MONTHLY REVIEW

Past year best in history for district banks

Operating figures supplied to the Federal Reserve Bank by district member banks indicate that on the average these institutions enjoyed the most profitable year in history during 1960.

Reserve city member banks in the Ninth district reported gross current earnings rose from $69.1 million in 1959 to $75.8 million in 1960; current operating expenses were up from $43.2 million to $46.7 million with the result that current earnings minus current expenses rose from $25.9 million in 1959 to $29.1 million in 1960—an increase of $3.2 million. Profits before taxes rose by $7.7 million, largely reflecting a $3 million decline in the amount subtracted from net earnings by reason of losses on the sale of securities. Prices for government securities declined in 1959, but rose in much of 1960. The $6.7 million increase of gross current earnings reported by the reserve city banks was only slightly larger than the $5.8 million addition to their income from loans. Interest income on government securities in 1960 was almost unchanged from 1959.

At country member banks in the Ninth district the story is much the same. Gross current earnings were up $11.9 million (largely reflecting $9.9 million added income from loans), while current expenses were up $9.9 million; this left an increase of $2 million in net

FEDERAL RESERVE BANK OF MINNEAPOLIS

MAY 1961

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current earnings. But profits before taxes rose $12.4 million, reflecting, among other things, a reduction from 1959 to 1960 of $5.2 million in losses on the sale of securities and an increase of $3 million on profits from such sales.

At country banks, gross current earnings amounted to 5.2 percent and net current earnings to 1.6 percent of average total deposits[1] in 1960; at the reserve city banks the respective amounts were 5 percent and 1.9 percent. Thus, although gross earnings per dollar of deposits were higher for the country banks than for the reserve city banks, the ratio of expenses to earnings was so much higher at the country banks that net current earnings per dollar of deposits were lower for them than for the reserve city banks.

The higher ratio of expenses to earnings at the country banks reflects the heavier payments for interest on time deposits at these institutions. The ratios of expenses to earnings at district country and city banks in 1960 were 69 and 62 percent, respectively, while the ratio of time deposit interest expense to gross earnings was 20.5 and 9 percent, respectively.

Operating ratios

Each year the Federal Reserve Bank of Minneapolis computes 37 operating ratios for each member bank from figures supplied by the member banks on their condition reports (assets and liabilities) and their earnings and dividends reports (income statements). Each of the three ratios which express gross earnings, net earnings, and net profits (after taxes) as a percent of total assets reached a postwar high when averaged for all member banks in the district. The same is true

[1] Averages of daily averages for last week in 1959 and 1960 and last week of June 1960.

SELECTED MEMBER BANK OPERATING RATIOS

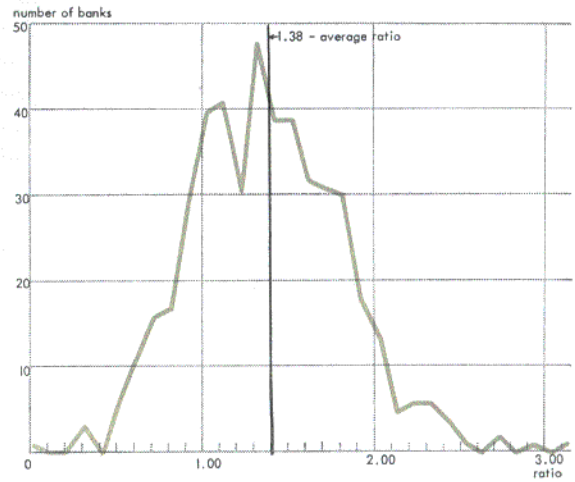
	1959	1960
Gross Earnings to Assets	4.30%	4.66%
Net Earnings to Assets	1.31	1.38
Net Profits to Assets	.71	.91
Loans to Assets	38.00	40.80
Capital to Assets	7.70	8.30
Return on Loans	6.27	6.43
Return on Government Securities	3.03	3.44

of the average rates of return on loans and securities and the average ratio of loans to total assets and capital to total assets.

It is important to recognize that the ratios in the table are averages of individual ratios for each member bank in the district. Variability in a particular ratio among the banks is sometimes substantial. For example Chart 1, a frequency distribution of the ratio of net current earnings to total assets for member banks in the district, shows that banks are widely spread on both sides of the average ratio of 1.38 percent.

