Return on Bank Assets Continues Up

Higher interest rates rather than shift to more loans lifted earnings ratios at all size groups

Of course, with deposits of all banks expanding rapidly in recent years it has been necessary to adjust the deposit limits of the size groups in order to maintain comparability from year to year. Thirteen years ago, for example, only banks with deposits of less than $250,000 were classified into the smallest size group. Today the smallest size group contains the ratios of banks with deposits up to a million dollars.

Group Changes Not Always Uniform

The latest ratios study indicates that, although the typical bank in every size group enjoyed a higher rate of return on assets last year than in 1951, the typical bank in the smallest group and in the largest group enjoyed the largest increase in the rate of return on total assets.

These same banks which showed the most favorable improvement in their earnings rate also increased the rate of return on loans the most.

The rate of return on total assets at district member banks has been rising since the end of World War II. In each year since 1946 the ratio of gross earnings to total assets has been larger than in the previous year. (See chart.) Only recently, however, have higher interest rates played an important part in boosting this ratio.

Asset Structure Changed

In most of the years since 1946, the growing return on total assets at the typical district member bank has resulted from a continuing shift out of relatively low-yielding investments into higher-yielding loans. Since the yield on loans is considerably higher than the yield on investments, a fairly small change in the proportion of assets in loans can produce a sizeable...
change in the rate of return on total assets.

In 1946 the typical member bank had loans and investments amounting to 12.6 per cent and 62.7 per cent of total assets respectively. By 1952 the proportion of loans had climbed to 30 per cent while the proportion of investments dropped to 47 per cent.

**Governments Liquidated**

All of the portfolio reduction since 1946 represents the liquidation of U. S. government obligations. The proportion of assets represented by other securities at the typical district bank has actually increased since that time.

Although the cost of servicing loans is larger for banks than the expense of managing an investment portfolio, the additional expense resulting from the shift to more loans was less than the additional revenue provided by the shift. Evidence that the dollar amount of expenses increased less rapidly than the dollar amount of earnings is found in the persistent growth each postwar year in the ratio of net current earnings before taxes to total assets.

Beginning in 1947 at .8 per cent, this ratio has climbed steadily each year until, in 1952, net current earnings before taxes amounted to 1.14 per cent of total assets.

Aside from the shift to more loans and less securities, earnings at the typical bank have also benefited recently from a higher interest return on both loans and investments. (See chart.)

As the chart shows, the average rate of return on loans declined for three years following World War II. After 1948 a reversal of this trend occurred, and with the exception of calendar 1951, the rate of return on loans has been rising ever since.

The increase between 1951 and 1952, besides reflecting a tendency for banks to raise charges on all types of loans, also reflects the growing proportion of loans to consumers. This type of loan carries a higher charge than the ordinary business loan.

Last year all of the 6 per cent increase of loans in this district went either to consumers or to home owners on mortgage loans.

The upward movement of investment yields at the typical district bank reflects in large part the recent higher yields on short term government obligations which are so important to the liquidity of banks. In December last year for example, Treasury bills were yielding more than 2.20 per cent, which was much more than they had yielded for many years. The purchase of higher-yielding corporates and municipals was also an influence here.

The sale of intermediate Treasury bonds to district banks last year helped raise investment yields in the same way that recent sales of 34/1% governments will tend to raise average yields this year.

### Lowest Rates Prevailed At Largest Banks

For a number of years the operating ratio studies have disclosed an inverse relationship between the average rate of return on loans and the size of bank. In other words, it has been found that the smaller banks tend to earn a higher rate on loans than do the larger banks. A similar pattern exists with respect to investment earnings. The rate of return on investments tends to be smaller the larger the bank.

This situation has meant that the larger banks ordinarily enjoy a lesser rate of return on total assets than do the smaller banks. To a great extent the smaller return on assets at the largest banks has been offset by a smaller proportion of earnings going to time depositors in the form of interest.

Only 16 per cent of total deposits at the typical large bank are time deposits. This compares with a ratio of more than 35 per cent at the other banks.

The rate of interest paid to time depositors last year increased at the typical bank in all size groups, as did the proportion of earnings diverted to such payments.

