

Bank earnings in 1963

In his message to Congress on January 20, 1964, President Johnson assessed the nation's economic progress during the preceding year¹ and reported with justified satisfaction that important milestones had been achieved as the economy moved forward to higher levels of activity. By the end of 1963, for example, Gross National Product had passed the \$600 billion mark, average earnings in manufacturing had exceeded \$100 per week, and personal income before taxes had reached an annual rate of \$2,500 per capita. In addition, civilian employment during the year averaged 69 million, approximately one million more than the record average of the previous year. The expansion of the economy to these higher marks of income and employment indicated substantial improvement in material levels of living as well as progress toward the important goal of full utilization of resources.

But not all sections of the economy participated in the 1963 expansion. Member banks in the Ninth district were well aware of this disparity as they totaled up revenue and expense items for their annual income statements. The final reports submitted to the Minneapolis Federal Reserve Bank indicate that after-tax profits in 1963 changed little from the level they had reached in 1962, a somewhat surprising development in view of the substantial increase in current operating revenues derived for the most part from an expansion of earning assets. The gain in operating revenues, however, was entirely offset by: additional expense outlays, including significantly higher interest payments on time and savings deposits; slightly larger nonoperational losses; and moder-

ately increased state and federal income tax payments. The present article proposes to give a more detailed description of these developments.

A review of policy

The dominant changes between 1962 and 1963 were: (1) the increase in earning assets, and (2) the expanded outlays on time and savings deposits. Since an explanation of both changes would not be complete without reference to the policy actions of the Federal Reserve System, a brief review of monetary policy is in order.

Federal Reserve policy in 1962-1963 was primarily directed toward encouraging the expansion of the domestic economy and defending the United States balance of payments against dollar outflows into short-term foreign investments. To encourage production, income, and employment the Federal Reserve System throughout the period supplied additional reserves to the banking system, primarily through open market operations. On the basis of these reserves, member banks were able to expand their earning assets—acquire new loans and investments—while adding to the liquidity of the economy through the creation of demand deposits. As a means of minimizing the outflow of dollars, Federal Reserve authorities initiated policies that would: (a) raise short-term interest rates within the United States to levels competitive with those prevailing in money markets abroad, and (b) at the same time minimally disturb long-term interest rates, which enter significantly into decisions on capital outlays.

Among the policies initiated to raise short-term interest rates, the most important for commercial banks was the two-stage liberalization of Regula-

¹U. S., President, *Economic Report of the President* (Washington: U. S. Government Printing Office, 1964), p. 4.

tion Q.² The first change, effective in January 1962, permitted interest rates as high as 4 per cent (instead of the old limit of 3 per cent) on time and savings deposits held more than a year (see Table 1). The second liberalization, effective in July 1963, extended the 4 per cent maximum to time deposits with a maturity of 90 days or more.

TABLE 1—MAXIMUM INTEREST RATES PAYABLE ON TIME AND SAVINGS DEPOSITS

Type of deposit	(per cent per annum)		
	January 1, 1957 through December 31, 1961	January 1, 1962 through July 16, 1963	July 17, 1963 to present
Savings deposits held:			
1 year or more	3	4	4
Less than 1 year	3	3½	3½
Other time deposits payable in: ^a			
1 year or more	3	4	4
6 months to 1 year	3	3½	4
90 days to 6 months	2½	2½	4
Less than 90 days	1	1	1

^aNot applicable to time deposits held by foreign governments and certain international organizations after October 1962.

SOURCE: Board of Governors of the Federal Reserve System.

In response to these changes and in order to compete more effectively with other savings institutions, commercial banks lifted rates payable on deposits, thus making dollar deposits more inviting vehicles of financial investment. The substantial amounts of savings attracted by the higher rates freed reserves (because of the lower reserve requirement on time and savings deposits than on demand deposits) and permitted a further expansion of credit. In order to pay the higher rates on deposits, commercial banks channeled a substantial portion of their new funds into longer-term assets providing higher yields. The result was downward pressure on long-term rates, which kept

²The express purpose of both changes in Regulation Q was to increase the freedom of member banks to compete more vigorously for time and savings deposits, including the deposits of nonresidents.

them at levels only moderately above those prevailing in early 1961, the trough of the last recession.

