



ANNUAL REPORT 1959

FEDERAL RESERVE BANK OF MINNEAPOLIS

**TO THE MEMBER BANKS OF THE
NINTH FEDERAL RESERVE DISTRICT:**

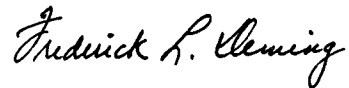
We are pleased to send you this Annual Report of the Federal Reserve Bank of Minneapolis for the year 1959. The balance sheet of a Federal Reserve bank is sufficiently different from that of a commercial bank or business corporation so that somewhat fuller explanation might be helpful to the reader in understanding it. With this in mind, the text material of this report is tied into the underlined items on the Statement of Condition.

The figures used in this report represent the combined operations of the Federal Reserve Bank of Minneapolis and its Helena branch. Commercial banks in Montana look to and receive from the branch the same services that commercial banks in the rest of the Ninth district receive from the head office; hence no breakdown has been made as to the total of operations carried on at each location.

On behalf of our directors and staff, we extend our thanks to the financial community and the public of the Ninth district for their continued interest and cooperation during the past year.



Chairman of the Board



President

fold out→

STATEMENT OF CONDITION

ASSETS	Dec. 31, 1959	Dec. 31, 1958
<u>Gold certificate account</u>	\$ 358,238,846	\$ 458,383,283
Redemption fund for Federal Reserve Notes	23,410,318	22,463,213
Total Gold Certificate Reserves	\$ 381,649,164	\$ 480,846,496
Federal Reserve Notes of other Federal Reserve banks	\$ 23,008,800	\$ 17,588,500
Other cash	11,721,793	8,663,803
<u>Discounts and advances—secured by U.S. securities</u>	17,589,000	—0—
—other	120,000	438,374
<u>United States Government securities</u>	606,024,000	552,253,000
Total Loans and Securities	\$ 623,733,000	\$ 552,691,374
Due from foreign banks	\$ 345	\$ 348
<u>Cash items in process of collection</u>	163,981,136	145,320,465
Bank premises	5,059,428	5,192,891
Other assets	5,937,007	3,075,974
Total Assets	\$1,215,090,673	\$1,213,379,851
LIABILITIES		
<u>Federal Reserve Notes in Actual Circulation</u>	\$ 608,162,300	\$ 598,279,065
Deposits:		
<u>Member bank—reserve accounts</u>	404,177,790	419,894,846
United States Treasurer—general account	23,771,287	24,459,296
Foreign	8,352,000	5,640,000
Other deposits	10,389,563	960,568
Total deposits	\$ 446,690,640	\$ 450,954,710
<u>Deferred availability cash items</u>	\$ 132,062,318	\$ 129,776,907
Other liabilities	1,511,412	933,453
Total Liabilities	\$1,188,426,670	\$1,179,944,135
CAPITAL ACCOUNTS		
<u>Capital paid in</u>	\$ 8,789,850	\$ 8,387,400
<u>Surplus</u>	17,579,700	20,785,000
<u>Other capital accounts</u>	294,453	4,263,316
Total Liabilities and Capital Accounts	\$1,215,090,673	\$1,213,379,851
Ratio of gold certificate reserves to deposit and Federal Reserve note liabilities combined	36.2%	45.8%

EARNINGS AND EXPENSES

CURRENT EARNINGS	1959	1958
Discounts and advances	\$ 1,097,617	\$ 158,536
United States Government securities	19,181,826	15,530,096
All other	36,119	11,527
Total Current Earnings	\$20,315,562	\$15,700,159
CURRENT EXPENSES		
Operating Expenses	\$ 5,695,190	\$ 5,348,898
Assessment for expenses of Board of Governors	153,000	142,400
Federal Reserve Currency		
Original Cost	177,888	79,121
Cost of redemption	14,076	13,740
Total Current Expenses	\$ 6,040,154	\$ 5,584,160
Less reimbursement for certain fiscal agency and other expenses	630,258	604,932
Net Expenses	\$ 5,409,896	\$ 4,979,228
PROFIT AND LOSS		
Current net earnings	\$14,905,666	\$10,720,932
Additions to current net earnings:		
Profits on sales of U.S. Government securities (net)	4,325	3,949
Transferred from reserves for contingencies (net)	3,964,289	—0—
All other	1,071	401
Total Additions	\$ 3,969,685	\$ 4,350
Deductions from Current Net Earnings:		
Reserves for contingencies	—0—	11,816
All other	1,420	1,230
Total Deductions	1,420	13,046
NET ADDITIONS TO CURRENT NET EARNINGS	\$ 3,968,265	\$ —8,696
NET EARNINGS BEFORE PAYMENTS TO UNITED STATES TREASURY	\$18,873,931	\$10,712,236
PAID TO U.S. TREASURY (Interest on Federal Reserve notes)	21,560,985	9,212,205
DIVIDENDS PAID	518,245	476,455
TRANSFERRED TO SURPLUS	—3,205,299	1,023,576
SURPLUS January 1	\$20,784,999	\$19,696,549
SURPLUS December 31	\$17,579,700	\$20,784,999

BANKING OPERATIONS

Federal Reserve banks have current earnings sufficient to meet their expenses, pay dividends to member banks, and make substantial payments over to the United States Treasury. This is an incidental result of the Federal Reserve System carrying on its primary function—keeping the supply of money and credit in reasonable relation to the level of economic activity so that orderly and sustainable growth can be maintained. The two major sources of Federal Reserve earnings are its portfolio of Government securities and its loans to member banks. Activities in neither area are undertaken for the purpose of earnings but earnings result from them nevertheless. Thus, while the System's Open Market Committee bought and sold government securities for its portfolio depending upon seasonal and over-all economic conditions, there was, as always, a large residue in this portfolio on which interest was earned. The 1959 earnings on that portion of the portfolio allocated to the Federal Reserve Bank of Minneapolis totaled more than \$19 million, an increase of \$3.6 million over last year. The increase generally reflects the higher average level of holdings in the portfolio and the higher rates of interest being paid on such holdings. Earnings from discounts also were considerably higher in 1959 than in 1958, reflecting both a higher average level of member bank borrowing

from the Federal Reserve and higher discount rates.

This bank's portion of *United States Government securities* held in the System portfolio at year-end is shown on the Statement of Condition as \$606 million, up \$54 million from the close of 1958. Broadly speaking, the open market security portfolio of the System is allocated among the various Reserve banks in proportion to their share of the total assets of the System. Average assets of the Federal Reserve Bank of Minneapolis were up substantially in the period covered by the most recent allocation. Thus, early in the year additional government securities were allotted to it. Subsequently, additional government securities were gained as the total System portfolio rose.