### Wages and Salaries Remained Stable

The proportion of earnings going to other types of current expense remained fairly stable last year at the typical district member bank.

Wages and salaries, which comprise almost half of all current expense, absorbed a slightly larger share of earnings last year than in 1951 at the typical bank in three of the six size groups, while the share remained the same or declined at the typical bank in the other size groups.

Compared to the previous year, taxes in 1952 took a smaller share of earnings at the largest banks and a larger share at the smaller banks. The practice of accounting for taxes on an accrual basis at the largest banks is probably responsible for this divergence.

Chiefly because of higher taxes last year, net profits at the typical district member bank amounted to a lesser percentage of total assets than in 1951. It must be remembered, though, that since many banks boosted their footings substantially last year, net profits might well have increased and still have represented a smaller percentage of total assets than in the previous year.
WHITE PINE PROJECT PROMISES TO REVIVE . . .

Upper Michigan Copper Output

EXPLOITATION of low-grade copper ores and reactivation of closed mines now in process or in prospect on the upper Michigan peninsula promise a rebirth of operations there. In the next decade, in fact, copper production is expected to reach a level substantially above the current one.

Most important among the new developments in the eastern end of the Ninth district is the ambitious White Pine project. When this reaches full operation in 1954, present upper peninsula output may as much as triple.

Peninsula Mines Once Greatest in U. S.

The prosperity of upper Michigan's "copper country" has varied with the productive strength of its once-dominant copper mines. Nearly a century ago the three-county copper area of the upper peninsula was the country's major supplier. During 1916, its peak year of output, 136,000 tons of the metal were recovered.

At present, production from the deep underground mines of the copper range runs only about 20,000 tons of copper a year. Not that the area's copper ore has been "exhausted," for by liberal estimates, at least, the Keweenaw peninsula still ranks among the ten largest copper districts in the world in terms of deposits.

However, depletion of the better ores and deeper mining (some mines reach a mile below surface) have made copper recovery a relatively high cost undertaking. Because of high costs many mines are now shut down, abandoned, or inoperative. Some have operated only by virtue of government subsidy.

THE COPPER INDUSTRY of the Keweenaw peninsula of Michigan is depicted in Chart I above. The new White Pine project in the rocky, forested copper country of the upper Michigan peninsula is expected to increase the area's copper production to a level substantially above that of the past decade.

CHART II — POPULATION AND COPPER OUTPUT KEWEENAW PENINSULA

MONTHLY REVIEW April 1953
Ore Reserves Could Sustain Several Decades of Operations

Copper Economically Important to the Area

More than 50,000 of upper Michigan’s 300,000 inhabitants live in the three copper range counties of Ontonagon, Houghton, and Keweenaw. The downward trend in copper production has been reflected in a steady decline in population since the mid-Twenties. During World War II, attractive war jobs in industrial centers only accelerated the movement. Over the decade 1940-1950 the net effect of migration was a loss of 16 per cent of the area’s population. Many mine facilities along the 80-mile range stand idle, and some once-active mining towns appear all but deserted.

Bank operations naturally reflected the changes. Over the “depression decade” of the Thirties, the number of banks in the three copper counties was reduced from 20 to 12. Between 1930 and 1940, bank deposits fell from $26 million to $18 million, whereas for Ninth district banks as a whole deposits rose some 15 per cent.

War-born prosperity brought more money to the copper range, as it did to the rest of the nation, but deposit increases in copper range banks were relatively smaller than those in other sections of the district.

Three Companies Produce 25,000 Tons Annually

About 90 per cent of the 15,000 to 20,000 tons of copper mined annually on the range is produced by Calumet and Hecla, Inc., from about seven active mines. Calumet and Hecla, with its 2,400 employees and 231,000 acres of mine and timber properties, is the largest operator on the range at the present time.

The only other actual mining in the area is done by Copper Range company. A few thousand tons of copper are recovered each year from its Champion mine southwest of Houghton.

Copper ore recovered from mines of the upper peninsula is unique in domestic production in that it contains “native copper”—fine particles of bright, metallic copper imbedded in rock. Ore concentrating plants grind and eliminate most of the rock before the ore is smelted.

