Annual Report

1947

FEDERAL RESERVE BANK OF MINNEAPOLIS

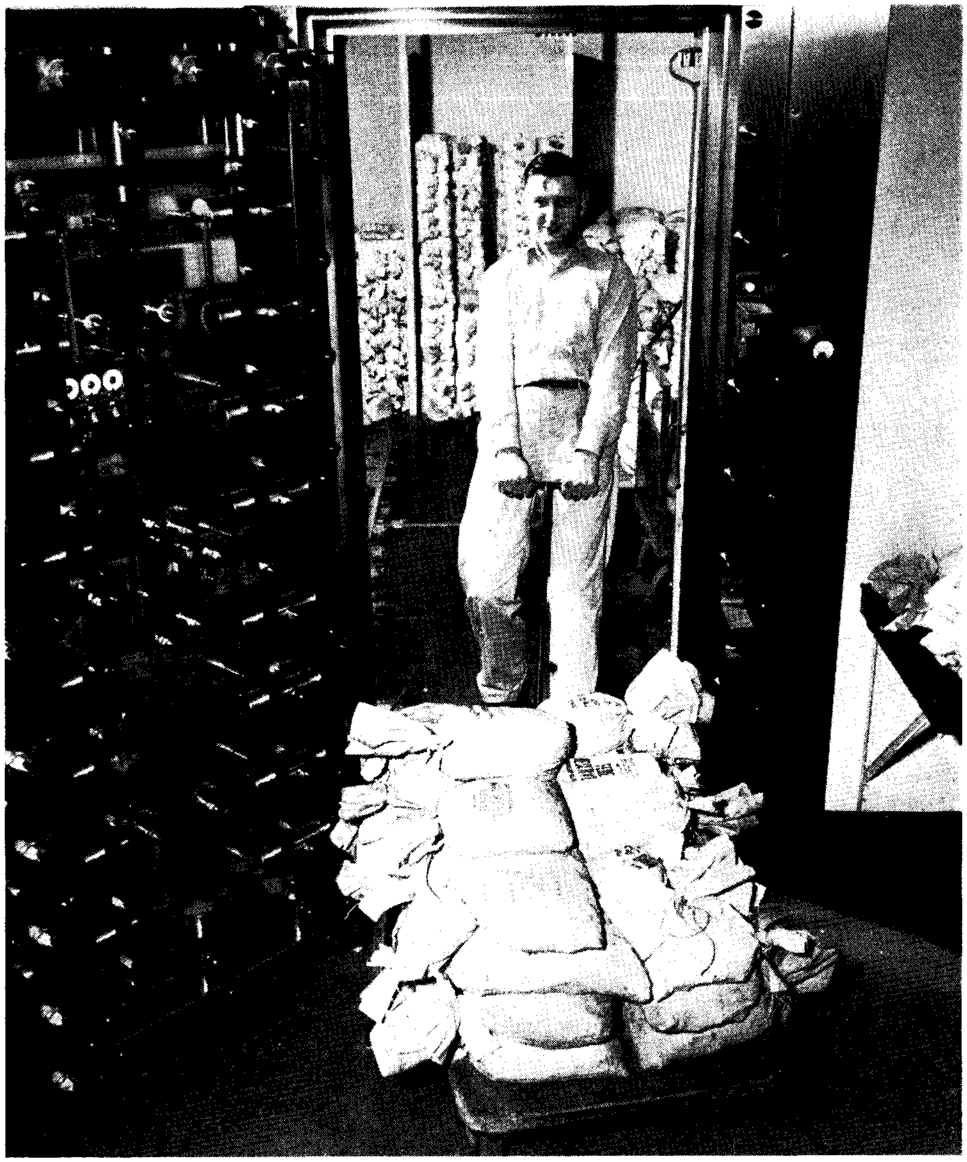
THE STATEMENTS of condition and of earnings and expenses of the Federal Reserve Bank of Minneapolis for 1947—with certain comparative data for 1946—are here presented.

In a letter to the stockholders, President John N. Peyton has reviewed the year's operations of the bank in the light of contemporaneous developments in the commercial banking, agriculture, and business of the district.

The "human interest" side of the daily activities of a bank, or any other business enterprise, is not often clearly reflected in the balance sheet and operating statement. To display one facet of the bank's functions which is not revealed by such figures, there is added to this year's report an illustrated description of the operations of the coin department.

R. B. Shepard

Chairman, Board of Directors



AN INCOMING COIN SHIPMENT is hauled into the special silver vault, in which coins of various denominations can be seen stacked in tiers. Other pictures of coin department operations will be found accompanying the coin article (P.10) in this report.

PRESIDENT PEYTON'S REPORT

to the Stockholders

When you, the Ninth district banker, turned the key in your lock Thursday morning, January 2, 1947, you were opening the door to a banner banking and business year. During the year then ahead, your customers were destined to write more checks than ever before in your banking history. The checks were bigger; the customers more numerous.

In the year that lay ahead of you that morning, you and your associates had the task of satisfying the requirements of your customers for more currency than ever before in order to transact a record volume of business. And in spite of the large and growing volume of bank deposits, you were destined to find in the months that followed that your customers were coming in far more frequently to borrow larger sums of money for business expansion than had been true in recent years.

In my annual report to you last year appeared this beginning paragraph:

> "The bank of a community is the silent third party to almost all business and financial transactions. It holds the people's money. It transfers these funds to all parts of the country. It receives money for deposit from all sections of the country. It furnishes currency to customers who need it and accepts for deposit cash which is in excess supply. It lends money. It sells bonds; it redeems bonds. In short, the bank is the community's financial department store."

