MONTHLY REVIEW

Annual Report Issue

Federal Reserve Bank of Minneapolis

JANUARY 1961

District developments in 1960

The decade of the sixties is now underway,[1] albeit demonstrating at the moment a somewhat limited inclination to "soar."

Since the phrase "soaring sixties" was shelved, no one has offered an appropriate expression to describe the past year—and understandably so. Perhaps we should explain. It's January, you see, and time again for our traditional stock-taking and review of the year just ended. It's always nice to be able to start such episodes with a sort of overview statement—a few powerful generalizations that give you the picture, so to speak, in a nutshell. Well, we have undertaken to examine the major economic developments in our district during 1960—and the results of our effort you will find reproduced throughout the following pages of this special annual review issue. However, sweeping generalizations about last year are hard to come by. For 1960 was a year of peculiar mixtures of record levels and disappointing lows, leaving us neither clearly better off nor clearly worse off than in other years of our recent experience.

Yet a number of things stand out if we direct our attention in turn to different aspects of business, agriculture and banking in the district in 1960. Let's begin with the business picture.

[1] In defense of the technicality that the decade of the sixties did not begin until January 1961, we are reminded that since no year "zero" was provided for, the year 10 was obliged to fall in the first decade, and the second decade not to begin until the year 11.

Business

In the Ninth district, 1960 was a year of moderate expansion in the nonfarm sector of the economy. More durable and nondurable products were produced than in 1959, although output slowed in the latter half of the year. More construction was put in place than in 1959 in spite of the slump in home building. More minerals were mined and beneficiated than in 1959, but output still fell below former prosperous years. This expansion resulted in new opportunities for nonfarm employment, which rose to a new record. However, the number of new jobs absorbed only a part of the growing labor force, and unemployment also increased during the year.

Employment

The number of workers employed in the district rose by approximately 17,000 on an average monthly basis during 1960. The largest increase of 3,200 occurred in government service, reflecting the growth in the public educational system which required more teachers and administrators. The second largest source of new job opportunities, manufacturing firms, employed an additional 3,000 workers. Three-fourths of these were engaged in the manufacture of durable products.

More workers were also employed in other industry groupings. There was an increase of 2,500 workers in finance, insurance, and real estate. Another 2,300 workers were employed in personal, professional and miscellaneous services. The number of workers added in retail and wholesale trade and in construction was quite small, amounting to 1,400 and 1,100 respectively.

In the mining industry, the increase shown in 1960 over the average 1959 monthly employment was due to the low level of employment during the 116-day steel strike. In fact, employment in district mining in both the first and last half of 1960 was lower than in the first half of 1959.

The new opportunities for employment in nonfarm industries were offset by only a few cutbacks. In addition to mining, where employment was not restored to former prosperous levels, employment was down somewhat in the transportation field. Approximately 700 fewer workers were employed in 1960 as compared with the preceding year, reflecting technological innovations and some decline in freight movements.

Of even greater relevance than the annual growth or decline in employment is the slowdown in the economy during the latter half of the year. As in the nation, district nonfarm employment rose to a peak in May and June of 1960 on a seasonally adjusted basis. Beginning last July, the demand for labor has been on the weak side. The adjusted number of workers employed in this district beginning in August was off approximately 10,000 from the peak reached last June.

Fewer farm workers

In the Ninth district, the growth in employment in the nonfarm sector of the economy was about offset by the decline in the number of farm workers. The farm economy continues in a state of technological revolution in which equipment is being substituted for labor. As a result, there has been a long-term decline in agricultural employment since the Great Depression of the 1930s. In 1960, the total number of workers on farms in Minnesota, Montana, North Dakota and South Dakota was down by 15,000 from the preceding year. Comparable figures are not available for farm workers in northwestern Wisconsin and Upper Michigan, but the trend is the same.

Unemployment

At the beginning of 1960 there was a widespread belief that the steel strike of 1959 had lengthened the period of economic prosperity by creating a backlog of demand for steel and steel products. The demand for labor was strong during the first quarter. Unemployment, as indicated by claims for unemployment insurance in this district as in the nation, was below that of the corresponding period in 1959.

In the second quarter, however, unemployment in this district did not decline as rapidly as usual and unemployment insurance claims soon exceeded those of last year. Again, during the fall months, as winter weather curtailed outdoor activities, the claims filed rose more than usual, indicating that a general leveling off was taking place in economic activity.

Manufacturing

The Ninth district has a different industrial composition than the nation as a whole, but output of district industrial firms declined in the latter half of 1960 as it did in the nation. The seasonally adjusted index of industrial use of electrical power in all district manufacturing, in terms of the 1957 base period, rose from 108 percent in January to a peak of 121 percent in June and declined in the following months to 114 percent in October. The industrial use of electrical power in the manufacture of durable products declined by 12 percentage points from March to October. The energy used in the manufacture of nondurables also declined in the latter half of the year, but at a much smaller rate.

