MONTHLY REVIEW

of Ninth District Agricultural and Business Conditions

FEDERAL RESERVE BANK OF MINNEAPOLIS

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BANKING

Bank Earnings Up but Profits Down

TOTAL 1947 gross current earnings of all Ninth district member banks were up, and net current earnings were up, and net profits were down. These two opposing trends contain in a nutshell the general bank earnings picture for 1947. Total gross current earnings for 1947 of $69.0 million was a comfortable 4 percent over the 1946 figure of $66.4 million.

One of the fundamental developments of 1947 was the rapid rise of bank loans both in this area and nationally. The 27 percent expansion of Ninth district member bank loans in 1947 produced a considerable change in the pattern of earnings. Earnings on loans of $25.9 represented a jump of 33 percent over the $19.1 million for 1946.

The fact that earnings on loans rose substantially more than the volume of loans presumably arises out of a variety of factors. The disproportionate increase in real estate and consumer loans suggests that loans with higher-than-average yields were increasing in relative importance. The slight stiffening of interest rates during the year may have had some modest significance, though it is highly improbable that this exerted more than a negligible impact on earnings of banks in this area.

This trend toward the rising importance of loans and loan earnings reverses a trend clearly evident not only during the war but also during the better part of the interwar period. In the Twenties, earnings on loans constituted roughly two-thirds of member bank earnings in this district, though by 1929 they accounted for only 62 percent.

The substantial increase in bank holdings of U. S. government securities in the decade following 1929, incident to the recovery program, reduced the relative importance of earnings on loans to 48 percent by 1940. War financing accelerated this trend

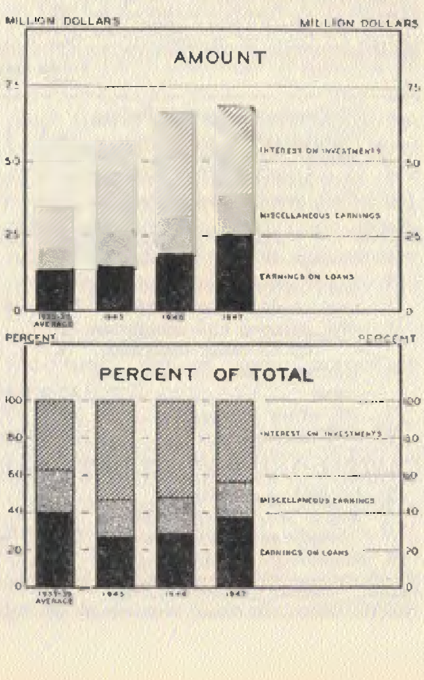
Gross Current Earnings of 9th District Member Banks

(In Thousands of Dollars)

	1935-39 Average	1946	1947
Interest and dividends on securities	$12,922	$34,642	$29,847
Earnings on loans	14,012	19,137	25,911
Service charges on deposit accounts	1,315	3,518	3,853
Other earnings	6,496	9,102	9,391
Total	$34,745	$66,399	$69,002

and by 1945 loan earnings were accounting for only 27 percent of gross current earnings of member banks in the Ninth district. Then occurred the loan expansion of 1946 and 1947 with the jump in loan earnings to 43 percent of total earnings by 1947.

GROSS CURRENT EARNINGS OF 9TH DISTRICT MEMBER BANKS



LOSSES on loans and investments account for drop in profits.

Loan expansion continues into 1948.

Tax payments put pressure on bank reserves.

A decline in earnings on investments in 1947 accompanied the rise in loan earnings. The decline in the former can be attributed to at least two separate developments. First, the U. S. Treasury's debt redemption program resulted in some net decline in bank holdings of securities ($85 million for member banks in this area).

Second, the uncertainties in the money market during the latter part of 1947 resulted in some tendency for banks to shift into the lower-yielding, shorter-maturity securities.

The result of these developments was that earnings on investments (largely U. S. government securities) declined from $34.6 million in 1946 to $29.8 million in 1947, a reduction of 16 percent.

Service charges on deposit accounts, reflecting the accelerating tempo of activity of bank balances during the year increased from $3.5 million to $3.9 million, a rise of 11 percent.

Miscellaneous current earnings in 1947 aggregated $9.4 million, up moderately over the $9.1 million of the previous year.

OPERATING EXPENSES RISE

Reflecting the generally rising trend of prices and costs, operating expenses of $44.5 million in 1947 were slightly above the $42.1 million in 1946.

Salaries and wages, which account for less than half of all operating

Operating Expenses of Ninth District Member Banks

(In Thousands of Dollars)

	1935-39 Average	1946	1947
Salaries and wages	$10,764	$18,956	$21,376
Interest on time deposits	5,816	7,400	7,689
Other operating expenses*	9,694	15,757	15,431
Total	$26,274	$42,113	$44,496

*Excludes income taxes.

expenses, were responsible for most of the increased costs. In fact, the increase in salaries and wages of $2.4 million was just equal to the $2.4 million increase in total operating expenses. A slight reduction in miscellaneous expenses just offset a corresponding increase in interest paid on time deposits.