Never before in this area has this silent third party relationship resulted in such vigorous banking activity as was true in 1947 for the financial department stores of our communities.

Now that the records for 1947 are largely in, it is not difficult to see what explains the banker's busy year. It was simply the high and rising volume of business activity and incomes in the district. This large volume of business activity pushed total deposits of all banks in this district up from $4,838 million at the end of 1946 to $5,250 million at the end of 1947, an increase of 8.5 per cent. The largest relative gains in deposits were made by banks in North Dakota and South Dakota.

In all cases, however, states in our district enjoyed deposit increases considerably in excess of the national average of 2 per cent.

This substantial expansion in deposits in turn was reflected on the balance sheet of the Federal Reserve Bank. To the extent that deposits rose because this area was pulling in funds from the rest of the country, member bank reserve balances increased. This increase was largely centered at the close of the year, with the result that member bank balances at this bank at the end of 1947 were $52 million above the preceding year.

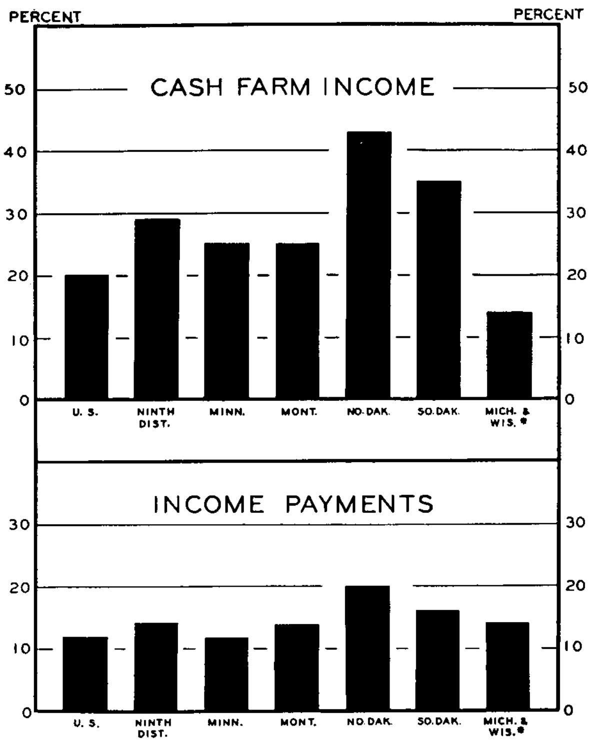
Personal Income Payments Reflect Greater Activity

A more comprehensive measure of economic activity in our region is provided by information on total personal income payments to individuals in the area. These income payments for the entire district are estimated to have been $6,400 million, substantially in excess of the $5,600 million in 1946.

The largest increases were concentrated in the wheat-growing areas, which enjoyed another record year of high production combined with high prices. Preliminary figures suggest that income payments in North Dakota rose from $624 million in 1946 to $750 million in 1947, a rise of 21 per cent.

This rise in personal incomes was inevitably destined to push retail trade and spending higher. That this occurred is abundantly clear. Retail trade, as measured by our index of department store sales, was approximately 11 per cent above last year. It is not improbable that total retail trade expanded somewhat more than this would indicate, since many items enjoying a particularly

PERCENTAGE INCREASE IN 1947 9TH DISTRICT INCOME OVER 1946



Source: Cash farm income payments, U. S. D. A., "The Farm Income Situation;" Income payments, Survey of Current Business.

Note: Percentage changes for both income payments and cash farm income are based on partially estimated data for 1947.

* Includes 26 counties in Northwestern Wisconsin and 15 counties in the Upper Peninsula of Michigan. The income estimates for these sections were made by the Research department, Federal Reserve Bank of Minneapolis.

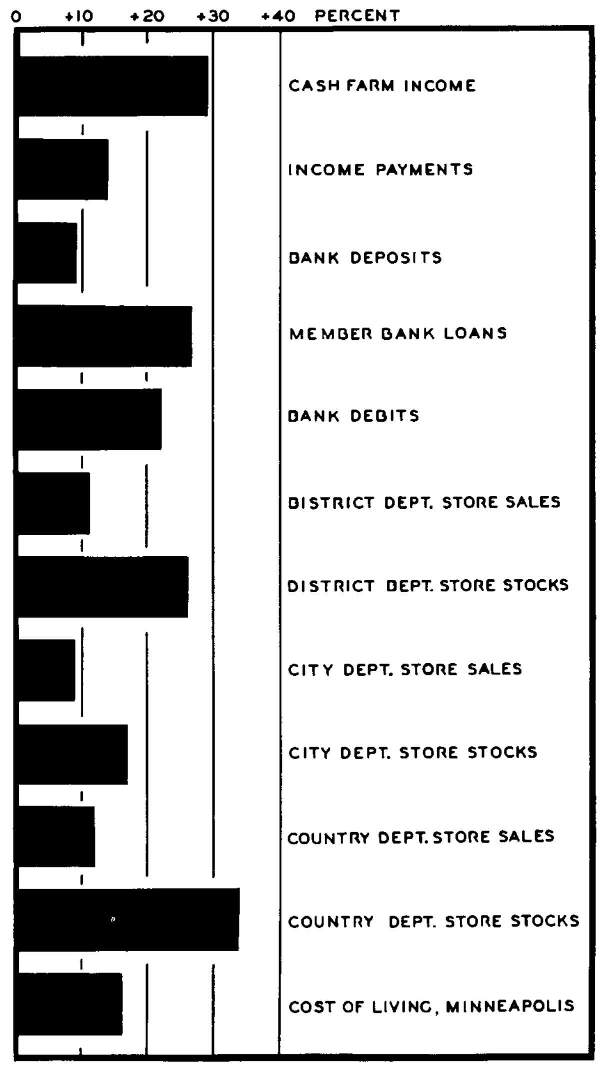
heavy demand are marketed through other channels.

