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Monthly Review

OF THE FEDERAL RESERVE BANK OF MINNEAPOLIS

Diverse trends in first quarter

Although business activity is not as buoyant in some areas of the Ninth district as might be desired, it cannot be said that the economy is in a depressed condition. March bank debits, for example, have continued to register on the plus side; cumulative department store sales since the first of the year are above year-ago levels; agricultural prices are higher; and the new crop season is off to an early start in most farming areas.

On the other hand, the seasonal pick-up in nonagricultural employment is less than in recent years. This reflects principally reductions in iron ore mining and processing operations as well as the slowdown in over-all construction work. Nevertheless, employment in district nonagricultural establishments in March totaled 1,313,700, only 22,000 below that of March 1957.

Of major significance in the Ninth district economy at the moment is the beginning of the 1958 crop season. Moisture conditions are good in most areas except in some northern sections of North Dakota and in some parts of eastern Montana. The weather has been unusually mild and farmers have accomplished their early spring seeding under optimum conditions. District wheat acreage is being increased substantially this year as more wheat farmers planted wheat rather than patronize the wheat acreage reserve program.

Although this year's Ninth district farm output will be determined largely by the amount and

Contents

The following selected topics describe particular aspects of the district's current economic scene:

CURRENT BANKING DEVELOPMENTS

Loans of district member banks rose in March, but by much less than was true in March last year. Deposits of member banks, on the other hand, rose by more than they had a year earlier; this was true of both demand and time balances.

Loans, other than those to banks, increased by $14 million and $10 million, respectively, at city and country banks during March in contrast to respective gains of $29 million and $7 million in March 1957. The reduced pace of loan expansion at city banks can be traced to a weakness in demand for commercial and industrial loans which has been evident for several months. Thus, 'business' loans rose but $15 million at city banks in March while a year earlier they rose $25 million. March was the fourth consecutive month that country banks added more loans than a year ago.

Time deposits at member banks rose $17 million in March or $1 million more than in March a year ago. In February, time deposits rose by $19 million or $4 million more than they had a year earlier. Demand deposits, too, continued rising more rapidly this year. In March demand deposits at city and country banks were up $38 million and $3 million, respectively, in contrast to an increase of $1 million at city banks and a decrease of $7 million at country banks in March 1957.

CROP CONDITIONS FAVORABLE

Crop prospects throughout most of the district are excellent. Top soil moisture reserves are adequate to abundant; and in most areas the subsoil moisture is also plentiful.

The winter wheat crop wintered well and is in good condition. Very little abandonment of winter wheat acreage is now expected. The expectations are for a record crop; Montana producers currently expect to harvest over 58 million bushels, 25 percent more than a year ago.

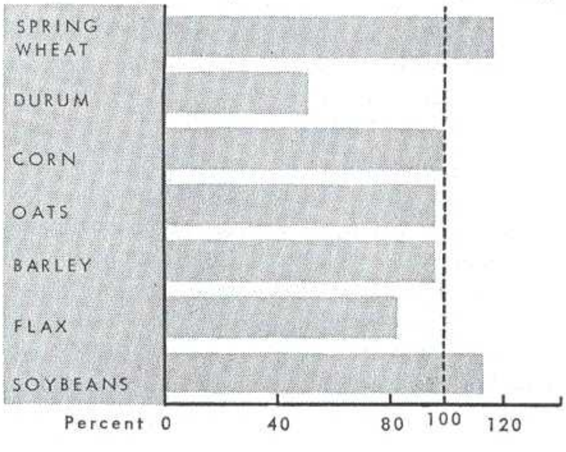
The planting intentions report recently released by the U. S. Department of Agriculture indicates that district farms will expand soybean acreage 13 percent. The preliminary national average support price for soybeans was announced at $2.09 per bushel, equal to last year. Since there is no acreage or marketing quota on soybeans, this may be an alternative for considerable acreage.

