

MONTHLY

REVIEW

Annual Report Issue

FEDERAL RESERVE BANK OF MINNEAPOLIS

JANUARY 1963

District developments in 1962

Our district's economic performance this year differed in several important ways from its showing last year. Some of these contrasts will be spelled out in this *annual review* edition.

Most notable—and basic—of the region's developments was the turn-around showing in the agricultural sector. Agriculture, you may recall, had been plagued by drouth in 1961. But this year, cash receipts from farm marketings were up 8 percent in Ninth district states from the levels of 1961 and approached the record levels of 1958. The taking into account of greater government payments to farmers raised the gross cash farm income in 1962 to an all-time high.

Manufacturing, as well as many sectors of business, also improved during 1962 and, within a setting of hesitant recovery on the national level, contributed further toward a more favorable rate of district expansion.

On the financial front, district banks experienced a number of significant changes—but let's let the record speak for itself:

Banking

The outstanding feature of banking experience in the Ninth Federal Reserve district during 1962 was the virtual explosion of time deposits following the change in Regulation Q on January 1, which lifted from 3 percent to 4 percent the maximum interest rate that member banks can pay on time deposits.

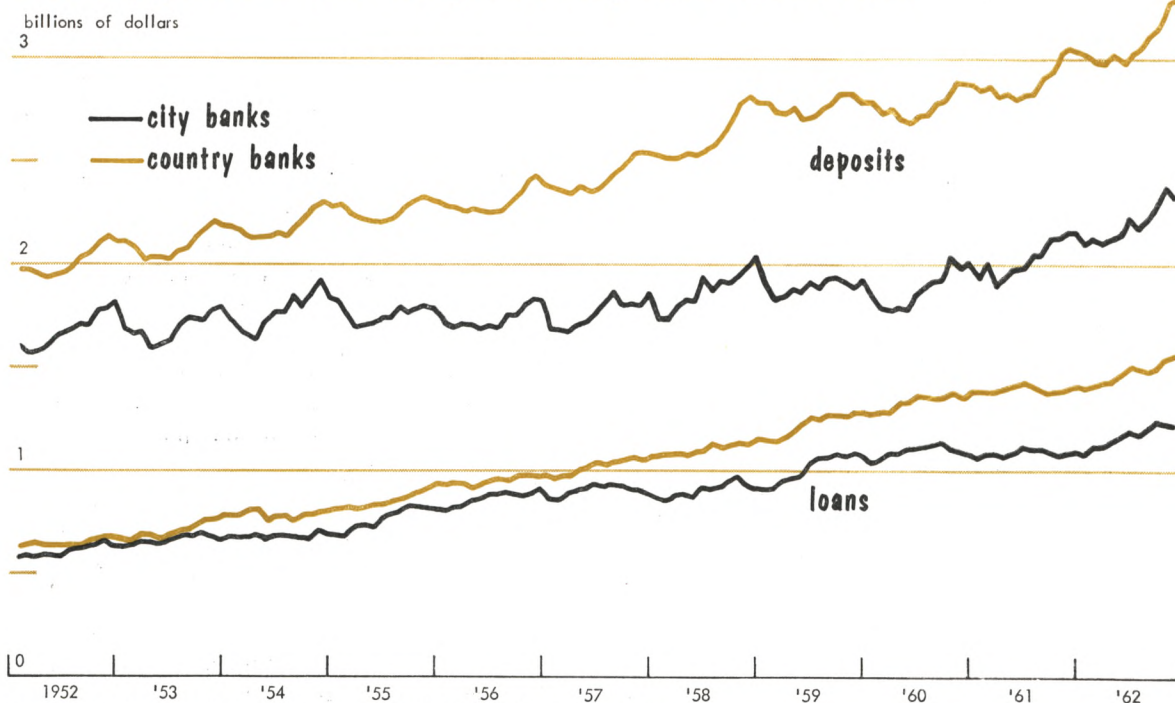
Most banks responded to the change in the Regulation by offering higher rates, with the result that time deposits grew more rapidly—both absolutely and percentagewise—than ever before. This was true at both the city and country banks.

At the city banks much of the \$239 million increase in time deposits reflected the sale of nego-

table time deposit certificates to corporate investors. Total time deposits at district city banks rose by more than 50 percent in 1962. The largest annual gain previously recorded was 18 percent in 1961. At the country banks time deposits rose by \$188 million or slightly more than the previous record rate of 14 percent in 1957. In other years the country bank time deposit growth rate has been well below that figure.

Time deposits amounted to only 30 percent of total deposits in the city banks at the end of 1962, despite the high growth rate during the year. At the country banks time deposits amounted to 45 percent of total deposits. Total deposits of both city and country banks rose about 8 percent in 1962 as a small decline of demand deposits partially offset the increase of time deposits at the

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



*Total loans after deducting valuation reserves and loans to other commercial banks

city banks. Country bank demand deposits were up somewhat for the year.

Both the city and country banks in the district increased their loans proportionately more than their deposits in 1962. This raised the ratio of loans to deposits from 51 percent to 53 percent at the city banks and from 46 percent to 48 percent at the country banks in the twelve months ended November 1962. Loans rose \$143 million or 13 percent at the city banks and \$163 million or 12 percent at the country banks. While the percentage gains were exceeded in a few previous years, the dollar gains were a record at both groups of banks.