The finely ground waste rock (called ore “tailings”) that has been discarded by ore concentrating plants in the past is now being re-milled for about 6,000 tons of copper a year. The Quincy Mining company, whose underground mining operations ceased in 1945, is now engaged solely in processing ore tailings dredged from the bottom of Torch lake. In this manner, Quincy recovers about 3,000 tons of copper a year. Calumet and Hecla also operates an ore tailings reclamation project.

Altogether the three companies operating on the range have produced about 25,000 tons of primary copper a year over the past several years (omitting 1952, during part of which most operations were strike-bound).

Largest Refinery Has 50,000-Ton Capacity

Two companies are active on the smelting and refining side. Largest plant by far is Calumet and Hecla’s fire refinery* at Hubbell, which can at capacity turn out 50,000 tons of refined copper a year. Ores are the source of only about half of the refinery’s output; the use of scrap and other secondary copper sources places total production of copper shapes between 40,000 and 50,000 tons a year.

Much of the refined copper is shipped to the company’s Wolverine Tube division plants at Detroit, Michigan, and Decatur, Alabama, for fabricating.

Quincy Mining company has a fire refinery* near Hancock where it smelts ore concentrates from its own reclamation project and also the output of Copper Range company’s Champion mine. At capacity the plant can produce 6,000 tons of copper a year.

Copper Range company’s large smelter-refinery near Houghton became idle as the company’s mines closed down, and it has recently been sold for scrap.

To Restore Level of Keweenaw Operations

In view of the prime position of copper in the three-county area, the future of the metal is of considerable importance. In spite of the sharply declining trend experienced in copper output (production has halved over each of the past two decades), present plans of companies operating on the range suggest that copper operations will actually increase in total over the next decade to a level substantially above the current one.

Calumet and Hecla is now undertaking a $6.5 million project to reactivate the flooded Osceola copper mine, idle since 1931. Six billion gallons of water will be pumped from the flooded depths of the mine over the next year and a half to put it back into working condition.

It is expected that the 7,000 tons of copper to come yearly from the Osceola mine will merely replace loss in production from other mines. (About four of the seven mines worked by the company at present face exhaustion during the next few years.) Mine labor, now difficult to obtain, will be drawn from the closing mines.

Material made accessible by the operation should provide work for the next 15 to 20 years. Beyond that, the company has workings in the once-fabulous Calumet conglomerate ore body available for reopening. These might be worked for another decade or two if long-run price relationships are favorable.

The reclamation project of the Quincy Mining company on Torch lake has enough ore tailings to last about five years. Mines on the company’s 4,300-acre properties are idle because of high costs.

White Pine Project May Triple Output

Focus of attention on the peninsula is the Copper Range company’s $70 million low-grade ore project at White Pine mine, where a large sulfide ore body (slightly over 1 per cent copper) will support the first operation of its kind in Michigan’s copper country.

---

*Because of the unusual purity of copper ore from the Keweenaw peninsula, electrolytic refining is not required; coal-fired furnaces exclusively are used.
Work in process includes preparation of the underground mine and construction of an ore concentrating plant, smelter and refinery. When in full operation in 1955, the White Pine Copper company plant should nearly triple present upper peninsula output. Most of the expected annual production of 37,000 tons of copper will probably be shipped to Pittsburgh for fabricating in the company's C. G. Hussey plant.

The operations are expected to require employment of 900 to 1,000 persons. A new town of some 400 houses is now being built. The town is expected to house 2,000 or more persons— which constitutes a sizable consumer market for this area.

Lake ports linked by rail to White Pine include: Duluth (175 miles west), Ashland (85 miles west), Marquette (140 miles east), and Escanaba (170 miles southeast).

Construction supplies from various sources are already moving into the plant site via the new 14-mile spur track of the Duluth, South Shore and Atlantic railroad. Coal for smelting and power plant operations together with limestone will be among the principal incoming commodities when operations commence.

Proven ore reserves contain over 3 million tons of copper — enough to sustain operations several decades. The shape of the low-grade ore body prohibits the use of certain mass mining techniques such as block-caving in use at Butte. Through mechanization and large volume operations, however, costs will be kept at a satisfactory level.

