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Banks Strengthened Their Position in 1948

Member Bank Survey Reveals a Large Part of the Record Volume of Gross Earnings Has Been Set Aside for a Possible 'Rainy Day'

REFLECTING the history-making tempo of business activity, current earnings of all Ninth district member banks in 1948 built up to an all-time high. Banks were able to meet increased operating expenses, were permitted to set up reserves for future loan losses, and found it possible to boost dividend payments.

The 1948 survey of Ninth district member bank earnings and dividends revealed:

GROSS OPERATING EARNINGS: up 10% over 1947, with increased income from loans more than offsetting the decline in interest from government securities.

GROSS OPERATING EXPENSES: up 9% over 1947 with the lion's share of the increase due to higher wage and salary expenditures.

NET OPERATING EARNINGS: up 10% over 1947, reaching a record peak of $29 million.

NONRECURRING CHARGES AGAINST CURRENT INCOME: three and a half times greater than in 1947, due largely to the sharp increase in transfers to reserves for bad debts as many district banks adopted the reserve method of providing for future loan losses according to the December 1947 Treasury ruling.

NET PROFITS: down 11½% from 1947, due primarily to the large transfers to reserves for losses on loans.

DIVIDENDS AND RETAINED EARNINGS: dividends up 8½% over 1947 despite the decline in net profits; retained earnings slimmed down 22% compared with the preceding year.

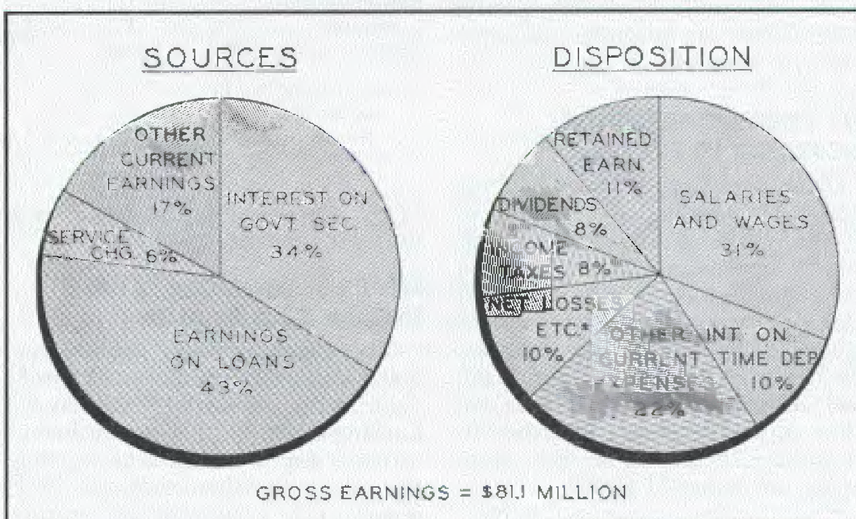
LOAN EARNINGS EXCEED INCOME FROM GOVERNMENTS

The major influence pushing operating earnings to a new peak in 1948 was the 28 per cent increase in earnings on loans accruing to district member banks. The rise in income from loans to a total of $34.9 million reflected the expansion of loans outstanding, as well as slightly stiffened lending rates.

In contrast, interest from government securities suffered a decline of about 6½ per cent in 1948, dropping to $27.2 million. This decrease was largely the result of shrinking total holdings of government securities, although shifts to shorter-maturity, lower-yielding issues were also a factor. Some offset to the dwindling income from government securities was provided by rising short-term money rates.

In 1948 earnings on loans accounted for 43 per cent of gross operating earnings; interest on government securities for 34 per cent. This year marked the first time since the early years of World War II that loan income (both proportionately and in dollar volume) has exceeded interest on government investments. The

SOURCES AND DISPOSITION OF ALL NINTH DISTRICT MEMBER BANK EARNINGS IN 1948



EARNINGS on loans were the major ingredient of 1948's gross earnings. Current expenses absorbed the largest share, leaving 18% for nonrecurring charges and income taxes and 19% for net profits.

*Net losses and charge-offs on securities and loans (including transfers to reserves for bad debts).

primary cause of changes in the earnings pattern is, of course, alterations in the make-up of earning assets.

In the first half of the 1940's, banks acquired huge quantities of government securities incident to financing the war. At the same time private lending slackened off. By 1945, interest on government portfolios accounted for almost one-half of gross current earnings, whereas income on loans contributed only slightly more than one-fourth. This compared with an average of about 37 per cent for income on governments and over 40 per cent for earnings on loans in the years 1935-39.