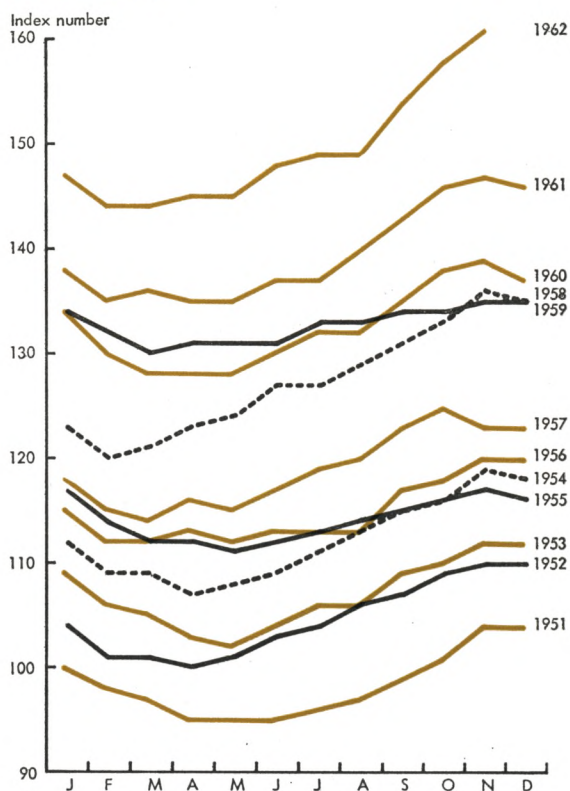
Country banks in the western states of the district registered a significantly higher rate of loan growth in 1962 than did the city banks or the country banks in the eastern part of the district. Country bank loan growth averaged 18 percent in the three westernmost states and only 7 percent in the other district states or part states. Deposit growth rates were comparable in all district states except North Dakota, where the growth rate was half again as large as the district average.

TABLE 1: CHANGE OF COUNTRY BANK LOANS AND DEPOSITS, NOVEMBER 1961-NOVEMBER 1962

	Loans (percent)	Deposits (percent)
Michigan	7.3	7.3
Minnesota	7.5	7.0
Montana	14.5	7.5
North Dakota	23.0	11.7
South Dakota	16.6	8.8
Wisconsin	6.1	5.6

The interest expense of district member banks will, of course, rise in 1962 because of the increase of time deposits and because of the higher rates of interest paid on these balances. In an effort to recoup this addition to expense, many banks, both in the district and in the nation, appear to have changed their "mix" of earning assets in an effort

Chart 2—Index of daily average total deposits at district member banks. (January 1951=100)



to boost the rate of return and to boost the proportion of receipts not subject to the federal income tax. These efforts have resulted in the substitution of less liquid for more liquid assets.

Judging from an inspection of member bank call reports dated September 28, 1962 and September 27, 1961, the liquidity of district member banks declined somewhat less during the intervening twelve months than did the average liquidity of all member banks in the nation.

The table reveals that even though member banks in the Ninth district sustained about the

same percentage growth in total deposits as the national average, their percentage increase of holdings of relatively less liquid assets such as real estate loans and municipal bonds (included under "other securities") was under the national average. And, in contrast to a decline in government securities held by all member banks in the nation, the holdings of district banks increased somewhat. One exception to the general pattern of a smaller decrease of liquidity in the district than in the nation was the larger percentage decline in the district of short term governments held. On September 28, 1962, the ratio of short governments to total deposits in the district and in the nation was 7.7 percent and 8.5 percent, respectively. The ratio of real estate loans to total deposits was 14.0 percent and 12.7 percent, respectively, and that of non-U. S. government securities to total deposits was 10.0 percent and 11.2 percent, respectively. The ratio of total loans to total deposits was 52 percent in the district and 55 percent in the nation.

Member bank borrowings at the Federal Reserve Bank of Minneapolis averaged less in 1962 than in any year since 1943. In the ten years before 1961, member bank borrowing averaged as much as \$39 million for the year (in 1957) and as little as \$7 million (in 1954). In 1961 daily average borrowing by district member banks averaged only \$1.6 million, and in 1962 it averaged less than a million dollars. Borrowing by the reserve city banks in 1962 averaged well under a hundred thousand dollars, and in eight months of the year, not one reserve city bank was in debt to the Federal Reserve. Country bank borrowings were negligible, averaging less than a million dollars in all but three months of 1962.

It is apparent that the lack of demand for accommodation at the Federal Reserve Bank of Minneapolis in 1962 reflected in large measure the abundance of funds, particularly time deposits, placed by depositors at the disposal of member banks. Total deposit gains registered at both the city and country banks in the district were larger than in any year since before 1950, with the ex-

TABLE 2: PERCENT CHANGE IN SELECTED ASSETS AND LIABILITIES AT MEMBER BANKS, SEPTEMBER 27, 1961-SEPTEMBER 28, 1962

	DISTRICT (percent)	U. S. (percent)
U. S. Obligations Held	+ 1.8	- 4.7
Short Term*	-27.0	-17.1
Other Securities	+17.5	+23.9
Total Loans	+ 8.1	+ 9.4
Real Estate	+ 5.1	+12.1
Total Deposits	+ 7.0	+ 7.8
Demand	- .9	+ 3.3
Time	+21.8	+16.5

*Due within a year.

ception of gains recorded in 1958.