Record revenues

The expansion of credit in the national economy was paralleled by a similar development in the Ninth district. As indicated in Table 2, the average amount of loans and investments held at district member banks was substantially higher in 1963 than in 1962. Most of the increase was accounted for by a \$327 million addition to outstanding loans, a record gain that was largely attributable to an expansion of commercial and industrial, real estate, and farm loans. The remainder of the district increase in credit reflected a rise in investments. As banks found their resources more than sufficient to meet the loan requirements of their customers, they enlarged their holdings of U. S. Government securities by \$44 million and of other securities by a substantial \$84 million. The increase was \$14 million in U. S. Government securities represented the difference between a \$140 million rise in obligations maturing in more than five years and a partially offsetting decline of \$96 million in securities of shorter maturity.

TABLE 2—AVERAGE ASSETS, LIABILITIES, AND CAPITAL, NINTH DISTRICT MEMBER BANKS

Item	(millions of dollars)		
	1963	1962	Change 1962-63
Loans	\$3,003	\$2,676	\$+327
U. S. Govt. securities	1,539	1,494	+ 44
Other securities	618	535	+ 84
Cash	1,073	1,076	— 3
Other assets	137	122	+ 15
Total assets	6,371	5,902	+469
Demand deposits	3,378	3,324	+ 54
Time deposits	2,364	2,017	+347
Other liabilities	130	93	+ 37
Capital	498	468	+ 30

NOTE: Details may not add to totals because of rounding. The figures for assets, liabilities, and capital are averages of the amounts reported on official call dates.

SOURCE: Federal Reserve Bank of Minneapolis.

The expansion of credit occurred with relatively little change in the rates of return earned by district member banks on their holdings of loans and investments. The average return on loans held steady at 6.19 per cent in 1963, while the return on other securities declined insignificantly to 2.98 per cent from 2.99 per cent in 1962. The only marked change was in the rate earned on U. S. Government securities—from 3.34 per cent in 1962 to 3.52 per cent in 1963. This rise reflected the somewhat higher rates of interest generally available on U. S. Government securities as well as the shift in bank portfolios to longer-term and higher yielding obligations.

Despite the relative stability in rates of return, total earnings on member bank loans and investments (see Table 3) showed a marked rise in 1963—\$20.1 million on loans, \$4.2 million on U. S. Government securities, and \$2.4 million on other securities. The expansion of bank credit noted above was, of course, the decisive factor.

Combined with the revenue gains on loans and investments were smaller but nevertheless significant increases of \$1.1 million in service charges on deposits and \$1.5 million in other current revenue. (This last item includes, among a variety of other revenues: gross rentals from safe deposit boxes, interest earned on deposits in other banks, charges for the collection of checks, and trust department revenue.)

As a result of the larger earnings derived from loans and investments and the other sources just mentioned, total operating revenue at district member banks increased \$29.1 million in 1963 over the previous year—the largest year-to-year advance in the postwar period.

Operating expenses

The substantial increase in current revenue was almost completely offset by a rise of \$26.5 million in the current operating costs of district member banks. While outlays for the occupancy of bank premises, furniture and equipment, and other