The manufacture of durable goods is more subject to cyclical swings than are the other sectors of the economy. Since the output of these district manufacturing plants is generally geared to a national market, it is directly tied to national economic conditions. In the first quarter of the year, output was expanding and then was cut back as the inventory accumulation declined and, at the same time, the final demand for durable products slackened.

Seasonally adjusted employment in the manufacture of durable goods in this district rose slowly through the first part of the year, reaching a peak of 145,300 workers in May. In the following months, employment contracted slowly and by October the adjusted total in these industries was down 4,000 from May.

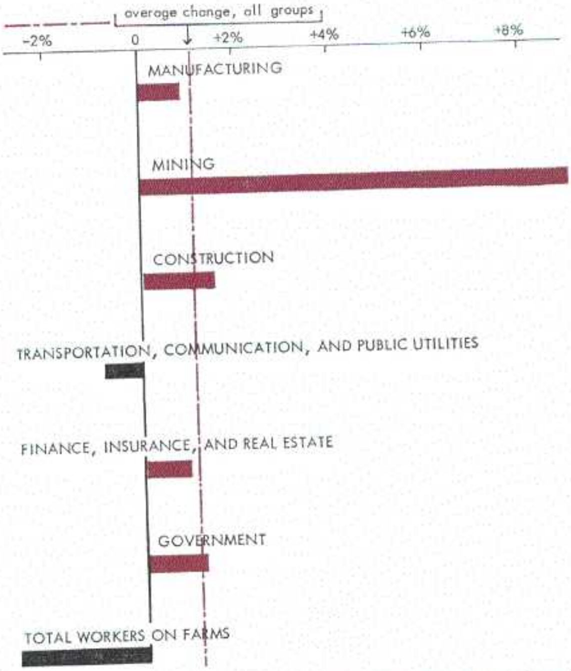
Among the durable products industries, the manufacture of lumber and some lumber products was especially hard hit last year. The demand for lumber was weak due to the relatively low volume of home building. In several months during 1960, retail lumber sales in this district were down as much as one-fifth and one-fourth from the previous year. Employment in the lumber and wood products firms in 1960 was down as much as 10 percent in Minnesota and 5 percent in Montana. In Upper Michigan employment was maintained at the 1959 level.

The manufacture of nondurable products comprises a number of relatively stable industries. In this district, meat packing, poultry dressing, vegetable canning, dairy processing and flour and other grain processing constitute a large share of nondurable manufacturing. Consumer expenditures for food have held up well during past recessionary periods. These processors provide a steady market for a large volume of regional farm products.

In addition to food and kindred products, innumerable other nondurable products, ranging from such consumer products as textiles to industrial chemicals, are also fabricated in this district. The seasonally adjusted employment in this general group of district industries was at a relatively high level from January 1960 through May, and then began to decline. In October, the seasonally adjusted number of workers was down 5,000 from last May.

Ninth district employment

(percent change, 1960 from 1959*)



*Based on 11 month average; total workers on farms based on 9 month average.

Construction

The aggregate volume of construction undertaken in this district held up well in 1960 despite the slump in residential building. Home building was off sharply in both the large district cities (by 23 percent), and in non-metropolitan areas (by 27 percent).

In the district as a whole, construction undertaken in nonresidential building and in heavy engineering projects has more than offset the decline in residential building. The construction of commercial buildings, rest homes for the aged, hospitals, churches and educational buildings has continued in large volume. Among the heavy engineering projects, there has been a steadily growing volume of municipal construction such as sewers, water works and street improvements. A noticeable pickup in the amount of contracts let for highway building occurred in the latter half of 1960.

District employment on construction projects rose from 63,000 at the beginning of the year to 115,000 in August. During 1960, employment averaged about 1,100 more workers than in 1959.

Mining

As the production of steel was cut back shortly after the first of the year, the demand for iron ore fell off sharply. Iron ore shipments from U. S. mines in the Lake Superior region aggregated 66 million gross tons during the 1960 Great Lakes navigation season. Although this was nearly twice the 1959 tonnage, when shipments were interrupted by the steel strike, it fell short of the tonnage shipped in former prosperous years. The tonnage of ore shipped from the Marquette and Gogebic ranges of Upper Michigan and northern Wisconsin over the past four years has held approximately the same proportionate position to the total shipped from U. S. ports in this region.

In recent years, the tonnage shipped has included an increasing percentage of taconite concentrates from Minnesota and jasperlite concentrates from Michigan in various forms, mostly pellets. More labor and equipment is required to produce this high value ore from the native low-grade iron-bearing rock. Shipments of these ores have nearly doubled in the last four years, increasing from about 6 million gross tons in 1957 (8 percent of all U. S. Lake Superior ores shipped) to 10.5 million tons in 1960 (17 percent of the total).

In addition to the smaller market for Lake Superior ores due to lower steel production, there has been increasing competition from foreign ores. Imports in 1957 aggregated 34 million gross tons, including 9 million tons from eastern Canada. In 1960, imports totaled about 40 million tons, including close to 10 million tons from eastern Canada. The opening of the St. Lawrence Seaway has had a bearing on increased Canadian imports.