The major shrinkage in asset accounts took place in the *Gold certificate account* where holdings at the close of 1959 were \$100 million less than a year earlier. The gold certificate account of a Federal Reserve bank is a settlement account through which transactions between the various Federal Reserve banks are adjusted. While it is true that the gold certificates held by Federal Reserve banks are issued against gold stock held by the United States, only in part and indirectly does the decrease at the Minneapolis 'Fed' reflect the decrease in total gold certificates

held by the System during the year. Most of the \$100 million decrease represents payment for additional securities and the settlement of other accounts on the Statement of Condition.

Much has been said and written in recent months about the decline in the U. S. gold stock. In 1959 the drop was about \$1 billion following a loss of \$2.3 billion in 1958. Actually, while it has just begun to be recognized widely, the U. S. lost gold in most of the 1950's, but yet still holds about one-half of the gold reserves in the world (outside Russia).

There is no single cause of this gold loss. It reflects mainly an adverse balance of international payments for the United States—total outpayments to other nations exceeded total inpayments from them. Taking 1959 as an example, we exported more (in value) goods and services than we imported, but the difference was smaller than usual, and our foreign investments and our military expenditures abroad more than offset the relatively small favorable balance in trade account. The net result was a deficit in the total balance of payments of about \$3.7 billion. In payment, gold was demanded for part of this amount and the remainder was taken in the form of dollar assets, mainly short-term assets such as bank balances and short-term securities which earn a return.

Obviously, with foreigners taking most of this payment in the form of dollar assets, the gold loss does not represent any flight from the dollar. The whole balance of payments situation, however, does point up the fact that the United States can no longer be so complacent about its world trade position. We must be concerned over foreign appraisals of the value of our currency. With the large amount of foreign holdings of dollar assets, loss of confidence in the dollar could bring about real pressure on our reserves.

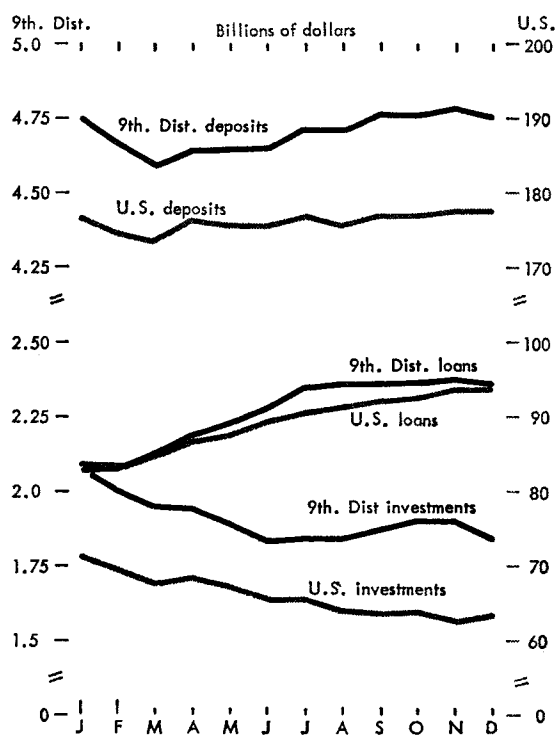
The generally higher interest rates in

1959, which induced foreigners to increase their investments in short-term dollar assets, resulted from increasing domestic pressure for available funds. Following the relatively short-lived recession in 1958 during which the Treasury bill rate dropped to less than 1 percent, interest rates rose and by the end of the third quarter in 1959 the bill rate exceeded 4 percent. The Federal Reserve Bank of Minneapolis discount rate was 2½ percent at year-end 1958 and was 4 percent at the end of 1959. This increase was accomplished by one-half percent steps on March 16, May 29, and September 14.

Indication that member banks in the district felt the increasing demand for money is shown by the increase in their loan portfolios during the year. The rate of increase in this district during the first half of the year exceeded that of member banks in the rest of the nation. To obtain the necessary funds to lend, member banks sold securities and made greater use of the discount window. The Statement of Condition shows a \$17.5 million figure for *Discounts and Advances*, the amount borrowed by member banks on December 31. Daily average member bank borrowings from the DISCOUNT department during 1959 were \$31 million as compared with \$7 million during 1958. The increase in the discount rate and in daily average borrowings raised the bank's current earnings from this source to more than \$1 million for the year.

Deposits in Ninth district member banks in 1959 averaged \$4.7 billion, a 4 percent increase over 1958. At year end, however, deposits were lower than at the end of 1958, with the result that there was a decrease in the *Member Bank Reserve accounts* figure on the Statement of Condition. Reserves prescribed by the Board of Governors for member banks remained unchanged throughout 1959 at 5 percent for time deposits, 11½

**Ninth district and U.S. deposits,
loans and investments, 1959**

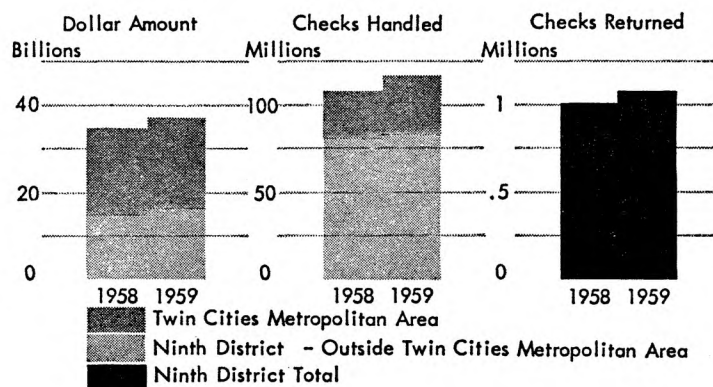


percent for demand deposits of country banks, and 16½ percent for reserve city banks. In December 1959, however, the Board, under authority of an Act of Congress passed earlier in the year, amended its Regulation D to permit member banks to count a small part of their vault cash as required reserves. The amendment permitted country banks to count their currency and coin in excess of 4 percent of net demand deposits, and reserve city banks the excess over 2 percent. The action was timed to coincide with a seasonal need of the banking system for additional reserves. No change in the System's general monetary or credit policy was involved.

In line with the general deposit growth of commercial banks in recent years, some member banks in 1959 increased their capital and surplus accounts, and correspondingly increased their investment in Federal Reserve stock by \$402,450. The *Capital paid in* of the Federal Reserve Bank of Minneapolis which amounted to \$8,790,850 on December 31 reflects this increase. With the exception of a very small reserve for registered mail losses, which appears under the caption, *Other Capital accounts*, the only other capital account of the bank is the *Surplus* account which was reduced at year end to equal 200 percent of the paid-in capital stock of the bank. The portion of surplus exceeding 200 percent, together with certain reserves for contingencies previously maintained, was paid over to the U. S. Treasury as interest on Federal Reserve Notes. These payments to the Treasury reflect a conclusion reached by the Board of Governors, after consultation with the Federal Reserve banks, that maintenance of surplus at 200 percent of capital represents an appropriate level for this account.