This volume of business required further increases to an already record supply of money in circulation. The banks, as the distributors of the money supply, felt the full force of this impact. Some measure of this increase is found in our head office and branch currency and coin departments, which recorded payments into circulation in the Ninth district during the year of $383 million, the return flow meanwhile aggregating $370 million.

The note circulation of this bank, which constitutes the bulk of the money in circulation in the district, stood at $627 million at the end of the year—a rise of $34 million in 1947.

Not all of this business was transacted by currency; probably, in fact, a rather small proportion, since the great bulk of business transactions in modern times is made by bank checks. The large

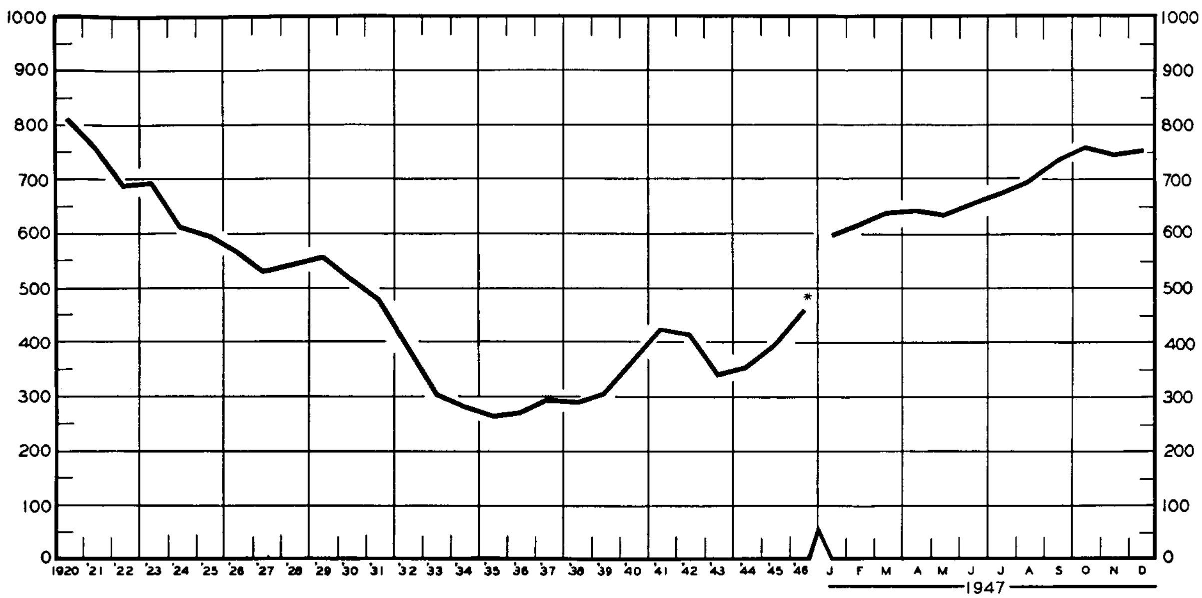
PERCENTAGE EXPANSION IN NINTH DISTRICT BANKING AND BUSINESS, 1946-1947



Note: Bank deposits and loans represent the percentage change in the amounts outstanding as of December 31, 1946, and December 31, 1947. Cost of living represents the percentage change in an annual average of the monthly data. All other items are based on annual dollar volumes. Data on Cash Farm Income, Income Payments, and Cost of Living are partially estimated. Department Store stocks, however, are measured from year-end 1946 to year-end 1947.

Source: Cash Farm Income, U. S. D. A.; Income payments, Survey of Current Business; Cost of Living, Department of Labor.

LOANS OF ALL NINTH DISTRICT MEMBER BANKS, 1920-1947
(In Million Dollars)



* Monthly data for 1947.

volume of business activity had its reflection also in the fact that bank debits (the total dollar volume of checks written against deposits) increased by 22 per cent over 1946.

It is for this reason that our Minneapolis and Helena check collection departments last year handled 54.2 million items with an aggregate dollar total of $18.5 billion. This is a rise of 5.6 and 10.7 per cent, respectively, over the previous year.

End of Year Finds Loans at High Level

One of the major 1947 banking developments has been the substantial private demand for bank credit. Bank loans in the district remained at a fairly constant level during the early part of the year but by midyear were rising at a very rapid rate.

In fact, loans at member banks in this area increased by 13 per cent during the last six months of 1947, and 27 per cent for the entire year. The basic explanation for this heavy private demand for bank loans is clear. Both business and individuals laid out for themselves a rate of spending in excess of their incomes. During a period when there was much to be gained by increased production, a substantial amount of this bank credit undoubtedly performed a very much-needed function of expanding productive capacity.

The least reassuring feature of this heavy loan expansion in 1947 (it occurred both in our district and nationally) is that its major effect was to increase the dollar volume of business activity by raising prices rather than production. Nationally, both industrial and agricultural production in a "physical" or "unit" volume sense made modest or no gains during the year.

It is for this reason that an expansion of bank loans, after production has achieved capacity volume, is usually considered inflationary. Incomes or receipts always exactly equal the value of current production. An expansion of credit makes it possible for consumers and business to push expenditures beyond receipts. When production is already at capacity levels, the increased amount of spending power represented by bank credit expansion can and does increase the dollar volume of business only by a corresponding increase in prices. Even nonspeculative, "sound", "production" loans merely enable the borrower to bid productive resources away from some other equally anxious buyer. Total production is left almost unchanged.