It is likely that the lack of demand for loans at the Federal Reserve Bank of Minneapolis in 1962 also reflects the narrow range of quotations for U. S. Government securities, which has characterized the money market since mid-1960. The opportunity of liquidating securities at little or no loss may well have prompted those few banks in need of cash to tap that source of funds rather than to secure accommodation at the Federal Reserve.

Agriculture

Favorable agricultural conditions throughout most of the Ninth district led to a marked improvement in the income position of farmers in 1962. Total cash receipts from farm marketings are estimated at \$3,580 million, up 8 percent from the \$3,308 million received in 1961. The estimated 1962 figure exceeds the previous record high marketings of \$3,463 million set in 1958. Higher direct payments to farmers by the government will make 1962 a record year in terms of gross farm income.

Crop marketing receipts estimated at about \$1,260 million are 16 percent greater than those received in 1961, reflecting the substantial improvement in moisture conditions in the western states. The prime factor in this increase in receipts

was a near 60 percent rise in wheat production over the 1961 output due primarily to improved yields. Other small grains showed similar increases in yields and production. Thus, the added volume more than absorbed slightly lower grain prices. The only crops that showed any decline in output from the 1961 totals were corn and soybeans, both of which registered smaller yields per acre compared to the exceptional yields of 1961 for those crops.

Proceeds from the sale of livestock and livestock products totaled an estimated \$2,320 million during 1962, an increase of over 4 percent above the 1961 total. Lower dairy incomes were more than offset by increased income from other livestock, particularly beef cattle.

TABLE 1: ESTIMATED 1962 CASH RECEIPTS FROM FARM MARKETINGS

(millions of dollars)			
	Crops	Livestock	Total
Minnesota			
1961	439	1,071	1,510
1962	430	1,100	1,530
Montana			
1961	150	215	365
1962	210	240	450
North Dakota			
1961	293	208	502
1962	435	220	655
South Dakota			
1961	179	484	663
1962	160	520	680
District Total*			
1961	1,087	2,221	3,308
1962	1,260	2,320	3,580

*Includes those parts of Michigan and Wisconsin in the Ninth district.

State Summaries

North Dakota: The largest percentage increase in cash farm receipts of any of the district states occurred in North Dakota. This increase of more than 30 percent over the 1961 total represents a total cash receipt figure of an estimated \$655 million. Cash receipts from the sale of crops were up

by about 50 percent. Virtually all of that gain is attributable to the increase in wheat yields from 11.9 bushels per acre in 1961 to 28.7 bushels per acre in 1962. The total wheat output in North Dakota was over twice the 1961 production. The generally favorable crop conditions during 1962 are reflected in increased output of almost all of the grains. For example, the output of oats and rye was over three times the 1961 figure, while barley and flax production more than doubled. Livestock receipts advanced more than 5 percent over the 1961 receipts due primarily to improved beef cattle prices.

Montana: The increase in cash receipts in Montana closely parallels the experience in North Dakota. Total cash receipts advanced over 20 percent to total an estimated \$450 million. This figure surpasses the previous high cash receipt mark set in 1958. Again, much of the increase is attributable to significant improvement in crop production, as cash receipts from crop marketings are estimated to be 40 percent higher than those of 1961. Higher cattle prices raised cash receipts from livestock about 12 percent, the largest percentage gain in the district.

South Dakota: Cash receipts from farm marketings in South Dakota are estimated at \$680 million for 1962, up almost 3 percent from 1961. A 7 percent increase in the sale of livestock and livestock products more than offset a reduction in the proceeds from crop sales. While yields of grain crops were generally higher than those of 1961, a severe rust infestation in winter wheat reduced the output of that crop to about one-half the total 1961 output. The damage to the winter wheat crop was sufficient to reduce all wheat production about 10 percent below the 1961 total which, in turn, was the main factor in a 12 percent decrease in crop receipts.

Minnesota: An estimated 1 percent gain in cash farm receipts, while being the smallest in the district, was sufficient to move the total for the state to \$1,530 million. This sets a new record high for cash receipts. Crop receipts, which

usually amount to less than half the income derived from livestock, were off about 2 percent due mainly to a decrease in crop yields from the levels attained in 1961. Some of the reduction in crop output was the result of excessive moisture conditions in the western part of the state and in the Red River Valley. Income from the sale of livestock and poultry offset lower dairy incomes as the total livestock receipts advanced an estimated 2 percent over the 1961 total.