A comparison of employment in the district's mining industry during the past year with the prosperous year of 1957 indicates how employment has slipped in this field. Employment in the current year rose from 34,300 in January to 42,000 in August, and then began to decline. In 1957, employment in January was at 46,300 and during the summer rose to 49,300.

A weak market and increased foreign competition caused some domestic copper producers to reduce output in 1960. A work stoppage reduced district output in both 1959 and 1960. Output was suspended in Montana from August 18, 1959 to February 15, 1960. Production in 1960 did not rise to the former level; employment in some months was down as much as 1,200 workers from the preceding year. In Upper Michigan, the work stoppage extended from October 28, 1959 to February 22, 1960, but employment was fully restored in 1960. Employment following the settlement of the strike averaged 2,800 workers compared with 2,660 in 1959.

Personal income

In spite of a leveling off in economic activity in 1960, personal income in Minnesota rose to a new record. An increase of about 5 percent was traced largely to a rise in wages and salaries paid and a rather sharp rise in farm income.

Minnesota's net farm income for 1960 is expected to be at least 12 percent above 1959. Larger farm income has stimulated business in small centers serving farmers. In some areas it has overshadowed weaknesses developing in other industries in the latter half of the year.

Personal income estimates by the Federal Reserve Bank of Minneapolis have not been completed for district states other than Minnesota. The information available, however, indicates trends in income in these states similar to that in Minnesota.

Agriculture

Ninth district farmers received an estimated $3,060 million from the sales of farm products in 1960. Although short of the $3,252 million record marketings of 1958, the receipts this year outpaced the level of last year by 4 percent.

Crop marketings short upward 12 percent from drouth-ridden 1959 to $1,080 million in 1960. A 28 percent increase in wheat production, due to improved yields, was the big factor in the improvement enjoyed in the district's crop income this year compared with last.

Receipts from the sales of livestock and livestock products totaled an estimated $1,980 million for 1960; this was essentially equal to 1959 receipts. Improved dairy, poultry and hog prices and incomes were offset by reducted receipts from cattle and calves.

Changes by states from 1959 to 1960

Minnesota: Cash receipts from farm marketings increased 4 percent. Improved dairy, poultry, and hog incomes, combined with increased output of some crops, principally small grains, were responsible for the rise. Livestock and livestock product incomes rose 5 percent, while crop incomes advanced 3 percent.

North Dakota: Cash receipts were up 7 percent, due primarily to improved crop output. The output of wheat—the state's principal crop—rebounded 31 percent in production from last year's drouth to boost the state's income from crops 13 percent above 1959. Livestock and livestock product incomes dropped 2 percent as lower receipts from cattle and calves wiped out the gains registered in dairy and poultry incomes.

South Dakota: Cash receipts advanced 7 percent in response to a very sharp recovery from the drouth of 1959. Crop incomes, which usually account for 25 to 30 percent of the state's cash receipts, advanced 53 percent. South Dakota's 1960 small grain output was nearly two and one-half times as large as experienced in 1959.

Livestock and livestock product receipts dropped 4 percent from a year ago, primarily because of reduced receipts from the sales of cattle and calves.

Montana: Total cash receipts for 1960 dropped 3 percent from 1959 levels. Crop receipts were up only 1 percent in Montana. Montana fared relatively better in crop output in 1959 than did the other district states and thus did not experience the dramatic rise in crop income noted in the Dakotas. Montana's 1960 output of wheat, for example—the state's major crop, and most important single agricultural commodity—was unchanged from 1959.

Livestock and livestock products brought in 7 percent less cash in 1960 than in 1959. An 11 percent average drop in cattle prices cut receipts from cattle sharply in spite of increased marketings. Cattle sales in recent years have accounted for about three-fourths of the state's total income from livestock and livestock products.

Government payments increase

Direct government payments made to district farmers in 1960 under the soil bank program, the agricultural conservation program, the wool program and the Great Plains conservation program totaled $109 million. This was $6 million more than the payments made in 1959. Soil bank payments rose $3 million, and sugar payments advanced $1 million during the year. District wool payments in 1960 dropped to $8 million, down from $14 million recorded in 1959. The high wool

TABLE 1—GOVERNMENT PAYMENTS TO NINTH DISTRICT* FARMERS BY PROGRAMS

	1959 (millions)	1960**
Agricultural conservation program	$ 21	$ 19
Sugar program	5	6
Wool program	14	8
Soil bank program (acreage and conservation reserve)	62	75
Great Plains program	1	1
Total	$103	$109

*Includes only four full states.
**Estimated.

payments of 1959 resulted from a substantial carryover and marketing of the 1957 wool crop into the 1958 wool marketing season, with the result that 1959 payments were abnormally high. A decline was also noted in agricultural conservation payments from 1959 to 1960; payments under this program were off $2 million.