In a year with unused productive resources available, such as 1936, the response to expanding demand, partly represented by an expansion in bank loans, was a 22 per cent increase in the physical or unit volume of industrial production; wholesale prices rose by a very moderate 4 per cent.

In 1947 almost no unused productive resources were available. Consequently the major response to expanding demand, a part of which was the 24 per cent rise in commercial bank loans, was a rapid rise in prices and a negligible expansion of actual production.

The chart illustrates the different response to expanding money demands—a production increase in 1936; a price rise in 1947.

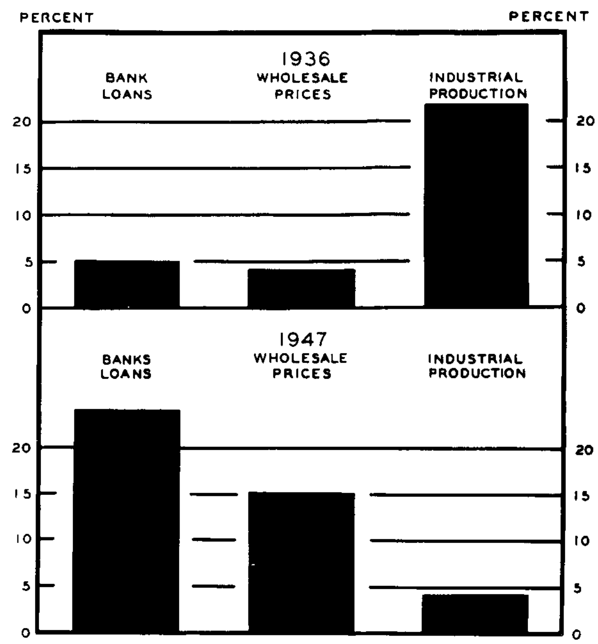
The major problem therefore is that loans which in each individual instance are perfectly sound (in the sense that the borrower can readily repay the loan) result in more dollars chasing after the same volume of goods. The rising price level which results makes possible further profits and only adds to the very real incentive for borrowers to expand loans further and reap even larger profits.

One of the major problems which developed in 1947, therefore, was how to temper this inflationary expansion in bank credit in such a way that the reasonable needs of the banks and the borrowers for funds would be met and, at the same time, orderly conditions would be preserved in the bond market. To meet what seemed to be the necessary requirements of member banks for temporary funds during the year, this bank lent an aggregate of $969 million during 1947; the largest volume outstanding at any one time was $33.9 million on February 24.

Developments Suggest Caution

The need for caution in further increases of bank credit and deposits was suggested in three events of 1947. First, in April there was levied on each Federal Reserve bank an interest charge on Federal Reserve notes outstanding not covered by gold certificates. (At present Federal Reserve banks

PERCENTAGE INCREASE IN WHOLESALE PRICES, INDUSTRIAL PRODUCTION, AND BANK LOANS DURING 1936 - 1947



Source: Wholesale prices, Bureau of Labor Statistics, Industrial production and bank loans, Federal Reserve Bulletin.

are required to maintain a gold certificate reserve of 25 per cent against their own notes in circulation, although the actual reserve ratio is now about 45 per cent.) Major effect of this action was to assure recoupment by the Treasury of any added earnings which might accrue to the Federal Reserve banks from higher short-term interest rates.

In July, the posted ⅜ per cent rate on United States Treasury bills was discontinued, and those issues sought their level in relation to other government securities. A further change in the short-term rates occurred in October, with certificates of indebtedness beginning the shifting from ⅞ per cent to the 1⅛ per cent yield reached by the year-end.

Third, during the last week in December, the Federal Open Market committee lowered the support price moderately on the longer-term United States government bonds.

These things all had the effect of stiffening interest rates slightly and reducing moderately the availability of bank credit. Both of these results seemed appropriate in view of the inflationary pressures to which the economy was being subjected during most of the year, particularly the latter part.

90 Per Cent of Earnings Paid to Treasury

You will note from the accompanying statement of our earnings and expenses for the past year that the new interest charge on Federal Reserve notes, which I referred to above, resulted in the payment to the Treasury of $2,124,282—approximately 90 per cent of our net earnings after dividends.

After making the foregoing interest payment to the Treasury, we paid $253,000 to our stockholding member banks representing the regular six per cent dividend, and transferred the remainder of our earnings, $236,000, to surplus.

In establishing such rates of interest as will bring about the transmission to the Treasury of approximately 90 per cent of the net earnings after dividends of each of the Federal Reserve banks, the Board of Governors has utilized its authority under Section 16 of the Federal Reserve Act to accomplish much the same result as the old "franchise tax" provisions of the law.

You may recall that up to 1933, each Federal Reserve bank was required to pay a "franchise tax" amounting to 90 per cent of its net earnings after accumulation of a surplus equal to its subscribed capital. That tax was eliminated in 1933 in order to permit the Reserve banks to restore their surplus accounts after Congress had required each bank to contribute one-half of its surplus as a subscription to the capital stock of the Federal Deposit Insurance corporation. In the latter part of 1947, the FDIC capital so subscribed by the Reserve banks was turned over to the Treasury and the stock held by the banks was retired.

Operations Reflect Business Activity

It is interesting to notice how the volume of work going through the various departments of our bank serves to point out what's happening in business and agriculture in the district. For example, our check collection department last year reported record activity, both in dollar volume and in number of items handled. For the most part, the expansion was in country checks, suggesting more spending with the increased availability of goods desired by farmers and other country bank customers.

This spending did not, however, result in a deposit shift from this to other Federal Reserve districts, for it was more than offset by an increase in farm income. Here again our operations were but the record of your customers' activities. As the result of 1947's record grain prices, we collected during the year 907,000 grain drafts amounting to $1,082 million, as compared with 808,000 for $688 million in 1946. The average grain draft handled thus increased from $852 to $1,192.