Since current earnings increased somewhat more in 1947 than operating expenses, net current earnings did increase moderately — to $24.5 million in 1947. The increase over 1946 was however quite negligible ($0.2 million), since most of the increased earnings were absorbed by increased expenses.

One of the major 1947 developments in member bank earnings was the switch in net recoveries and bond profits from a positive to a negative figure.

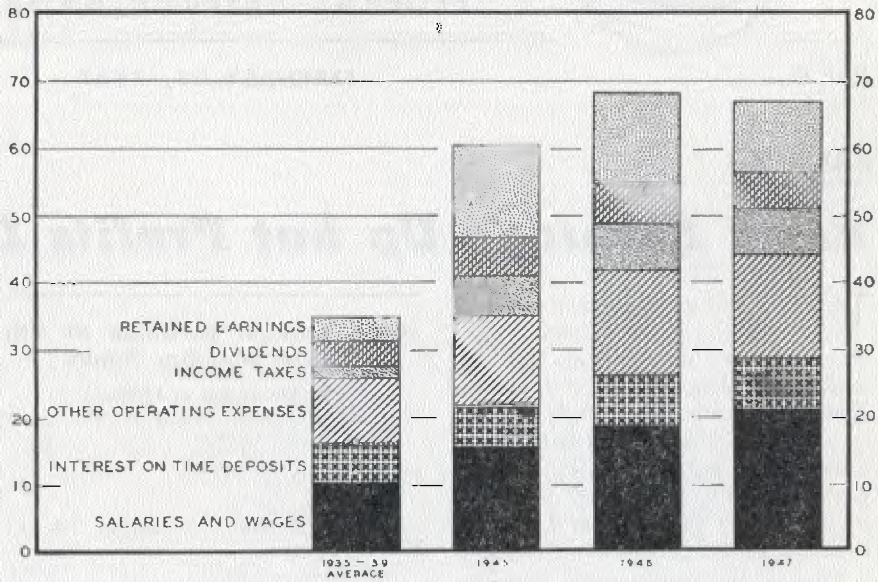
During the war, net recoveries and bond profits contributed substantially to earnings. In 1945, net recoveries accounted for over 15 percent of net profits before taxes. In 1946, they declined but still accounted for over 7 percent of profits before taxes.

In 1947, for the first time in several years, losses on loans and securities and transfers to reserves for such losses exceeded recoveries and bond profits and therefore became a charge against income to the extent of $2.1 million.

This excess of losses over recoveries and bond profits presumably arises out of a number of factors. The decline in bond prices, and the consequent substantial reduction in premiums, is undoubtedly a major part of the explanation. Loans have, to be sure, been rising rapidly with some inevitable enlargement of losses; but, of course, traditionally the major losses growing out of a rapid loan expansion do not crystallize until the subsequent business decline.

DISPOSITION OF EARNINGS, 9TH DISTRICT MEMBER BANKS

(In Million Dollars)



Note: Earnings include gross current earnings plus net recoveries and bond profits.

Because of these substantial charge-offs, net profits before income taxes fell sharply from $26.2 million in 1946 to $22.5 million in 1947. Since income taxes in 1947 remained unchanged at the $6.8 million figure, net profits after taxes—the final barometer of the year's operations—declined to $15.6 million, a 19 percent decline from 1946. Cash dividends of $5.5 million, though lower than the $5.9 million of 1946, represented a larger proportion of net profits after taxes than in 1946.

Two major developments are reflected in the banking statistics during January and the early part of February. First, bank loans have continued to expand, although at a somewhat retarded pace. Second, the

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1947 Selected Operating Ratios of Ninth District Member Banks by Size Groups*