The gross current earnings of all Ninth district member banks totaled $242.2 million in 1960; this contrasts with the $66.5 million registered

Chart I—Frequency distribution of ratios of net current earnings to total assets
(district member banks, 1960)



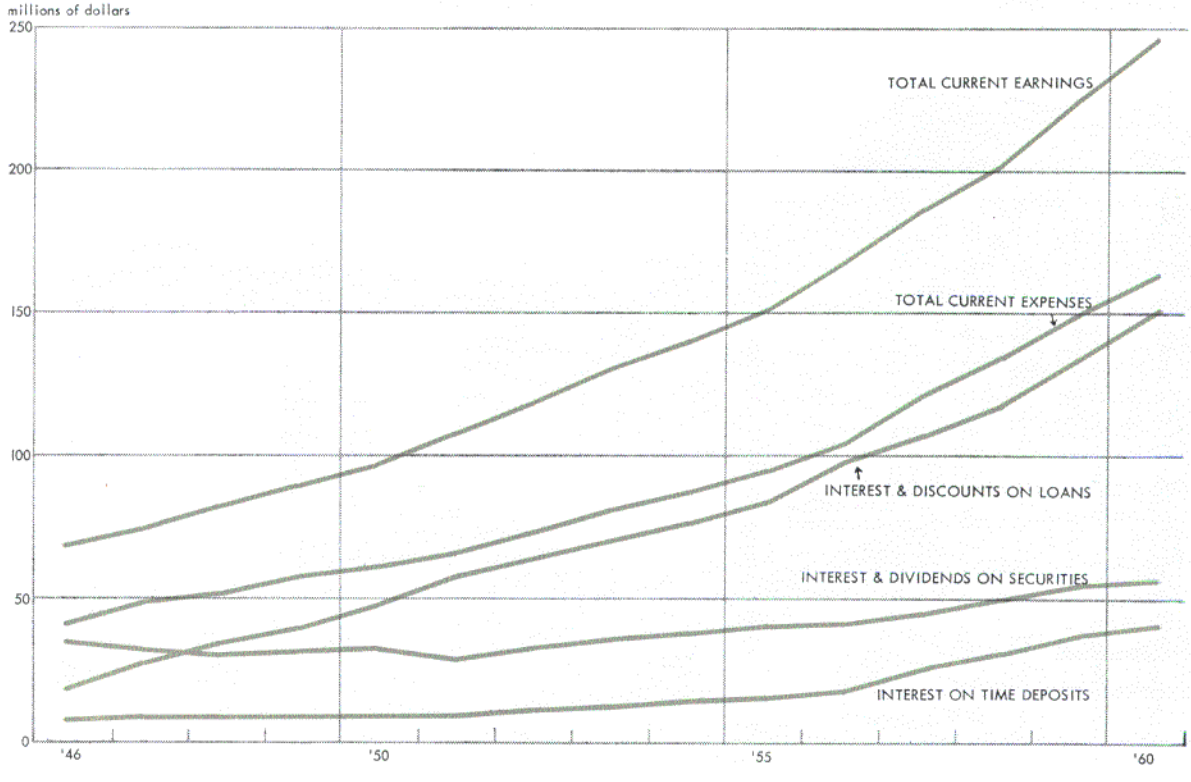
Note: two banks had net operating deficits.

for gross earnings in the first postwar year of 1946. The increase works out to a compound annual growth rate of 9.7 percent for the years since the war. During the same period, total current expenses rose from $41.6 million to $161.8 million. This works out to a compound annual growth rate of 10.2 percent. The ratio of total current expenses to total current earnings of district member banks rose from 65.7 percent in 1946, to 70.3 percent in 1960, as a result of the faster growth rate of expenses than of earnings. All of the increase of this ratio can be explained by interest expense on time deposits which in 1946 amounted to 14.8 percent of gross earnings and in 1960 to 21.8 percent. The ratio of time deposit interest to earnings was lower than in 1946 in every year thereafter until 1957, when it jumped to 16.9 percent from 14.1 percent in the previous year. In part this reflects the fact that on January 1, 1957 the maximum rate of interest payable on time deposits was lifted to 3 percent from 2.5 percent by the supervisory authorities.