TABLE 2—BUSHEL YIELDS PER ACRE

	Minn.		Mont.		No. Dak.		So. Dak.	
	1961	1962	1961	1962	1961	1962	1961	1962
All wheat	24.0	24.6	14.7	22.6	11.9	28.7	14.4	17.3
Corn for grain	64.5	59.5	58.0	50.0	33.0	31.0	36.5	42.5
Soybeans	24.0	19.5	—	—	14.0	13.5	18.0	20.5
Barley	30.0	26.0	18.0	30.5	18.0	35.0	24.0	27.0
Oats	46.0	45.5	34.0	41.0	23.0	52.0	34.0	41.0
Flax seed	12.0	10.0	4.0	10.0	6.2	12.0	9.5	10.5

Production expenses

While net incomes of farmers in the district advanced, some of the increase in gross farm incomes was absorbed in the continuing rise in production expenditures. The index of prices paid by farmers stood at an all time high in mid-October, about 2 percent higher than 1961 levels. While much of the increase is due to higher prices—particularly feeder cattle prices—farmers continued the trend toward purchasing more inputs from off-farm sources. Farm wage rates advanced moderately while other purchased goods and services advanced only slightly during the year.

Business

During 1962, the economic expansion in the Ninth district proceeded at a rate faster than the national. The stimulus for much of the expanding volume of district business activity in the latter half of the year came from the improvement in farm income. As an integral part of the national

economy, the district's economy, of course, was tied closely to developments in the nation. This was the situation for the many district manufacturing and mining firms serving national markets.

In the U. S., the economic recovery which began in February 1961, continued through 1962. However, the expansion during the past year slowed down to such an extent that it has puzzled many businessmen and economists. The slow movement is reflected by the gross national product, which measures the volume of all goods and services produced. GNP rose (on a seasonally adjusted annual rate) from \$545 billion in the first quarter of 1962 to only \$562 billion in the fourth quarter, a small increase of about 2 percent after allowance for price changes. In 1961, the increase was 7.5 percent. As a result of the slow rate of economic expansion, industrial plant capacity has gone unused and a higher level of unemployment has been recorded than in former periods of economic recovery.

Employment

Measures of employment and unemployment constitute major sources of information on the economic health and well-being of individuals in communities, in states and in the nation as a whole. It measures the extent of the utilization of the labor force.

Since 1957, unemployment in the nation has been high in comparison with the period following World War II, and a 4 percent unemployment level has become widely accepted as approximating reasonably full employment. Unemployment as a percent of the civilian labor force, in figures compiled by the Bureau of Labor Statistics, has not averaged as low as 5 percent on an annual basis since the 4.3 percent rate achieved in 1957. These figures have been watched anxiously each month as the economy has moved upward from the low point in economic activity reached in February 1961.

In Ninth district states, as in other agricultural states, the technological transition occurring in

agriculture continues, year after year, to reduce the labor required on farms, as the chart shows. In the first half of 1962, employment on farms in the four district states (Minnesota, Montana, North Dakota and South Dakota) averaged 2.6 percent below the number employed on farms one year earlier. Beginning in June, however, some increase occurred as preparations were being made for the harvesting of a near record crop; employment on farms rose significantly, and through November it continued to remain above the year earlier level. In Michigan and Wisconsin, where crop production is not so important a part of agriculture, workers on farms continued to decline in 1962.

While farm employment has been going down for many years, urban employment has risen, except during periods of economic recession. Since the mid-1950s, even in prosperous years, employment has declined in metropolitan areas where manufacturing is heavily concentrated. In highly industrialized Michigan, for instance, nonfarm employment was at a peak in 1953; then it began to decline slowly as manufacturers installed new automatic equipment.

SIMPLE ANNUAL AVERAGE RATES OF CHANGE OF NINTH DISTRICT EMPLOYMENT, 1953-1962

	Nonagricultural (percent)	Agricultural (percent)
Minnesota	1.34	-2.41
Montana	1.04	-2.59
North Dakota	1.48	-2.89
South Dakota	2.20	-2.46
Michigan	-1.77	-2.34
Wisconsin	1.05	-2.24

Nonfarm employment in the Ninth district as a whole rose slowly in 1962, from January through August, and then declined slightly. The seasonally adjusted index (1957-59=100) rose from 105.6 percent in January to 106.6 percent in August and subsequently declined to 106.2 percent in November. The decline is too small to reveal a turning point in any major industry category except iron ore mining.

Chart 1—District employment by states, 1953 and 1962.



INSURED UNEMPLOYMENT AS A PERCENT OF AVERAGE COVERED EMPLOYMENT*

	February**		September**		October	
	1961	1962	1961	1962	1961	1962
Minnesota	8.8	6.9	2.5	1.9	2.4	2.1
Montana	15.1	9.7	2.6	2.1	3.0	1.9
North Dakota	12.6	11.5	2.0	0.8	2.2	0.7
South Dakota	7.3	5.8	0.8	0.9	0.8	0.9
Michigan	13.6	6.7	4.1	3.0	3.9	2.6
Wisconsin	7.3	4.4	2.5	2.0	2.3	2.1
United States	8.4	5.9	3.8	3.3	3.8	3.4

*The average is insured unemployment as a percent of average covered employment in a 12-month period ending 6 to 9 months prior to month of reference.

**The seasonal peak in unemployment usually occurs in February and the seasonal low in September in the Ninth district.

The growth in the district's nonseasonal employment in 1962 was small, only approximately 7,100 workers.¹ Even so, the recent employment growth within the district and the job opportunities in other regions, especially in neighboring states, have gradually reduced the unemployment in this area. In Michigan, Minnesota, Montana and North Dakota, insured unemployment as a percent of the covered employment in October was significantly below that of a year earlier. In South Dakota, such unemployment was below 1 percent and in Wisconsin, slightly over 2 percent during both Octobers. Compared with the nation, Ninth district unemployment falls to a lower level in the summer—but it also rises to a higher level in the winter.