The wartime trends in earning assets were sharply reversed with the end of hostilities. Reconversion and the postwar expansion saw a rapid rise in loans in response to unprecedented demand for borrowed funds, while government security holdings steadily declined due to sales and retirements of securities. (The turning point of the downward trend in loans actually occurred in the last half of 1944, but loans increased only very moderately until after VJ-day.)

The 1948 earnings picture—with income on loans overshadowing interest on government securities—marked a return to the pre-war pattern of earnings and hence was more in line with the traditional view of commercial banks as primarily private lenders than has been the case since the early years of this decade.

Gross Current Earnings of All Ninth District Member Banks

(In Millions of Dollars)

	1935-39 Average	1947	1948
Interest on government securities	$12.9*	$29.1	$27.2
Earnings on loans	14.0	27.3	34.9
Service charges on deposit accounts	1.3	4.2	4.8
Other	6.5	13.4	14.2
Total Current Earnings	$34.7	$74.0	$81.1

*Includes interest and dividends on other securities.

Disposition of All Ninth District Member Bank Earnings

(In Millions of Dollars)

	1935-39 Average	1947	1948
Gross current earnings	$34.7	$74.0	$81.1
Gross current expenses	26.2	47.5	51.9
Net current earnings	8.5	26.5	29.2
Net recoveries (+) or net losses and charge-offs (—) on securities and loans (includes transfers to reserves for bad debts)	+ .5	—2.2	—7.7*
Net profits before income taxes	9.0	24.3	21.5
Income taxes	1.8	7.4	6.5
Net profits after income taxes	7.2	16.9	15.0
Dividends	3.8	5.8	6.3
Retained earnings	3.4	11.1	8.7

*Transfers to reserves for bad debts amounted to $5.5 million.

NET CURRENT EARNINGS INCREASED 10 PER CENT

Gross operating expenses in 1948 totaled $51.9 million—an increase of $4.4 million over the preceding year. Salaries and wages, which account for approximately one-half of the total day-to-day expenses, rose $2.8 million; interest on time deposits, accounting for over 15 per cent of the total, rose about $300 thousand; and other current expenses (interest on borrowings, depreciation, etc.) were up the remaining $1.3 million.

Gross current earnings in 1948 totaled $81.1 million. Of this, approximately 63 per cent was absorbed by gross current expenses, leaving a margin of net current earnings of $29.2 million. That 1948 was a banner year for banks in this district is clearly evident. Net current earnings increased more than 10 per cent over 1947, thereby establishing a new record-high earnings volume.

Gross Current Expenses of All Ninth District Member Banks

(In Millions of Dollars)

	1935-39 Average	1947	1948
Salaries and wages	$10.8	$22.7	$25.5
Interest on time deposits	5.8	8.2	8.5
Other	9.7	16.6	17.9
Total Current Expenses	$26.3	$47.5	$51.9

NET PROFITS BEFORE TAXES DECLINE $2.8 MILLION

The transition from the net current earnings figure to the net profit figure is reminiscent of "Alice in the Looking Glass." Whereas net current earnings for the district as a whole showed a material increase over 1947, district net profits before income taxes were down about 11½ per cent, and in a few banks net profits were actually in the red.

The switch from an increase in current earnings to a decrease in net profits was due to the sharp rise in non-recurring charges against current income. In 1948, such charges totaled $7.7 million, compared with $2.2 million the previous year.

A breakdown of non-recurring items in 1948 shows net recoveries and profits on securities of approximately $100 thousand. This contrasts with net losses and charge-offs on securities of almost one million dollars in 1947. Net losses and charge-offs on loans in 1948 amounted to $7.0 million, a rise of nearly $6½ million over 1947. Net losses and charge-offs on loans, however, include transfers to reserves for bad debts. Such transfers in 1948 totalled over $5½ million. Here then is the major explanation of the increase in non-recurring items. (In addition, in 1948 "other" net losses and charge-offs were about $800 thousand, up $200 thousand over 1947.)

The sudden bulge in transfers to bad debt reserves in 1948 was due primarily to the fact that many banks during this year adopted the reserve method of providing for future losses on loans, according to the ruling of the Commissioner of Internal Revenue, dated December 8, 1947.

Under this ruling, banks are authorized to set up a tax-free reserve for bad debt losses on loans based on a 20-year moving average experience

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BUSINESS

Road Signs for Economy Appear Indistinct

THE recent plunge of prices in the commodity market and the lay-offs of employees by some firms have caused widespread concern over impending business conditions. As a result, many have expressed the opinion that the economy may now be at the crossroads.