In 1946 reported interest expense on time deposits amounted to 1 percent of average time deposits reported on official call reports for that year. By 1960 time deposit interest expense had risen to 2.54 percent of such deposits. Not only did time deposit interest rates rise, but so did the ratio of time to total deposits. In 1946 this ratio was 34.5 percent; in 1960 it was 44 percent.

Salaries and expenses other than time deposit interest have declined as a percent of total earnings in the years since 1946. Salaries and wages fell from 28.4 percent in 1946 to 27.4 percent in

Chart 2—Earnings and expenses of district member banks



1960; other expenses fell from 22.5 to 21.1 percent.

The ratio of gross current earnings to total assets more than doubled in the fourteen years after 1946, rising from 2.2 percent to 4.66 percent. This increase in the rate of earnings per asset dollar primarily reflects two developments. These are the gradual substitution since the war of loans for government securities and the increase of interest rates on both loans and securities in the period.

With regard to the rate of return on loans and government securities, 1960 was the first postwar year when the rate of return on loans failed to be more than double the average rate of return on government securities reported by district member banks. The respective rates in 1960 were 6.43 percent and 3.44 percent, in contrast to 5.5 percent and 1.5 percent in 1946. Both 1960 rates were the highest for any postwar year, as mentioned previously.

The ratio of government securities held to total assets fell from 58.5 percent in 1946 to 31.1 percent in 1960; the loan-asset ratio rose from 12.7 percent to 40.8 percent in the same period. That ratio had risen in every postwar year except 1957. The ratio of governments to assets fell in every postwar year except 1954 and 1959.

Another postwar trend which permitted larger revenues per dollar of assets was a decline in the ratio of cash assets to total assets from 24 percent in 1946 to 16 percent in 1960. Much of the decline reflects the reductions of reserve requirements for member banks which have occurred since 1946. In that year requirements against net demand deposits were 20 percent at reserve city banks and 14 percent at country banks. At the end of 1960 the requirements were 16.5 percent and 12 percent, respectively. The requirement against time deposits at both city and country member banks was 5 percent in 1960 and 6 percent in 1946.

Also permitting a lower ratio of reserves to total assets was the growth in the ratio of time deposits to demand deposits after 1946. Because reserve requirements against the former are smaller than those against the latter, required reserves per dollar of total deposits (and, therefore, of total assets) are smaller the larger is the ratio of time to demand deposits. The recent permission to count vault cash as legal reserve has allowed many banks to further cut the ratio of cash assets to total assets.

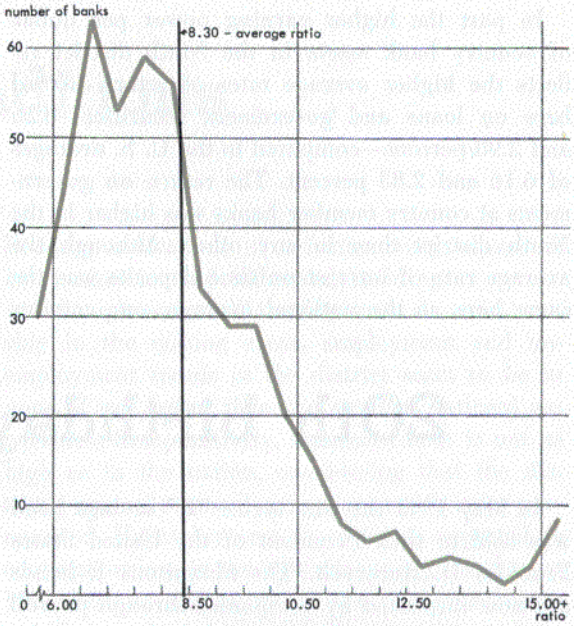
The total assets of district member banks have grown by approximately 55 percent since 1946. But capital accounts have grown even faster. This is revealed by the fact that the average ratio of capital to total assets at district member banks rose to 8.3 percent in 1960; this ratio was higher than in any other postwar year and compares with 5.9 percent in 1946. Among the banks, however, this ratio varied from as little as 4.6 percent to as much as 23.2 percent. The distribution of this ratio is represented in Chart 3.