	All Banks 1947	All Banks 1946	Under $1 mn.	$1 mn.-$2 mn.	$2 mn.-$5 mn.	$5 mn.-$10 mn.	$10 mn-$25 mn.	Over $25 mn.
SUMMARY RATIOS								
Percentage of Total Capital Accounts								
1. Net current earnings before income taxes	16.3	15.6	11.7	15.5	17.5	16.3	18.1	13.9
2. Profits before income taxes	15.3	15.6	11.7	14.7	16.4	15.3	15.2	13.8
3. Net profits	11.7	12.2	9.9	11.8	12.9	10.6	9.6	9.3
4. Cash dividends declared	3.1	3.3	2.9	3.2	3.0	3.0	3.0	3.3
SOURCES AND DISPOSITION OF EARNINGS								
Percentage of Total Earnings								
5. (a) Interest and dividends on U. S. securities	38.2	42.2	32.7	34.4	37.7	44.1	44.2	41.5
(b) Interest and dividends on all other securities	4.7	4.7	4.6	4.8	5.1	4.7	3.7	3.3
6. Interest and discount on loans	35.4	30.7	36.7	37.2	35.3	32.6	33.4	37.4
7. All other earnings	21.7	22.4	26.0	23.6	21.9	18.6	18.7	17.8
8. Total earnings	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
CAPITAL AND DEPOSIT RATIOS—In Percentages								
9. Capital accounts to total assets less government securities and cash assets	28.3	36.2	39.8	28.3	26.9	28.5	26.6	25.0
10. Capital accounts to deposits	5.5	5.5	7.4	5.9	5.2	5.3	4.6	5.5

*Banks classified by total deposits.
NOTE: These are simple averages of the individual ratios computed for each bank.

AGRICULTURE

Brighter World Crop Outlook Hits Commodities

IS THE recent sharp setback in prices of farm products the beginning of the long expected postwar farm recession? How far may prices drop before they stabilize? These are questions that vitally concern farmers and the total economy of the district as well.

The spark which apparently touched off the downward plunge in farm commodity prices was the increasingly favorable wheat crop prospects both here and abroad. It suddenly became apparent that the turn in world food shortages might well be here.

For example, Australia and Argentina just harvested bumper wheat and feed crops. Reports from European sources indicated expanded wheat and feed acreages and excellent prospects for the 1948 harvests, compared with 1947. USDA sources talked in terms of a 1.1 billion to 1.2 billion bushel domestic wheat crop this year.

If world food conditions continue to improve as now indicated, it seems reasonable to assume that prices of farm products may have touched the postwar peak in January, at approximately 307 percent of the 1910-14 base and nearly treble World War II pre-war levels.

This does not mean that hunger is over for everybody. Food shortages will be particularly severe in Europe this spring. The demand for American food is likely to continue large, but the pressure may ease somewhat as 1948 crops are harvested.

Europe's wheat crop in 1948 is expected to total 250 to 300 million bushels more than the 1947 crop. However, even under the best of conditions it does not seem possible for Europe to produce as much bread grain as in pre-war. Fertilizer and farm machinery are in too short supply. Also, Europe's population has increased since the war started in 1939, which means more food is needed.

GRAIN PRICES NOT EXPECTED TO REPEAT 1920 PERFORMANCE

In spite of the sharp setback in farm commodity prices from the January peak, no price debacle comparable to the 1920 experience (when the farm price of wheat declined from $2.56 a bushel in December 1919 to less than $1.00 a bushel in mid-1921) is generally considered to be imminent.

In the first place, there is a continuing need for all the wheat and other food that can be produced in 1948. The proposed European Recovery Program indicates no immediate transition from domestic scarcity to surplus.

Secondly, wheat prices are near parity now and the government is committed to support wheat as well as other "basic" and "Steagall" farm product prices at not less than 90 percent of parity during 1948.

CCC PURCHASES IMPORTANT GRAIN MARKET INFLUENCE

Commodity Credit Corporation purchases will be a dominant market factor in the immediate future. About 50 million bushels of wheat remain to be purchased, before June 30, to meet the 450 million bushel goal. There is current talk that the wheat goal may be expanded to 500 million bushels.

A bill has been introduced in Congress to lower the 150 million bushel wheat carryover limit, beyond which the government may not export. If this bill passes, it undoubtedly would add strength to the wheat market.

The CCC has several billion dollars for use, if necessary, to support prices of most farm products at around 90 percent of parity. It may use these funds, and has used them, for purchase of many different farm products. Recently, the CCC has been actively in the market for beans, peas, citrus fruits, lard, dairy products, dried fruits, fresh apples and pears, nuts, peanut butter, eggs, and honey. These purchases are distributed chiefly in European relief programs, but to some extent in school lunch programs.

It appears, therefore, that the various purchase and support programs along with the influence of powerful producer interests will be of sufficient importance to render improbable, during 1948 at least, any serious debacle in the general level of farm prices such as occurred in 1920 and

LARGE world wheat crop in 1948 expected to signal turning point in food shortages.

Livestock numbers down for fourth year—lowest since 1939. Demand for meat remains high.

A four-year European recovery plan holds special interest to wheat farmers.

LIVESTOCK PRODUCERS IN GOOD POSITION

The break in livestock prices may have been aggravated by several temporary factors, such as: large holdings of meat by consumers in lockers because of fear of meat rationing; near capacity commercial holdings of meat; and panicky selling of livestock as prices dropped. As livestock was slaughtered, additional meat supplies at wholesale and retail tended to meet buyer resistance and prices declined.