These developments may cause private enterprise to retrench its capital expenditures so severely that the economy may move along a path that leads to a precipitous decline in prices—such as has followed former inflationary periods. Although there is this possibility, the evidence at the present time does not point in this direction.

A second possibility is that the economy, following the present period of hesitation (such as experienced before in this postwar period), will again follow a course of rising prices. Heavy government expenditures, which may result in some deficit financing and a continuing high level of private capital formation, may cause purchasing power to out-strip the flow of consumer merchandise.

A third alternative is that the economy may move along the road of gradual declining prices. The large capital expenditures of the postwar years have swelled the stream of consumer goods, while consumer incomes may be held to present levels through limited credit expansion. This outcome would be welcomed by most consumers, especially those on fixed money incomes—for example, pensioners and annuitants, as well as those whose incomes have not kept pace with the rise in prices.

PRICE SLUMP CENTERED ON AGRICULTURAL PRODUCTS

Prices of agricultural products on the organized exchanges fell noticeably during the first week in February. In a modified way, this has duplicated the slump in prices of a year ago. For instance, on the Minneapolis Grain Exchange, the closing quotations on July wheat futures fell from \$2.05¼ on January 31 to \$1.89¾ on February 8. In the same period, July oats futures fell from 62⅝c to 53½c. As a result of the heavy purchases made by the Commodity Credit Corporation, the prices of grains have again recovered somewhat from the slump.

A year ago, grain prices fell substantially more. On the Minneapolis Grain Exchange, July wheat futures fell from 98½c to 78½c. Furthermore, grain prices remained at these low quotations for some time.

The significance of the price situation lies in the possible spread of the decline to a large number of items that influence industrial costs. The latest figures indicate only minor declines in the prices of raw industrial products. The index of spot market prices of 28 commodities traded on organized exchanges is more sensitive to changes in market conditions than the index of wholesale prices.

According to the latest report published by the U. S. Bureau of Labor Statistics, this index, with 1939 as the base, fell from 283.7 per cent on January 27 to 279.3 per cent on February 4. The prices of agricultural products fell by 11 points while the prices of raw industrial products dropped by only one point.

A year ago the index of spot market prices descended from 350 per cent in January to 318 per cent in March. A slight recovery occurred in the subsequent months. Beginning with July the index dropped almost steadily. By the end of the year it had declined to 295 per cent of the 1939 base.

Nearly all of this decline represented an adjustment in the supply and demand for agricultural products. In January 1948 the index for these commodities stood at 418 per cent, and by the end of the year it had declined to 310 per cent—a decrease of 26 per cent.

The prices of raw industrial products, on the contrary, have declined by a small amount. In January 1948 the index for these commodities stood at 287 per cent, and by the end of the year it was still about 280 per cent.

The recent slump in farm product prices has not been so pronounced as to result in large inventory losses

- ***Business can follow one of three alternative courses—that of precipitous decline, continued rise, or gradual decline in prices.***
- ***Index of spot market prices of 28 commodities fell from 283.7% on Jan. 27 to 279.3% on Feb. 4.***
- ***More than expected decline in employment was experienced in January.***
- ***Freight movements in January declined. Construction was well above that of January 1948.***
- ***District department store sales for January were down 7% from a year ago.***

Northwest Business Indexes

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

	Jan. '49	Dec. '48	Jan. '48	Jan. '47
Bank Debits—93 Cities	310	316	338	278
Bank Debits—Farming Centers	368	394	401	336
Ninth District Dept. Store Sales	271p	281p	285	261
City Department Store Sales	301p	298p	303	276
Country Department Store Sales	240p	264	267	247
Ninth District Department Store Stocks	310p	335p	311	277
City Department Store Stocks	264p	295p	279	252
Country Department Store Stocks	346p	368	336	298
Country Lumber Sales	140p	187p	164	137
Miscellaneous Carloadings	142	149	154	154
Total Carloadings (excl. Misc.)	78	91	92	100
Farm Prices (Minn. unadj.)	240	254	306	242

p—Preliminary.

among business establishments.

DIP IN EMPLOYMENT FOLLOWS PRE-WAR SEASONAL PATTERN

The contraction in employment has caused as much concern over the business outlook as the decline in prices. According to the report issued by the Minnesota Division of Employment and Security, Minnesota employment in non-agricultural industries in January fell close to the level of a year ago. In manufacturing, transportation, and public utilities, employment fell below the number of workers of the former year.