Although 1960 operating ratios for member banks outside the Ninth district are not yet available, a comparison of 1959 ratios of district banks with those of banks outside the district reveals some interesting differences.

SELECTED MEMBER BANK OPERATING RATIOS
(1959)

	Reserve City		Country	
	U.S.	District	U.S.	District
Percent of Assets				
Gross Current Earnings	4.09%	3.98%	4.25%	4.41%
Net Current Earnings	1.49	1.49	1.32	1.41
Capital Accounts	7.60	8.30	7.70	7.00
Loans	46.4	46.2	41.7	40.8
Percent of Gross Earnings				
Loan Income	64.3	66.6	60.4	58.0
Investment Income	20.7	17.1	26.1	28.1
Other Income	15.0	16.3	13.5	13.9
Current Expense	63.6	62.5	68.9	68.0
Time Deposit Interest	16.7	9.3	18.2	19.5
Rate of Interest				
On Loans	5.67	5.58	6.16	6.26
On Govt. Securities	2.74	2.59	2.83	2.98
On Time Deposits	2.45	2.39	2.28	2.28
Percent of Deposits Time	21.1	17.6	37.3	41.1

Chart 3—Frequency distribution of ratios of capital accounts to total assets
(district member banks, 1960)



The average ratio of net current earnings to total assets reported by district reserve city banks was exactly the same as the average for all reserve city banks in the nation—1.49 percent. Yet district banks earned a lesser rate of return on loans than did their reserve city counter parts elsewhere (5.58 as opposed to 5.67 percent) as well as a lesser rate of return on government securities (2.59 as opposed to 2.74 percent). This is explained in part by the fact that district city banks had a lesser proportion of deposits in the time category and paid a lesser rate of interest on such deposits than did other reserve city banks, thereby reducing the ratio of expenses to income at district banks.

District country banks fared better in earnings than did all country member banks in the nation, according to the comparison of 1959 operating

ratios. The average ratio of net current earnings to total assets was 1.41 percent in the district and 1.32 percent for the country member banks outside the district.

In part the higher earning power per dollar of country bank assets in the Ninth district reflects the higher average rates of return earned here on loans and government securities—6.26 and 2.98 percent—compared to the U. S. averages of 6.16 and 2.83 percent. The return on governments at country member banks was higher in the Ninth district than in any other. Although the average rate of interest on time deposits was the same here as the national average, our country banks held a somewhat larger proportion of time deposits than the national average; thus interest expense on such deposits absorbed a slightly larger fraction of earnings here than elsewhere.

Owing to the fact that the ratio of capital to assets was lower for country banks in the district than in the nation, and that the ratio of net current earnings to assets was higher, the ratio of net current earnings to capital was also higher in the district. This was not true of district reserve city banks which had the same net earnings per dollar of assets, but a larger ratio of capital to assets than the national average.

—Douglas R. Hellweg

20th birthday for "E" bonds

In May 1941 the first series "E" savings bond was sold to then President of the United States Franklin D. Roosevelt. The ubiquitous E bonds are now dispensed by companies through payroll savings plans, by banks over the counter, by schools through savings stamp arrangements, and by volunteers of a variety of community and special organizations. They have made the E bond the most widely distributed security in the history of finance.

During 1961, it is estimated, total E bond sales for the 20-year period may reach $100 billion. Cash sales of the E bond and less numerous H bond amounted to $4.3 billion in 1960, and in January 1961 alone hit $456 million.

The E bond was originally intended to help finance large wartime Treasury deficits. Almost $6 billion of small bonds were bought by Americans in the year following Pearl Harbor. In the single month of February 1942, sales totaled $2.1 billion.

Yet the cash value outstanding of E and H bonds—the only series still being sold—reached an all-time record of $43.3 billion at the end of January 1961, and sales are exceeding redemptions. The greater recent attractiveness of savings bonds is thought to reflect their improved interest rate of 3.75 percent, as compared to falling yields on rival investments, as well as a current consumer proclivity to save. Redemptions in 1960 were down 8 percent from 1959, and in January were 22 percent below the year-ago figure.