Government payments to Minnesota farmers in 1960 in total were up slightly from 1959; soil bank payments increased a little, while wool payments declined. On the other hand, government payments to farmers in the Dakotas advanced sharply, reflecting increased soil bank participation in 1960. Acreage subscriptions advanced nearly 40 percent in the western district states in 1960, the last year of the program. Montana farmers experienced a decline in government payments in 1960. Wool and agricultural conservation payments in the state declined by more than the amount of increase in soil bank payments.

Cash production expenses

Cash production expenses, as measured by the index of prices paid by farmers for production items, were essentially unchanged in 1960 from a year earlier. The same crosscurrents noted in production expenses in 1959 were apparent in

TABLE 2—CASH RECEIPTS, GOVERNMENT PAYMENTS, PRODUCTION EXPENSES AND NET CASH INCOME BY DISTRICT STATES

(in millions)

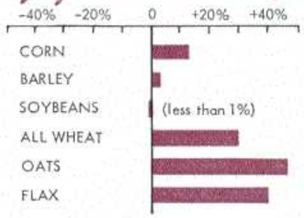
1959	Minn.	N.D.	S.D.	Mont.	District
Cash receipts	$1,380	$547	$604	$404	$2,935
+Government payments	31	31	26	15	103
=Total cash	1,411	578	630	419	3,038
—Production expenses*	917	315	337	222	1,791
Net cash	$ 494	$263	$293	$197	$1,247
1960 Estimated					
Cash receipts	$1,440	$585	$645	$390	$3,060
+Government payments	31	35	29	14	109
=Total cash	1,471	620	674	404	3,169
—Production expenses*	917	315	337	222	1,791
Net cash	$ 554	$305	$337	$182	$1,378

*Cash production expenses include only current expense; depreciation of capital equipment is not included.

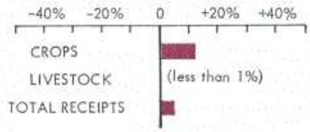
Net cash farm income in the district

(percent change, 1959-60)

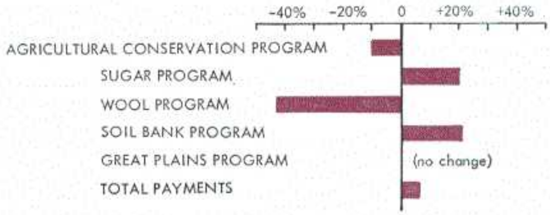
crop production moved up sharply from drouth year 1959...



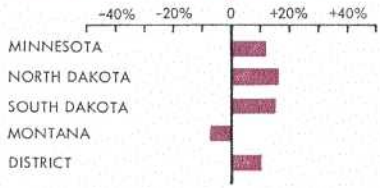
cash receipts from crops dramatically reflected the improvement in crop output...



government payments in total advanced...



with the net result (since production expenses in total held at 1959 levels) that net cash income improved:



1960. Goods and services of nonfarm origin generally were unchanged to slightly higher in 1960 than in 1959. Total wages paid to hired labor were about the same, but interest payments and taxes rose sharply.

Expenditures for production items of farm origin, principally replacement livestock and feed, declined in price. With the carryover of feed grains at an all-time high and near-record feed grain production in 1960, feed prices averaged slightly lower than a year ago. Prices of feeder cattle, lambs and milk cows in 1960 were below 1959 levels, while feeder pigs, chicks and poults were above last year.

District net cash income up in 1960

Net cash farm income differs from total net income in three important respects. First, provisions have not been made for depreciation expense. Second, nonmoney income (the value of products consumed in the home, the rental value of farm dwellings) is not included. These two nonmoney items usually account for about 7 percent of total net farm income received in the district. And finally, net cash income does not include changes in the valuations of farm inventories.

Higher cash receipts and government payments coupled with a halt in the upward trend in production expenses resulted in a 10 percent increase in district net cash income this year compared with 1959. At $1,378 million, district net cash income is 2 percent above the average of the last five years, but 13 percent below the record 1958 level.

All district states except Montana experienced a rise in net cash income in 1960. Minnesota's net cash income was up 12 percent from 1959, while North and South Dakota experienced increases of 16 and 15 percent, respectively. Montana recorded a drop in net cash income of 7 percent during the period. On a per farm basis, the improvement in incomes between 1959 and 1960 would be even greater (or in Montana the loss would be less) due to the continuing trend toward fewer farm units.

Banking

An important force affecting district member banks in 1960 was the larger than usual outflow of deposits early in the year, followed by a larger than usual inflow in the last half. As revealed by chart 2, member bank deposits fell below the year-earlier level in late 1959 and early 1960. This pattern was visible in the national data as well, but member banks in the district suffered heavier demand deposit losses in the early months of 1960 than did the nation as a whole. In the first half of 1960 demand deposits of district member banks averaged 3 percent less than a year earlier, while nationally the decline was less than 1 percent. After mid-year, however, deposit gains exceeded those in comparable 1959 months, with the result that total member bank deposits in the district moved to record levels in the second half. This was true both at reserve city and at country banks.