The ACCOUNTING department, in addition to maintaining member banks' reserve accounts, capital stock ledgers, and the general books from which the above figures are obtained, also keeps a record of 'float.' Float represents the difference between the asset, *Cash items in process of collection*, and the liability, *Deferred availability cash items* on the Statement of Condition. The 1959 year-end float figure was \$16 million greater than for year-end 1958. During the year, daily float averaged \$22 million, up 12.9 percent over 1958. The increase was accounted for in good part by the 8.4 percent increase in the dollar volume of checks handled. The rest of the increase may be explained by the fact that more banks were closed on Saturday in 1959 than in 1958, which tended to lengthen the over-all time required for check collection.

Volume of checks handled, 1958 and 1959



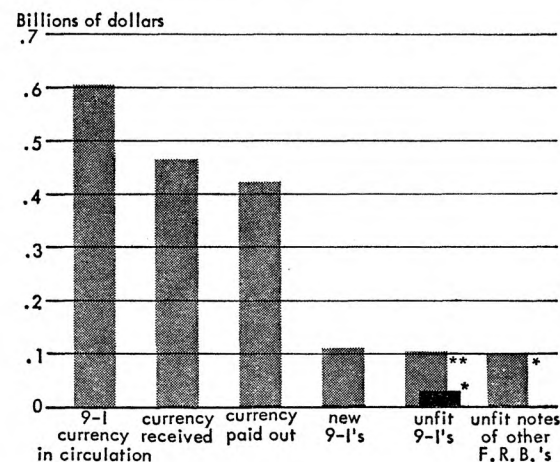
The greatest increase in checks handled by the CHECK COLLECTION department in 1959 occurred in checks drawn on banks located in the Minneapolis-St. Paul area. 'Return items' did not increase as much proportionately as did total checks handled, with the result that 'return items' dropped to .95 of 1 percent of total checks handled.

While both bank deposits and the number of checks written have been increasing substantially during recent years, total currency in circulation has risen less rapidly. The CURRENCY and COIN department counts and sorts currency and coin received from member banks for deposit, and supplies new or fit-for-use currency and coin to banks as they need it. In this process unfit notes and coins are retired from circulation and new ones issued. Almost one-fifth of the \$600 million of the Minneapolis *Federal Reserve Notes in actual circulation* were replaced with new notes during the year. The department paid out \$421 million of currency during the year, including these new notes, our fit-for-use 9-I notes, Silver Certificates and notes of other Federal Reserve banks. Of other Federal Reserve banks' notes that flow into the district, the greatest percentage comes from

the Seventh Federal Reserve district—the 7-G notes of Chicago. As we receive them, we remove from circulation the unfit notes of other Feds just as they remove unfit notes originally issued by our bank. Settlement of accounts between the Feds is made through the Interdistrict Settlement Fund in Washington, D. C., and is reflected on our Statement in the *Gold Certificate account*. During the year we removed from circulation \$35 million more notes of other Federal Reserve

banks than they removed of ours, tending to increase this account on our books by that amount. From the chart below it will be noted that more currency (\$56 million worth) was sent to us by member banks and others than was paid out. This is indicative of the fact that on balance more currency flows

Currency handled, 1959



*Removed from circulation by Federal Reserve Bank of Minneapolis.

**Removed from circulation by other Federal Reserve banks.

into the Ninth district than flows out.

The bank performs many important services for the U. S. Treasury as FISCAL AGENT, particularly in the sale and redemption of marketable Government securities in the Ninth district. The Fed also acts as the Treasury's agent in handling savings bonds transactions. Savings bonds sales in the district totaled \$203 million in 1959, up 20 percent over 1958. As has generally been the case in recent years, redemptions of savings bonds in 1959 exceeded sales, totaling \$308 million for this district. In order to help offset this net deficit, which nationally during fiscal 1959 amounted to some \$2,750 million, the rate on savings bonds was raised from $3\frac{1}{4}$ percent to $3\frac{3}{4}$ percent effective in June, 1959. The Treasury offered in the latter part of 1959 an exchange of F and G bonds maturing in 1960, for $4\frac{3}{4}$ percent Treasury Notes due in 1964. This exchange totaled \$750 million nationally, \$37 million of which was handled in this district. During the year this bank issued U. S. Government obligations other than savings bonds totaling \$1,700 million, transferred securities by wire for commercial banks totaling \$2,000 million; and redeemed and exchanged issues totaling \$1,650 million. Total deposits to Ninth district banks' Treasury Tax and Loan accounts during 1959 amounted to \$1,700 million, \$300 million above deposits made to those accounts during 1958. This resulted mainly from the increase in the number of special Treasury bill issues that could be purchased through the TT&L accounts. For the district these special issues totaled \$801 million in 1959 against \$438 million in 1958.

In the SAFEKEEPING department transfers of collateral to secure the increased deposits to the Treasury Tax and Loan accounts, together with the transfers of securities to

the Discount department to cover the increased volume of loans, raised the total 1959 volume of securities transfers into and out of the department almost 50 percent over the 1958 level. Following the trend of recent years, the volume of coupons clipped from bonds held in safekeeping for commercial banks again increased, the 1959 figure of 451,551 being 12 percent over 1958.

The EXAMINATION department examined all state member banks at least once during the year, including the trust departments of those state member banks exercising trust powers. In addition, the department received and reviewed copies of the reports of examination of all national banks in the district from the Chief National Bank Examiner's office. The required reports of bank holding companies in the district were received, reviewed and forwarded to the Board of Governors, as were the reports of common trust funds operated by Ninth district banks. At year end there were 477 member banks in the district (346 national and 131 state), and 826 nonmember banks.

A department that provides service not only for the banking community, but for the entire economy of the Ninth district, is the RESEARCH department. During the year the department developed *Economic Indicators*, a monthly table of regional and national economic statistics. It includes data on employment, retail sales, production, investment deposits and bank loans. An important new series was developed in 1959 on personal income. Beginning on page 9 of this Annual Report is an article explaining the use and development of this new statistic. Still in the development stage is a series on the district's industrial output. This series will be based largely upon labor inputs and industrial consumption of electrical energy.

PERSONNEL AND MANAGEMENT

DIRECTORS—In 1959 for the first time in several years the membership of the bank's Board of Directors did not change. However, an important change became effective January 1, 1960, with the retirement of Mr. Leslie N. Perrin as Chairman of the Board and Federal Reserve Agent as well as Class C Director. Mr. Perrin had served on the Board since January 1, 1954, and had been its Chairman since August 16, 1954.

Designated to replace him as Chairman and Federal Reserve Agent for 1960 is Dr. O. B. Jesness, who has served as a Class C Director and Deputy Chairman since April 1, 1955. The Board of Governors named Atherton Bean, President of International Milling Company, Minneapolis, as new Class C Director and Deputy Chairman.