(E bonds pay accumulated interest of 3.75 percent if held to maturity, for seven years and nine months; H bonds pay 3.75 percent in regular bi-annual interest checks, and mature in 10 years. The matured and discontinued series A through D, F, G, J and K are being retired, but $4 billion worth are still held by individuals and corporations.)

The gradual retirement of discontinued series which have remained in safety deposit boxes or desk drawers despite the fact some ($20 million worth purchased between 1935 and 1942) no longer draw interest, has caused a shrinkage in the total amount of savings bonds outstanding. But E and H bonds continue to set monthly records. In 1950, the total of all series outstanding stood at 22 percent of the then existing national debt; now E and H bonds alone account for about 15 percent of the present debt of $290 billion.

Current conditions . . .

In recent weeks several statistical series in both the "leading" and "coincident" groups of economic indicators have joined the number already moving in a favorable direction. Included are such important measures as employment, personal income and retail sales.

All but two of the 12 so-called "leading" indicators, which usually precede a turning point in the business cycle by a few weeks or months, had leveled off or turned up during the first quarter of 1961. Of this group, only corporate profits and inventories remained in an unfavorable trend, and in both cases data were not available for measurement beyond February.

An additional group of economic indicators, including such significant measures as gross national product, industrial production, personal income and nonagricultural employment, usually coincides with broad economic movements. Of the nine indicators that make up this series, only the gross national product measure remained unfavorable, due to the fact it is quoted on a quarterly basis. There can be little doubt but that GNP statistics by the end of the first quarter were showing some recovery, since most of its components had turned up by the end of March.

Indications for the Ninth district appear to be paralleling the signs of budding recovery for the nation as a whole. Consumer buying, as mirrored by the retail sales indicators, has been improving in recent weeks, with farm machinery and new car sales particularly favorable. There is evidence of a pickup in residential construction, and preliminary indications of a forthcoming expansion in commercial and industrial building.

Although economic trouble spots do exist, notably in the mining areas, employment and unemployment trends in the district seem to be as good if not better than the average national experience. Comparatively, unemployment is not as high as in the nation, considering that the district's normal seasonal swings are much more pronounced. Unemployment, however, is expected to continue serious in the iron mining regions during 1961 because shipments of ore from the region are likely to be substantially less than last year or than a recent five-year average. Just how bad the employment situation becomes will depend on the rate of steel production this summer.

The liquidity of the district's city banks has improved slightly in recent weeks due to improved deposit trends and fewer loans. This situation is reflected in reduced borrowing at the Federal Reserve bank and for federal funds. Conversely, country member banks have experienced a lesser increase in deposits and loans have increased. Borrowings at the Federal Reserve by the country banks in early April were slightly higher than in March.

In summary, the economy of the Ninth district, with the exception of the mining areas, appears to be on the threshhold of recovery along with the nation. Carryover and marketings from the huge 1960 crops, favorable cash farm incomes, and generally rising personal incomes continue to be bolstering factors in the business picture. Soil

moisture conditions in much of the Dakotas and Montana were relatively unfavorable in mid-April, but adequate spring rains could quickly change this picture.

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

BANK LIQUIDITY CONTINUED

Owing to continued deposit stability and some reduction of loans, the liquidity of city banks in the district has been preserved in recent weeks. In the four-week period ended April 5, total deposits grew by $30 million or just slightly less than the $34 million gain registered in the same period last year. In the period this year, loans (other than to banks) fell $22 million in contrast to an increase of $27 million a year earlier. Components primarily responsible for this difference are shown in the table.

CHANGE IN CITY BANK LOANS

(four weeks ended early April)	Millions of $	
	1961	1960
Commercial and Industrial	+ 3	+20
Non-Bank Financial Institutions	—10	+ 9
"Other" (largely consumer) Loans	— 8	0
Brokers and Dealers	— 7	0

The reduction of loans and the deposit growth permitted additions to securities ($23 million) and reduced borrowing of federal funds. Governments rose $5 million and other securities rose $18 million. Governments maturing within a year rose $7 million, and over 5-year maturities rose $8 million. Intermediates were down $10 million.