Durum wheat acreage indications are for plantings only half as large as a year ago. It appears that this drop in durum planting can be attributed largely to a change in the price support program. In 1957, a wheat producer was allotted two acres for durum production for each allotted acre of other wheat not planted. This arrangement was not extended to the 1958 crop and no doubt this had considerable influence on durum planting intentions. The planned reduction in durum acreage is reflected in an increase in intended spring wheat acreage, which is up 16 percent over 1957.

Intended flax acreage in 1958 is 82 percent of 1957 plantings. The flax crop last year was hit hard by a virus disease called *Aster Yellow*, with the result that flax production was greatly reduced. The reduction in planting intentions reflects the wide-spread losses due to disease in 1957.

Corn, oats, and barley acreages are expected to be only slightly below 1957 levels.

District 1958 prospective plantings of selected crops as a percent of 1957 plantings



MORE CATTLE ON FEED THAN A YEAR AGO

The April 1 U. S. Department of Agriculture estimate of cattle and calves on feed in the 13 major feeding states indicates a 12 percent increase from a year ago. The Ninth district states of Minnesota and South Dakota which are included in this group recorded increases of 12 percent and 35 percent, respectively.

In Minnesota there were 386,000 cattle and calves on feed April 1, 5 percent more than on January 1. During the first quarter of this year South Dakota recorded an 8 percent decrease, down to 243,000 head on feed April 1; however, this was 35 percent above the 180,000 head on feed April 1, 1957.

Cattle and calves placed on feed the first quarter were up 28 percent above a year ago in the 13 major feeding states. First quarter placements in Minnesota were 48 percent above last year, and in South Dakota the increase was 50 percent. The heavy cattle movement into feed lots during the last 3 months indicates in part the favorable conditions that existed in the winter pasture areas. The good pasture conditions, the abundance of roughages, and the light winter all contributed to this pattern of cattle movement.

The number of cattle on feed for less than 3 months in April in the 13 states was 28 percent above a year ago, the number on feed for a period of 3 to 6 months was 5 percent above a year earlier, while those on feed for 6 months or more was down 26 percent.

The weights of cattle on feed April 1 indicated a higher proportion of lighter cattle than was the case a year earlier. In the 13 states the number of cattle on feed April 1 weighing less than 600 pounds were up 18 percent from last year; the number weighing 600-900 pounds were up 15 percent, and those weighing 900-1,100 pounds were up 5 percent. Cattle weighing over 1,100 pounds were down in number 13 percent from a year ago.

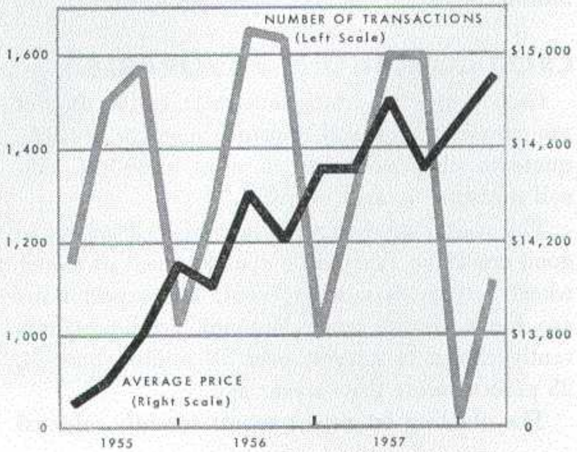
Cattle feeders in the 13 states indicated that they expect to market 58 percent of all cattle on feed after July 1. The remaining 42 percent are expected to be marketed as follows: 13 percent in April, 14 percent in May and 15 percent in June. Last year 52 percent of the cattle on feed April 1 were marketed in the months of April, May and June. Thus, it appears that if the marketing intentions of April 1, 1958 are realized, there will be relatively greater late-season pressure on fed cattle prices this year than a year ago.

TWIN CITY HOUSING PRICES

Average prices paid for existing houses in both the Minneapolis and St. Paul areas continued to move up in the first quarter of 1958 and now stand at an all time high. This report is based on a sample of about 50 percent of all houses sold.

The first quarter average price of all houses sold in Minneapolis and its suburbs was $15,100 or 2 percent above that of the first quarter of 1957, and 1.3 percent over the fourth quarter. Each year since 1955 first quarter averages have been greater than those of the previous year but the rate of increase has declined each year. The present figure of $15,100 is 10 percent higher than the first quarter 1955 average of $13,700.