Savings Bond Sales Up; Redemptions Down

One of the more noteworthy developments of the year was that sales of United States savings bonds in this district increased, while redemptions declined. Although there were actually fewer bonds delivered on original issue by our bank and by issuing agents (exclusive of post offices) in the Ninth district than there were in 1946, they were of larger denominations.

Comparison of our district figures for 1947 with those for 1946 shows that savings bond sales went up in dollar amount from $276 million to $317 million, while declining in number of pieces from 1,837,000 to 1,426,000. Meanwhile, redemptions fell from $225 million to $201 million, the number of pieces so redeemed being 5,000,000 in 1946 and 3,200,000 in 1947. The ratio of sales to redemptions was actually even more favorable than these figures indicate, for sales by post offices are not recorded here. Redemptions of post office-sold bonds are, however, reflected in our figures.

The slackening in savings bond redemptions, however, did not bring about a shrinkage in the year's work of our Bond Redemption division, since $44 million of Armed Forces Leave bonds were redeemed through us in 1947. These bonds, you will remember, were issued late in 1946 to veterans, other than officers, who at the time of discharge had not received all of the leave to which their period of service entitled them.

It is estimated that some $80 million of these bonds were issued in the Ninth district. Nearly all of the leave bonds redeemed have been handled since September 2, for they were theretofore redeemable only in the event of the veteran's death.

Fiscal Agency Activities Were Consolidated

The Treasury Department's economy program occasioned the consolidation with head office functions of certain of the Fiscal Agency activities which had temporarily been assigned to the Helena branch during the war period. The transfer, which was effected May 28, related principally to sales and redemptions of United States savings bonds and the handling of War Loan Deposit accounts for banks in branch territory.

Staff Further Reduced

The size of the bank's staff, which had reached record proportions during the war years, continued to reduce. At the year's end, 651 men and women were employed at the head office and branch, as compared with 707 at the close of 1946. The decrease in personnel during 1947 came about largely through the consolidation in the head office building of war bond activities which had been conducted at the bank's war bond annex in Minneapolis, as well as certain of those which had been conducted at Helena.

The discontinuance of consumer credit control (Regulation W) and certain governmental agency custodian functions served to release employees to other departments whose personnel requirements had expanded.

The five-day work week, which was inaugurated at the close of 1946, has proved satisfactory after a full year's test. By means of rotation of employees in those departments which must be "Open for Business as Usual" on Saturdays, it has been possible to divide the employees' 40-hour work week into five rather than six days. Thanks to the splendid cooperation of the banks in the district in anticipating their requirements, it has been possible for many of the operating departments to function with skeleton crews on Saturdays.

Also of interest in the field of personnel administration at our bank during the year was the completion of arrangements for surgical fee insurance to supplement the hospital expense coverage previously available to employees. At the same time, the bank commenced absorbing two-thirds of the cost of the entire hospital-surgical plan; thereby enabling employees to obtain both hospital and surgical coverage for themselves and their dependents at a cost somewhat below that which they previously paid for hospitalization protection alone.

McLeod Elected Director

With the retirement at the expiration of his term of Mr. J. E. O'Connell of Helena as a Class B director, Mr. Walter H. McLeod of Missoula, Montana, was elected to that office. With this one exception, the composition of the district board of directors and the board of directors of the Helena branch remains unchanged; Mr. Roger B. Shepard having been reappointed and Mr. J. R. McKnight having been re-elected to the district board, and Mr. B. M. Harris and Mr. Malcolm E. Holtz having been reappointed as branch directors. Mr. Shepard continues as chairman of the district board, and Mr. W. D. Cochran as deputy chairman.

Mr. R. B. Richardson was named chairman of the branch board.

The retirement in May of Mr. Ernest W. Swanson, vice president in charge of bank examinations, marked the only change in the bank's official staff.

Six Banks Join System

Ninth district member banks increased in number during the year from 471 to 475 as the result of the admission to membership of six banks and the dissolution of two member banks whose functions were carried on by other member banks in the same community.

Received into membership during the year were the following:

GRAND MARAIS STATE BANK, GRAND MARAIS, MINN.

LIBERTY COUNTY BANK, CHESTER, MONTANA.

CULBERTSON STATE BANK OF CULBERTSON, CULBERTSON, MONTANA.

FIRST STATE BANK OF FROID, FROID, MONTANA.

Livingston State Bank, livingston, montana.

Bank of Sheridan, sheridan, montana

"Conference Maketh a Ready Man"

As Sir Francis Bacon aptly put it in his essay *Of Studies*, "Conference maketh a ready man". The need for readiness is no less essential now than it was in Bacon's time. The year 1947 afforded us greater opportunities to become better acquainted with the bankers of the district through personal contact and to obtain the benefit of their views of our common problems.

On April 26, country and city bankers and members of our staff assembled 1,100 strong at our spring conference. On September 18 and 19, more than 400 member bank executives—chief executive officers being barred—attended our second annual Federal Reserve Forum. One-hundred bank examiners, including representatives of both state and federal supervisory agencies serving territories in this district, assembled at the fourth annual conference held for that group.

Country bankers, both member and nonmember, were frequent visitors at our bank. In calls at more than 1,000 banks, our officers and other staff members were able to profit by across-the-desk discussion with the men to whom the farmers and businessmen of the district look for financial advice and guidance.

Students and others also have been frequent visitors at our bank and there has been a persistent demand for copies of our picture book Your Money and the Federal Reserve System and for showings of Back of Banks and Business, a motion picture which we produced several years ago. It was pleasing to note this increased public interest in the operations of the Federal Reserve bank in 1947.