In the first eleven days of April, federal funds bought by city banks averaged less than in March. At country banks, the liquidity picture is somewhat different. Although average daily deposits rose slightly in the most recent two weeks for which data is available (ended April 5), deposits fell while loans rose in the three weeks previous to that. While the size of the changes was not unusual, the average daily level of country bank borrowing from the Federal Reserve Bank of Minneapolis was $3.2 million in April through the 12th, more than twice the March average and highest since August of last year. In April 1960, country bank borrowing averaged $10.4 million.

At the end of March, city bank earning assets and deposits were up from a year earlier by 1 percent and 6 percent respectively. The country bank figures were up 5 percent and 4 percent.

IRON ORE: MEDIOCRE TO BLEAK

Inventories of district ore at steel plants and lower lake docks in the U. S. at the end of April stood at close to 30 million tons. "Normal" inventories as of that date run 15 to 20 million tons (although in 1958 the 30 million figure was also reached). In the following brief analysis two alternative assumptions are made about iron ore use rates, in order to see what effects might result for district mining.

If we assume that consumption of this district's iron ore climbs linearly from March 1961 rates (about 3.5 million tons a month) to "peak" rates of about 6 million tons a month by the end of the third quarter (the rates associated with early 1960 levels of activity), then total consumption of Lake Superior ores between the end of April 1960 and the end of April 1961 will be about 65 million tons. Let us term this level of consumption, associated with complete recovery, as Assumption I. If on the other hand consumption does not improve, but remains at 3.5 million tons per month through April 1962, then total consumption of Lake Superior ores will be about 42 million tons over the same period. We shall term the latter level of use associated with "zero" recovery, Assumption II.

Given this April's 30 million ton inventory and the optimistic Assumption I, a 55 million ton shipping year would result in an April 1962 inventory level of 20 million tons, which is "normal."

Given the same starting inventory, a 40 million

ton shipping year, and pessimistic Assumption II, inventories at the end of April 1962 would be 28 million tons, which is excessive but nonetheless comparable to a level the industry entertained in both 1958 and 1961.

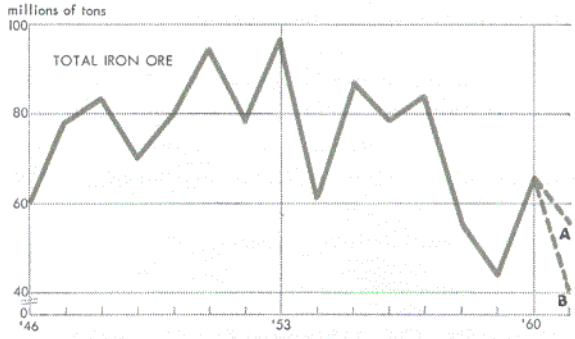
Both assumptions are valid possibilities, for all we know; hence neither projection can be considered "right" or "wrong." It is easy to see then that iron ore outlook in tonnage terms is still subject to great uncertainty, with reasonable outcomes ranging all the way from a "mediocre" 55-million-ton year to a "bleak" 40-million-ton year (A and B, respectively, in Chart 1). All lies now in the laps of the gods of steel production.

Steel ingot production ran at 59 percent of "capacity" during the week ended April 15. Orders in late March and to mid-April indicate a 10 percent climb will be seen for April steel shipments over those of March. The upward tilt to steel demand has spread in recent weeks to an increasing number of products. Almost all plants expected April to improve over March; early indications point to further improvement in May. Chart 2 shows the recent upturn, and also the long climb that yet lies ahead if Assumption I is to be validated.

The first implication of the foregoing situation is that the 1961 season will get off to a very slow start. It may perhaps be mid-year before the mining companies can assess the demand picture well enough to commit themselves on shipment targets for this season.

The second implication is that at best this season will be a poor one in terms of employment. Other factors than those discussed above affect the employment outlook and force it to be more "bearish" than the production outlook. Progressively increasing shares of total shipments go to taconites and other high quality concentrates; several higher cost mines already have been ordered closed for the duration of this season—or longer. Thus for the 1961 season, at least, employment on the iron ranges may run well below the "poor" year 1958, even in the face of production improvement over that recession year. Chart 3

Chart 1—District lake shipments of iron ore



A. Assumption I; stocks 4-30-62 at 20 million tons
B. Assumption II; stocks 4-30-62 at 28 million tons

Chart 2—Steel ingot production in the U. S.