Basically, however, the livestock producer may be entering into a stronger position relative to feed costs. Feeding ratios, prior to the price break, had been distinctly unfavorable. The recent sharp break in feed grain prices has eased the feeding situation to some extent.

Livestock numbers have been sharply reduced from war-time peaks. Cattle numbers on January 1 were substantially above pre-war, but had about half of the war-time increase. The number of hogs on farms Jan. 1, 1948, was estimated at 55 million head, 3 percent below a year earlier, 34 percent below the all-time peak of 84 million head, Jan. 1, 1944, and the lowest number since 1941. Stock sheep numbers are the lowest on record, with all sheep numbers the lowest since 1871.

The relatively small fall pig crop has now started to market, but will not reach a peak until next May or June. The 1948 spring pig crop is forecast at 9 percent below last year. Pork supplies are expected to be much smaller in 1948 compared with 1947. Beef supplies may also show a sharp decline.

In fact, meat supplies per capita in 1948 may be 10 to 13 pounds below

1947, with supplies particularly short in the third quarter.

Livestock prices are closely associated with the level of business activity and employment. A decline in payrolls is quickly reflected in the demand for meat.

Currently, at least, there is little if any real unemployment and business activity is at a high level in spite of the drop in commodity prices. Accumulated domestic demands for goods are still great. Many concerns such as the automobile, construction, railroad equipment, utility, and oil industries still have huge backlogs of orders to fill. If the Marshall plan materializes, it will prolong the demand for the products of American industry.

Wage increases or tax cuts, if they materialize, would place even larger purchasing power into the pockets of meat consumers.

January-November Cash Farm Income [1]

(Thousands of Dollars)

State	1935-1939 Average	1946	1947	1947 in Percent of 1946
Minnesota	$ 312,762	$ 943,763	$ 1,204,831	128%
North Dakota	104,468	456,983	679,521	149
South Dakota	100,442	447,132	612,336	137
Montana	84,425	270,909	355,317	131
Ninth District [2]	656,283	2,341,438	3,105,427	133
United States	7,525,852	22,098,396	27,266,074	123

[1] Data from "The Farm Income Situation," dated December 1947, USDA.
[2] Includes 15 counties in Michigan and 26 counties in Wisconsin.

Average Prices Received by Farmers, Ninth District [1]

Commodity and Unit	January 15 1937-1941 Avg.	January 15 1947	January 15 1948	Parity Prices [2] United States January 15, 1948
Crops				
Wheat, bushel	$0.85	$1.91	$2.88	$2.22
Corn, bushel	.56	1.04	2.45	1.61
Oats, bushel	.31	.71	1.22	1.00
Potatoes, bushel	.61	1.09	1.52	1.86
Livestock and Livestock Products				
Hogs, 100 lbs.	7.18	21.87	26.42	18.20
Beef Cattle, 100 lbs.	6.84	17.12	21.07	13.60
Veal Calves, 100 lbs.	8.49	17.86	25.25	16.90
Lambs, 100 lbs.	7.67	18.19	22.14	14.80
Wool, lb.	.26	.41	.42	.459
Milk, wholesale, 100 lbs.	1.63	4.38	4.27	4.26
Butterfat, lb.	.32	.78	.93	.686
Chickens, live, lb.	.115	.214	.195	.286
Eggs, dozen	.175	.339	.401	.572

[1] Data compiled from Jan. 30, 1948, "Agricultural Prices," United States Dept. 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.

ERP HOLDS VITAL INTEREST TO DISTRICT FARM ECONOMY

Food, fuel, and fertilizer would make up approximately 42 percent of total import requirements from the U. S. under the proposed European Recovery Plan. Wheat, the most important single crop produced in the Ninth district, is expected to make up a substantial part of food import requirements of the Marshall plan countries under the recovery plan.

Import needs of wheat and other food and feed grains by European countries are expected to continue very high in the first year or two of the ERP, but would be scaled down as European and world agriculture became rehabilitated.

Import Program of Western Europe from the U. S. and American Continent*

(In Billion Dollars at July 1, 1947 Prices)

	(1948) U.S.A.	(1948) Total America	(1948-51) U.S.A.	(1948-51) Total America
Food & fertilizer	1.5	3.3	5.4	13.7
Coal	0.3	0.3	0.7	0.7
Petroleum products	0.5	0.5	2.2	2.2
Iron & steel	0.4	0.4	1.2	1.3
Timber	0.1	0.3	0.4	1.0
Equipment	1.1	1.1	3.3	3.4
Other imports	2.1	3.3	7.2	12.9
Total imports	6.0	9.2	20.4	35.2

*Source of data: Committee of European Economic Cooperation. Data given in table includes 16 cooperating European countries.