Number and average prices of all existing houses in Twin City area



In St. Paul and its suburbs the average price of all existing houses sold in the first quarter of 1958 was $14,200 or 6 percent greater than the average for the first quarter of 1957, and 2.2 percent over the fourth quarter. Although the average price in Minneapolis is higher, the rate of increase in St. Paul has been greater each year. This has been true not only for the first quarter of each year but in each quarter compared with the same period a year earlier. In St. Paul, since the first quarter of 1955 when the average price was $12,800, prices have increased 11 percent.

The number of houses sold (not including new houses) in the first quarter of 1958 in the Twin City area is down about 14 percent from 1957.

CONSUMER SPENDING STRONG

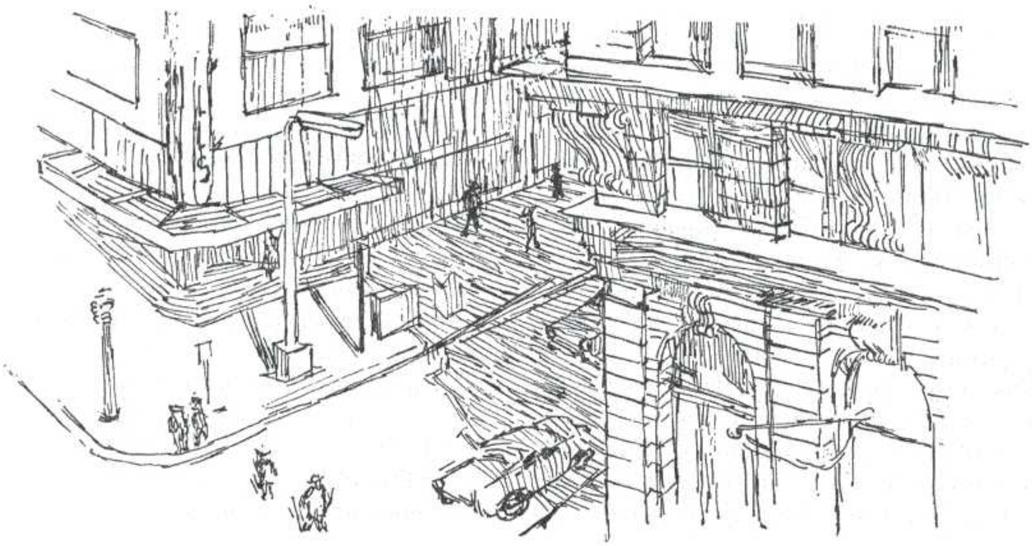
The stability of consumer expenditures during the current recession has been a restraining influence on the deflationary forces in the economy. In view of the elimination of nearly all overtime pay, a short work week in some industries and the rise in unemployment during the past winter, the aggregate volume of merchandise purchased by consumers has held up relatively well.

The continued record sales made by food stores has been a source of strength, especially in the economy of this district. In Group I stores,* district food sales in February were 1.1 percent above a year ago. The comparable increase for the nation was 1.5 percent.

District department store sales in March, on an adjusted basis, were 1 percent above those of a year ago. In the nation, the adjusted sales were down 5 percent. Since a much larger proportion of the sales for Easter last year was made in April because of the late date of Easter (April 21), April sales this year are down as compared with last year. However, the adjusted figures may indicate a volume of sales comparable to that in 1957.

The sale of automobiles has slowed up noticeably. In the first two months of this year, the registration of new cars in the Ninth district was down 12 percent from a year ago. In March, registrations in the Twin Cities metropolitan area were down 22 percent. A reversal of this downward trend may be in the making in April, however. Registrations by individuals in this four county metropolitan area for the first 12 business days of April show a decline of only 2½ percent from the same period a year ago.

*Special tabulation compiled by the Bureau of the Census for the Federal Reserve System based on data from a sample of firms operating 1 to 10 stores at the time of the 1954 Census of Business.