In Montana, the Unemployment Compensation Commission reported December employment in non-agricultural industries 2½ per cent below December 1947. The lower level of employment was due primarily to the contraction in manufacturing and construction. In all other industries employment was still above the figure of a year ago.

A part of the contraction in employment is a seasonal phenomenon. For example, on construction projects employment in Montana between November and December fell by 16 per cent and in Minnesota, between December and January, by 10 per cent. This decrease was largely attributed to the severe winter weather.

In other industries, the contraction has been decidedly more than in previous postwar years, but it may not be much out of line with the seasonal decline in pre-war years. With the return of a buyer's market, consumers are aware that commodities may be purchased whenever they are needed. This may explain some of the recent slump in the sale of such large items as appliances and automobiles. In a substantial measure, the pre-war seasonal pattern of consumer buying has been reestablished.

If the decline in employment is a seasonal phenomenon, an increase may be expected to take place during the spring months. In the Twin Cities, February employment is expected to decrease still further as a result of the contraction in retail trade. Consumer buying generally hits a seasonal low in February before the Easter spurt begins.

Even though employment in manufacturing concerns is expected to expand, it undoubtedly will not be sufficient to offset the decline in retail trade. According to the survey made among St. Paul employers by the Minnesota Division of Employment and Security, March should mark the beginning of a gradual rise in employment in all industries.

Sales at Ninth District Department Stores*

	% Jan. 1949[2] of Jan. 1948	Number of Stores[1] Showing Increase	Decrease
Total District	93	62	214
Mpls., St. Paul, Duluth-Superior	95	10	19
Country Stores	88	52	195
Minnesota	95	16	48
Central	86	2	5
Northeastern	94	1	3
Red River Valley	94	0	4
South Central	101	4	8
Southeastern	96	2	8
Southwestern	94	7	20
Montana	88	7	31
Mountains	89	1	12
Plains	87	6	19
North Dakota	81	11	38
North Central	68	1	9
Northwestern	66	2	4
Red River Valley	84	4	13
Southeastern	94	4	9
Southwestern	63	0	3
Red River Valley—Minn. and N. D.	86	4	17
South Dakota	84	11	34
Southeastern	85	5	10
Other Eastern	83	6	18
Western	84	0	6
Wisconsin and Michigan	89	7	44
Northern Wisconsin	94	3	8
West Central Wisconsin	88	3	28
Upper Peninsula Michigan	89	1	8

*Percentages are based on dollar volume of sales.
[1] January 1949 compared with January 1948.
[2] January 1949 had only 25 trading days; January 1948 had 26.

FREIGHT MOVEMENT DOWN

With the decline in the output of manufactured goods, there has come a smaller movement of finished merchandise and products in various stages of completion through the economy. In fact, railroad traffic has fallen off so much that some railroads in this district have laid off some of their shop workers.

The carloadings in January for all types of products, except iron ore, fell below last year's volume. However, the largest traffic decline has been in less-than-carload-lot freight.

It appears that the dip in less-than-carload-lot shipments is reflecting less buying by merchants. In many small communities of this district, merchants are limiting their inventories of consumer appliances to floor samples.

Index of Department Store Sales by Cities

(Unadjusted 1935-39=100)

	January[1]	Per Cent Change[2] From Year Ago January
Minneapolis	259	— 4
St. Paul	196	— 7
Duluth-Superior	201p	— 3p
Aberdeen	250	—20
Bismarck	148	—29
Fairmont	169	—15
Grand Forks	211	—13
Great Falls	203	—16
La Crosse	164	— 9
Mankato	207	— 1
Minot	136	—34
Rapid City	185	—31
Rochester	192	— 8
Sioux Falls	235	—14
Valley City	136	—16
Willmar	158	—10
Winona	181	— 8
Yankton	184	—26

[1] Based on daily average sales.
[2] Based on total dollar volume of sales.
p Preliminary.
January 1949 had only 25 trade days; January 1948 had 26.

LOWER COSTS GOVERN CONSTRUCTION OUTLOOK

The value of building permits issued and the amount of contracts awarded point to a high level of con-

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AGRICULTURE

Farm Product Prices Under Pressure

REALITY seemed to catch up with commodity markets early in February, and farm prices made a quick and—from the farmers' viewpoint at least—a painful adjustment.

As a matter of fact, the sharp break in grain and livestock prices caught most competent market analysts off guard. It had been generally assumed that the government through its exports, loan, and purchase programs would at least be able to hold prices fairly close at support levels during the current crop year. The decline of 30 and 40 cents per bushel in wheat and corn prices under loan levels and the $5 to $10 drop in livestock values came as a shock which reverberated from one end of the country to the other.