At the annual election in November, Mr. Harold Thomson, Vice President of the Farmers and Merchants Bank of Presho, South Dakota, was re-elected Class A Director, and Mr. J. E. Corette, President and General Manager of the Montana Power Company, Butte, Montana, was re-elected Class B Director. Both men were named for three-year terms beginning January 1, 1960.

The five-man directorate of the bank's Helena Branch began the year with three new members but was unchanged during the remainder of the year. Early in December the bank's directors reappointed Mr. O. M. Jorgenson, Chairman of the Security Trust and Savings Bank of Billings, Montana, to a second two-year term on the Branch board and later the same month the Board of Governors reappointed Mr. John M. Otten, farmer and rancher of Lewistown, Montana, for an additional two-year term. Both appoint-

ments were effective January 1, 1960. Mr. Gordon Murray, President of the First National Bank of Minneapolis, was re-elected by the Board of Directors as a member of the Federal Advisory Council for 1960.

OFFICERS—There were no changes in the official staff during the year but two new officers were elected effective January 1, 1960. They were Mr. William O'Brien, named Assistant Cashier, and Mr. John Olin, named Assistant Counsel.

EMPLOYEES—At year end the staff at Minneapolis totaled 621; this was 28 more than at the end of 1958. This increase was due primarily to added projects in research activities, increased building services, and increased volume in the number of checks processed. By far the largest item in the \$5 million operating expenses of the bank was salary cost, which exceeded \$3 million for the year. The ratio of women to men was approximately 2 to 1. At the Helena office of the Federal Reserve Bank of Minneapolis, the year end staff totaled 62, 26 of whom were men. As part of a continuing program of management development, four employees attended the Central States School of Banking, three attended the Stonier Graduate School of Banking, and four employees of the Bank Examination department attended the Inter-Agency School for Assistant Examiners in Washington, D. C. Selected employees were also enrolled in college extension courses and courses in business machine operations, as well as being placed in in-bank training programs.

DIRECTORS OF FEDERAL RESERVE BANK OF MINNEAPOLIS*

CLASS A:		Term Expires December 31
Harold N. Thomson	<i>Vice-President, Farmers & Merchants Bank Presho, South Dakota</i>	1959
Harold C. Refling	<i>Cashier, First National Bank in Bottineau Bottineau, North Dakota</i>	1960
John A. Moorhead	<i>President, Northwestern National Bank of Minneapolis Minneapolis, Minnesota</i>	1961
CLASS B:		
J. E. Corette	<i>President and General Manager, The Montana Power Co. Butte, Montana</i>	1959
Ray C. Lange	<i>President, Chippewa Canning Company, Inc. Chippewa Falls, Wisconsin</i>	1960
T. G. Harrison	<i>Chairman of the Board, Super Valu Stores, Inc. Hopkins, Minnesota</i>	1961
CLASS C:		
Leslie N. Perrin	<i>CHAIRMAN AND FEDERAL RESERVE AGENT Director, General Mills, Inc., Minneapolis, Minnesota</i>	1959
O. B. Jesness	<i>DEPUTY CHAIRMAN Agricultural Economist, St. Paul, Minnesota</i>	1960
John H. Warden	<i>President, Upper Peninsula Power Company Houghton, Michigan</i>	1961

HELENA BRANCH

APPOINTED BY FEDERAL RESERVE BANK

O. M. Jorgenson	<i>Chairman, Security Trust and Savings Bank Billings, Montana</i>	1959
Roy G. Monroe	<i>President, The First State Bank of Malta Malta, Montana</i>	1960
Harald E. Olsson	<i>President, Ronan State Bank, Ronan, Montana</i>	1960

APPOINTED BY BOARD OF GOVERNORS:

John M. Otten	<i>CHAIRMAN Farmer and Rancher, Lewistown, Montana</i>	1959
John D. Stephenson	<i>VICE-CHAIRMAN Partner in law firm of Jardine, Stephenson, Blewett & Weaver, Great Falls, Montana</i>	1960

MEMBER OF FEDERAL ADVISORY COUNCIL

Gordon Murray	<i>President, First National Bank of Minneapolis Minneapolis, Minnesota</i>
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*The list as it appears above is correct as of December 31, 1959. Changes and new appointments for the coming year are described in the text.

OFFICERS OF FEDERAL RESERVE BANK OF MINNEAPOLIS

Frederick L. Deming *President*
Albert W. Mills *First Vice-President*

Banking Department

Carl E. Bergquist *Assistant Cashier*
Frederick J. Cramer *Assistant Vice-President*
John J. Gillette *Assistant Cashier*
Clarence W. Groth *Vice-President and Cashier*
Arthur W. Johnson *Vice-President*
Milford E. Lysen *Operating Research Officer*
Orthen W. Ohnstad *Assistant Vice-President*
Christian Ries *Assistant Vice-President*
Marcus O. Sather *Assistant Cashier*
Clement Van Nice *Assistant Vice-President*

Audit Department

Arthur J. McNulty *General Auditor*

Bank Examination Department

Harold G. McConnell *Vice-President*
Roger K. Grobel *Chief Examiner*

Fiscal Agency—Government Securities

Melvin Holmgren *Vice-President*
William Bronner *Assistant Cashier*

Legal Department

Maurice H. Strothman, Jr. *Vice-President and Counsel*

Research Department

Franklin L. Parsons *Director of Research*
Oscar F. Litterer *Business Economist*

HELENA BRANCH

Kyle K. Fossum *Vice-President assigned to Helena Branch*
John L. Heath *Assistant Cashier assigned to Helena Branch*
Robert W. Worcester *Assistant Cashier assigned to Helena Branch*

PERSONAL INCOME

PULSE BEAT OF THE DISTRICT'S ECONOMY

It's Friday morning.

An iron miner in Negaunee picks up his pay. In Duluth a postman hands a pension check to a retired railroad worker. A rancher delivers a truckload of steers for auction at Glendive, takes his seat ringside to await payment. This is a day . . . could be any day . . . in the economic life of the Ninth district.

Hundreds of events such as these connect together into a broader pattern of money movement throughout the great regional expanse of our district. Each transaction a part of someone's income, someone's spending. Together they form income *flows*, flows whose ups and downs, ebbs and shifts, seasonal swings and longer run trends, form the dynamic element in our economy. As they move they sweep out a story of prosperity and growth, of stagnation and decline, of stability and strength, of instability and uncertainty.

More fundamentally, the income patterns describe a response to changing conditions—new competition, natural disaster or man-made strife, whims of taste, new technology, government policies among other things—sometimes affecting only a few families, sometimes a whole community, and sometimes an entire region. The story could be one of success and rising fortunes on the one hand, or of heartbreak and failure on the other.

There can be little wonder, then, why such interest exists in the patterns of income flow. For by gauging them we gauge the pulse of our economic life, and the more accurately we gauge them, the more clearly we see our

economic problems and potentials.