It is believed that the product of the White Pine Copper company will be competitive at prices well below current market levels. In any event the federal government (which financed a large part of the project with a $57 million RFC loan) has guaranteed to purchase output during the first seven years. Should experience prove the overall operation to be satisfactory, White Pine facilities may be expanded to approximately double the presently planned output.

END
available only for the Twin Cities metropolitan area. The number of new passenger cars registered to individuals, as contrasted to firms which are mostly automobile dealers, was 68 per cent over the number registered to such purchasers in March 1952. In the first seven business days of April, the number of new cars registered to individuals was up even more—72 per cent.

Department Store Sales—In this district, sales on a seasonally adjusted basis have proved to be better at the end than at the beginning of the first quarter. For March, the adjusted index stood at 106 per cent of the 1947-49 base period. This was 7 points higher than for January.

Weekly figures show that sales continued high in the first half of April. In the first week, sales in the four large cities of this district were 17 per cent higher than they were in the same week of 1952. Only about 1 per cent of this increase can be attributed to the earlier date of Easter.

In the second week, sales were off 14 per cent; it was the first post-Easter week, whereas last year the corresponding week was still pre-Easter. A differential of 15 per cent in sales is attributable to the Easter factor. Thus, the current trend of sales actually continued above that of last year.

Consumer Credit—Liberal extension of credit, together with high employment and high incomes have supported the strong retail sales. Since May 7, 1952, when direct control on installment credit through Regulation W was suspended, consumers have used more credit to purchase durable merchandise. Lower down payments and smaller monthly payments have brought more of these items within reach of the purchasing power of many families. Having confidence their high incomes will continue, families have taken advantage of liberal credit terms.

A large amount of credit has been loaned on automobiles. In fact, more cars are now purchased on liberal credit terms than was the case last fall. At the end of February, commercial banks in this district were holding about 4 per cent more automobile installment paper purchased from dealers and finance companies than was held at the beginning of the year.

Furthermore, the amount of installment loans which they had made directly to purchasers of automobiles was up about 5 per cent. This was during a time of year when such loans usually decline. For example, a year ago the amount of installment loans held on automobiles at the end of February had declined by 2 per cent from the total held at the beginning of the year.

Sales finance companies also carried a larger amount of automobile paper. However, no breakdown is available by Federal Reserve districts.

The automobile installment paper tells only part of the story on the rise of credit granted toward the purchase of automobiles. In this district, personal installment loans at banks rose by 18 per cent during the first two months.

No doubt a substantial part of this credit was granted on automobiles, for some purchasers turned to banks for personal installment loans which are either unsecured or secured by other types of collateral.

More credit has been used in the purchase of other durable merchandise. At department and furniture stores in this district, larger amounts are outstanding on contracts.

Since installment credit granted by all institutions is not broken down by Federal Reserve districts, a better picture of the trend in such credit can be gleaned from the national figures.

In January and February, consumer installment credit outstanding rose by $182 million. Usually such credit decreases after the first of the year. A year ago it declined by $325 million, and two years ago by $386 million.

---

FARMING

Farmers plan sharp increase in flax acreage this year.

Big shift has occurred in seed prices.

Less wheat but more corn was in farm stocks April 1.

More corn but less wheat is under price support in the Ninth district.

Flax Production—Flax and soybean production in the Ninth district may be increased substantially in 1953. It will if the weather is favorable and farmers carry through with their announced intentions in March of planting larger acreages of these two crops. (See chart.)

The prospective increase in flax acreage is particularly significant, since approximately 90 per cent of flax production in the U. S. comes from this area.

District farmers are also planning a moderate increase in corn acreage this spring. A relatively early spring and currently favorable soil conditions indicate that actual corn plantings may equal if not exceed farmers' earlier planting intentions.

At this writing (mid-April) agricultural conditions are two to three weeks advanced, compared with that of the past 3 years. Moderate declines in plantings of barley and spring wheat, particularly durum wheat, are planned for 1953. Unusually dry soil moisture conditions in much of the spring wheat growing areas in early April have already influenced farmers to shift some acreage to later crops such as flax or feed crops.