It is much easier, of course, to look back on such economic phenomena as occurred in early February and give reasons why they happened than it is to anticipate them beforehand.

One of the peculiar things about farm commodity prices, when they get out of line with basic supply and demand forces, is that most of the downward adjustment is made in a matter of days—even hours in some cases. There seems to be a strong psychological factor involved similar in some respects to what happens when one or two animals in a group are frightened and the whole herd is stampeded.

A year ago, almost to the day, commodity prices tumbled sharply only to rebound later and, in the case of livestock, to reach new record peak levels in mid-1948.

BASIC ECONOMIC FACTORS DIFFERENT FROM YEAR AGO

Factors which bolstered farm markets a year ago after the February price break included (1) initiation of the Marshall plan with its heavy demands on American farm products for export; (2) reduction in personal income taxes; (3) the third round of wage increases; and (4) a substantial backlog of demand for industrial goods of all kinds.

Today the situation is different; (1) the Marshall plan will be continued but not as much may be spent and a smaller proportion of aid given will be in the form of farm products; (2) the Administration is asking that taxes be raised, not lowered; (3) a general fourth round of wage increases is not at all certain; and (4) with the exception of popular priced automobiles and a few other heavy durable goods, the backlog of consumer demand has pretty much disappeared.

Furthermore, within the past year the largest crops in American history were produced. As a result, feed grain stocks are at record levels in total tonnage and on a livestock unit basis. Also, world agricultural production has staged a remarkable comeback and distribution of food in the war-ravaged countries has been much improved. World wheat production, for example, in the current crop year is slightly above pre-war.

This raises the question as to how long U. S. wheat exports can be continued at 400 to 500 million bushels annually without stepping on the toes of wheat producers in other countries. It is reported that France has recently refused American wheat allotments and plans to export wheat next year. Several other European countries may also refuse our wheat after this year, unless they are asked to take it along with needed industrial goods under the E.C.A. program.

Japan and Korea have harvested the largest rice crop since the end of the war. This will further ease the demands on American wheat for feeding those people.

Both U. S. and world food prospects in 1949, as far as they can be measured this early in the year, appear on the favorable side. This would indicate a further reduction in real needs for our food exports in the period immediately ahead. As a result, domestic food supplies may tend to accumulate, with a consequent prospective depressing effect on prices of U. S. farm commodities.

PRICE DECLINES TO DATE VIEWED AS READJUSTMENT

Prices received by farmers were at an all-time high in 1948 — nearly three times the 1939 level. The range in prices during the past year was from a high of 307 in January 1948 (1912-14 = 100) to 268 in December. In mid-February 1949, after the price break, the index may be near 250.

The price decline among the major agricultural commodity groups from the all-time peaks of 1948 appears substantial, particularly for certain farm products, as indicated by the following table:

Commodity Group	Peak Period in 1948	% Decline to February 1
All Farm Products	1-13-48	17%
Grain Prices	1-13-48	38
Livestock Prices	7-13-48	26
Foods (wholesale)	7-20-48	17

Although there has been a further sharp decline since February 1, it would appear that the price adjustment which has occurred thus far does not mean a major catastrophe to agriculture providing it is not followed by successive downward spirals.

There is real danger, however, that if crops are large again in 1949 surpluses may depress farm markets to the point where cost-price relationships may become definitely unfavorable.

BREAK-EVEN POINTS IN AGRICULTURE ABOVE PRE-WAR

Costs of farming have undergone some important changes in recent years. In the first place, the farmer's over-all costs have increased tremendously since pre-war. Total farm expenses in 1948 are estimated at $18.2 billion—which is about $1½ billion above 1947 and more than total gross farm income in any year

- ***Large domestic crops plus favorable world food prospects caused major adjustment in farm prices.***
- ***High fixed costs and new methods raised break-even points for agriculture.***
- ***Price supports and other government action may prevent serious farm recession.***

prior to 1942. Last year was the first in a decade when farmers' net income showed a decrease from the previous year, reflecting increased costs and the leveling off of farm prices.

Secondly, revolutionary changes in farm production techniques and methods and new family living standards have increased agriculture's break-even points. That is, more of the farmer's living and production costs are not only higher but are also more rigid than formerly. For example, more and more farms are electrified, and electric bills must be met regardless of the level of farm prices and income.