Operating ratios for banks in 1957

Earnings before expenses averaged $3.99 for every $100 of assets at Ninth district member banks in 1957. This compares with an average of $3.86 for every $100 of assets in 1956. The improvement almost entirely reflects an increase in the rate of return on loans and investments in 1957. In other recent years the substitution of loans for securities as well as rising interest rates were responsible for the rise in the ratio of earnings to assets. Loans yield considerably more than securities, as a rule.

In 1957, for example, district member banks reported that earnings amounted to 6.06 percent on loans and 2.78 percent on government securities on the average. In contrast, the rate of return on loans and government securities in 1956 averaged 5.89 percent and 2.63 percent, respectively.

After rising in each of the previous ten years, the ratio of loans to total assets at the average district member bank remained at the 1956 level of 36.5 percent in 1957. The decade of swelling loan portfolios began in 1946 when the average ratio of loans to assets reported by district member banks was only 12.7 percent.

The ratios mentioned above are just a few of 37 ratios which the Federal Reserve Bank computes each year for each member bank in the district from figures reported on the condition statements and earnings statements filed regularly by the banks. On the opposite page is a tabulation of the *averages* of the 37 ratios computed for individual member banks in each of the past five years. The movement of particular ratios over the years reflects important changes in the district banking picture.

In January of 1957, for example, many banks announced an increase in the rate of interest paid on time deposits after the regulatory authorities raised the maximum rate to 3 percent from 2½ percent. This was reflected by ratio number 37 which shows interest payments as a percent of time deposits and by ratio number 15 which shows interest payments as a percent of total earnings. Both of these ratios rose much more in 1957 than they had in other recent years. And ratio number 36 indicates that time deposits grew a bit more rapidly, relative to total deposits, in 1957 than in previous years, doubtless in part because of the more attractive interest rates being paid.

The principal item of bank expense, wages and salaries, has displayed remarkably little variation in recent years when expressed as a percentage of total earnings as in ratio number 14. The stability, of course, means that payrolls have been going up about as fast as total earnings. Although salary expense absorbed a slightly smaller share of earnings in 1957 than in the previous year, interest on time deposits and other expense absorbed larger shares. The result was that total expense, at 68.3 percent, amounted to a larger part of total earnings than in any year since 1944. The increased ratio of expense to earnings in 1957 explains why net earnings fell in relation to assets (ratio number 18) in spite of the fact that gross earnings rose (ratio number 5).

Net profits were up both in relation to total earnings (ratio number 22) and in relation to total assets (ratio number 7). Although the net earnings ratios were down, the profit ratios were able to rise because the provision for losses on securities and loans was reduced in 1957, and such losses are reflected in profits but not in net current earnings.

Ratio number 35 indicates that bank capital accounts continued to rise in 1957, relative to deposits. Since 1952 when the average ratio of capital to deposits was 7.3 percent at district member banks, capital has grown proportionately faster than deposits in every year. Capital accounts amounted to 8.5 percent of deposits in 1957. Divi-

