year. This is 5.8 points less than the average increase for all of the large cities scattered over the nation. Living costs have risen significantly less in this region than on either coast.

An examination of the different commodities which enter into the family budget reveals, as one may anticipate, a disproportionate rise in retail prices. The difference in the percent increase in the price among six classes of commodities purchased by families of wage earners and lower-salaried workers in Minneapolis from June, 1939, to January, 1945, is shown by the accompanying bar chart.

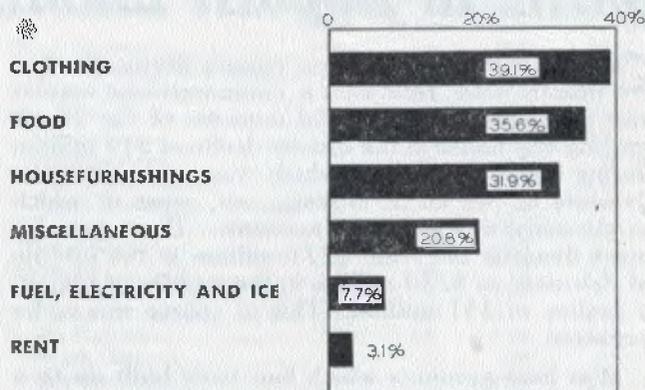
Clothing prices increased the most—38 percent. Food, the largest item in the family budget, has risen in retail price by 35.6 percent. Prices on house furnishings and miscellaneous items have risen somewhat less but, nevertheless, significantly—31.9 and 20.8 percent respectively.

The items classified as miscellaneous are next to food in importance in the family budget. They include the expenses incurred for transportation, for medical and personal care, for household operations, and for recreation. The cost of the ordinary utilities, fuel, electricity and ice, has risen only 7.7 percent over the above indicated period.

Since much discussion has centered on the reliability of the index compiled by the United States Bureau of Labor Statistics, it is pertinent to add a statement on what is claimed for the index. It is designed to measure the average changes in re-

THE RELATIVE RISE IN THE PRICES OF DIFFERENT COMMODITIES IN MINNEAPOLIS

From June, 1939, to January, 1945



tail prices of selected goods, rents, and services bought by families of wage earners and lower-salaried workers in large cities. The items covered represent approximately 70 percent of the total family expenditures for these families.

The index does not measure the full impact of wartime conditions. It does not reflect the full effect of such factors as lowered quality, disappearance of low-priced goods, and forced changes in housing and eating away from home.

Moreover, the index does not measure changes in aggregate living expenditures — that is, the total amount spent by families for necessities, luxuries, and recreation. Income taxes and bond subscriptions are not included.

BUSINESS

(from Page 209)

cent of the total were made for coal and petroleum products.

From this brief description of the amount and nature of public expenditures in the states wholly within the Ninth Federal Reserve District, it is obvious that they are concentrated in Minnesota. Furthermore, it is primarily Minnesota industries that are producing the war materials. From this it follows that the industrial reconversion with its problems of retooling and reshuffling of the labor force, etc., after the war will occur largely in this state.

Northwest Business Indexes

Adjusted for Seasonal Variation—1935-1939=100

| | Feb. 1945 | Jan. 1945 | Feb. 1944 | Feb. 1943 |
|----------------------------------------|-----------|-----------|-----------|-----------|
| Bank Debits—93 Cities..... | 208 | 215 | 229 | 175 |
| Bank Debits—Farming Centers..... | 231 | 240 | 236 | 184 |
| City Department Store Sales..... | 213 | 184 | 173 | 192 |
| City Department Store Stocks..... | 143 | 148 | 146 | 121 |
| Country Department Store Sales..... | 205 | 178 | 181 | 172 |
| Country Lumber Sales..... | 200 | 146 | 215 | 195 |
| Miscellaneous Carloadings..... | 156 | 156 | 150 | 135 |
| Total Carloadings (excl. misc.)..... | 95 | 92 | 110 | 96 |
| Farm Prices—Minn. (unad.)..... | 168 | 168 | 165 | 163 |
| Employment—Minn. (unad.) 1936=100..... | 135 | 136 | 140 | 135 |
| Minn. Payrolls (unad.) 1936=100..... | 228 | 227 | 231 | 199 |