The same is true of fuel oil for the oil furnace; oil, gas, and repairs for power machinery; hybrid seed; real estate taxes; and to a lesser extent perhaps, services to which the farmer has become accustomed. In fact, many wheat farmers in the Plains area now follow a system of one crop farming, and the farm family lives on approximately the same economic basis as their city cousins.

The effect of higher break-even points in agriculture will, of course, vary from farm to farm. Some families, particularly those carrying heavy debts and other high fixed cost charges, will be squeezed harder with a decline in farm prices than will those farmers free of debts. In other words, some farmers are in a better position than others to adjust costs, delay repairs and replacements, or even to cut their standard of living if necessary.

Average Prices Received by Farmers in Ninth District*

Commodity and Unit	January 15 1937-41 Av.	January 15 1948	January 15 1949	Parity Prices[1] United States January 15, 1949
Crops				
Wheat, bushel	$0.85	$2.88	$1.97	$2.19
Corn, bushel	.56	2.45	1.14	1.59
Oats, bushel	.31	1.22	.67	.990
Potatoes, bushel	.61	1.52	1.49	1.81
Livestock and Livestock Products				
Hogs, 100 lbs.	7.18	26.42	19.69	18.00
Beef Cattle, 100 lbs.	6.84	21.07	18.85	13.40
Veal Calves, 100 lbs.	8.49	25.25	25.46	16.70
Lambs, 100 lbs.	7.67	22.14	21.80	14.60
Wool, lb.	.26	.42	.51	.45
Milk, wholesale, 100 lbs.	1.63	4.27	3.46	4.20
Butterfat, lb.	.32	.93	.68	.677
Chickens, live, lb.	.115	.195	.261	.283
Eggs, doz.	.175	.401	.391	.554

*Data compiled from "January 28, 1949—Agricultural Prices"—USDA.

[1] 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, 1910-14.

January-December Cash Farm Income*
(Thousands of Dollars)

State	1935-39 Average	1947	1948	1948 in Per Cent of 1947
Minnesota	$ 346,863	$ 1,344,108	$ 1,356,883	101%
North Dakota	113,247	711,457	726,061	102
South Dakota	110,244	686,181	645,240	94
Montana	92,904	370,144	413,851	112
Ninth District [1]	744,407	3,364,842	3,418,506	102
United States	8,476,000	30,186,299	31,018,703	103

*Data from "The Farm Income Situation," dated January 1949.
[1] Includes 15 counties in Michigan and 26 counties in Wisconsin.

ECONOMIC "SHOCK ABSORBERS" WOULD EASE FARM RECESSION

Declining farm prices, reduced exports, rising farm surpluses, increasing unemployment, high farm wages and farming costs, acuteness in farm storage, and the possibility of another large crop coming up are factors which frighten farm people into thinking another serious farm depression is on the way. Maybe it is, but there are a number of things in the economic picture which may tend to make the expected recession less severe. These are itemized as follows:

(1) The farm price support program is a strong factor in preventing prices from going to ruinously low levels. Several billion dollars are expected to be available for support during 1949. Currently, a fight is being waged whether supports in following years will be at rigid 90% of parity levels or whether they should be a flexible plan at lower minimum supports. The Hope-Aiken Agricultural Act of 1948 provided for 60% to 90% of parity supports, depending on market supplies.

(2) On the demand side of the farm price equation there is no substitute for full employment with well distributed income and high productivity per man. This in reality is agriculture's most important farm price support program. Only two out of every 10 people live on farms and only about one out of 10 actually produces for the market. If these nine people out of 10 do all right, the farmer will get along fairly well, too.

The objectives of the Employment Act of 1946 were to provide for maximum employment, production, and purchasing power. This Act of Congress is as yet largely untried and its effectiveness in keeping industry and labor at a high level of employment may depend on Congressional appropriations.

(3) The international situation would seem to require continuing large expenditures for national defense. These billions will flow back into the economy largely without offsetting increases in supplies of goods that people want to improve their standard of living. The same may be said for E.C.A. billions that may continue to go out until 1952 in the form of goods largely without offsetting imports of goods and services. These will generate a great deal of employment.

(4) Whether we like it or not, government policy is influenced importantly by pressure group tactics. Labor, agriculture, and industry seem to prefer high prices. At least they attempt to maintain their own individual prices. To maintain wages, farm prices, and prices of industrial goods, the government may be expected to engage in anticyclical taxing and spending programs, possibly to a larger extent than hereto-

fore depending, of course, on both political and economic developments.