In addition to grains, important quantities of fats and oils, meats, dairy products, fruits and vegetables are also requested in the recovery program of Europe.

Also large amounts of nitrogen fertilizer to restore soil productivity, as well as huge quantities of agricultural machinery are needed.

This demand for American fertilizer and farm machinery comes at a time when domestic demand is sufficient to take all that can be produced. However, such supplies are urgently needed because the quicker European agriculture can be rehabilitated the better off they will be and the less costly it will be to American taxpayers.

The ERP program, if carried out at the recommended levels, will exert a tremendous influence not only on the agricultural economy but also upon the economy as a whole.

This is so because it comes at a time when the domestic demand fully utilizes productive resources, and offsetting imports of course are not yet available in large volume.

Under these circumstances the proposed aid, although small in relation to total U. S. production, exerts a pressure much greater than is indicated by the actual dollar export balance.

Regionally, the Upper-Midwest both benefits and incurs a cost by ERP requirements. It is benefited chiefly because the principal cash crop (wheat) produced in the region is the crop in greatest demand for foreign food relief.

In view of the enormous domestic wheat crops of recent years, the domestic price of wheat would undoubtedly be much lower except for exports. Before the war (1935-39 average) with much smaller crops, wheat growers averaged only about 84c per bushel. Even after the recent price break, the farmer receives approximately $2.20 per bushel.

Farmers are perhaps penalized by the ERP in that from 10 to 15 percent of farm machinery is currently being exported. Much of this equipment could be used to good advantage on our own farms. Sharing this equip-

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BUSINESS

Retail Sales Decline Following Market Break

THE most important event in the recent business picture was the break in commodity prices. In a review of general business conditions it is of special interest to trace the level of business activity up to the time of the break in the market and to examine the repercussions that may have resulted from this event.

Bank debits are a rough measure of general business activity; they represent the payments in dollars made for goods, services, debts, etc. During January, debits reached a new peak, which was substantially higher than at any time during the war or postwar period. The index for January, adjusted for the usual seasonal variation, was 382 percent of the 1935-39 average. The previous peak occurred in October, when the adjusted index stood at 363 percent of the pre-war average. Thus (in so far as bank debits may be used as an indicator), business activity during January was at an exceptionally high level.

GRAIN MOVEMENTS HIGH FOLLOWING FIRST OF YEAR

The number of railroad cars loaded with grain and grain products during the first two weeks in January was approximately twice the number loaded during the latter two weeks. The sharp rise in grain shipments following the first of the year is traced primarily to two factors: holding grain over to the new year for income tax purposes, and an increase in freight rates which became effective January 15. Total loadings for the month, however, were at a relatively low figure; they were less than for any month during 1947 with the exception of June. The severe weather during the latter half of the month probably was a contributing factor.

On the basis of the amount of grain drafts cleared through the Minneapolis Federal Reserve bank, the activity in the grain market was quite high during January, especially during the first two weeks. Approximately $83 million was cleared in those two weeks, which was decidedly more than was cleared during the entire month of December, when the amount of drafts aggregated only $50 million. During the last two weeks of January transactions fell off substantially, but the amount of grains cleared still aggregated $39 million.

The movement of other products during January, with the exception of livestock, was at a relatively normal level. The number of cars loaded with livestock was at a low figure; in fact, significantly lower than for any month since last August. The shipments of coal, coke, forestry products, and miscellaneous items were about equal to those in the latter months of 1947. The finished merchandise shipped in less-than-carload lots was only slightly below the figures for the preceding months.

DECLINE IN JANUARY EMPLOYMENT DUE TO SEASONAL FACTORS

According to the report released by the Minnesota Division of Employment and Security, between mid-December and mid-January Minnesota total non-agricultural employment dropped 20,200. This decline is traced primarily to the layoffs of temporary workers employed in retail trade and postoffices during the Christmas season.

The drop in manufacturing employment was negligible; in mid-January the number of workers was only 960 less than in mid-December. Most of this decline occurred in printing and publishing and in the food industries. Unfavorable weather conditions have caused more than the usual decline in construction employment. As a result, employment was down by 2,400 workers in mid-January.

In spite of the seasonal decline, the district enjoys a high level of employment. Total non-agricultural employment in Minnesota during the past month was 25,000 larger than a year ago. Most of this increase was concentrated in wholesale and retail trade, where there were approximately 11,400 more workers employed. The available information indicates that a similar rise in employment has occurred in the other states of the district.

Index of Department Store Sales by Cities

(Unadjusted 1935-39 = 100)

	Jan. 1948 1/	Percent Change 2/ From Year Ago Jan. 1948
Minneapolis	260	+ 12
St. Paul	206	+ 5
Duluth-Superior	195	+ 10
Great Falls	231	+ 6
La Crosse	175	+ 3
Mankato	202	+ 7
St. Cloud	262	— 2
Aberdeen		— 3
Bismarck		+ 1
Grand Forks		+ 16
Sioux Falls		+ 9
Willmar		— 10
Winona		+ 21

1/ Based on daily average sales.
2/ Based on total dollar volume of sales.