TABLE 3—REVENUE, EXPENSE, AND PROFIT OF NINTH DISTRICT MEMBER BANKS

	(millions of dollars)		Change
	1963	1962	1962-63
Current operating revenue	\$297.1	\$267.9	\$+29.1
Interest and dividends on:			
U. S. Govt. securities	54.1	49.9	+ 4.2
Other securities	18.4	16.0	+ 2.4
Interest and charges on loans	185.7	165.6	+20.1
Service charges on deposits	17.9	16.8	+ 1.1
Other current revenue	21.0	19.5	+ 1.5
Current operating expense	214.4	187.9	+26.5
Salaries and wages	72.2	68.6	+ 3.6
Officer and employee benefits	10.5	10.0	+ 0.5
Interest on time deposits	75.3	58.7	+16.6
Net occupancy expense	12.5	11.4	+ 1.1
Furniture and equipment	7.2	6.2	+ 1.0
Other expense	36.7	33.0	+ 3.7
Net current earnings	82.6	80.0	+ 2.6
Nonoperating gains or losses	— 6.9	— 5.2	— 1.7
On securities	+ 1.7	+ 3.5	— 1.8
On loans	— 0.4	— 0.4	-
Other	— 0.3	— 0.6	+ 0.3
Net transfers to (—) and from (+) valuation reserves	— 7.9	— 7.7	— 0.2
Taxes on income	31.6	30.7	+ 0.9
Net income after taxes	44.0	44.1	— 0.1
Dividends declared	19.6	19.1	+ 0.5
Retained profits	24.4	25.0	— 0.6

*Less than \$50,000.

NOTE: Details may not add to totals because of rounding.

SOURCE: Federal Reserve Bank of Minneapolis.

items³ were notably higher in 1963, more than three-fourths of the rise in operating costs was attributable to expanded employment costs and larger payments on time and savings deposits.

A factor leading to higher costs in 1963 was the increase in number of bank employees. This rise

³ Other current operating expense includes the cost of office supplies, automobile expenses, retainer fees, deposit insurance charges, and the costs of examination.

represented a further advance in an uptrend which started in the early 1940's and continued with only one interruption in the years that followed. The growth in employment paralleled the growth in the volume and variety of services provided by district banks. The pace of the expansion slowed somewhat in the years after 1960, however, as new equipment and procedures were introduced to handle the swelling mass of bank paperwork more efficiently. This slower pace was a characteristic of 1963. Despite a substantial increase in loans, investments, and deposits during the year, total employment advanced only 2 per cent, a gain that contrasts with the 3.9 per cent average yearly increase in the period 1946-1960.

The rise in employment was coupled with an increase in both direct and indirect payments to employees. In line with the nationwide movement to higher rates of pay, the average rate of employee compensation at district member banks advanced \$1.55 to a level of \$4,963 during the year. Also higher were employee benefits, including bank expenditures for hospitalization, insurance, and retirement plans, as well as for cafeterias and other employee facilities. Benefits averaged \$719 per employee in 1963, \$20 higher than the average of the preceding year. The increase in benefits and compensation per employee together with the rise in employment combined to increase total labor payments by \$4.1 million dollars, or 5.2 per cent.

But this addition to the wage bill was dwarfed by the expansion of interest payments on time and savings deposits resulting from higher rates paid on deposits and substantial inflows of new funds. The increase in rates paid on deposits reflected the intensified effort of district banks to compete for the financial savings of households, business firms, and governmental units beginning early in 1962 when Regulation Q was changed by the Board of Governors to permit higher rates. In response to this change, the larger banks in the district raised rates almost immediately; but among the smaller banks in the district, those with less than \$5 million in total deposits, few rates were lifted to at-