(5) Monetary and fiscal policy may also play an increasingly important part. Regulation of credit sales is one example. Elimination of private ownership of monetary gold is another. In the past, when the country was on a gold standard, deflations have been aggravated by a reduction in the money supply. It does not now appear that the U. S. would soon return to the gold standard.

(6) The government is also committed to a policy of government bond support, which tends to check deflation. Banks are also made stronger by government insurance of depositors up to $5,000 per individual. A number of public works programs have been developed and are ready to be put into use when needed. There is also a larger and larger group of people eligible for unemployment insurance under social security.

There may be others, but these enumerated illustrate several factors which may operate in the direction of absorbing depressing shocks to the agricultural economy. Over a long period of time, however, the forces of supply and effective demand will set the level of farm prices and income.

If U. S. agricultural production continues to expand, as many experts believe it will, the pressure on prices may continue. In fact, normal population growth, full employment, better diets, and expanded world markets on the demand side may not keep pace with the great food producing capacity of the richest country on earth.

ROAD SIGNS FOR ECONOMY APPEAR INDISTINCT

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struction activity as soon as the weather is favorable.

In 76 representative cities of this district the January building permit valuation totaled $8½ million as compared with $5½ million in January 1948. This represents an increase of 55 per cent.

The total amount of contracts awarded in January for all types of building in the Minneapolis territory was $11.7 million as compared with $5.1 million in January 1948.

According to E. H. Boeckh and Associates, building costs for residences of frame construction have risen by nine per cent in Minneapolis during the past year. Costs for commercial and factory buildings of steel construction have risen by 17 per cent. Thus, the larger total of building permit valuations constituted a larger volume of construction.

Public buildings, such as hospitals and schools, added greatly to the total. The expansion program of public utilities and commercial building has also held up well.

Residential building may be a significant factor in the construction picture this spring if the building industry finds means of lowering costs, enabling it to take advantage of a still present demand for lower-priced homes. The demand for medium and high-priced homes, as is known, has declined noticeably.

Contracts awarded have continued at a high figure during the winter months. The January index adjusted for seasonal variation for residential building in this district was 462 per cent of the 1935 to 1939 average. The annual index for 1948 was 461 per cent.

DEPARTMENT STORE SALES DECLINED IN JANUARY

January sales fell below the dollar volume for the corresponding month in 1948. In this district sales were down seven per cent. In North Dakota they had fallen by as much as 19 per cent, while in Minnesota they were lower by only five per cent.

According to preliminary figures, February sales continue below last year's dollar volume. For the four weeks ending February 19, sales in Duluth, Minneapolis, St. Paul and Superior were eight per cent less as compared with the volume for the corresponding period of last year.

The index adjusted for seasonal variation for January was 271 per cent of the 1935 to 1939 base period —which was still above the low point reached in the winter of 1948, when the prices of agricultural products broke sharply. In February 1948 the adjusted index reached a low of 267 per cent. In the following months, the index rose to a peak of 306 per cent in May.

DEPARTMENT STORE STOCKS MOVED DOWN

In spite of the lag in sales, stocks in this district declined during January. The adjusted index at the end of January was 310 per cent of the 1935 to 1939 base period, whereas at the end of December it stood at 335 per cent. Retailers, for some time, have followed a conservative policy in their purchases. It is now appearing in the stock figures.

BANKS STRENGTHENED THEIR POSITION IN '48

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of net bad debt losses. Tax exemptions are permitted for the amount used to initiate the reserve, as well as for additions in subsequent years until the reserve, under the formula, is equal to three times the 20-year annual loss experience.

The reserve method of providing for losses on loans has the advantage of anticipating losses and hence enables banks to provide for future possible bad debts in years when current earnings are high. Under the alternative method generally in use prior to the new ruling, losses are charged off as they occur. Hence the burden of bad debts may be put on the bank at precisely the time when it is least able to absorb it.

DIVIDEND PAYMENTS INCREASE 8½% OVER 1947

Taxes on net income in 1948 in all Ninth district member banks were $6½ million, a decrease of almost one million dollars from 1947. The drop reflected both smaller net profits and reduced tax rates.

Net profits after taxes amounted to $15 million. This was allocated $6.3 million to dividends, $8.7 million to retained earnings. Dividend payments in 1948 represented a 42 per cent slice of net profits, almost 10 percentage points greater than the distribution of earnings to stockholders in 1947. Dollar-wise, dividend payments were up about $500 thousand over 1947.

With stockholders faring better this year than last, additions to surplus (net profits after dividends) of course fell short of 1947, declining $2.4 million.