"Operating Ratios" of Member Banks

MINNEAPOLIS FEDERAL RESERVE DISTRICT

	1957	1956	1955	1954	1953
Number of Banks	472	469	471	470	470
SUMMARY RATIOS					
Percentage of total capital accounts					
1. Net current earnings before income taxes	17.5	18.1	17.3	17.2	17.3
2. Profits made before income taxes	14.3	13.2	15.0	16.1	15.5
3. Net profits	9.2	8.7	9.2	10.5	9.7
4. Cash dividends declared	3.9	4.0	3.8	3.7	3.4
Percentage of total assets					
5. Total earnings	3.99	3.86	3.54	3.41	3.31
6. Net current earnings before income taxes	1.27	1.31	1.20	1.16	1.15
7. Net profits	.68	.65	.66	.72	.65
SOURCES AND DISPOSITION OF EARNINGS					
Percentage of total earnings					
8. Interest on U. S. Government securities	24.5	24.5	24.7	25.0	26.1
9. Interest and dividends on other securities	6.6	5.9	5.3	5.1	4.9
10. Earnings on loans§	54.6	54.9	54.7	54.1	53.1
11. Other current earnings	14.3	14.7	15.3	15.8	15.9
Total earnings	100.0	100.0	100.0	100.0	100.0
12. *Service charges on deposit accounts (Included in item 11)*	*6.5*	*6.4*	*6.4*	*6.4*	*6.3*
13. *Trust department earnings (Included in item 11)**	*2.3*	*2.5*	*2.5*	*2.5*	*2.3*
14. Salaries and wages	30.0	30.6	31.1	31.1	31.0
15. Interest on time deposits	16.9	14.1	13.8	13.8	13.1
16. Other current expenses	21.4	21.1	21.1	21.0	21.3
17. Total expenses	68.3	65.8	66.0	65.9	65.4
18. Net current earnings before income taxes	31.7	34.2	34.0	34.1	34.6
19. Net losses, or recoveries and profits (− or +)‡	−3.8	−5.8	−2.2	− .5	−3.0
20. Net increase, or decrease, in valuation reserves (− or +)	−1.9	−2.8	−2.1	−1.4	− .4
21. Taxes on net income	8.9	8.6	11.1	11.0	11.3
22. Net profits	17.1	17.0	18.6	21.2	19.9
RATES OF RETURN ON SECURITIES AND LOANS					
Return on securities:					
23. Interest on U. S. Government securities	2.78	2.63	2.23	2.15	2.09
24. Interest and dividends on other securities	2.60	2.46	2.26	2.32	2.28
25. Net losses, or recoveries and profits on total securities (− or +)‡	−.20	− .34	− .05	+ .12	− .09
Return on loans:					
26. Earnings on loans§	6.06	5.89	5.76	5.70	5.74
27. Net losses, or recoveries on loans (− or +)‡	−.08	− .13	− .10	− .15	− .16
DISTRIBUTION OF ASSETS					
Percentage of total assets					
28. U. S. Government securities	34.3	35.0	37.5	38.1	39.6
29. Other securities	9.9	9.3	8.4	7.6	7.5
30. Loans	36.5	36.5	34.2	32.9	31.3
31. Cash assets	18.2	18.2	19.0	20.6	20.8
32. Real estate assets	.9	.8	.7	.6	.6
OTHER RATIOS—In Percentages					
33. Capital accounts to total assets	7.7	7.7	7.4	7.1	6.9
34. Capital accounts to total assets less government securities and cash assets	17.1	17.5	18.2	18.3	19.0
35. Capital accounts to total deposits	8.5	8.4	8.0	7.7	7.5
36. Time to total deposits	39.5	38.4	38.0	37.5	36.8
37. *Interest to time deposits**	*1.88*	*1.55*	*1.38*	*1.34*	*1.25*

§ Includes service charges and other fees on loans.

‡ Excludes transfers from and to valuation reserves.

* Banks reporting zero amounts were excluded in computing this average

Seasonal swings in bank data

The seasons exert an important financial influence on the Ninth Federal Reserve district. Planting, growing and harvesting of crops affect the spending pattern of farmers and thereby most other people in this still predominantly agricultural region. Besides agricultural changes, yearly ebbs and flows of activity in mining, lumbering, construction, retailing and many other industries play an important role in the annual pattern of the Ninth district economy. Banking activity reflects these seasonal variations. This article examines briefly the broad seasonal movements in a few district banking statistics. Last Wednesday of the month figures for loans, investments and deposits were used.