Market rates of interest

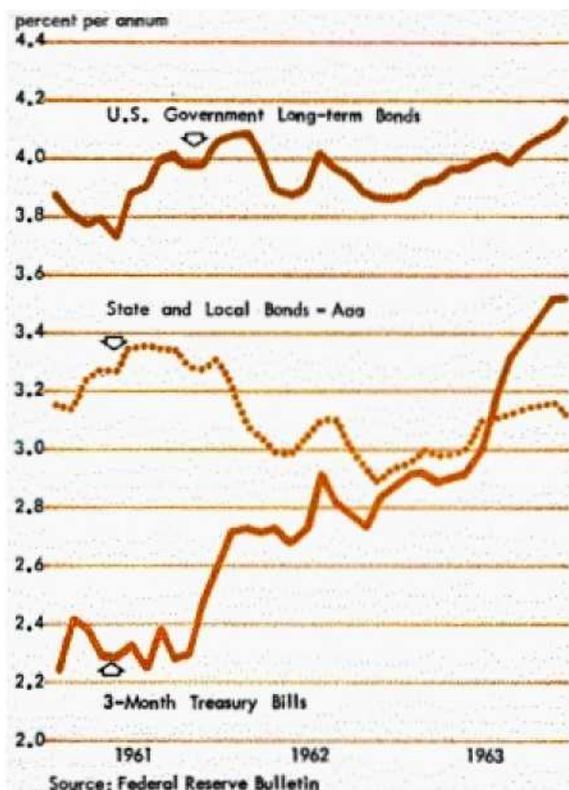


TABLE 4—INTEREST PAYMENTS AS A PER CENT OF TIME AND SAVINGS DEPOSITS, BY SIZE OF BANK, NINTH DISTRICT MEMBER BANKS

Average total deposits (millions of dollars)	1963	1962	1961
Under \$2	3.20%	2.57%	2.55%
\$2 - \$5	3.16	2.58	2.57
\$5 - \$10	3.24	2.74	2.52
\$10 - \$25	3.25	2.97	2.65
\$25 and over	3.34	3.11	2.72

NOTE: The classification by size is based on the average amount of total deposits outstanding at official call dates. The percentages reported are averages of individual bank percentages.

SOURCE: Federal Reserve Bank of Minneapolis.

tract new deposits (see Table 4). Nevertheless, the boost in rates at the larger institutions in the district was enough to raise the average rate for the

entire district from 2.59 per cent in 1961 to 2.91 per cent in 1962.

The step-up in deposit rates continued during 1963 as both large and small banks attempted to draw new funds for the expansion of their loan and security portfolios. The smaller banks in the district were particularly aggressive in contrast to their hesitancy in the preceding year. Thus, at banks with under \$2 million in deposits, the average rate on time and savings deposits jumped from 2.57 per cent to 3.20 per cent. This increase, combined with the increases at other district banks, raised the average rate in the entire district by a substantial margin — from 2.91 per cent to 3.19 per cent.

The willingness of member banks in the district to lift interest rates paid to depositors was not without its effect on the inflow of funds. Time and savings deposits in the district averaged \$347 million more in 1963 than in the previous year, a record gain for the postwar era.

The resulting impact on bank costs of the added volume of deposits and higher pay-out rates was a \$16.6 million expansion of interest paid on time and savings deposits, accounting for almost two-thirds of the \$26.5 million increase in total operating expense.

Profits unchanged

The improvement in current revenue at district member banks (\$29.1 million) was more than enough to meet the jump in costs, thus leaving a gain of \$2.6 million in net current earnings (the difference between revenues and costs). Had there been no offsets to this rise in current earnings, district banks would have shown larger profits in 1963 than in 1962. This was not the case.

The largest offset was in the category of nonoperating gains and losses, an item which includes:

- (1) Profits on the sale of securities less losses (except those charged against valuation reserves) sustained at prices below book value.

- (2) Recoveries on loans previously reported as charge-offs against undivided profits less losses on loans for which a corresponding charge against undivided profits is made.
- (3) Other gains, such as profits on real estate sold, less other losses. Included in the latter are losses on counterfeit money and forged checks, net cash shortages, and losses resulting from lawsuits.
- (4) Net transfers from valuation reserves, more appropriately termed bad debt reserves, less net transfers to build up such reserves against which losses may be charged rather than against undivided profits.

In 1963, the last three items were negative, as has ordinarily been the case in past years, and little changed in magnitude from the amounts reported in 1962 (see Table 3). Net profits on security sales, however, were off \$1.8 million in 1963, primarily reflecting the limited opportunities for selling at a profit in a declining market. Largely as a result of this drop, nonoperating losses were \$1.7 million higher.

A further offset was represented by income taxes paid to state and federal authorities. Because of a shift in the distribution of income from banks with lower effective tax rates to those with higher rates, the amount of taxes paid increased \$900,000.

These offsets ultimately eliminated the \$2.6 million gain in net current earnings and reduced after-tax profits by \$100,000 to a level of \$44.0 million.