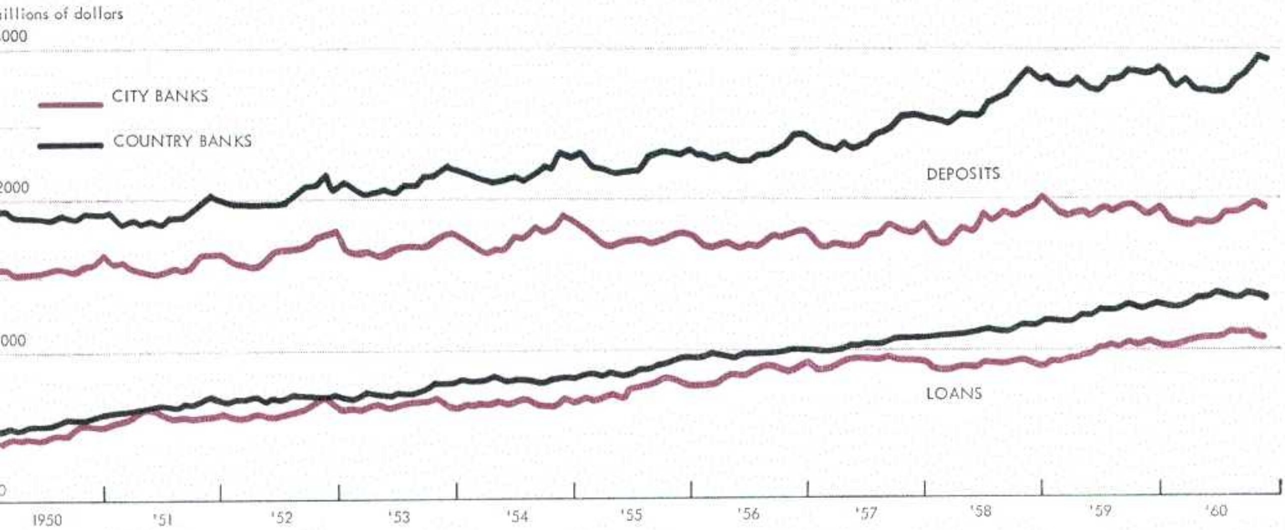
The first half deposit outflow, coupled with continued loan expansion and liquidation of government securities, severely squeezed the liquidity of many district banks. One measure of this, the ratio of loans to deposits, touched a postwar high at both the city banks and the country banks before falling in response to the unusually large deposit inflow registered in the last half of the year. The ratio of loans to deposits at the reserve city banks peaked in May at 64 percent as contrasted with 55 percent a year earlier. By November the ratio had declined to 57 percent. The country bank ratio of loans to deposits recorded a high of 51 percent in June, in contrast to 46 percent in June of 1959. By November 1960 the ratio had receded to 48 percent. The ratio of government securities to deposits for all member banks in the district touched a postwar low of 27 percent in August.

The squeeze on bank liquidity in the Ninth district was reflected early in 1960 by unusually heavy borrowing relative to previous years and relative to borrowing by member banks in the rest of the nation. In the first four months of 1960, average daily borrowings from the Federal Reserve Bank of Minneapolis were higher than in the comparable period of any other postwar years. After rising in each 1960 month through April, borrowings fell in each month thereafter. At less than $3 million, the December borrowing figure was the lowest in 31 months; the figure compared with $70 million in April when the reserve city banks were borrowing $60 million and the country banks $10 million. In April, district banks were thus accounting for more than 11 percent of all member bank borrowing in the nation, although holding less than 3 percent of all member bank deposits. The disproportion primarily reflected relatively heavy borrowing by reserve city banks in the district.

In April, district reserve city banks were borrowing from the Federal Reserve an amount equal to 33 percent of their required reserves, while reserve city and central reserve city banks in the nation as a whole were borrowing on the average less than 4 percent of required reserves. At the same time district country banks were borrowing about 4 percent of required reserves, the same as the national average for country banks. The ratio of loans to deposits at district city banks was then 63 percent, in contrast to a national average for city banks of 59 percent. By November, when the loan-deposit ratio at district city banks had declined to 57 percent (less than the national average of 58 percent for city banks), reserve city bank borrowing in the district approximated the national average of 1 percent of required reserves.

Although district member bank loans continued to grow in 1960, thereby aggravating the liquidity squeeze earlier in the year, the rate of growth was less than in 1959 and much less at the reserve city banks. There, loans rose by 3.3 percent

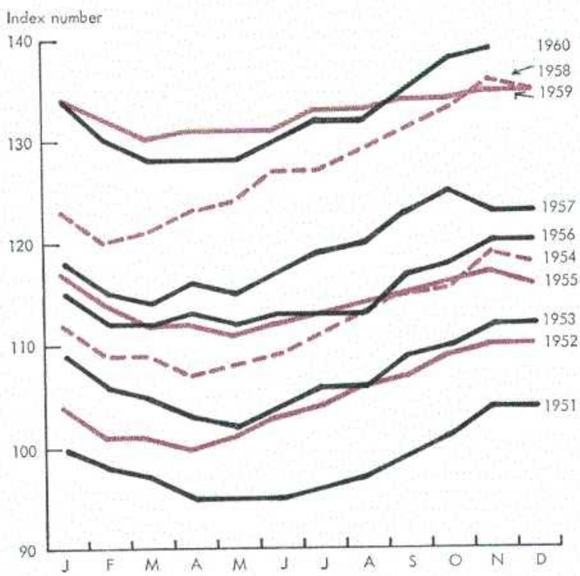
hart 1—Deposits and loans* of city and country district member banks



otal loans after deducting evaluation reserves and loans to other district banks.