J. N. Peyton

President

THE EBB AND FLOW OF COIN

THE EBB AND FLOW OF COIN

Who invented the coin? We don't know just who he was or even whether he was Chinese, Egyptian, or Lydian. But as we count coins by the ton we are grateful that oxen, salt, shells, and skins have been replaced by something more conveniently sorted, counted, stacked, and wrapped.

Coins of many curious shapes and sizes had come and gone before the wampum of the American Indian yielded to the shillings, louis d'or, and doubloons which the colonists brought with them from England, France, and Spain. The present American decimal system of currency was not devised until 1785, and the first United States coin was not minted for seven years after that.

Today about 2 billion pennies, 500 million silver coins, and 200 million nickels are turned out annually at United States mints in Philadelphia, Denver, and San Francisco. At the close of 1947, the nation's circulating coins amounted to approximately $1,250 million.

Volume of New Coin Would Fill 11 Boxcars

The 12 Federal Reserve banks and their 24 branches, as successors to the functions previously performed by the Subtreasuries, are now the channels through which virtually all new coin is conveyed from the mints to the nation's banks and thence to the public.

The Federal Reserve Bank of Minneapolis obtains nearly all of its new coin from the Denver mint. During 1947, the head office received from that mint 40 million pennies, 5.5 million dimes, and 400,000 half-dollars—a quantity roughly equivalent to the normal load capacity of 11 freight cars.

Of $2.8 million of new coin received during the year by our

AN OUTGOING SHIPMENT of coin is loaded into an armored car service truck in the garage located within the bank. The armed guards standing by will accompany the shipment to the post office.

Helena branch, approximately \$2.3 million was in standard silver dollars. Montanans, loyal to their silver-producing state, give but grudging toleration to the paper dollar bill.

Silver coins sent to our bank by the mint are packed in sealed bags and shipped by registered mail. Pennies and nickels are sent by express. Much of the coin received from the mints must be re-sacked by us into smaller quantities.

When our stocks of a particular denomination of coin run low, it is not always necessary for us to obtain new coin from the mint to replenish the supply. Federal Reserve banks in other districts often have sufficient excess quantities to take care of our requirements.

ONE DAY'S RECEIPTS can give the coin tellers a busy time of it. They are seen beginning the counting operation. Three trucks hold country member bank shipments, the truck in the foreground city receipts.

Most Coin Comes From Banks

Coin received from the mints and other Federal Reserve banks during 1947 aggregated \$4.6 million. Most of our incoming coin, however, came from the district's commercial banks, which ship us the amount received by them in excess of their requirements. Such shipments during 1947 aggregated \$7.3 million—approximately 62 per cent more than they sent us in 1946.

Country member banks ship coin to us by express collect.

Sharp Eyes Spot Counterfeits

With the aid of new high-speed machines—which count up to 3,000 coins per minute—incoming coin is sorted and counted into standard quantity sacks as soon as possible after receipt.

The 89 million pieces of coin which we counted in 1947 weighed a total of about 430 tons—

nearly a ton and a half per working day. The men of our coin department are really weight lifters. Fortunately, however, the job doesn't require the supermen who would have been needed for a similar operation in Sweden in the 17th century when the Swedish Riksbank issued coins in the form of copper plates weighing as much as 14 pounds each.

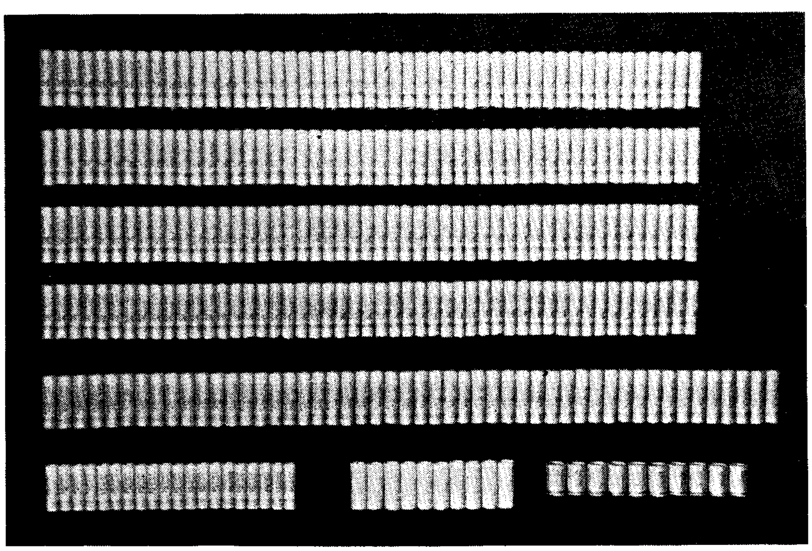
Sharp eyes, as well as strong backs, are necessities for our coin handlers. It is the responsibility of the Federal Reserve banks to remove uncurrent, mutilated, foreign, and counterfeit coin from circulation. Coin is considered uncurrent when reduced in weight by natural abrasion; while mutilated coins are those which have been bent, punched, or otherwise defaced.

Dimes wear out sooner than other coins, but all coins, especially the silver ones, are subject to mutilation. The general public, apparently blithely unaware that federal law is being violated, continues to drill holes in, carve initials on, and make rings and bracelets of United States coins. Coins also seem to be favorite subjects for target practice, as evidenced by the number of silver dollars and half-dollars which come to us punctured by bullet holes.

Other coins are rendered uncurrent by rancid peanut oil (from vending machines) and by glue, and some show the effects of a losing battle with a food chopper, feed grinder, or paper shredder.