Summary

Ninth district banking in 1963 was characterized by: (1) higher rates paid on time and savings deposits, (2) a pronounced increase in time and savings deposits, and (3) an expansion of loans and investments. The effect of these changes on member banks was a level of profits little changed from the level attained in 1962. The impact on the Ninth district, though impossible to quantify, may be out-

lined in general terms. The increase in rates paid on time and savings deposits provided higher incomes to deposit holders — higher incomes which in turn permitted additional spending, saving, or some combination of both. With the new funds attracted by the higher rates, member banks were

able to extend substantial amounts of new loans to finance expenditure plans that might have been impossible or more difficult to finance and complete without the more ample supply of bank credit which was available.

— JAMES N. DUPREY

Current conditions . . .

THE economic expansion which began in February 1961, has continued through the first half of 1964. Indeed, despite the tranquilizing effect of summer, the advance gives evidence of at least a mild acceleration. The economic outlook, accordingly, is viewed most optimistically by the majority of economists.

Data covering household spending behavior suggests, in line with expectations, that households are responding to the personal tax cut received in March. This response is manifested in both consumer spending and consumer spending plans.

In May, personal income, employment, and production all advanced to new record highs. The unemployment figures present the one jarring note in the economic scene. Unemployment, after falling from 5.4 per cent to 5.1 per cent in May, rose again to 5.3 per cent in June.

Prices, long the object of concern in this record expansion, continue to exhibit significant stability.

Measures of the district economic picture also give evidence of the continued expansion. Personal income and production have both risen to new

highs. Bank credit has expanded moderately as have deposits. The district agricultural crop outlook also appears quite favorable.

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

NINTH DISTRICT MANUFACTURING GROWTH

Since World War II, manufacturing has grown in importance in the district's economy. The growth in manufacturing employment has partly offset the decline in such important industries as agriculture, mining, and railroads. Accelerating growth not only provides more employment in the basic industries but also provides a basis for an expansion of employment in secondary industries, such as construction, wholesale and retail trade, and services. Consequently, a primary objective of many community and state industrial development programs and of the federal area redevelopment pro-

gram in regions of chronic unemployment has involved the encouragement of manufacturing.

The output of manufactured products, on the basis of measures available, moves in fairly close accord with the fluctuations of business cycles. Even though the most recent recession, from May 1960 to February 1961, was less severe in this district than in the nation as a whole, manufacturing activity in this region did recede. But since February 1961, the district as well as the nation has experienced continuous expansion and the growth in district manufacturing has been substantial.

There is no direct measure available on the total

output of industrial products in this district. The rise or decline can be measured indirectly by the trend in employment and by the consumption of electric power in manufacturing plants.

Employment

From 1961 through 1963, annual employment in district manufacturing plants rose by 16,700 to a total of 300,200. Of this total employment gain, about 80 per cent, or 13,400, occurred in plants producing durable goods.

Only part of the expansion in the output of industrial products in the district is measured by growth in employment. Productivity — the rise in

TABLE 1—NINTH DISTRICT GROWTH IN MANUFACTURING EMPLOYMENT BY INDUSTRY (in thousands of workers)