This task of 'gauging' or measuring district income was tackled during 1958 and 1959 at the Federal Reserve Bank of Minneapolis and work has now progressed to the point where we are announcing a new statistical series on 'Personal Income' to be published monthly from now on. At first the series will be available only for Minnesota, but it is being extended to other district states. It is the purpose of the following discussion to explain the nature and uses of personal income statistics as well as the methods used in making state estimates on a monthly basis.

PERSONAL INCOME: THE NATURE OF A MEASURE

Personal income, as defined by the U. S. Department of Commerce, is the current income received from all sources by the residents of an area. Personal income is measured before deduction of income taxes and other direct personal taxes, but after deductions of individual contributions for social insurance programs. Income by its major sources is depicted in chart 1.

Personal income is the most comprehensive measure of economic activity now within practical reach. Pioneering work in the development of this measure was done by the U. S. Department of Commerce. The Department publishes annual personal income by states each August in the *Survey of Current Business*. The Department of Commerce also

I—Components of total personal income

Component	1958 Estimate for Minnesota
Wages and salaries	\$3,970
Property income	748
Proprietors income <small>non farm</small>	644
Farm proprietors income	597
Transfer payments**	487
Other labor income	143
Total	\$6,468 ***

*Property income is composed of dividends, interest and rent.

**Transfer payments consist in general of disbursements to individuals for which no services are rendered currently, such as old age and survivors' insurance benefits and unemployment compensation.

***Net of \$120 million contributions for social insurance.

currently publishes monthly personal income data for the United States as a whole. The Minneapolis Federal Reserve Bank seeks to extend monthly personal income data to states in the Ninth Federal Reserve district.

PERSONAL INCOME: THE USES OF A MEASURE

Personal income has many uses; most basic is that it provides a comprehensive and up-to-date index of the level of economic activity. It is a well-accepted and well-understood index and hence is easy to adapt and utilize. Not only does the index usefully 'describe' an area in terms of one set of economic yardsticks at any given time, but it also permits comparisons over a long period of time, hence revealing trends.

Then too it provides a basis for making comparisons, both current and over time, between, for example, the Ninth district and the remainder of the country, or among states in the Ninth district.

When the index is combined with population data for an area, an index of 'per capita' personal income can be derived; such an index is a recognized basic benchmark in appraising the economic welfare of a region and its people.

Who might use this series? Well, for one, it might provide a basis upon which government policy makers can more intelligently reach necessary decisions and recommendations. Such a series is likewise invaluable to the businessman; it provides a measure of purchasing power (even though the series represents 'income before taxes' and hence is not strictly equivalent to a 'disposable personal income' series). Companies may advance their understanding of why they are doing better or worse in a given area, and thus gain an improved basis for making sound decisions about the actions they ought to take in the area.

The 'currentness' of a monthly state income measure greatly facilitates the job of the decision-maker; he need not wait, say, till annual figures are available several months later. And of course, data provided on a state rather than a national basis assist the policy maker, since decisions are frequently made in a localized setting.

Thus, a company contemplating a new sales campaign in a given state may find that recent changes in personal income in that area affects its plans, or, a governmental unit in assessing the economic activity in its region may find that the current picture calls for a modification of earlier policies.

In summary, personal income by states on a current monthly basis should prove to be a most useful set of current statistics.

PERSONAL INCOME BY STATES: THE MAKINGS OF A MEASURE

The development of a monthly personal income series for Minnesota was undertaken by a team of economists at the Federal Reserve Bank of Minneapolis. This undertaking was not without precedent. Such series had been experimentally constructed for other states, but to our knowledge had not been published on a regular basis. And, during the time the present series was in the process of construction, McGraw-Hill Publishing Company began to issue monthly personal income series by states—"Business Week's Measure of Personal Income"—but with only a single total and no detail. Hence, we believe the series developed here is the first of its kind to run on a regular basis.

Three decisions were made at the outset of the project:

(1) The personal income measurement framework employed would be that of the U. S. Department of Commerce. Use of this framework would permit a variety of comparisons not possible were an 'independent' approach utilized.

(2) The data would be presented each month in the form of a 'seasonally adjusted annual average.' This statistic is interpreted as follows: "If this month's figure, adjusted for seasonal factors were to continue for 12 months it would yield the annual amount in question." Since almost all personal income data available from other sources are on such an annual basis, this method has the distinct advantage of permitting immediate comparisons.

(3) 'Directly reported' rather than 'indirectly calculated' data would be sought wherever possible for reasons of accuracy and speed.¹

The basic nature of and approach to the monthly personal income series are easily described:

(1) The goal was to arrive at a dollar figure each month, representing total personal income in Minnesota expressed as an annual rate for that month.

(2) The method used was to try to estimate separately each of the components of personal income and then to add these together to reach the total. This method was considered more desirable than that of securing a total directly—more desirable for two reasons: (a) it would be more accurate, (b) it would permit the presentation of detailed information on the components of personal income.

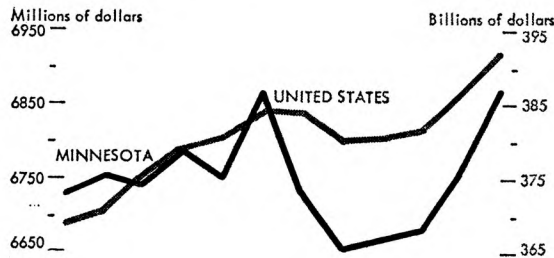
As the project unfolded each component turned out to be an individual problem in measurement and each was tackled in turn by separate methods.

In this discussion it is neither desirable nor possible to discuss in detail the ways in which these measurement problems were met. But the underlying nature of the problems can be stated and the general approaches to them sketched in.

The most important fact to be noted about the problem of measuring personal income on a monthly basis is that *nowhere* are its components ideally recorded. Hence the 'solution' to the problem consists of making the 'best' estimates possible for each of the components which go to make up the total. The project thus turned into a game of 'hare and hounds' with the economists and statisticians involved searching out sources of statistics and seeking to work them into the best possible estimates.

¹ We are very much indebted to the many agencies which cooperated with us in supplying data and other assistance; without their help we could not have completed the project.