Chart 2—Total deposits at district member banks

(daily average)



in the first half in contrast to 13.6 percent in the year-earlier period. In the five months ended November 1960 (latest data available) district city bank loans fell slightly, while a year earlier they had risen 5 percent. At the country banks a loan increase of 6 percent through June 1960 compares with a year-earlier gain of 8 percent; a 1 percent decline in the 5 months ended November 1960 compares with a 2 percent gain in the comparable months in 1959.

The growing total of loans at district member banks was reflected in their earnings and dividend reports for the first half of 1960. At \$72 million, revenue from loans was up 18 percent from the first half of 1959, even though the average amount of loans held in the first half of 1960 was up only 11 percent. The smaller increase of loans than of revenue from loans, of course, reflects the general increase in interest rates which occurred in 1959. The changing interest rate picture also influenced the income from investments at the banks. This income was \$600 million, or 2 percent larger in the first half of 1960 than a year earlier, even though the average amount of securities held dropped more than 10 percent from the former period.

At \$117.8 million, the total of current earnings from all sources in the first half of 1960 was \$13.5 million higher than a year earlier. Total current expenses were up \$9.5 million to \$78.5 million. The latter increase included added wages and salaries of \$2.1 million and added interest expense on time deposits of \$3.1 million. Time deposit balances of district member banks averaged 1.5 percent more in the first half than they did a year earlier.

After sharp declines in market interest rates earlier in the year, the discount rate at the Federal Reserve Bank of Minneapolis was cut from 4 percent to 3½ percent on June 10 and from 3½ percent to 3 percent on August 15. Other Federal Reserve moves affecting member banks included the permission to count all vault cash as legal reserve beginning November 24, and the increase of country member bank reserve requirements against net demand deposits by 1 percent on the same date.

Bank operations in 1960

The number of checks processed by the Federal Reserve Bank of Minneapolis continued to increase, although at a somewhat more moderate rate—4.7 percent for 1960 as compared with an average of 7 percent per year for the preceding six years. The dollar value of checks handled increased by a smaller percentage (1.8 percent) than did the number of checks, suggesting that as the use of checks has become more widespread they are more frequently used for smaller dollar transactions.

To handle the ever increasing volume of checks, the Federal Reserve System is working with the banking industry toward eventual magnetic imprinting of all checks and processing by high speed check handling machinery. Various departments of this bank, in connection with the check department, have been preparing for commencement of magnetic imprinting of the amounts for which checks are written. Initially, in 1961, this work will begin with checks drawn on banks in the Seventh Federal Reserve district, so that when these checks are forwarded to the Federal Reserve Bank of Chicago it will have a sufficiently large volume for efficient operation in the handling of completely encoded checks.

The major share of collection items other than checks handled by the Federal Reserve Bank of Minneapolis are grain drafts—a service provided because of the importance of agriculture in the Ninth district. During the second half of 1960 the number of grain drafts increased sharply, reflecting the excellent crops of this year. These figures are included in "all other" collection items handled, the total of which dropped due to the decreased use of our collection service by several member banks which made changes in their operating practices.

Transfers of funds through the leased wire system operated by the Federal Reserve banks enable member banks to effect transactions by debits and credits to their reserve accounts. This facility has been used increasingly in recent years, particularly in the field of Federal Funds transactions (loans by one member bank to another of excess balances in the lending bank's reserve account at the Federal Reserve Bank). More than half of the total dollar amount of transfers were made for this purpose. Banks used Federal Funds in lieu of or at times in addition to borrowing from the Federal Reserve Bank's discount window. The total dollar volume of discounts and advances increased over 1959 by $800 million. Most of this increase was concentrated in the first half of 1960, during which time the discount rate was 4 percent. Hence, earnings for the year from this source show an increase over 1959.

During the second half of the year, borrowing tapered off so that the daily average of borrowing was slightly below the $31 million figure of 1959. At the end of the year there was little borrowing by member banks, in part due to the November 24 amendments to Regulation D, which enabled member banks to count all of their vault cash as reserves. With vault cash also being used as reserves, member banks' reserves, as disclosed on the Statement of Condition, tended to be lower than a year earlier.

As currency in circulation in the hands of the public has been slowly increasing from year to year, the total of currency and coin counted at the Federal Reserve Bank has also increased. Added to this yearly increase in 1960 was a backlog of carryover work from 1959. With completion of remodeling and changes improving operating efficiency, currency from all sources is presently counted shortly after received. Also aiding in the efficient use of money is the door-to-door currency and coin service provided to 89 member banks located on six routes leading in various directions from Minneapolis. There is considerable saving in transit time for currency and coin shipped on these runs.