FEBRUARY department store dollar sales fell below last year's volume.

January sales were above a year ago; index was only two points below all-time peak in September.

Department store stocks in Ninth district have risen more from pre-war average than sales.

DEPARTMENT STORE SALES CONTINUE TO EXCEED 1947

During January a vast majority of the reporting stores in the district had a larger dollar volume than a year ago. The average increase for the district was 9 percent.

The adjusted index for January was 285 percent of the 1935-39 average. After an allowance is made for the usual seasonal decline, the level of sales was several points above the last quarter of 1947 and only 2 points below the all-time peak in September. Obviously, consumers bought heavily at the special sales offered by the stores.

Even though Ninth district department store sales have risen rapidly since VJ-day, the present level still represents less expansion from the pre-war average of 1935-39 than in most of the Federal Reserve districts. During 1947 the increase in sales from the pre-war base averaged 10 points below that for the nation, that is, sales in this district increased only

173 percent while in the nation, 185 percent. The smaller expansion in department stores in this region is attributed primarily to the population emigration during the recent war and only a small number of the migrants returning.

DEPARTMENT STORE STOCKS CONTINUE TO RISE

The adjusted index for department store stocks at the end of January stood at 314 percent of the 1935-39 average, which was substantially higher than at any other time during the postwar period. After an adjustment was made for the usual small rise in stocks during January, the index was 8 points higher than at the end of December and 33 points higher than at the end of November.

The increase in stocks in this district from the pre-war base is significantly greater than for some of the other Federal Reserve districts. On the basis of the 1935-39 average, stocks during 1947 were 13 points higher than in the nation as a whole. In other words, stocks in this district increased 167 percent while in the nation only 154 percent. According to these figures, stores in this district are carrying a larger stock in comparison with the base period than the average store in the nation.

At the end of the year, stocks in men's and boys' wear, in piece goods, and in house furnishings were higher than at the end of 1946, while in other departments the stocks were lower. Stocks were brought into better balance in 1947, that is, the larger increases occurred in departments with a smaller volume of stocks in relation to sales.

BUSINESS ACTIVITY DID NOT FORESHADOW BREAK IN COMMODITY PRICES

From this analysis of business conditions, it is evident that the activity in the district's economy did not suggest a break in commodity prices. Wholesale prices, however, reached a peak during the second week of January and dropped a couple of points during the two following weeks. The prices of farm products dropped as much as 5 points—which indicated that some adjustments were being made in the estimates of the supply and demand for certain farm products.

PRELIMINARY FIGURES SHOW FEBRUARY BUSINESS DECLINED

Grain loadings on four principal railroads in this region during the second week in February averaged 20 cars less per day than in the first week in February or in the last week of January.

According to the amount of grain drafts cleared through the Minneapolis Federal Reserve bank, activity in the grain market remained quite steady in spite of the break in prices on February 3. Almost the same amount of drafts were cleared during the first and second weeks with a total of $35 million. This was approximately $3½ million less than during the last two weeks in January.

According to preliminary figures, department store sales during the second and third weeks of February fell substantially below the dollar volume of a year ago, the only business indicator now available which might have reflected to some extent the uncertainties incident to the commodity break.

Northwest Business Indexes

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

	Jan. 1948	Dec. 1947	Jan. 1947	Jan. 1946
Bank Debits—93 Cities	382	322	314	247
Bank Debits—Farming Centers	467	375	392	292
Ninth District Department Store Sales	285p	277	262	212
City Department Store Sales	304p	299	277	222
Country Department Store Sales	265p	254	247	201
Ninth District Department Store Stocks	314p	306p	278	166
City Department Store Stocks	275p	269	253	157
Country Department Store Stocks	346p	336p	298	174
Country Lumber Sales	166p	173	137	174
Miscellaneous Carloadings	154	152	154	143
Total Carloadings (excl. misc.)	92	105	100	99
Farm Prices (Minn. unadj.)	306	302	242	168

p/ preliminary

Sales at Ninth District Department Stores[1]

	% January 1948 of January 1947	Number of Stores [2] Showing Increase	Decrease
Total District	109	175	96
Mpls., St. Paul, Dul.-Sup.	110	16	10
Country Stores	106	159	86
Minnesota	104	41	28
Central	101	4	5
Northeastern	109	3	1
Red River Valley	100	1	3
South Central	104	8	7
Southeastern	108	9	3
Southwestern	103	16	9
Montana	110	28	6
Mountains	110	11	1
Plains	110	17	5
North Dakota	107	25	23
North Central	90	6	4
Northwestern	101	4	2
Red River Valley	116	5	12
Southeastern	98	7	5
Southwestern	118	3	0
Red River Valley-Minn. & N. D.	113	6	15
South Dakota	106	29	12
Southeastern	104	7	6
Other Eastern	108	18	4
Western	108	4	2
Wisconsin and Michigan	106	36	17
Northern Wisconsin	106	8	4
West Central Wisconsin	106	21	10
Upper Peninsula Michigan	107	7	3

1/ Percentages are based on dollar volume of sales.
2/ January 1948 compared with January 1947.