2a—Personal income by months, seasonally adjusted annual rates, 1959



ESTIMATING THE COMPONENTS OF THE PERSONAL INCOME MEASURE

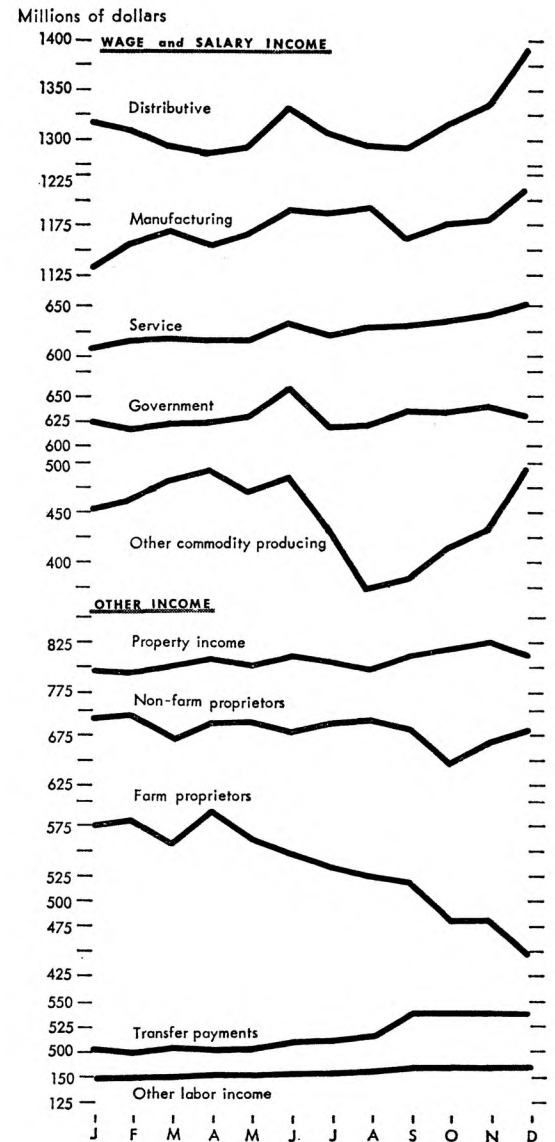
The following commentary describes the manner in which the estimates were developed. Chart 2 depicts the components.

(1) *Wage and salary payments.* The basic estimating procedure involves two steps: (a) the establishment of a benchmark estimate for a recent period and (b) the extension of this benchmark estimate to the current month by a currently reported series.

The benchmark estimate is obtained from two principal sources: (a) the quarterly reports of employment and total wages and salaries made by all employers covered under the Minnesota Unemployment Insurance Act and, (b) special reports of the U. S. Department of Agriculture, the U. S. Department of Labor and other federal, state, and local agencies for non-covered employers. The quarterly reports are not available normally until about six months after the end of the period to which they refer. The special reports have varying lags. Hence, it is necessary to bring the benchmark estimates to the current period.

The benchmark estimates are extended by changes in the monthly estimates of employment and earnings currently reported by

2b—Components of personal income in Minnesota, 1959



Other commodity producing includes mining, construction, and forestry and fisheries; *distributive* includes trade, transportation, communications and public utilities; *service* includes services, finance, insurance and real estate.

U. S. Department of Labor—Bureau of Labor Statistics. This, in effect, brings down to the present an accurate base period figure. This approach rests upon the assumption that the *change* in the *currently* reported USDL-BLS estimates relative to its base period series provides a ‘number’ which can be applied to the benchmark estimate to bring it to a current basis. As subsequent data from Unemployment Insurance reports become available, they are substituted in the formula and a new, more recent benchmark estimate is obtained.

(2) *Other labor income.* Exploration of this component led to the conclusion that it would be difficult, if not impossible, to secure accurate currently reported data (as for example, in compensation for injuries, or directors’ fees). Other labor income has tended to be a small fraction—less than 2 percent—of total personal income. Hence, it was decided to use an allocation method as follows: (a) using U. S. Department of Commerce data for the previous year, a calculation is made to find what percentage Minnesota other-labor-income is of U. S. other-labor-income and (b) this percentage is applied to the current monthly national other-labor-income figure estimated by the U. S. Department of Commerce.

(3) *Farm proprietors’ income.* The U. S. Department of Agriculture, which supplies the U. S. Department of Commerce with farm income data, builds up its estimates of net farm income as shown in chart 3.

This accrual approach was viewed as realistic for our purposes, but problems arose in (a) attempting to apply it on a monthly basis and (b) in defining and calculating inventory changes. Since net income alone is the figure needed for this series, cash receipts and net changes in inventories were combined in a single item, gross receipts. This method is also shown in chart 3.

Gross receipts are estimated for commodities on the basis of current production and price data. The net rental value of farm dwellings is estimated on the basis of figures for the previous year; home consumption is estimated by a regression equation. Direct government payments are estimated from information obtained from the state Agricultural Stabilization Committee.

From these gross receipts, production expenses are subtracted to obtain net income. Production expenses are estimated by applying an equation utilizing the index of prices paid by farmers.

(4) *Proprietors’ income* (nonfarm) also called proprietors’ business and professional income. Income in this class arises from professional services and from unincorporated enterprises in fields such as trade, construction, services, manufacturing and transportation.

Various ways exist for estimating proprietors’ income. Experiments are presently under way as to the relative usefulness of several of these alternatives. For the time being the estimate is built up by using a tested past relationship between proprietors’ income and several other monthly statistical series already available for the state, allowing each of the other series a fractional weight in the total estimate. In effect, what is done is to estimate the ‘contribution’ to proprietors’ income made by such items as bank debits, department store sales, trade employment, construction contracts awarded, and by other relevant variables. These are combined systematically into a regression equation which in effect predicts monthly proprietors’ income as the relevant monthly data are fed into the equation.

(5) *Property income.* Income of this class includes dividends, interest and rents.

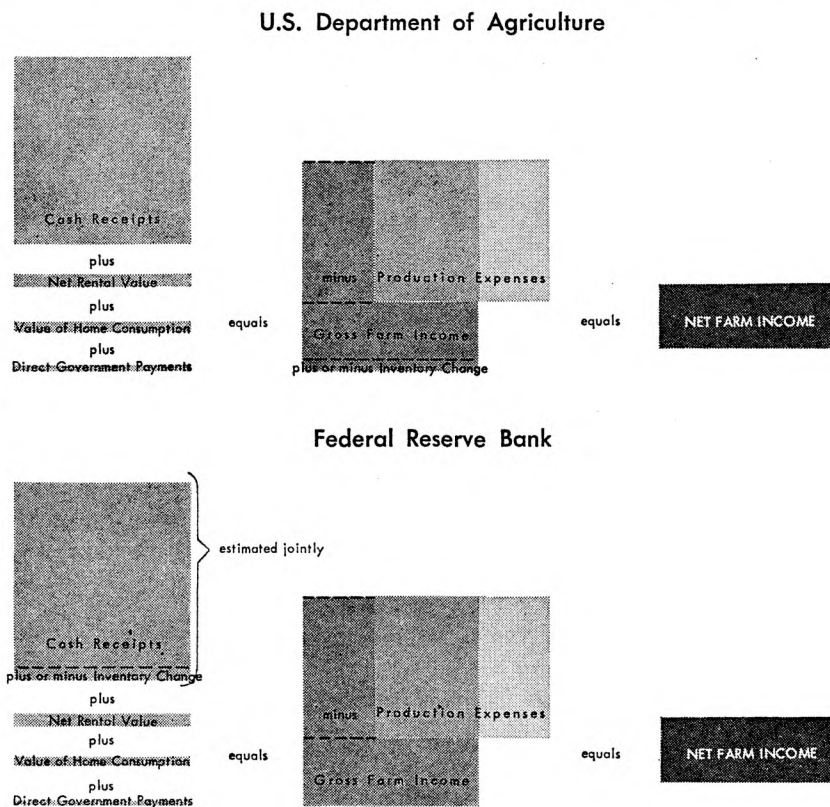
Dividends: The procedure for obtaining

this component of property income utilizes the U. S. Department of Commerce estimate of annual dividend income by states. This figure is brought forward in direct relation with the monthly or quarterly national total of dividend payments. The proportionality factor is simply the ratio of dividend payments in a state to those in the nation in the most recent year for which both statistics are available.