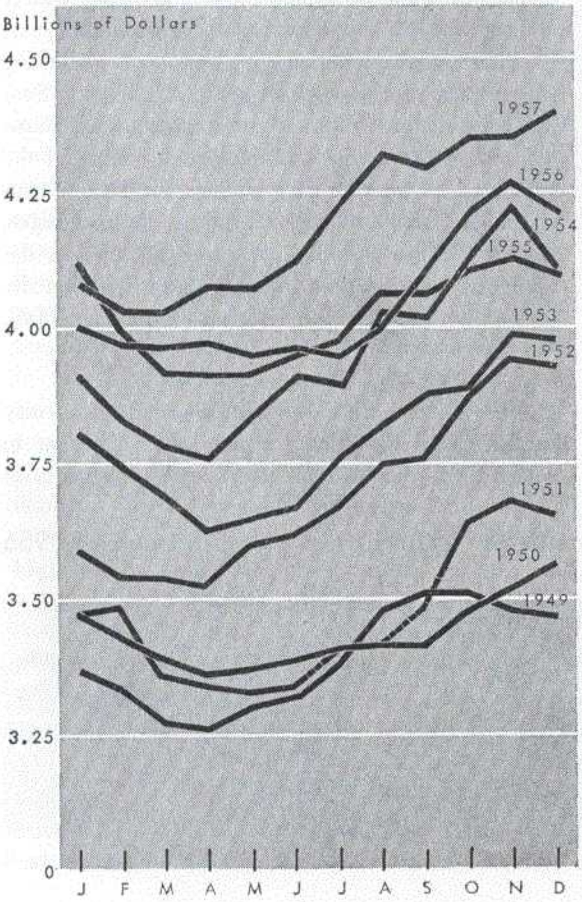
All member banks

Monthly changes in deposits and loans for the years 1947-1957 reveal some movements that occur regularly enough to be called 'seasonal patterns.' For example, member bank deposits in the Ninth district frequently rise to a peak in November and then decline through the late spring. Several years experience is recorded in the accompanying charts.

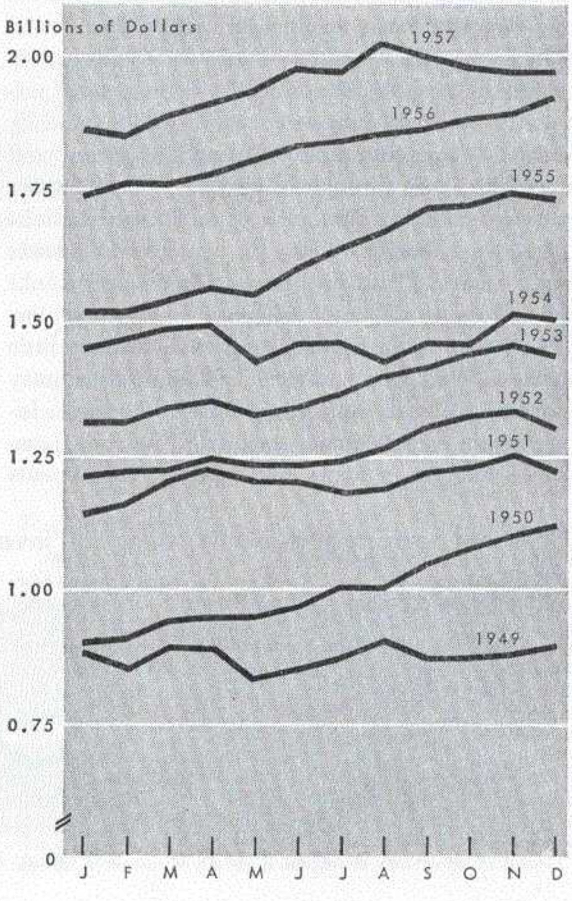
Total deposits and loans by months at Ninth district member banks

(billions of dollars)

Deposits



Loans



The seasonal variation in loans shows much less amplitude and regularity. This fact in itself is significant. But even though the magnitude of seasonal changes in loans is less than in deposits, loans often have dropped in December and May and have tended to rise during most other months. The secular growth in loans during the post-war period is the most obvious fact disclosed by statistics on loans.

Seasonal patterns are somewhat different for *city banks* than for *country banks*. The city bank classification includes not only the reserve city banks in Minneapolis, St. Paul and Helena but also selected banks in Duluth, Great Falls, Fargo, Sioux Falls and La Crosse which are country banks for reserve purposes. The two patterns are compared in the accompanying chart of seasonal adjustment factors for deposits, loans and investments. Deposits and earning assets of both city banks and their country counterparts have displayed the same general seasonal movements in recent years. Deposits typically peak in November, decline through the spring, and then rise again through November. Loans increase throughout the fall months at both classifications of banks. However, during the winter months loans drop seasonally at city banks. At country banks loans tend to decline during the summer months. Thus, one reason Ninth district loans show so little seasonal change is because city banks and country banks have partly offsetting seasonal patterns. Investments are residuals, essentially, reflecting seasonal changes in loans and deposits. Investments peak during November or December, decline through the winter and the early part of spring, and tend to increase thereafter.