Income

The level of personal income constitutes another major source of economic intelligence. The broad patterns of income flow to individuals and families gauge the pulse of our economic life. Income includes all current receipts received from all sources by the residents in a political subdivision or in the nation. It is measured before deduction of income taxes and other direct personal taxes,

¹The estimate includes the four full states and Upper Michigan but not northwestern Wisconsin which is part of the Ninth district.

but after deduction of individual contributions for social insurance programs.

Total personal income in the U. S. during 1962 rose from \$428.8 billion in January to \$445.6 billion in October, an increase of 3.9 percent compared with a 5.4 percent increase during the comparable period in 1961. These estimates also reflect the slowing down in economic growth.

Ninth district personal income grew at a faster rate in 1962 than during the preceding year. The seasonally adjusted personal income from January to October, inclusively, rose by 6.2 percent as compared with 3.4 percent in the corresponding months of a year earlier. In the first half of 1962, the adjusted income was quite stable, averaging about 5 percent above the level of one year earlier. Beginning in July it rose significantly, and by October it was 8.5 percent above the year earlier total. The rise in income in the latter half of the year was due to the marked improvement in farm income.

AVERAGE ANNUAL INCREASE IN PERSONAL INCOME IN DISTRICT STATES, 1953 TO 1962*

	Percent
Michigan	3.04
Minnesota	7.17
Montana	4.12
North Dakota	5.26
South Dakota	6.28
Wisconsin	5.15

*Annual estimates for 1962 were not available for Michigan and Wisconsin. The average was computed on nine years.

Total personal income from 1953 to 1962, inclusively, in the states wholly or partly in this district fluctuated widely due to the rise and decline of income from primary industries, such as agriculture and manufacturing. In this ten-year period, the average annual increase in total income ranged from 3.04 percent in Michigan to 7.17 percent in Minnesota.

The rise in per capita income in the district states reveals a different picture than do the state totals. Per capita income depends, in a large meas-

ure, on the rise in productivity by industry, while the state total depends largely on the economic growth. The accompanying chart plots the per capita income in 1953 and 1962 by district states and the average annual percent of increase. In the past ten years, the rise in per capita income has been rapid in Minnesota and the Dakotas, with the annual average exceeding 4 percent.

Consumer expenditures

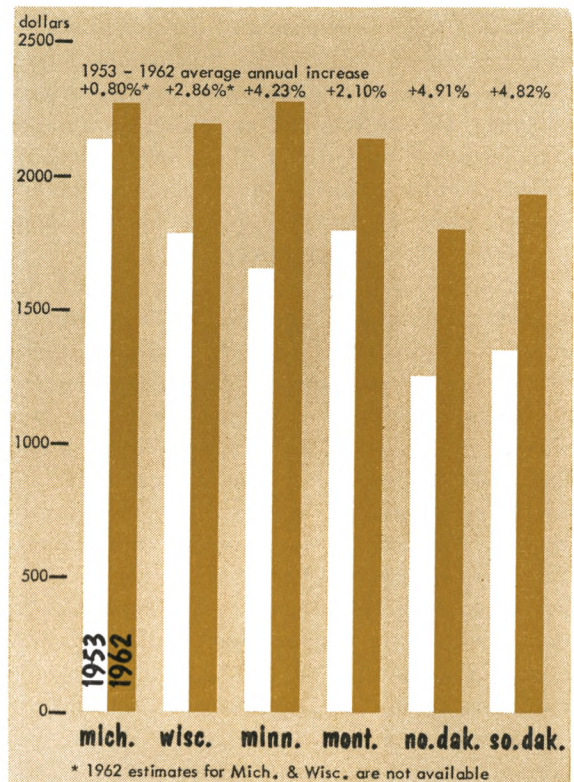
Personal income is the primary factor controlling consumer expenditures. After the payment of taxes, which is the first obligation, consumers have the balance at their disposal. During the past eight years, the quarterly rate of consumer expenditures has varied between 91.5 and 94.5 percent of disposable personal income, which is, after payment of taxes, a variation very significant in the final demand for products and services. In the most recent quarter, the ratio stood at 93.1 percent.

Consumer expenditures in the U. S. from the first to the third quarters inclusively in 1962, rose by 2.3 percent as compared to 2.9 percent in 1961. Expenditures for nondurable goods and for services rose by almost the same percentages in the two periods.

The smaller rise in consumer expenditures in 1962 as compared to 1961 is traced to the durable goods field. Sales of new automobiles rose sharply in the fourth quarter of 1961, and the level was maintained in 1962 with little further increase. The high sales of new automobiles was a major factor in supporting the increased level of business activity achieved last year.

Total retail sales in the Ninth district were quite high in 1962. However, the increase occurred at the beginning of the year, with only a small further rise during the year. The Bureau of Census' sample of sales by retail stores, which excludes sales in large retail chains but is the broadest coverage available in the district, rose only a fraction of a percent in the first nine months of 1962 on a seasonally adjusted basis. In

Chart 2—Per capita personal income in Ninth district states, 1953 and 1962.*



The annual average increase or decrease was derived from the algebraic sum of the annual increases or decreases, which was divided by the number of years. The beginning of the period 1953 was used as a base to turn the average into a percentage.

the preceding year, the adjusted index rose by 5 percent.