January Banking Developments

A SHARP dip in deposits, due largely to tax collections which shifted funds from individuals' accounts in commercial banks to the Treasury account in the Reserve bank, highlighted Ninth district member bank developments in January.

TOTAL DEMAND DEPOSITS . . . dropped $126 million this month—$21 million in deposits of banks and $105 million in other demand deposits. Both city and country banks shared in the deposit drain as tax money flowed to the Treasury. Following the seasonal pattern of tax collections, such losses of deposits will continue to be a major factor in deposit activity throughout the first quarter of the year.

LOANS . . . increased $4 million in January, continuing the rising trend of last year. The increase, however, was only 50 per cent as great as the $8 million increase in loans in January of 1948.

GOVERNMENT SECURITY PORTFOLIOS . . . declined $11 million in January, with the drop taking place entirely in country member banks. In the 20 reporting banks, the major change was the rise in certificate holdings of $22 million, which was very nearly offset by the decline in note holdings of $21 million. These changes reflected primarily the January 1 refunding of notes and certificates maturing on that date into 1¼% certificates. Announcements made in January and early February of exchange offerings for certificates falling due February 1 and March 1 revealed that the Treasury for the present is sticking to the prevailing rate of 1¼ per cent on short-term money.

RESERVE POSITIONS . . . were under considerable pressure during January as the Treasury built up its balances with the Federal Reserve bank. Excess reserve balances were drawn down by both city and country member banks. Except for the seasonal inflow of currency from circulation, the pressure on reserve positions would have been greater.

Assets and Liabilities of All Ninth District Member Banks

(In Million Dollars)

	Dec. 31, 1948[1]	Jan. 26, 1949[2]	$ Change Dec. 31, 1948 Jan. 26, 1949	$ Change Jan. 28, 1948 Jan. 26, 1949
Assets				
Loans and Discounts	$ 884	$ 888	+ 4	+126
U. S. Government Obligations	1,646	1,635	— 11	—164
Other Securities	203	199	— 4	+ 2
Cash and Due from Banks	960	849	—111	+ 9
Other Assets	31	29	— 2	+ 3
Total Assets	$3,724	$3,600	—124	— 24
Liabilities and Capital				
Due to Banks	$ 327	$ 306	— 21	— 40
Other Demand Deposits	2,233	2,128	—105	+ 16
Total Demand Deposits	$2,560	$2,434	—126	— 24
Time Deposits	941	939	— 2	+ 3
Total Deposits	$3,501	$3,373	—128	— 21
Borrowings	none	4	+ 4	— 12
Other Liabilities	19	19	none	+ 2
Capital Funds	204	204	none	+ 7
Total Liabilities and Capital	$3,724	$3,600	—124	— 24

[1] Call report figures.

[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 semi-monthly reports 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 the other liabilities are extrapolated from call report data.

Assets and Liabilities of Twenty Reporting Banks

(In Million Dollars)

	Dec. 29, 1948	Jan. 26, 1949	Feb. 16, 1949	$ Change Dec. 29-Jan. 26
Assets				
Comm., Ind., and Ag. Loans	$ 246	$ 250	$ 251	+ 4
Real Estate Loans	63	64	63	+ 1
Loans on Securities	15	14	14	— 1
Other (largely consumer) Loans	118	117	112	— 1
Total Gross Loans & Discounts	$ 442	$ 445	$ 440	+ 3
Less Reserves	5	5	5	
Total Net Loans & Discounts	$ 437	$ 440	$ 435	+ 3
U. S. Treasury Bills	29	28	17	— 1
U. S. Treasury C. of I.'s	129	151	143	+22
U. S. Treasury Notes	35	14	14	—21
U. S. Government Bonds	447	449	445	+ 2
Total U. S. Gov't. Securities	$ 640	$ 642	$ 619	+ 2
Other Investments	81	79	81	— 2
Cash and Due From Banks	467	422	439	—45
Miscellaneous Assets	16	15	15	— 1
Total Assets	$1,641	$1,598	$1,589	—43
Liabilities				
Demand Deposits, Ind., Part., Corp.	$ 799	$ 763	$ 772	—36
Demand Deposits, U. S. Gov't.	23	26	34	+ 3
Due to other Banks	280	274	262	— 6
Other Deposits	426	418	406	— 8
Total Deposits	$1,528	$1,481	$1,474	—47
Borrowings	....	4	2	+ 4
Miscellaneous Liabilities	15	14	15	— 1
Capital Funds	98	99	98	+ 1
Total Liabilities & Capital	$1,641	$1,598	$1,589	—43