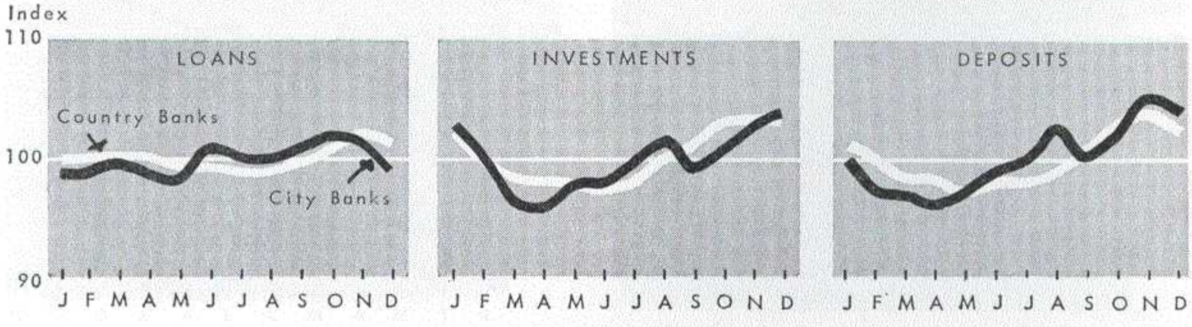
Country banks

Country banks have experienced less seasonal variation in their deposits and earning assets than have the less agriculturally oriented city banks. Country bank deposits typically reach an annual maximum in November which is significant in that this high point comes only a month after the normal October peak in district cash farm income. Thereafter a rather gradual withdrawal of deposits occurs, with deposits ordinarily reaching a minimum point in June. The seasonal variation in loans of country banks is not very pronounced. But loans do tend to be somewhat higher in the winter months than they are during the rest of the year. Most frequently, loans are at a seasonal low during August, the month of peak grain marketings. Seasonal increases in government guaranteed loans secured by grain have accounted for most of the advances in loans during winter months at country banks. Investments, reflecting these changes, tend to decline at country banks as deposits decline during winter and spring and rise when deposits pick up seasonally during summer and fall.

City banks

Seasonal ups and downs are observed in city banking statistics that are somewhat different in detail from those at country banks. Deposits at

Seasonal pattern of deposits, loans and investments at Ninth district member banks in 1956



city banks typically reach an annual minimum a month or two ahead of the country bank minimum in the spring. One reason for this difference might be that some firms such as implement producers and seed companies experience deposit gains during the early spring because their dealers are building up inventories. As a result, deposits may continue to fall at banks which have dealers as customers while deposits begin to rise at those banks which have wholesalers and manufacturers as customers. The cities of St. Paul and Minneapolis are important regional wholesale and production centers (as are other cities which have weekly reporting banks, to a more limited extent). Therefore, a tendency may exist for deposits in city banks to rise partly at the expense of continued deposit declines at country banks.

A curious departure from the seasonal pattern of deposit growth during summer and fall, is a roughly 2 percent reduction in deposits at city banks during September. This deposit loss coupled with a seasonal gain in loans results in an even greater net liquidation of investments. A contributing factor to this phenomenon is the peak grain movement of late August and early September. When grain dealers in Minneapolis pay for grain, there results a net outflow of deposits from their banks to individuals and indirectly to banks in many communities in the grain belt. As a result, deposits of country banks tend to grow, to some degree at least, at the expense of deposits at city banks. After the September dip in deposits, deposits rise to a peak in November influenced by increased lending to retailers as well as by the high level of agricultural receipts.