Wheat Agreement—Prospective members of the International Wheat Agreement are still in disagreement about price. The U. S. as the princi-
pal wheat exporter has asked for an increase in price to $2.05 a bushel maximum. It is $1.80 under the Agreement, which expires this July 1. The U. S. wants a higher price in order to reduce the 50c to 60c a bushel subsidy it has paid on exports under the expiring agreement.

Most of the importing countries have agreed to the $2.05 price, but the United Kingdom, the principal importer, is holding out for a $2.00 a bushel maximum. In fact, it is reported to have withdrawn from the Agreement on this price issue.

Operation of a wheat agreement is important to the Ninth district economy, since wheat is the principal cash crop. Assurance of a substantial wheat export market under terms of the agreement operates in the direction of stability in the free markets for wheat.

Shift in Seed Prices—Ninth district farmers are buying alfalfa and clover seed at substantially lower prices this spring compared with a year ago. Alfalfa seed, which sold up to 80c a pound in the early spring of 1952, is now selling at no more than 60c a pound.

Farm Stocks—Wheat stocks in farm bins on April 1 represent reserve savings from the 1952 crop. This year, however, these reserve stocks are unusually small in the Ninth district.

For the Ninth district as a whole, wheat stocks on farms were only 106 million bushels this year. Last year they were 140 million bushels, and for a year earlier, 120 million bushels.

STOCK OF WHEAT, APRIL 1, 1949-53—MINNESOTA, MONTANA, NORTH AND SOUTH DAKOTA

<table>
<thead>
<tr>
<th>Year</th>
<th>Million Bushels</th>
</tr>
</thead>
<tbody>
<tr>
<td>1949</td>
<td>140</td>
</tr>
<tr>
<td>1950</td>
<td>120</td>
</tr>
<tr>
<td>1951</td>
<td>100</td>
</tr>
<tr>
<td>1952</td>
<td>90</td>
</tr>
<tr>
<td>1953</td>
<td>80</td>
</tr>
</tbody>
</table>

The short wheat crop in 1952, and larger marketings earlier in the season, were the factors which reduced district wheat carryover this year.

Price Supports—More than 36 million bushels of Ninth district corn, most of it in Minnesota, were under government price support as of March 15, 1953. Farmers are likely to put additional corn under price support until the deadline is reached on May 31, because the prevailing free market price is substantially below the support level.

A year earlier the amount of corn under price support in the Ninth district was almost nil because corn was of poor quality; most of it did not qualify for loan programs.

In contrast to corn, less wheat has gone under loan and purchase agreement. Only 75 million bushels of district wheat was under loan at the January 31 deadline this year. This compares with 90 million bushels on that same date last year.

The 1952 loan rate on wheat was attractive in relation to the free market price, but much less wheat was produced last year than in the previous year. In fact, there was nearly a third less wheat to be marketed from the 1952 crop—which also explains the smaller quantity of wheat under loan.

---

**BANKING**

March loan increase was the largest in two years—most of it in Minnesota.

Banks financed cash need with investment liquidation and new borrowing.

Loans—The largest monthly loan increase in two years occurred at district member banks in March. The bulk of the increase took place at member banks located in Minnesota, but in every district state some addition to loans was reported for March.

This compares with a year ago March, when no change was reported for total loans at member banks in the district. At that time slightly increased loans in Minnesota and North Dakota were offset by net repayments in other district states.

Most of the new loans at city banks, which accounted for two-thirds of the March increase, went to commercial, industrial, and agricultural borrowers.

The drain on cash resulting from a seasonal outflow of deposits at member banks in every district state was aggravated by the withdrawal of funds made available to borrowers.

City Banks—Cash to finance deposit withdrawals and new loans at the city banks was acquired by liquidating government securities, mostly bills and certificates, amounting to $41 million and by adding $14 million to bills payable at the Federal Reserve bank.

Time deposits, which had increased in every month since November at the city banks, showed no change in March.

Country Banks—A $2.6 million reduction of investments in government securities together with an $11 million withdrawal of balances due from other banks provided the country banks in March with funds to accommodate a $24 million deposit loss and additional loans of $11 million.

Country banks reduced their debt to this bank by $1 million.