National Summary of Business Conditions

OUTPUT and employment at factories and mines continued to show little change in January. Value of department store trade declined by more than the usual seasonal amount in January and the early part of February. Prices of farm products and foods decreased sharply in the early part of February, while prices of most groups of industrial products showed little change.

INDUSTRIAL PRODUCTION — Industrial production was maintained in January at the level of the preceding two months, and the Board's preliminary seasonally adjusted index was 192 percent of the 1935-39 average.

Activity in durable goods industries showed a slight decline in January. The decline reflected mainly some curtailment in production at steel and automobile plants in the latter part of the month owing to adverse weather conditions, which continued in the early part of February. Activity in nonferrous metals industries continued to increase in January; deliveries of copper and zinc to fabricators were at the highest level since the spring of 1947. Output of lumber and stone, clay and glass products was maintained at exceptionally high levels for this season.

Output of most nondurable goods recovered in January from the December decline. Activity at cotton textile mills reached the highest rate since the spring of 1947. Production at paperboard mills and printing establishments also increased. Petroleum refining activity rose further in January under the pressure of exceptional demands for fuel oil. Output of most other nondurable goods was maintained at the December rate or increased somewhat.

Production of minerals in January continued at the December rate. Bituminous coal output was restricted by weather influences on transportation and was 7 per cent smaller than in January 1947. Crude petroleum production continued to gain and was 14 percent larger than a year ago.

COMPILED BY THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM, FEB. 26, 1948

EMPLOYMENT — Employment in non-agricultural establishments was reduced by 1,100,000 persons from mid-December to mid-January, mainly because of the usual large seasonal reduction in trade and federal post office activities. Construction employment was curtailed more than is usual in January, owing to exceptionally severe weather conditions. Employment in manufacturing industries showed about the usual small seasonal decline.

DISTRIBUTION — Department store sales showed more than the usual seasonal decrease in January and the Board's adjusted index declined to 282 percent of the 1935-39 average, as compared with 303 in December and an average of 285 for the year 1947. Value of sales in the first half of February was 3 percent above a year ago.

Total shipments of railroad revenue freight early in January equalled the volume for the corresponding period of 1947.

In the latter part of January and in early February, however, loadings of most classes of freight were substantially curtailed as a result chiefly of weather conditions.

COMMODITY PRICES—The general level of wholesale prices declined about 4 percent from the middle of January to the latter part of February, reflecting mainly sharp decreases in prices of farm products and foods. Prices of hides, print cloth, and some other industrial materials also showed marked declines. Prices of semi-finished steel and worsted fabrics, however, were raised, and prices of most other groups of industrial products showed little change.

Retail food prices declined about 4 percent in February from the record level of 210 percent of the pre-war average reached in January.

BANK CREDIT — Seasonally large Treasury receipts from tax collections and sales of savings bonds resulted in a substantial transfer of deposits from private accounts at commercial banks to Treasury accounts at the Reserve banks during January and the first three weeks of February. Accompanying drains on bank reserves were met out of excess reserves, from funds received from the post-Christmas return of currency and further gold inflows, and from funds supplied by market purchases of government securities by the Reserve banks.

Sale of Treasury bonds by commercial banks and other investors continued in January and the first three weeks of February, and the Federal Reserve System purchased substantial amounts of these issues. Total holdings of government securities by Reserve banks declined, however, reflecting sales of bills and certificates in the market, as well as Treasury retirements of securities held by Reserve banks out of surplus cash receipts.

Government security holdings at member banks in leading cities declined somewhat in January and the first half of February as continued sales of Treasury bonds were offset only partly by purchases of bills. Loans to businesses showed little further change, but real estate and consumer loans continued to expand.

Effective on Feb. 27, 1948, the Board of Governors raised from 20 to 22 percent the reserve requirements to be maintained on net demand deposits by member banks in central reserve cities.

SECURITY MARKETS — Common stock prices, which had moved downward during most of January, declined more sharply in the early part of February. Corporate bond prices were stable; yields on high-grade issues averaged about 2⅞ percent.

BANK EARNINGS UP BUT PROFITS DOWN

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substantial excess of Treasury receipts over Treasury expenditures has resulted in a substantial shift of funds out of the taxpayers' deposit balances.