			(Minnesota)		(Montana, North Dakota, South Dakota, Upper Michigan)			
	1961	1963	Change in number of workers	Per cent change	1961	1963	Change in number of workers	Per cent change
Manufacturing tied to district's raw materials								
Food and kindred products	55.7	54.2	- 1.5	- 2.7	17.1	16.9	- .2	- 1.2
Lumber and wood products, exc. furniture	6.7	6.3	- .4	- 6.0	12.1	13.7	+ 1.6	+ 13.2
Paper and allied products	22.5	24.2	+ 1.7	+ 7.6	2.3	2.3	—	—
Chemicals and petroleum products	5.8	6.8	+ 1.0	+ 17.2	2.0	1.8	- .2	- 10.0
Primary metal products	5.3	5.7	+ .4	+ 7.5	4.1	3.7	- .4	- 9.8
Stone, clay and glass products	6.5	6.8	+ .3	+ 4.6	.6	.5	- .1	- 16.7
Iron ore pellets	4.6	4.9	+ .3	+ 6.5	.5	1.1	+ .6	+ 120.0
Total	107.1	108.9	+ 1.8	+ 1.7	38.7	40.0	+ 1.3	+ 3.4
Manufacturing of durables not tied to district's raw materials								
Furniture and fixtures	2.5	2.6	+ .1	+ 4.0	.9	.9	—	—
Fabricated metal products	14.2	15.6	+ 1.4	+ 9.9	2.1	1.9	- .2	- 9.5
Transportation equipment	4.0	4.5	+ .5	+ 12.5	.2	.2	—	—
Nonelectric machinery	32.2	36.2	+ 4.0	+ 12.4	2.1	3.0	+ .9	+ 42.9
Electrical machinery	16.1	18.6	+ 2.5	+ 15.5	.3	.4	+ .1	+ 33.3
Other durable goods	24.7	25.4	+ .7	+ 2.8	2.4	5.6	+ 3.2	+ 133.3
Total	93.7	102.9	+ 9.2	+ 9.8	8.0	12.0	+ 4.0	+ 50.0
Manufacturing of nondurables not tied to district's raw materials								
Textile mill products	2.3	2.6	+ .3	+ 13.0	.5	.5	—	—
Apparel and other finished products	6.8	7.4	+ .6	+ 8.8	—	—	—	—
Printing and publishing	19.9	20.5	+ .6	+ 3.0	5.2	5.0	- .2	- 3.8
Rubber and leather products	4.1	4.6	+ .5	+ 12.2	—	—	—	—
Other nondurables	—	—	—	—	1.3	1.0	- .3	- 23.1
Total	33.1	35.1	+ 2.0	+ 6.0	7.0	6.5	- .5	- 7.1
Grand Total	233.9	246.9	+ 13.0	+ 5.6	53.7	58.5	+ 4.8	+ 8.9

the output per worker — is an important factor. In the food industry, the output per worker has grown faster than the expansion in total output, resulting in a decline in employment during the current period of expansion. In other district industries, total output has advanced faster than productivity and so employment has grown.

Electric power

Kilowatt hours of electricity used is another indicator of output. As new and improved equipment replaces outmoded equipment, increased consumption of electric energy includes the rise in productivity.

From 1961 through 1963, the kilowatt hours of electric power used in district manufacturing plants rose by 17 per cent. The use of power in plants producing durable products rose by 20 per cent while, in those producing nondurables, it rose by 13 per cent, indicating that the growth in output in the latter was not as rapid.

Nature of industrial growth

A large part of the district's manufacturing is tied to resources in the region. For instance, the processing of food and kindred products is associated with the region's agriculture, the production of lumber and other wood products is bound to the forest areas, and the beneficiation of minerals is restricted to the areas of ore deposits. For some

food products, like canned and frozen vegetables, the processing must be done near the source of supply to preserve quality. For other products, it is more economical to manufacture near the source of raw materials, since the cost of transportation is higher on the raw materials than on the finished products. The growth in the manufacture of these products depends on the available supply of raw materials and in many instances, because of high transportation costs, it also depends heavily on the growth of regional markets. Since a large share of the district's manufactured products supplies markets within this area, the expansion of markets near the Ninth district provides considerably more stimulus to its growth than the development of substantial but distant markets in places such as the southwestern part of the United States.¹

In Minnesota, where district manufacturing is concentrated, employment in the resource-tied industries declined in the food and kindred products and in lumber and other wood products, and rose in the other industries from 1961 through 1963. The largest expansion (1,700 workers) occurred in paper and allied products, and the largest percentage growth was in chemical and petroleum products (see Table 1).

Among the industries in Minnesota producing durable products not tied to the region's resources, transportation equipment, and electrical and non-electrical machinery production showed rapid growth in employment. Plants producing machinery constitute relatively large industries, and 6,500 workers were added in the three-year period. In the industries producing nondurables not tied to local resources, employment grew in all categories with a significant percentage increase occurring in the textile mill products and in rubber and leather products.

In the other district states² from 1961 through 1963, employment in the resource-tied industries

¹ See Duncombe, Bruce F., *Upper Midwest Commodity Flows*, 1958, Technical Paper No. 4, October 1962, *Upper Midwest Economic Study*.