Uncurrent and mutilated coin is sent to the mint for redemption, but counterfeit coin is turned over to the United States Secret Service. Principal means of detecting counterfeit coins are by appearance, sound when dropped on a hard surface, feeling, softness when cut with a knife, and reaction to acid. Most frequently such counterfeits are recognized by reason of their dull appearance, uneven reeding, or "soapy" feeling.

STEEL PENNIES are here being removed with an electro-magnet as their copper counterparts continue on through the counting machine into the sack. At top speed, 3,000 coins per minute, the counting machines operate with machine gun rapidity.



RELATIVE BULK of wrapped coin is shown here. Portraying $100 in each denomination, this picture indicates why wrapped coin costs vary from $10.60 per $1,000 in pennies to $.70 for halves. Upper four rows are pennies, next row nickels, with dimes, quarters, halves at the bottom.

While quarters and half-dollars are the most commonly counterfeited pieces, dimes, nickels, and even pennies are not entirely immune to unlawful duplication.

Our clerks must also remove from incoming coin shipments many other items which have little resemblance to coins. In 1947, as in any other year, we sorted out a large number and variety of washers, slugs, and buttons. We are no longer surprised to find among incoming coins such objects as peanuts, steel files, metal scraps, etc.

In recent months, we have been removing from circulation the steel pennies which were put into use during the war. An electromagnet has become standard equipment for separating these pennies from the copper pieces. Also, we are still receiving a small but steady trickle of gold coins, which are turned over to the Treasury department.

Our coin department might seem a paradise for a coin collector, but at the speed with which our clerks must handle incoming shipments they have little time to check date and mint letter to discover such high premium pieces as the 1804 silver dollar or the 1894 S Mint dime.

Although we do not handle special requests from numismatists, we occasionally take part in the distribution of special commemorative coins, such as the 1946 Booker T. Washington memorial half-dollar.

Coin Is Wrapped On Request

Something new has been added to the duties of our coin department—a wrapped coin service for member banks. Since last May, 38 million coins, aggregating $1.7 million, were wrapped at the Minneapolis head office and the Helena branch.

Wrapped coin is sent out when specifically requested, and a charge is made against the bank ordering it to cover our out-of-pocket expense for materials and additional labor. The schedule of charges for wrapping $1,000 in coin is as follows:

$ .70 for Quarters, Halves
1.50 for Dimes
2.80 for Nickels
10.60 for Pennies

Although all incoming used coin is counted and sorted, only a portion of it is wrapped, since orders for the most part call for loose coin. All of it, however—whether wrapped or loose—is placed in coin sacks which are sealed and tagged and kept under vault protection awaiting future use.

Nearly $10 Million In Coin Shipped

As member banks' coin supplies begin to run short of their anticipated requirements, they usually request us, by order form or let-

COIN WRAPPING has become an important part of the department's operations. Here you see four of the machines, output of which varies with denominations — from dimes, about 275 tubes an hour, to nickels (the fastest), about 750. New coins wrap more slowly than coins which have been circulated.

ter or, in an emergency, by collect telegram, to ship coin to them. To fill these needs, we take from our vault sealed sacks of coin, the tags on which show that on previous counting and sorting they were found to contain the denominations and amounts desired.

After verification and tagging for shipment, these sacks are sent by armored truck to the post office for transmission to the ordering bank—by registered mail except for the Twin Cities and Helena. The costs of transportation on shipments to country member banks are borne by us.

Total coin shipped and paid out to banks in 1947, both loose and wrapped, amounted to approximately $9.7 million, about $1 million less than in 1946.

SEASONAL FLOW of coin finds outgoing shipments increasing with summer vacation time and harvesting, and growing in volume before Christmas, with a heavy return flow taking place in first months of the new year. Clint Sewall, head coin teller, stacks some of the early 1947 receipts in the main vault, where the chief stock is maintained.

AN AUDIT of coin is made periodically by the bank's auditors, two of whom are seen here in a corner of the main vault checking dollars. Coins in a certain percentage of sacks are counted at each audit; other sacks are then verified by weight.

Demand Varies With Regions and Seasons

The demand for coin, like that for currency, varies both geographically and seasonally. Regional differences are noticeable not only between Federal Reserve districts but also between branch and head office territories.

The area served by the Helena branch, for example, consistently "loses" coin to other parts of the country. This is clearly shown by the figures for 1947 which revealed that while our branch was paying out to Montana member banks $3.2 million of coin, only $232 thousand were received from those sources.

At the head office, on the other hand, incoming shipments from member banks exceeded their requirements in dollar amount, although inadequacies in certain denominations required resort to the mint.

Standard silver dollars constituted 72% of the coin shipments made by the Helena branch, but less than 5% of the coin paid out at the head office.

During the summer vacation and fall harvesting seasons, requests for coin rise, hitting their peak just before Christmas as business volume increases. In January or February, outgoing shipments are small and coin tends to flow back into the Federal Reserve bank.

During the first two months of 1947, the return of coin to our bank was unusually heavy. So rapid was the inflow that uncounted coin in the minor denominations piled up in our vaults, creating a temporary problem.

Nickels, particularly, piled up in record quantities. It has been suggested that the nickel's sudden loss of popularity is largely attributable to drives against "one-armed bandit" slot machines in several states in the district, with the upping of many candy bars from 5c to 6c as a contributing cause.

Pennies, on the other hand, had a heavy increase in circulation during the year. We do not know to what extent this was due to taxes, such as the new cigarette tax in Minnesota, or to fractional increases in the prices of such frequently-purchased items as candy bars and cigars.