The volume figures of services provided by the fiscal agency department to the U. S. Treasury reflect changes in the Government's budget situation from a 1959 deficit to a 1960 surplus as well as recent variations in refunding of the public debt. Measures undertaken to diversify ownership of the public debt are resulting in increased number of U. S. Government coupons being handled as collection items. With the balanced 1960 budget, the Treasury offered fewer cash issues of securities, thus decreasing the dollar amount by over $200 million. Offsetting this drop was a $100 million increase in redemptions as a large dollar volume of U. S. Government securities matured during the year. The Treasury did not grant a pre-emptive privilege to holders of two issues maturing in August, partially to foster diversification, and also initiated advance refunding of part of the outstanding public debt in efforts to extend its maturity structure.

Earnings of the Federal Reserve Bank of Minneapolis from its participating interest in Government securities held in the System account increased over 1959 by $6 million. Only a small portion of this increase was due to the slightly higher average size of portfolio held in 1960. Most of the increased earnings came from higher interest rates paid on that portion of the portfolio which is held in intermediate term Certificates of Indebtedness and Notes. As these mature they are reinvested in the new issues offered by the Treasury. The variation in earnings from this source depends upon the interest rates on the securities that are reissued.

Included in current expenses in 1960 was part of the renovation of the "banking" floor of the building. Now completed, the second floor is open to provide better service through improved working conditions. The discount, safekeeping, and fiscal agency departments have their windows centrally located there for the convenience of the commercial banks. Most of the increase in current expenses during the year is accounted for by a higher total salary expense due to a larger working staff.

Even though current net earnings increased substantially due to the increased earnings on U. S. Government securities, the amount paid by the bank to the Treasury as interest on Federal Reserve notes did not equal last year's sum. In 1959 the Board of Governors, after consultation with the Federal Reserve banks, concluded that maintenance of surplus at 200 percent of capital would be appropriate for this account. Accordingly, accumulated excess surplus was paid to the Treasury, along with current net earnings after certain additions. Included in these additions in 1959 were amounts transferred from reserves for contingencies that had been previously maintained. In 1960 a remaining reserve for registered mail losses was eliminated after determination by the System that such losses could adequately be charged to current expense if they should occur.

On December 31, there were in the Ninth Federal Reserve district 347 national banks, 128 state member banks, and 239 par remitting nonmember banks. Capital stock of the Federal Reserve Bank of Minneapolis was increased by about $500,000 during the year, as member banks increased their capital and surplus accounts. In line with the conclusion reached in 1959, the surplus of the Federal Reserve Bank was increased $1 million to maintain surplus at 200 percent of capital.

Volume of Operations

	Number of pieces handled 1960	1959	Amounts handled 1960	1959
Discounts and advances	1,084	1,450	$3,790,303,000	$3,059,746,000
Currency received and counted	74,972,916	68,056,123	483,123,000	468,409,000
Coin received and counted	162,569,816	165,598,486	17,008,000	17,772,000
Checks handled, total	141,330,899	136,391,573	40,514,990,000	39,874,649,000
Collection items handled:				
U.S. Govt. coupons paid	408,203	364,055	83,300,000	73,170,000
All other	815,089	910,479	602,510,000	615,374,000
Issues, redemptions, exchanges of U.S. Government securities	4,598,635	4,694,142	6,693,231,000	6,541,938,000
Transfers of funds	86,601	85,788	45,289,000	37,205,000

Earnings and Expenses

	1960	1959
CURRENT EARNINGS		
Discounts and advances	$ 1,134,086	$ 1,097,617
United States Government securities	24,971,838	19,181,826
All other	20,847	36,119
Total Current Earnings	26,126,771	20,315,562
CURRENT EXPENSES		
Operating Expenses	6,049,673	5,695,190
Assessment for expenses of Board of Governors	148,600	153,000
Federal Reserve Currency	242,436	191,964
Total Current Expenses	6,440,709	6,040,154
Less: reimbursement for certain fiscal agency and other expenses	659,633	630,258
Net Expenses	5,781,076	5,409,896
CURRENT NET EARNINGS	20,345,695	14,905,666
NET ADDITIONS TO CURRENT NET EARNINGS		
Profits on sales of U.S. Government securities (net)	55,983	4,325
Transferred from reserves for contingencies (net)	294,453	3,964,289
All other	— 8,092	— 349
Total Additions	342,344	3,968,265
NET EARNINGS BEFORE PAYMENTS TO UNITED STATES TREASURY	20,688,039	18,873,931
PAID TO U.S. TREASURY (Interest on Federal Reserve Notes)	18,891,558	21,560,985
DIVIDENDS PAID	550,681	518,245
TRANSFERRED TO SURPLUS	1,245,800	— 3,205,299
SURPLUS January 1	17,579,700	20,784,999
SURPLUS December 31	18,825,500	17,579,700