Time deposits at country banks, which had declined in February for the first time in nearly two years, registered a $3 million gain in March.
NATIONAL SUMMARY OF BUSINESS CONDITIONS

MANUFACTURING and construction activity rose further in March and in April continued at advanced levels. Retail sales remained well above a year ago, with auto sales up sharply from last year and most other lines showing substantial gains. The average levels of wholesale and consumer prices changed little. Demand for bank credit continued strong.

Industrial Production — The Board's index of output at factories and mines increased 2 points further in March to 242 per cent of the 1935-39 average — a level one-tenth higher than a year ago and one-fifth above mid-1950. In April, output has apparently been maintained close to this advanced level.

The rise in March reflected largely continued marked gains in output of metals and metal products. Steel rose to a new record annual rate of 119.5 million tons. Owing mainly to recent sharp expansion in aluminum, nonferrous metals output was about 20 per cent above a year ago.

Activity in the automobile, aircraft, and machinery industries expanded further, and output of building materials was maintained in very large volume. While production of most household durable goods rose in March, television production was cut as business stocks began to accumulate and, in April, output has been curtailed considerably further.

Steel production also has declined somewhat in April owing to temporary factors.

Output of nondurable goods rose further in March to about the peak rate of early 1951 as activity in the chemical, rubber products, and food industries continued to expand. Output of most other nondurable goods was maintained.

In the first three weeks of April, beef production increased further and, despite a decline in pork production, total meat output was estimated at 12 per cent above a year ago.

Output of crude petroleum and its products has been curtailed moderately beginning in March, and coal output has been maintained at relatively low levels.

Construction — Value of construction contract awards increased seasonally in March for most major categories. Housing units started increased less than seasonally to 97,000 from 77,000 in February; a year earlier 104,000 were started. Value of new construction work for private residential and nonresidential purposes increased further in March.

Employment — Seasonally adjusted employment in non-agricultural establishments in March continued at the record level of 49.1 million (revised series) and was about 1.5 million above a year ago. Average weekly earnings at factories advanced to $72.10 in March — 8 per cent larger than a year ago. Unemployment declined seasonally to 1.7 million, the lowest March level in the postwar period.

Distribution — Department store sales in March and the first three weeks of April remained above year ago levels and close to the level of the two preceding months, after allowances for Easter and other seasonal influences.

In March, seasonally adjusted sales at other retail outlets continued substantially higher than a year ago. Sales of new and used cars were up sharply from March last year.

Stocks at department stores rose less than seasonally in March, according to preliminary estimates, and were only moderately larger than a year ago.

Commodity Prices — The average level of wholesale prices declined slightly from the latter part of March to the latter part of April. At the end of March, futures prices for grains, cotton, wool tops, hides, and rubber declined sharply for a day or two in response to international developments. Decreases in spot prices were more moderate.

While prices of most of these commodities subsequently firmed, sharp decreases developed in the markets for nonferrous metals and steel scrap.

Cattle prices changed little from earlier lows despite a resumption of heavy marketings, and hog prices continued to show a larger than seasonal advance.

Consumer prices advanced .2 per cent in March, with most groups of goods and services increasing somewhat, reflecting in part adjustments to the elimination of remaining price controls.

Bank Credit — Demand for bank credit continued strong in late March and the first half of April, although total loans and investments at banks in leading cities declined further as a result of continued large declines in holdings of government securities. Sales finance companies and trade concerns increased their outstanding bank loans.

“Other loans,” reflecting in large part consumer spending, continued to expand substantially at weekly reporting banks. Bank loans on real estate and investments in municipal and corporate securities also rose further. Commodity dealers and food processors continued to repay seasonal borrowings.

Interest rates charged by commercial banks on term business loans averaged 3.54 per cent in the first half of March, as compared with 3.51 per cent in the first half of December. Average rates rose somewhat at banks in the south and west but showed little change elsewhere.

Security Markets — Yields on Treasury and other high-grade securities advanced further during the first three weeks of April. Common stock prices declined to levels prevailing in the first half of November 1952.

On April 8 the Treasury announced a cash offering of $1 billion of 3 ¼ per cent bonds of June 1978-83 and also offered the bond in exchange for series F and G savings bonds maturing in 1953. The Treasury announced that the total of the regular weekly bill issues would be increased about $1 billion before the end of June.