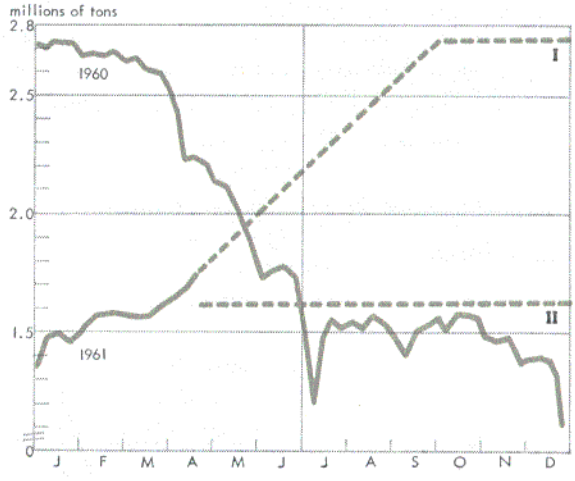


Chart 3—Mining employment in Minnesota

demonstrates that employment levels this year on Minnesota iron ranges compare unfavorably with those of other recent years.

In summary, it would appear that another year of tough times is in store on the ranges. The precise state of conditions is still shrouded in uncertainty—to be better or worse depending on the fate of business improvement in general and an upturn in steel output in particular.

NUMBER OF UNEMPLOYED HITS POSTWAR HIGH

During February and March, the total number of jobless people in the United States was the highest it has been since the summer of 1941. Unemployment in the nation usually rises to a seasonal peak in February, and this year it rose to a high of 5,700,000. Following the peak, unemployment declined less than seasonally to 5,495,000 in March.

Unemployment as a percent of the expanding civilian labor force, which measures the proportion of jobseekers in the total labor force, reveals a less gloomy picture. For seven of the twelve months in 1958, another recession year, the seasonally adjusted unemployment rate was 7 percent or over, and in one month it was 7.6 percent. The adjusted rate for February of this year was 6.8 percent and in March, 6.9 percent. In fact, the rate has changed little since last December.

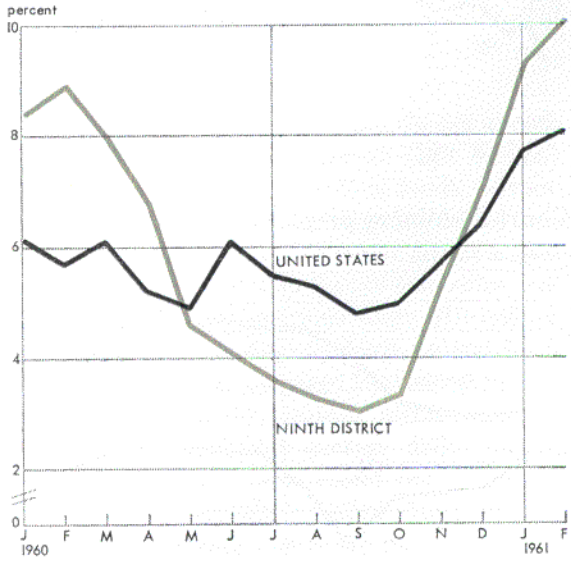
In the Ninth district as a whole, unemployment generally is somewhat higher than in the nation. The seasonal pattern here is markedly greater than the national average, however. During the winter, district states generally have very high rates of unemployment, but during the summer they have rates which are among the lowest in the nation. Seasonal climate changes here contribute to a more pronounced seasonal swing in unemployment than is true in the nation as a whole.

In this district, as in the nation, unemployment generally rises to a peak in February. This year it rose to 219,120.[1] Preliminary estimates for some district states indicate that the total declined somewhat less than seasonally in March.

Unemployment as a percent of the civilian labor force in the district has been considerably higher during the past winter than in the nation as a whole. In January the unadjusted rate was 9.3 and in February, 10 percent, as compared with 7.7 percent and 8.1 percent in the nation. In Upper Michigan, the rate ran as high as 15.3 percent and 16 percent respectively.