Statement of Condition

ASSETS	Dec. 31, 1960	Dec. 31, 1959
Gold certificate account	$ 344,571,912	$ 358,238,846
Redemption fund for Federal Reserve Notes	26,033,258	23,410,318
Total Gold Certificate Reserves	370,605,170	381,649,164
Federal Reserve Notes of other Federal Reserve Banks	19,713,500	23,008,800
Other cash	7,986,060	11,721,793
Discounts and advances:		
Secured by U.S. securities	1,400,000	17,589,000
Other	184,000	120,000
United States Government securities	626,170,000	606,024,000
Total loans and securities	627,754,000	623,733,000
Due from foreign banks	327	345
Cash items in process of collection	181,133,720	163,981,136
Bank premises	4,973,935	5,059,428
Other assets	4,814,276	5,937,007
Total Assets	**$1,216,980,988**	**$1,215,090,673**
LIABILITIES		
Federal Reserve Notes in actual circulation	595,186,895	608,162,300
Deposits:		
Member bank—reserve accounts	418,678,811	404,177,790
United States Treasurer—general account	23,393,387	23,771,287
Foreign	4,922,000	8,352,000
Other deposits	1,941,763	10,389,563
Total deposits	448,935,961	446,690,640
Deferred availability cash items	143,476,468	132,062,318
Other liabilities	1,143,414	1,511,412
Total Liabilities	**$1,188,742,738**	**$1,188,426,670**
CAPITAL ACCOUNTS		
Capital paid in	9,412,750	8,789,850
Surplus	18,825,500	17,579,700
Other capital accounts	—0—	294,453
Total Liabilities and Capital Accounts	**$1,216,980,988**	**$1,215,090,673**
Ratio of gold certificate reserves to deposit and Federal Reserve Note liabilities combined	35.5%	36.2%

Officers of the Federal Reserve Bank of Minneapolis

Frederick L. Deming	President
Albert W. Mills	First Vice-President
J. Dewey Daane	Vice-President and Economic Adviser
Kyle K. Fossum	Vice-President
Clarence W. Groth	Vice-President and Cashier
Melvin B. Holmgren	Vice-President
Arthur W. Johnson	Vice-President
Harold G. McConnell	Vice-President and Secretary
Maurice H. Strothman, Jr.	Vice-President and General Council
Roger K. Grobel	Chief Examiner
Arthur J. McNulty	General Auditor
Franklin L. Parsons	Director of Research
Frederick J. Cramer	Assistant Vice-President
Orthen W. Ohnstad	Assistant Vice-President
Christian Ries	Assistant Vice-President
Oscar F. Litterer	Business Economist
Milford E. Lysen	Operating Research Officer
John P. Olin	Assistant Counsel
Carl E. Bergquist	Assistant Cashier
William C. Bronner	Assistant Cashier
John J. Gillette	Assistant Cashier
William A. O'Brien	Assistant Cashier
Marcus O. Sather	Assistant Cashier

Officers of the Helena Branch

Clement Van Nice	Vice-President assigned to Helena Branch
John L. Heath	Assistant Cashier assigned to Helena Branch
Robert W. Worcester	Assistant Cashier assigned to Helena Branch

As of December 31, 1960.

Directors of the Federal Reserve Bank of Minneapolis

		Term expires December 31
Class A		
Harold C. Refling	Cashier, First National Bank in Bottineau Bottineau, North Dakota	1960
John A. Moorhead	President, Northwestern National Bank of Minneapolis Minneapolis, Minnesota	1961
Harold N. Thomson	Vice-President, Farmers & Merchants Bank Presho, South Dakota	1962
Class B		
Ray C. Lang	President, Chippewa Canning Company, Inc. Chippewa Falls, Wisconsin	1960
T. G. Harrison	Chairman of the Board, Super Valu Stores, Inc. Hopkins, Minnesota	1961
J. E. Corette	President and General Manager, Montana Power Company Butte, Montana	1962
Class C		
O. B. Jesness	CHAIRMAN AND FEDERAL RESERVE AGENT Agricultural Economist, St. Paul, Minnesota	1960
John H. Warden	President, Upper Peninsula Power Company Houghton, Michigan	1961
Atherton Bean	DEPUTY CHAIRMAN President, International Milling Company Minneapolis, Minnesota	1962

Directors of the Helena Branch

Appointed by Federal Reserve Bank		
Roy G. Monroe	President, First State Bank of Malta Malta, Montana	1960
Harald E. Olsson	President, Ronan State Bank Ronan, Montana	1960
O. M. Jorgenson	Chairman, Security Trust and Savings Bank Billings, Montana	1961
Appointed by Board of Governors		
John D. Stephenson	CHAIRMAN Partner in law firm of Jardine, Stephenson, Blewett & Weaver, Great Falls, Montana	1960
John M. Otten	VICE-CHAIRMAN Farmer and Rancher Lewistown, Montana	1961

Member of Federal Advisory Council

Gordon Murray	President, First National Bank of Minneapolis Minneapolis, Minnesota

As of December 31, 1960.