We do know, however, that general business activity and particular business ventures are often reflected in the movement of coin to and from the Federal Reserve banks. Promotional advertising contests, for example, which involve the remittance of a small coin and a box top result in an outflow of coins of the denomination needed, followed by an inflow of the same coins as they are again deposited in commercial banks by the contest sponsors.

We wonder if any contest entrant has ever thought, as he mailed his dime and box top, that the impact of his action—multiplied many times—eventually is felt at the Federal Reserve bank.

STATEMENTS OF CONDITION, EARNINGS AND EXPENSES ⇨

EARNINGS AND EXPENSES

	1947	1946
Earnings from:		
Discounted Bills	$ 96,444	$ 88,389
United States Government Securities	4,506,670	4,084,184
Industrial Advances	0	0
All Other	9,994	6,786
Total Current Earnings	$ 4,613,108	$ 4,179,359
Expenses:		
Net Operating Expenses	$ 1,888,829	$ 1,593,145
Assessment for Expenses of Board of Governors of the Federal Reserve System	65,186	55,330
Federal Reserve Currency:		
Original Cost	90,473	92,857
Cost of Redemption	18,610	13,205
Total Current Expenses	$ 2,063,098	$ 1,754,537
Current Earnings	$ 2,550,010	$ 2,424,822
Additions to Current Net Earnings:		
Profit on Sales of U. S. Government Securities	74,733	51,048
All Other	782	1,341
Total	$ 75,515	$ 52,389
Deductions from Current Net Earnings:		
Reserve for Registered Mail Losses	11,289	10,171
All Other	593	101,210
Total	$ 11,882	$ 111,381
Net Additions to Current Net Earnings	$ 63,633	$ — 58,992
Net Earnings	$ 2,613,643	$ 2,365,830
Dividend Paid	$ 253,251	$ 238,372
Paid to U. S. Treasury (Interest on outstanding Federal Reserve Notes)	2,124,282	0
Paid to U. S. Treasury (Section 13b)	500	0
Transferred to Surplus (Section 13b)	0	0
Transferred to Surplus (Section 7)	235,610	2,127,458

Surplus Account (Section 7)

	1947	1946
Balance at Close of Previous Year	$10,996,958	$ 8,869,500
Transferred from Profits of Year	235,610	2,127,458
Balance at Close of Year	$11,232,568	$10,996,958

Surplus Account (Section 13b)

	1947	1946
Balance at Close of Previous Year	$ 1,072,621	$ 1,072,621
Transferred to Surplus (Section 13b)	0	0
Balance at Close of Year	$ 1,072,621	$ 1,072,621

STATEMENT OF CONDITION

ASSETS

	Dec. 31, 1947	Dec. 31, 1946
Gold Certificates on Hand and Due from U. S. Treasury	$ 431,974,895	$ 357,057,311
Redemption Fund—F. R. Notes	22,880,274	21,360,221
Total Gold Certificate Reserves	$ 454,855,169	$ 378,417,532
Other Cash	6,792,806	5,734,048
Bills Discounted	1,265,000*	3,412,500*
Industrial Advances	0	0
U. S. Government Securities:		
Bonds	93,936,000	22,929,000
Notes	48,618,000	10,814,000
Certificates of Indebtedness	223,788,000	228,144,000
Bills	298,577,000	374,253,000
Total U. S. Government Securities	$ 664,919,000	$ 636,140,000
Total Bills and Securities	$ 666,184,000	$ 639,552,500
Due from Foreign Banks	2,379	2,556
F. R. Notes of Other F. R. Banks	8,158,050	4,337,500
Uncollected Items	67,641,451	62,219,164
Bank Premises	1,208,439	1,239,845
Other Assets	3,656,181	1,475,253
Total Assets	$1,208,498,475	$1,092,978,398

LIABILITIES

	Dec. 31, 1947	Dec. 31, 1946
Federal Reserve Notes in Actual Circulation	$ 626,968,780	$ 592,688,445
Deposits:		
Member Bank—Reserve Account	450,542,397	398,588,738
U. S. Treasurer—General Account	43,974,904	20,504,991
Foreign Bank	8,225,000	11,914,087
Other Deposits	2,645,456	2,526,694
Total Deposits	$ 505,387,757	$ 433,534,510
Deferred Availability Items	57,023,537	48,688,857
Other Liabilities	867,039	285,198
Total Liabilities	$1,190,247,113	$1,075,197,010

CAPITAL ACCOUNTS

	Dec. 31, 1947	Dec. 31, 1946
Capital Paid in	$ 4,293,650	$ 4,070,550
Surplus (Section 7)	11,232,568	10,996,958
Surplus (Section 13b)	1,072,621	1,072,621
Other Capital Accounts	1,652,523	1,641,259
Total Liabilities and Capital Accounts	$1,208,498,475	$1,092,978,398

* Consists solely of foreign loans on gold.

FEDERAL RESERVE BANK OF MINNEAPOLIS
1948

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Deputy Chairman

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Chairman of the Board, West Publishing Company
St. Paul, Minnesota

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Missoula, Montana

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Check Collection

C. J. Larson, *Assistant Cashier*
assigned to Helena Branch

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Albert W. Mills, *Vice President and Cashier*
General Bank Operations

Otis R. Preston, *Vice President*
Banks and Banking

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assigned to Helena Branch

Walter H. Turner, *Assistant Cashier*
Collection Department
Currency and Coin
Securities Safekeeping

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Loans and Discounts

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Government Securities

William E. Peterson, *Assistant Cashier*
Custodian for Governmental Agencies
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AUDIT DEPARTMENT

Orthen W. Ohnstad, *Auditor*

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Maurice H. Strothman, Jr., *Assistant Counsel*

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