Loans at city banks are seasonally highest in November. In contrast to country bank loans, loans at city banks drop very sharply from the last Wednesday of November to the comparable day in December. This difference may be due to heavier liquidation of inventory loans by retailers and their suppliers in the larger cities than in the smaller cities and towns. Additional sharp loan reductions in May and July as well as in December contrast with smoother country bank seasonal changes in loans. The decrease in loans in May is perhaps due in part to the fact that many of the weekly reporting banks are located in Minnesota where personal property is assessed for taxation in May. As a result, expenditures may be timed in order to keep the value of assets as low as possible during this period. Of course, loan demand would decline in these circumstances. Supporting evidence of this explanation is that loan cutbacks in May can be principally accounted for by reduced business loans. Since municipal deposits increase when personal property taxes are collected no parallel cut in deposits is observed. The fact that loans increase very sharply in June, the following month, may be due to accelerated inventory accumulation to make up for earlier inventory liquidation. The drop in July may simply be a return to the normal seasonal pattern that would exist without the May tax assessment. The figures for 1956 and 1957 did not reveal this May, June and July loan pattern. Instead, the growth in loans continued unabated through this period reflecting in part the boom demand for loans by firms and individuals in the Ninth district.

Moderating effects of Federal Reserve policies and many other economic factors influence the seasonal ups and downs of Ninth district deposits and earnings assets. But whatever the causes, the effects are apparent in the seasonal pattern of loans, investments and total deposits at district banks.

Technical note

The apparent existence of repeated seasonal variation in district banking statistics prompted a derivation of *seasonal adjustment factors.* Unadjusted raw data divided by these factors yield seasonally adjusted data, that is, data with the prevailing seasonal pattern removed. Ninth district member banks loans, investments and deposits were used to derive seasonal adjustment factors and adjusted data. A possible lack of representativeness may exist because the data are one-day-a-month figures. Additional error may stem from the rough method used to derive seasonal factors. The method used was to obtain first a ratio of unadjusted data to the twelve-month moving average of each of the time series. The seasonal factors were obtained by averaging these ratios over the number of years a seasonal pattern seemed to exist. The data were adjusted further to eliminate any seasonal influence observed when tier charts for a number of years were compared.

Economic Briefs

1. $1.5 million Montana shopping center begun

Montana's largest supermarket for Buttrey Food Stores, Inc. is the initial project in a $1.5 million shopping center for Great Falls. The $450,000 food store is under construction with completion scheduled for early this fall. With 35,000 square feet of floor space, the building will occupy a full block. In addition to food, the supermarket will offer a complete soft goods line similar to a general store. It will employ about 60 persons.

2. Minot base projects may total $30 million

More than $30 million worth of new construction may get underway at the Minot, North Dakota Air Force base this year. Projects planned for construction include: additional installations in the Strategic Air Command facilities amounting to $10 million; initial construction of the 644-unit housing project costing a total of $10,626,000 million; and installation of a SAGE (semi-automatic ground environment) system, at an estimated cost of $10,338,000.

3. College housing set for Brookings

Construction is underway on South Dakota State college dormitory housing projects totaling $2,050,000. A women's dormitory which will house 274 students and a men's dormitory for 416 students are scheduled to be completed in July 1959. In addition, family housing units with 48 apartments are expected to be ready by April 1959. The buildings are financed on a self-liquidating basis with the Federal Housing and Home Finance Agency.

4. Minneapolis courthouse plans approved

A design proposed by two Minneapolis architectural firms for the city's new $5,877,000 courthouse and office building has been approved. The firms are now preparing detailed plans so that financing and construction bids can be obtained by mid-year. The approved design is a six-story, contemporary style building with a granite-paneled exterior. It would replace the present federal courthouse which was built in 1889.

5. Wisconsin firm to produce helicopters

Champion Aircraft Corporation of Osceola, Wisconsin, anticipating the bulk of its future business to be in helicopters, has developed a relatively inexpensive helicopter which will be in production by next fall. About 70 persons are employed by the aircraft firm in this western Wisconsin town of 850 inhabitants. Champion produced 230 piston-engine planes and achieved a gross sales of $1,275,000 in 1957.