On the basis of the information on employment, unemployment, personal income and expenditures, a vast majority of residents in the Ninth district were prosperous in 1962. The current outlook for 1963 is favorable in large part, according to developments in major industries.

Manufacturing

District manufacturing expanded significantly in 1962. The seasonally adjusted index of indus-

trial use of electric power—an indicator of manufactured products output—in October was 10.6 percent above the January figure. Much of the increase occurred in the output of durable products, which is subject to cyclical fluctuations larger than the output of nondurables. The rise in employment also reflects the expansion in durable manufacturing. In October 1962, employment in plants producing durable products was up 4.9 percent, while in nondurable plants it was up only 1.6 percent from a year earlier.

An important factor in the larger demand for durable products has been the value of contracts awarded by both civilian and defense agencies of the federal government. The dollar amount of contracts awarded in this region as a proportion of the total, has remained quite stable from the beginning of the Korean War to the present time, so the rise reflects the steady increase in federal government expenditures. These expenditures will continue to rise in 1963. Previously scheduled increases plus new legislation now indicate that purchases by the government may total \$4 billion to \$4½ billion above the 1962 total in the U. S. Of course, the demand from consumers for manufactured goods is more important in the total final demand, but it is difficult to predict. The employment and income accruing from larger government expenditures may expand the consumer demand.

Construction

District residential building held up well in 1962. The number of dwelling units authorized by building permit during the first nine months of 1962 was up 9 percent from the comparable period one year earlier. Much of the building was concentrated in Minnesota, especially in the Twin Cities metropolitan area, which recorded an increase of 18 percent in units built. The trend toward the building of more apartments continued. Multiple dwelling units comprised 59 percent of the total, while in 1961 they were only 40 percent.

Other types of building—commercial, industrial, educational, hospital and public buildings—approximately equaling the volume of residential building, declined during 1962. The amount of contracts awarded in the district during the first nine months was down 11 percent from the preceding year. According to the awards made in recent months, there is still no indication of an increase in activity during 1963. The construction of public buildings may rise, as the amount of bond issues approved in the November election was high in many localities.

In contrast, the activity on public work projects, which includes largely the construction of streets, highways, bridges and sewerage systems and the expansion programs of the private and public utilities, rose significantly in the latter half of 1962. Furthermore, the outlook is for a continued high volume of construction in 1963, since increased appropriations have been made for highway construction.

Mining

In the mining field, Montana's 1962 copper production was interrupted by a labor dispute, which accounted for the decrease in copper production. Except for this work stoppage, a stable level was maintained in the output of copper in both Montana and Upper Michigan.

Iron ore shipments from U. S. ports on Lake Superior totaled 53.6 million gross tons in 1962, slightly less than the 53.8 million tons shipped in 1961, when output was also low. The increase in pellet production has been offset by cutbacks made in other types of ore.

In northern Minnesota, the 70-year-old Zenith mine at Ely was abandoned by the W. S. Moore Company and North Range Mining Company in late 1962. The Oliver Iron Mining Division of U. S. Steel abandoned Minnesota's first iron ore mine, the Soudan, and a ten million ton ore reserve which it had never developed, located at Hibbing. Such developments point to a further reduction in iron ore production.

Bank

operations in 1962

At year end the number of people employed in the bank had grown to the highest number, 684, of any postwar year. The increasing volume of operations faced in the Check department, and the demands for more complete, detailed reports and analyses to be furnished by the Planning department, are examples of greatly increased workloads faced by the bank, resulting in higher employment. Except for the developing capability of the bank to use electronic processing of data and handling of checks, the employment figure might have been even higher.

The number of checks handled by the bank has been increasing annually, and this year the increase jumped 7.9 percent over 1961. The new electronic equipment installed in October in the Check department enabled a substantial portion of these checks to be handled at high speed. At the present time, the checks so processed have to be manually processed once on proof machines to encode in magnetic ink the amount of the checks.

As the Magnetic Ink Character Recognition program progresses, magnetic encoding will be done by forwarding banks, and the initial manual handling to prepare the checks for electronic processing will be reduced.

Due to very careful preparation prior to installation of the equipment, satisfactory results were achieved within a short period of time. By the end of the year more than five million checks had been handled by the high speed division.

The availability of the general data processing electronic computer enabled additional programs

to be devised and developed for handling the compilation of data for many different departments in the bank. Such diverse reports as the expense report by the Accounting department submitted to the Board of Governors, efficiency reports on staff in the Check department, calculation of salary expenses and deductions, and payroll tax including Social Security and Unemployment Compensation for the Personnel department, the reclassification of Treasury Tax and Loan Accounts, and functional distribution of employee time in the Check department, are examples of reports that either consumed considerable time previously or were not even attempted prior to the availability of the equipment. While time and expense are involved in preparing programs for such compilation, once developed they make the repetitive task much simpler and quicker.