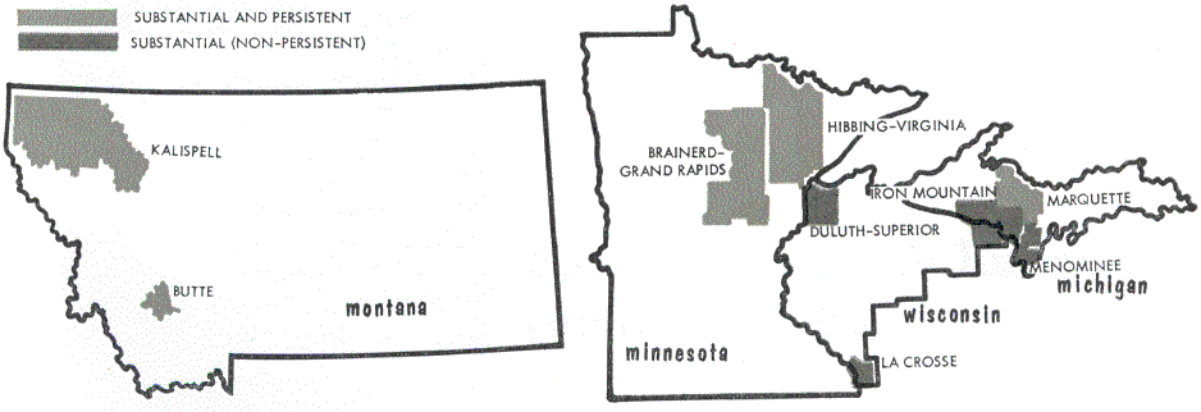
True to form, district unemployment was much lower than in the nation during the summer of 1960, as may be observed on the chart. During September, when unemployment usually declines to a low point, the number of jobless workers totaled 70,768 and the unadjusted rate declined

Unemployment as a percent of total labor force



[1] This total does not include northwestern Wisconsin.

Labor surplus areas, March 1961



to 3 percent of the civilian labor force, compared with 4.8 percent for the nation.

Only one large Ninth district area, Duluth-Superior, was classified in March by the U. S. Department of Labor as likely to continue having a substantial labor surplus for the next four months. In the Minneapolis-St. Paul labor market, jobseekers were estimated to be only slightly in excess of job openings. This metropolitan center is expected to have a fairly well-balanced labor market this summer.

Nine small labor market areas in the district were classified as having substantial and persistent labor surpluses. Iron ore and copper mining are the principal industries in five of these areas: Brainerd-Grand Rapids and Hibbing-Virginia in Minnesota, Iron Mountain and Marquette in Upper Michigan; and Butte in Montana.

Prospects for employment in the Lake Superior iron ore industry are bleak. The shipping season is not expected to be opened until May, a full month later than in 1960. Stocks of Lake Superior ore on lower lake docks and at steel mills on April 1 were 16 million tons in excess of the tonnage of a year ago. (See the topic on iron ore for further details.)

Copper mining may have a better outlook than in recent years. Employment in copper mining in both Montana and Upper Michigan declined substantially from 1956 through 1960. In Montana, the decrease in the number of workers in metal mining was nearly 50 percent, from 8,400 in 1956 to 4,800 in December 1960. This curtailment is traced to a drastic decrease in copper prices, which fell from 46 cents per pound in 1956 to 25 cents in 1958. Since that time, the price has ranged from 27 cents to 29 cents per pound. In recent months, the domestic demand for copper has strengthened. Furthermore, political turmoil in other important copper producing countries has limited the supply. As price decreases curtailed copper mining in both Montana and Upper Michigan, a price increase should stimulate production. However, as a result of the mechanization in mining operations, an expansion in production may require only a small expansion in the work force.

The low level of activity in lumbering has created a persistent labor surplus in the Kalispell, Montana area. Home building has picked up since the first of the year, which will tend to strengthen the lumber market. In the nation, housing starts

on an adjusted annual rate have risen from 1,076,000 in January to 1,283,000 in March. District home building activity has followed the national trend in broad outline.

Layoffs in manufacturing have created labor surpluses in Menominee, Michigan and Menomonie and La Crosse, Wisconsin. This situation should be corrected gradually by a general economic recovery strengthening the demand for manufactured products.

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