Interest: Similarly, the chief ingredient of estimated interest income for a state is the U. S. Department of Commerce estimate of annual interest income. The annual estimate is brought forward by adjusting it in proportion to changes in bank time deposits and savings and loan shares. The proportionality factor is the ratio of average bank time deposits plus average savings bank time deposits plus average savings and loan shares to interest income in the most recent year for which each statistic is available.

Rent: The U. S. Department of Commerce estimate of rent income by states plays a major role in estimating this part of property income. The latest annual rent income estimate of the U. S. Commerce Department is extended to succeeding months by adjustments depending on the number of

3—Farm income components estimation procedure as used by:



dwelling units and a price index for rent.

(6) *Transfer payments.* Transfer payments include various categories of government disbursements at federal, state and local levels: old-age insurance, railroad retirement, veterans pensions, unemployment compensation, direct relief; and certain categories of business transfers such as corporate gifts to non-profit institutions and consumer bad debts.

Two procedures are used in the monthly calculation of these payments. First, a direct reporting basis is utilized for certain components: old-age insurance payments, railroad retirement and unemployment, state unemployment, and direct relief. These four

items comprise some 60 to 65 percent of total transfer payments. In the case of old-age insurance payments, monthly U. S. figures are used to allocate a figure to Minnesota on the basis of state distributions which are made twice a year by the Social Security Administration. The other three items are reported directly by the administrative agency in question.

Second, projections are used for the balance of the components. Primary data here is obtained from annual reports of agencies such as the Veterans Administration (for various categories of veteran payments) or from special reports such as that made by the Bureau of the Census on "Employee-Retirement Systems of State and Local Governments." In the case of business transfers, no primary data were readily available, and this small component is extrapolated from U. S. Department of Commerce estimates.

(7) *Personal contributions for social insurance.* Personal contributions for social insurance represent deductions from 'gross' personal income and must be subtracted in order to secure the relevant personal income figure. These contributions fall into two major categories: (a) employee contributions under various social insurance programs, (b) self-employed persons' contributions.

Two methods are used in the monthly estimation of these contributions:

(a) In the case of old-age and survivors insurance, railroad retirement insurance, and self-employed contributions, an allocator system is used. Using the old-age program for illustrative purposes, the 1958 personal contributions for this category were taken as a percentage of wage and salary disbursements. This percentage is then applied to the current monthly figure on wage and salary disbursements to secure the current personal contributions figure. Since changes in coverage are negligible and changes in contribution

rates up to 1960 were minor in amount, this method yields an accurate figure, although an adjustment was made for the 1960 changes in the OASDI tax rate change.

(b) Other components: federal civilian retirement, state and local retirement, and government life insurance contributions are obtained by extrapolation of data secured from annual reports and special studies. Here again the degree of change is small.

THE ESTIMATES: THE ACCURACY OF THE MEASURE

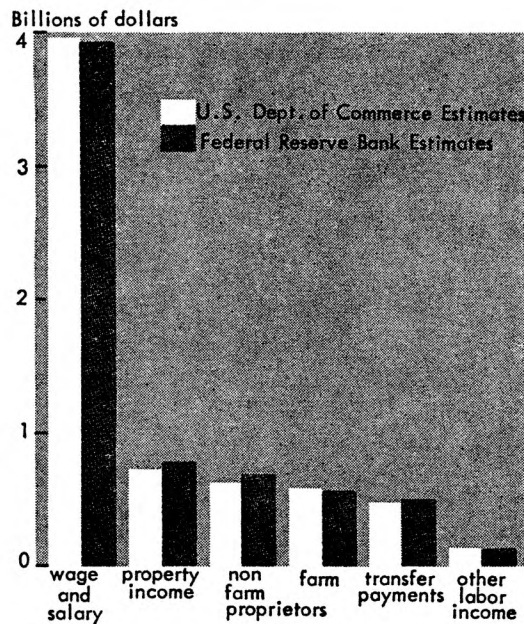
Now, how accurate are the estimates derived by these methods? To answer this question we must first answer two other questions.

(1) How 'meaningful' is personal income as a measure of economic activity? No 'quantitative' answer can be given to this question. But we would suggest, as noted earlier in this article, that while personal income is not the only index of economic activity, it *is*, given limitations of data, a most useful indicator. This judgment underlies the entire project.

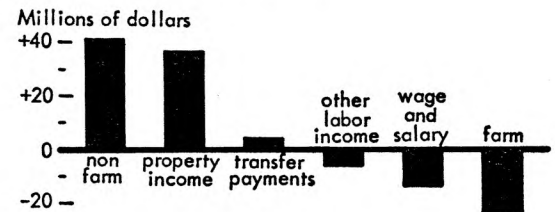
(2) Given the personal income approach, how 'accurate' are the U. S. Department of Commerce estimates? Two points merit comment. First, personal income data are not of the type which permit appraisal in terms of probabilities. Second, there is no way of knowing what 'absolute' personal income figures would be were an omniscient being to collect them.

Hence, it is no accident that the U. S. Department of Commerce comments: "The first question about any series of economic statistics relates to its reliability. The state income series is no exception, consisting as it does of 'estimates' which are subject to error. It must be recognized at the outset that the errors present in the state income estimates are not subject to quantitative measurement."

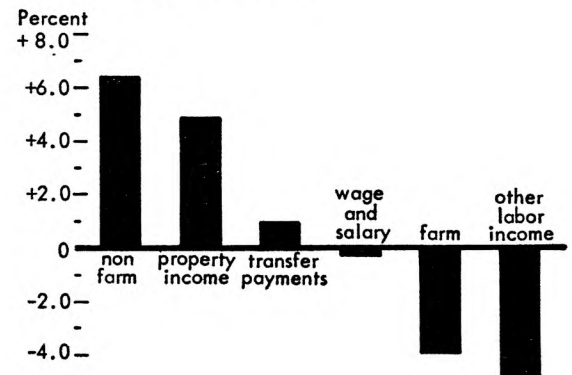
4a—Federal Reserve Bank and U.S. Department of Commerce estimates of components of personal income in Minnesota, 1958



4b—Absolute difference, Federal Reserve estimates minus Department of Commerce estimates



4c—Percentage difference



With this warning, the U. S. Department of Commerce then goes on to (a) indicate its belief in the general usefulness of the personal income approach but (b) again to warn the user to examine carefully the data so as to judge whether they can be employed in the manner intended. This position we accepted in developing state estimates by months.