² Statistical data are not available for northwestern Wisconsin.

(Ninth District)		Change in number of workers	Percent change
1961	1963		
72.8	71.1	- 1.7	- 2.3
18.8	20.0	+ 1.2	+ 6.4
24.8	26.5	+ 1.7	+ 6.9
7.8	8.6	+ .8	+10.3
9.4	9.4	—	—
7.1	7.3	+ .2	+ 2.8
5.1	6.0	+ .9	+17.6
145.8	148.9	+ 3.1	+ 2.0
3.4	3.5	+ .1	+ 2.9
16.3	17.5	+ 1.2	+ 7.4
4.2	4.7	+ .5	+11.9
34.3	39.2	+ 4.9	+14.3
16.4	19.0	+ 2.6	+15.9
27.1	31.0	+ 3.9	+14.4
101.7	114.9	+13.2	+13.0
2.8	3.1	+ .3	+10.7
6.8	7.4	+ .6	+ 8.8
25.1	25.5	+ .4	+ 1.6
4.1	4.6	+ .5	+12.2
1.3	1.0	- .3	-23.1
40.1	41.6	+ 1.5	+ 3.7
287.6	305.4	+17.8	+ 6.2

grew only in the Montana lumber and wood product plants. In the other categories, employment declined by anywhere from 100 to 400 workers. In the manufacture of durables not tied to the region's resources, large employment increases during this period occurred as a result of the assembling of Titan and Minutemen launching facilities in newly constructed bases. This work began on most bases in 1961 or 1962 and was completed in 1963. Although the construction of bases and the assembling of missiles continue in North Dakota, the entire operation is obviously a temporary one. In industries producing nondurables that are not resource-tied, employment either remained stable or declined.

Statistical information on the industrial use of electric power is available by industries only for the district as a whole (see Table 2). Among the district industries tied to sources of raw materials, the use of electric energy from 1961 through 1963 rose by 7 per cent in the food and kindred products industry, while employment declined in response to a more extensive use of improved equipment. The energy used in lumber and wood products and in petroleum products rose sharply while growth in employment was small also indicating a rise in productivity.

In the durables goods industries not tied to local resources, there was a rapid increase in the energy used in all industries except furniture and fixtures. Among the nonresource-tied industries producing nondurables, there was a rapid rise in the energy used in apparel and textile mill products and in printing and publishing.

According to the trends of both employment and energy used in manufacturing plants, manufacturing has expanded at about the same rate in the district as in the nation during the current economic expansion. The growth in manufacturing employment has been heavily concentrated in the manufacture of durables not tied to resources in this region — durables such as electrical and non-electrical machinery and electronic equipment. Although the increase in electrical power usage has

been more evenly distributed among the industrial categories, there has been some concentration among industries producing non-resource-tied goods, both durable and nondurable. In summary, then, the industrial growth in the district during the current period of economic expansion has been concentrated in the nonresource-tied industries.

TABLE 2—INDUSTRIAL USE OF ELECTRIC POWER
NINTH DISTRICT INDEX¹—1957-1959 = 100

	1961	1963	Per cent change
Manufacturing tied to district's raw materials			
Food and kindred products	113	121	+ 7.1
Lumber and wood products, except furniture	130	156	+20.0
Paper and allied products	115	130	+13.0
Chemicals	102	101	— 1.0
Petroleum products	135	188	+39.3
Primary metal products	106	109	+ 2.8
Stone, clay and glass products	114	127	+11.4
Manufacturing of durables not tied to district's raw materials			
Furniture and fixtures	86	89	+ 3.5
Fabricated metal products	107	125	+16.8
Transportation equipment	68	87	+27.9
Nonelectric machinery	112	136	+21.4
Electrical machinery	112	135	+20.5
Other durable goods ²	131	164	+25.2
Manufacturing of nondurables not tied to district's raw materials			
Apparel and textile mill products	107	155	+44.9
Printing and publishing	118	149	+26.3
Rubber and leather products	103	103	—

¹ Index computed from kilowatt hours of electrical power used by manufacturing firms.

² Scientific instruments, and miscellaneous industries including ordnance.