Member bank loans during January increased $8 million, all of which was accounted for by banks in the larger centers. This pushed the total for member bank loans to $762 million by the end of January, 27 percent above the $599 million outstanding a year earlier. During the first half of February, loans at the 20 reporting banks increased by another $6 million, indicating that the modest expansion during January was continuing into February.

The entire increase in bank loans was concentrated in commercial, industrial, and agricultural loans with loans on real estate remaining unchanged, loans on securities declining about $1 million, and miscellaneous loans rising by the same amount.

The second major trend, the shift

Disposition of Ninth District Member Bank Earnings
(In Thousands of Dollars)

	1935-39 Average	1946	1947
Gross Current Earnings	$34,745	$66,399	$69,002
Less: operating expenses	26,274	42,113	44,496
Equals: net current earnings	8,471	24,286	24,506
Plus: net recoveries, etc.	517	1,867	— 2,050
Equals: net profits before income taxes	8,988	26,153	22,456
Less: income taxes	1,792	6,838	6,802
Equals: net profits after income taxes	7,196	19,315	15,654
Less: cash dividends declared	3,847	5,952	5,524
Equals: retained earnings	3,349	13,363	10,130

of deposit balances from the taxpayers' account to the account of the U. S. Treasury at Federal Reserve bank is reflected in several ways. First, demand deposits of individuals and businesses declined sharply during January as did also inter-bank deposits due to other banks. The latter decline would indicate that country member banks were utilizing balances with their city correspondents to meet at least a part of the drain of funds to the federal Treasury.

The decline in demand deposits for all member banks was $157 million during January (6 percent), although the decline was relatively the most severe for balances due to other banks.

This shift of deposit balances to the Treasurer's account at the Federal Reserve bank resulted in considerable reserve pressure on the member banks. This is indicated in two ways. Borrowings increased sharply during the month to the total of $16 million by the final Wednesday of January. Excess reserves of the larger reporting banks declined during the month and even more sharply during the early half of February. In fact, excess reserves of the weekly reporting banks by February 18 had been entirely eliminated.

To the extent that earning assets had to be shifted in order to meet the reserve pressure, the full impact came through reduced holdings of U. S. Treasury notes and bonds. For the weekly reporting banks, holdings of notes and bonds declined $6 million during January and another $35 million during the first 18 days of February. Holdings of U. S. Treasury bills and certificates of indebtedness increased modestly during January and somewhat more sharply during the early part of February.

Assets and Liabilities of All Ninth District Member Banks

(In Million Dollars)

	Dec. 31, 1947 [1]	Jan. 28, 1948 [2]	Change
Assets			
Loans and Discounts	$ 754	$ 762	+ 8
U. S. Government Obligations	1,827	1,799	— 28
Other Securities	186	197	+ 11
Cash and Due from Banks	967	840	—127
Other Assets	26	26	......
Total Assets	$3,760	$3,624	—136
Liabilities and Capital			
Due to Banks	$ 387	$ 346	— 41
Other Demand Deposits	2,228	2,112	—116
Total Demand Deposits	$2,615	$2,458	—157
Time Deposits	937	936	— 1
Total Deposits	$3,552	$3,394	—158
Borrowings	None	16	+ 16
Other Liabilities	14	17	+ 3
Capital Funds	194	197	+ 3
Total Liabilities and Capital	$3,760	$3,624	—136

[1] Data from Condition Reports summary.

[2] This table is in part estimated. Data on loans and discounts, U. S. Government obligations, and other securities are obtained by reports directly from the member banks. Balances with domestic banks, cash items, and data on deposits are largely taken from the semi-monthly report which member banks make to the Federal Reserve bank for the purpose of computing reserves. Reserve balances and data on borrowings from the Federal Reserve banks are taken directly from the books of the Federal Reserve bank. Data on other borrowings are estimated. Capital funds, other assets, and other liabilities are extrapolated from call report data.

BRIGHTER WORLD CROP OUTLOOK HITS COMMODITIES

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ment with our European neighbors, currently, simply spells less here at home. When supply is less, there is less incentive to lower prices. Grey markets in farm machinery also have become a market phenomenon.

Summing up, it seems reasonable to expect the implementation of the Marshall plan over the next several years will be of both short-and-long-run advantage to Upper-Midwest farmers. It will provide a broad market for certain farm products, some of which might otherwise soon be in surplus position. It would seem that this advantage might far outweigh the disadvantages of scarcities and relative high costs of fertilizer, farm machinery and equipment caused by exports of these goods to western Europe.

More importantly, however, if western Europe is successfully reconstructed, partly because of American aid, the long-run effects upon the future peace and stability of the world can hardly be over-estimated.