Activities of the Fiscal Agency department increased and those of the Discount department decreased as short term money rates remained relatively stable throughout the year. With the Treasury Department offering an increased amount of Treasury Bills, the total of securities handled by the Fiscal Agency department at Minneapolis Federal Reserve Bank increased. Even though district member banks increased their loans proportionally more than their deposits, most of them were able to finance the increase without recourse to the Discount window. As noted in the Banking review, those few commercial banks that found themselves short of funds, rather than borrowing from the Federal Reserve Bank, may have liqui-

dated securities in the stable money market.

As commercial banks in the Ninth district added to their investment portfolios during the year, an additional number of securities were sent to the Federal Reserve Bank of Minneapolis in Safekeeping for them. In the past decade there has been a significant increase in the securities pledged to secure public deposits, so that by year-end more than 55 percent of the dollar volume of securities held in safekeeping were pledged either to public deposits, government deposits, or Treasury Tax and Loan accounts.

Although a shortage of coin continued during the year, the Federal Reserve Bank of Minneapolis was able to meet the coin requirements of Ninth district banks. It was necessary, however, to reduce the period between the time that coin was received at the bank, proven, wrapped and shipped out to member banks.

Compared with last year, there was an increase in the number and dollar amount of outgoing coin shipments to member banks. In addition, the outgoing shipments during the year have exceeded the incoming, resulting in a net outflow of coin of close to \$5 million. Incoming shipments of currency, however, exceeded outgoing even though the dollar amount of the outgoing shipments increased over 1961. The year-end decrease in Federal Reserve Notes of the Federal Reserve Bank of Minneapolis reflects part of this net inflow. In total, the number of currency shipments decreased during the year due to a change in postal regulations which permitted combining shipments of various denominations.

Further steps were taken during the year to provide for staff protection and the carrying on of essential banking services in the event of attack

on this country. The Emergency Operating Letters and Instructions Manual of the bank has been completed and distributed to all commercial banks in the district, who have been continually urged to advance their own preparedness plans. Agreements have been entered into with 51 commercial banks in the district to act as cash agents or check agents for the Federal Reserve Bank of Minneapolis during a national emergency, and non-member emergency services were offered to qualified non-member banks in the district. By the end of the year more than half of the non-member banks in the district were in a position to receive such emergency services.

At year end the chairman of the board of directors announced the appointment of Christopher E. Bjork and Ralph J. Dreitzler as assistant general auditors effective January 1, 1963.

In the election for new directors of the Federal Reserve Bank of Minneapolis, Curtis B. Mateer, Executive Vice President of the Pierre National Bank, Pierre, South Dakota, was elected as a Class A director and Hugh D. Galusha, Jr., Lawyer and Certified Public Accountant, Helena, Montana, as a Class B director. The Board of Governors of the Federal Reserve System reappointed Atherton Bean as a Class C director for a three-year term and Harry K. Newburn as a director of the Helena Branch for a two-year term. Atherton Bean was redesignated as chairman and Federal Reserve Agent and Judson Bemis as deputy chairman for 1963. The Board of Directors of the Federal Reserve Bank of Minneapolis reappointed Roy G. Monroe and Harald E. Olsson as directors of the Helena Branch for two-year terms and re-elected John A. Moorhead as the Federal Advisory Council member for 1963.



Volume of Operations

	Number		Dollar amounts	
	1962	1961	1962	1961
Discounts and advances	195	341	\$ 118,793,000	196,975,000
Currency shipments, outgoing	17,290	20,400	431,578,000	423,501,000
Coin shipments, outgoing	27,866	25,258	30,068,000	27,264,000
Checks handled, total	160,131,976	148,965,493	46,443,008,000	43,495,220,000
Collection items handled	838,541	793,890	628,666,000	649,153,000
Issues, redemptions, exchanges of U. S. Government securities	245,229	248,776	7,837,183,000	6,896,235,000
Securities held in safekeeping	159,751	146,872	1,682,810,000	1,587,494,000
Transfers of funds	89,713	86,149	35,362,708,000	35,843,000,000

Earnings and Expenses

CURRENT EARNINGS	1962	1961
Discounts and advances	\$ 53,485	\$ 51,912
United States Government securities	21,999,161	21,648,273
All other	92,056	10,893
Total Current Earnings	22,144,702	21,711,078
CURRENT EXPENSES		
Operating Expenses	6,734,047	6,198,860
Assessment for expenses of Board of Governors	152,100	144,000
Federal Reserve Currency	245,505	108,015
Total Current Expenses	7,131,652	6,450,875
Less: reimbursement for certain fiscal agency and other expenses	634,389	655,147
Net Expenses	6,497,263	5,795,728
CURRENT NET EARNINGS	15,647,439	15,915,350
NET ADDITIONS TO CURRENT NET EARNINGS		
Profits on sales of U. S. Government securities (net)	41,395	80,994
Transferred from reserves for contingencies (net)	— 0 —	— 0 —
All other	— 13,359	— 1,746
Total Additions		
NET EARNINGS BEFORE PAYMENTS TO UNITED STATES TREASURY	15,675,375	15,994,598
PAID TO U. S. TREASURY (Interest on Federal Reserve Notes)	13,564,350	14,005,314
DIVIDENDS PAID	634,325	582,284
TRANSFERRED TO SURPLUS	1,476,700	1,407,000
SURPLUS January 1	20,232,500	18,825,500
SURPLUS December 31	21,709,200	20,232,500