BANK CREDIT

Following a sharp upturn in May, outstanding loans continued to rise at an above seasonal pace at district member banks during June. As a result of the accelerated rate of loan expansion in the last two months, the increase in outstanding loans for the first six months of the year exceeded the average rise in the comparable period over the last four years and nearly matched last year's six-month performance. This offset the contra-seasonal

decline which occurred in the first quarter of 1964.

The gain in loans, excluding interbank loans, totaled \$86 million in June. This was substantially above the rise of last June but not quite double the average increase for comparable periods in prior years. More impressive yet, the \$80 million loan advance in May not only was much higher than that of the previous May, but it was also three times as great as the average rise for the period. City and country banks shared about equally in the combined increase in loans during May and June. City banks achieved a higher percentage increase than did country banks in relation to prior years with a 50 per cent rise over the combined total for May and June 1963. In addition, this was nearly three times greater than the average advance made in the comparable period in the last four years. The performance of country banks was almost as impressive, with a 33 per cent greater rise in May and June than in the similar period last year or nearly twice the average gain that was achieved in the four previous years.

Investments fell \$15 million during May, but the decrease was less than the usual \$35 million seasonal decline principally due to a modest contra-seasonal advance at city banks as total deposits increased more rapidly than expected. Bank investment portfolios did not change during June, since small additions at city banks offset slight reductions in investment holdings at country banks. This shows a marked reduction from the \$49 million average advance in investment holdings at district banks during comparable periods in the past.

As a result of an above seasonal increase in loans and a below seasonal decrease in investments, total credit rose \$65 million in May. Not only is this rise three times as great as last May's \$21 million increase, it also stands in sharp contrast to

the average drop of \$8 million in May of the four preceding years. The June \$86 million advance in total credit, all the result of the loan expansion, was greater than the \$68 million average advance even though it did not match the \$106 million rise in June 1963.

During May, total deposits rose \$46 million, substantially higher than average, with city banks being the main beneficiaries as both government and time deposits expanded. The \$156 million rise in June at district member banks conformed to seasonal patterns. Due substantially to an increase in time deposits, total deposits for the first six months were up \$38 million from last year.

WHEAT PROGRAM

The 1964 Wheat Program proved attractive to more than 60 per cent of the district's eligible wheat farmers. These farmers, who produce nearly 88 per cent of the district's total wheat allotment, agreed to divert about 12 per cent of their wheat acreages to comply with the program provisions and thus became eligible for marketing certificates and price support loans. Payment for acreage diversion will amount to about \$7.6 million, or an average of \$5.23 per diverted acre.

1964 WHEAT PROGRAM PARTICIPATION

	Proportion of eligible farms participating	Proportion of base acreage on participating farms	Proportion of base acreage diverted	Diversion payments (millions of dollars)
Minnesota	32.4%	61.7%	7.7%	\$.6
Montana	70.1	90.7	10.7	1.8
North Dakota	85.1	91.1	10.4	3.8
South Dakota	56.2	80.5	10.5	1.4
4 States	60.4	87.8	10.3	7.6
United States	35.4	76.4	10.0	34.2

district states indicates that the volume slumped sharply in the western half of the district where farm income is down. Beginning in March sales in both North Dakota and South Dakota, and beginning in April sales in Montana, fell below the volume of a year earlier. In the other district states, as well as in the nation, these sales have remained above the receipts of a year ago.

In the United States total retail sales during the first and second weeks of July were up 11 per cent and 8 per cent, respectively, from the corresponding weeks of last year. These percentage increases were larger than in June and, if comparable in-

creases are realized in the latter half of the month, seasonally adjusted July retail sales will continue the upward trend. U. S. seasonally adjusted total retail sales in June were estimated at \$22.2 billion, virtually unchanged from the record volume in May, and 6 per cent above the total for June 1963. Adjusted durable goods sales were down 3 per cent from May to June, attributable primarily to a decline in automobile dealer sales which was due, in part, to shipments from assembly plants in some eastern states being limited by a trucking strike. Nondurable goods sales rose 2 per cent in June.