We now return to the original question: if we accept the U. S. Department of Commerce personal income estimates as a benchmark, how close did our estimates come to the benchmark?

We employed two criteria in appraising our estimates. First, did the estimates 'call the turn;' that is, did they indicate an increase in personal income when other indexes ex-

hibited this trend and vice versa? We regarded change in the level as more important than this level itself, for two reasons: (a) the personal income approach does not 'catch' completely all income items and (b) for explicit (as well as some implicit) items the U. S. Department of Commerce makes annual revisions of its estimates which in some cases sizably affect the level. Second, we did keep in the backs of our minds a purely subjective belief that our estimates, to be acceptable, must be predictive of the U. S. Department of Commerce estimates published eight months later. The answers to the specific questions about our estimates are then as follows:

(1) In essentially all cases over a twelve to twenty-four month period, our estimates

turned up or down in line with estimates obtainable from other sources. Hence, we would suggest the monthly index provides a usable indicator of the *trend* of economic activity.

(2) With respect to the level of personal income and using 1958 as a year for comparison the two estimates run as shown in chart 4.

In interpreting this chart, it should be kept in mind that for 1958 the two series are not completely 'independent.' This is true for several reasons (a) various of our allocators and regression equations are tied to relationships resting upon U. S. Department of Commerce data and (b) the same sources of primary data are used; the U. S. Department of Commerce on an annual basis, ours on a monthly. The reader should keep this in mind as he notes the following three points:

(a) Our estimates of personal income components tended to be both over and under the U. S. estimates and, hence in part to cancel each other out. This made the total more closely approximate the U. S. Department of Commerce figure than would have been true had all the errors been in one direction. Thus, while our estimate of nonfarm proprietors' income was 6.4% higher than the U. S. Department of Commerce estimate, the total pluses and minuses yielded a sum which was less than 1 percent different.

(b) The major differences occur in those areas where the U. S. Department of Commerce secures a state estimate by 'allocating' a national total, and where in a subsequent year more recent information calls for a change in the allocator and hence in a revision of the estimate. The user of the Minnesota estimates should bear this in mind particularly in the other labor income, and in property income components.

(c) In certain cases our figures tended to become more 'accurate' as the U. S. Department of Commerce made its revisions.

THE MINNESOTA ESTIMATES

Although experimental estimates were run for earlier months, January 1959 was the point at which the Minnesota personal income series was put on a regular reporting basis. The estimates for January through December 1959 are presented in a table following the article along with the other U. S. Department of Commerce estimates which can be used for reference.

THE AVAILABILITY OF THE ESTIMATES

These estimates will be run henceforth on a regular monthly basis, with, if present experience continues, no more than a month's lag. That is, figures for December 1959 would be available by January 31, 1960, and so on. It is planned to include them in *Ninth District Economic Indicators*, a monthly statistical release of the Federal Reserve Bank of Minneapolis. Those wishing to receive this release may be placed on the mailing list by writing the Research Department at the Bank and making this request.

Extension of the personal income series to the other states in the Ninth Federal Reserve district is under way. If our planning estimates are realistic, we hope to have the entire series operative by the end of 1960.

The personal income study was conducted under the direction of John G. Turnbull of the University of Minnesota, acting as consultant to the Federal Reserve Bank. Major contributions were made by Charles J. Libera, William G. Dewald and Milo O. Peterson of the bank's research staff and by Elmer W. Learn of the University of Minnesota.

**PERSONAL INCOME IN MINNESOTA BY YEARS, 1954-1959,
AND BY MONTHS, 1959¹**

(millions of dollars)

Year	Total personal income	WAGE AND SALARY INCOME						
		Total	Commodity producing			Distri- butive	Service	Gov't
			Total	Manufacturing	Nondurable			
1954	5,154	3,193	1,226	478	395	1,062	452	452
1955	5,450	3,387	1,317	489	426	1,117	489	465
1956	5,768	3,611	1,426	547	458	1,163	518	503
1957	6,158	3,888	1,520	592	485	1,259	569	541
1958	6,468	3,970	1,485	574	486	1,277	598	612
1959 ²	6,659	4,181	1,615	601	573	1,311	626	629
Seasonally adjusted monthly totals at annual rates, 1959								
Jan.	6,729	4,136	1,586	578	554	1,317	608	625
Feb.	6,758	4,165	1,621	597	561	1,309	616	619
Mar.	6,743	4,182	1,648	599	569	1,293	618	623
Apr.	6,785	4,174	1,648	590	567	1,285	617	624
May	6,750	4,177	1,637	598	569	1,290	617	633
June	6,867	4,301	1,675	616	576	1,331	632	663
July	6,730	4,165	1,619	610	577	1,308	620	618
Aug.	6,656	4,103	1,559	610	581	1,296	627	621
Sept.	6,668	4,096	1,544	589	571	1,292	632	628
Oct.	6,680	4,177	1,590	602	574	1,317	636	634
Nov.	6,759	4,224	1,611	600	580	1,333	643	637
Dec.	6,871	4,377	1,702	616	595	1,393	652	630

Year	OTHER INCOME						Less personal contributions for social insurance
	Other labor income	Proprietors' income		Property income	Transfer payments		
		Farm	Nonfarm				
1954	90	526	535	596	292	78	
1955	100	460	601	665	325	88	
1956	114	515	619	664	347	101	
1957	132	479	645	725	406	116	
1958	143	597	644	748	487	120	
1959 ²	153	450	680	808	516	129	
Seasonally adjusted monthly totals at annual rates, 1959							
Jan.	149	575	693	797	506	127	
Feb.	150	581	695	795	500	128	
Mar.	150	563	673	802	501	128	
Apr.	152	590	687	809	501	128	
May	152	556	688	803	502	128	
June	154	546	677	811	509	131	
July	155	534	689	806	510	129	
Aug.	155	523	690	799	513	127	
Sept.	157	516	677	812	537	127	
Oct.	157	476	645	818	536	129	
Nov.	158	480	667	825	536	131	
Dec.	158	443	679	813	536	135	

¹ The 1954 through 1958 annual data are based on U.S. Department of Commerce estimates. Manufacturing industry estimates are classified according to the 1945 Standard Industrial Classification; nonmanufacturing estimates are classified according to the 1942 Standard Industrial Classification.

The 1959 annual and monthly data are based on Federal Reserve Bank of Minneapolis estimates. All industries are classified according to the 1957 Standard Industrial Classification.

² The annual estimates are not necessarily identical with the average of the monthly estimates, because of the seasonal adjustments. In addition, the monthly estimates of farm income are based upon data available at the time while the annual estimates are based upon data available at the end of the year.