Statement of Condition

ASSETS	Dec. 31, 1962	Dec. 31, 1961
Gold certificate account	\$ 360,614,670	\$ 346,376,982
Redemption fund for Federal Reserve Notes	28,295,783	26,898,018
Total Gold Certificate Reserves	388,910,453	373,275,000
Federal Reserve Notes of other Federal Reserve Banks	31,637,000	17,931,500
Other cash	9,963,666	9,186,228
Discounts and advances		
Secured by U. S. securities	— 0 —	— 0 —
Other	23,000	345,000
United States Government securities	628,151,000	615,774,000
Total loans and securities	628,174,000	616,119,000
Foreign currencies	1,854,917	313
Cash items in process of collection	209,142,027	199,663,497
Bank premises	4,285,704	4,629,742
Other assets	5,689,567	5,132,216
Total Assets	1,279,657,334	1,225,937,496
LIABILITIES		
Federal Reserve Notes in actual circulation	\$ 577,402,225	578,877,280
Deposits:		
Member bank — reserve accounts	431,532,606	443,282,324
United States Treasurer — general account	32,983,176	15,623,073
Foreign	5,980,000	6,095,000
Other deposits	1,682,795	893,902
Total deposits	472,178,577	465,894,299
Deferred availability cash items	195,753,021	148,271,847
Other liabilities	1,759,711	2,545,320
Total Liabilities	1,247,093,534	1,195,588,746
CAPITAL ACCOUNTS		
Capital paid in	10,854,600	10,116,250
Surplus	21,709,200	20,232,500
Total Liabilities and Capital Accounts	1,279,657,334	1,225,937,496
Ratio of gold certificate reserves to deposit and Federal Reserve Note liabilities combined	37.1%	35.7%



Officers of the Federal Reserve Bank of Minneapolis

Frederick L. Deming	President
Albert W. Mills	First Vice President
Kyle K. Fossum	Vice President
Clarence W. Groth	Vice President and Cashier
Melvin B. Holmgren	Vice President
Arthur W. Johnson	Vice President
Harold G. McConnell	Vice President and Secretary
Franklin L. Parsons	Vice President
Maurice H. Strothman, Jr.	Vice President and General Counsel
Roger K. Grobel	Chief Examiner
Arthur J. McNulty	General Auditor
Frederick J. Cramer	Assistant Vice President
John J. Gillette	Assistant Vice President
Oscar F. Litterer	Assistant Vice President
Milford E. Lysen	Assistant Vice President
Orthen W. Ohnstad	Assistant Vice President
John P. Olin	Assistant Vice President
Earl O. Beeth	Assistant Cashier
Carl E. Bergquist	Assistant Cashier
William C. Bronner	Assistant Cashier
Howard L. Knous	Assistant Cashier
John A. MacDonald	Assistant Cashier
William A. O'Brien	Assistant Cashier
Marcus O. Sather	Assistant Cashier

Officers at the Helena Branch

Clement A. Van Nice	Vice President
John L. Heath	Assistant Cashier
Robert W. Worcester	Assistant Cashier

As of December 31, 1962

Directors of the Federal Reserve Bank of Minneapolis

		Term expires December 31
Class A:		
Harold N. Thomson	Vice President, Farmers & Merchants Bank Presho, South Dakota	1962
Harold C. Refling	Cashier, First National Bank in Bottineau Bottineau, North Dakota	1963
Rollin O. Bishop	Chairman of the Board The American National Bank of Saint Paul St. Paul, Minnesota	1964
Class B:		
Alexander Warden	Publisher, Great Falls Tribune-Leader Great Falls, Montana	1962
Ray C. Lange	President, Chippewa Canning Company, Inc. Chippewa Falls, Wisconsin	1963
T. G. Harrison	Chairman of the Board, Super Valu Stores, Inc. Minneapolis, Minnesota	1964
Class C:		
Atherton Bean	CHAIRMAN AND FEDERAL RESERVE AGENT President, International Milling Company Minneapolis, Minnesota	1962
Judson Bemis	DEPUTY CHAIRMAN President, Bemis Bro. Bag Co. Minneapolis, Minnesota	1963
John H. Warden	President, Upper Peninsula Power Company Houghton, Michigan	1964

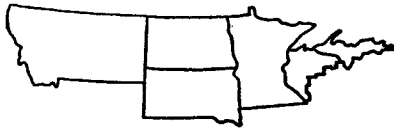
Directors of the Helena Branch

Appointed by Federal Reserve Bank:		
Roy G. Monroe	Chairman of the Board and President The First State Bank of Malta Malta, Montana	1962
Harald E. Olsson	President, Ronan State Bank Ronan, Montana	1962
O. M. Jorgenson	Chairman of the Board Security Trust and Savings Bank Billings, Montana	1963
Appointed by Board of Governors		
H. K. Newburn	CHAIRMAN President, Montana State University Missoula, Montana	1962
John M. Otten	VICE CHAIRMAN Farmer and Rancher Lewistown, Montana	1963

Member of the Federal Advisory Council

John A. Moorhead	President, Northwestern National Bank of Minneapolis Minneapolis, Minnesota
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As of December 31, 1962



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