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ANNUAL REPORT to the Stockholders

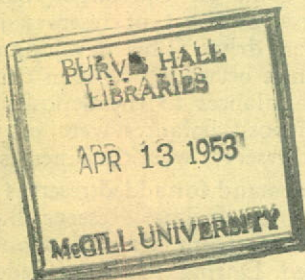
FEDERAL RESERVE BANK of MINNEAPOLIS

**To the Stockholders of the
Federal Reserve Bank of Minneapolis**

We are pleased to present our annual report for the
year 1945, with certain comparative data for the year
1944.

J. N. Peyton

President



1945





Comments on the Federal Reserve Bank Statement

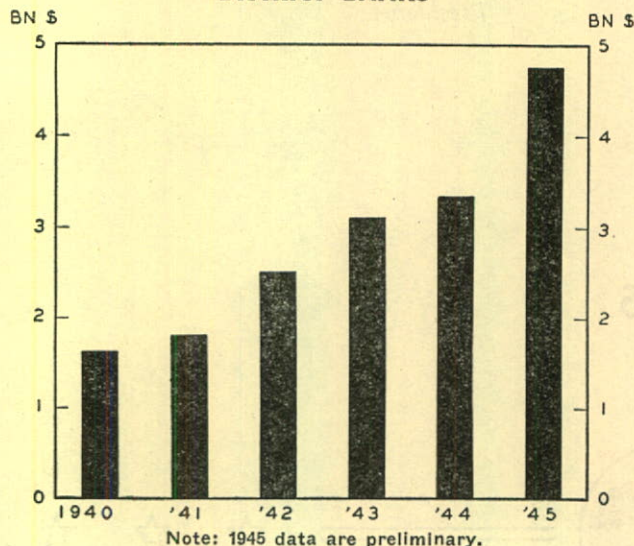
1945 was a record year. This is hardly news, but the banks, as the nation's bookkeepers, are peculiarly sensitive to the pulse beats of business activity. The ebb and flow and the rise and fall in business activity are inevitably recorded in one or the other of the banks' many war and peace activities.

Bank deposits for the Ninth District in 1945 pushed up to all-time highs. By the end of the year, Ninth District depositors were carrying 23.6 percent more funds in their deposit balances than a year earlier, and 192.4 percent more than in 1940. While the expansion in deposits from 1940 was general throughout the district, North Dakota and South Dakota banks paced the entire district with their deposit increases of 476.7 and 264.9 percent, respectively.

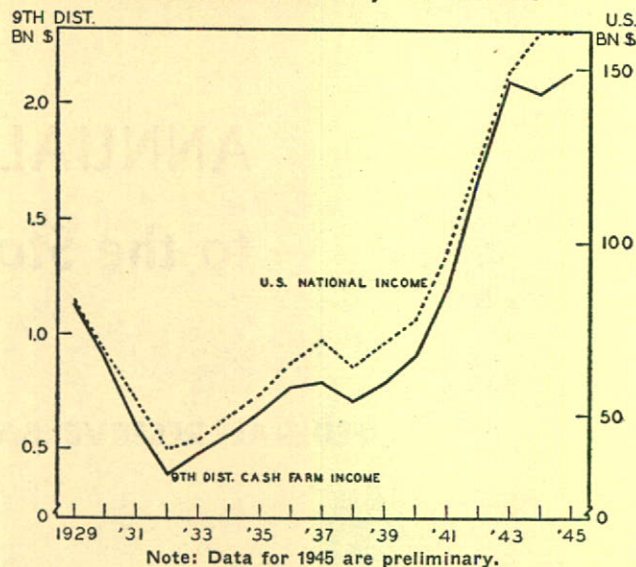
The cause of the expansion in total deposits is not at all mysterious. Deposits all over the nation have been rising during the war years, and are approximately double the volume in 1941. This doubling occurred because the banks purchased large quantities of government securities as a part of the war financing program. But banks in our district have outdistanced the average for the nation as a whole in the rate of their deposit expansion.

The reason for the relatively greater growth in bank deposits in our area is not difficult to explain. With the exception of two substantial industrial and metropolitan areas, agricultural incomes called the tune for business activity in the Ninth District. A once-in-a-century combination of phenomenally large crops and wartime prices has doubled agricultural income in this area. The expansion was greatest in the Dakotas and Montana. At the time cash farm incomes in the Ninth District were rising so rapidly, national income for the entire nation was turning in impressive scores, but the relative rise was not so great.

TOTAL DEPOSITS AT ALL NINTH DISTRICT BANKS



U. S. NATIONAL INCOME AND NINTH DISTRICT CASH FARM INCOME, 1929-1945



On the other hand, the types of products heavily in demand with high incomes — automobiles, new houses, refrigerators, and other hard goods—were not in production because these were the plants and industries and raw materials needed for war production. This explains the persistent tendency during the war for retail sales to lag far behind the rise in incomes, with a consequent backing up of purchasing power in the deposit balances of the banks' customers.

The rise in deposits at country banks does partly explain the large increase in this bank's holdings of Government securities during 1945 of \$164 million. These purchases increased member bank reserves by a like amount.

These reserves were needed for two purposes. One was to meet increased reserve requirements resulting from rising deposits. The other was to meet the heavy currency requirements of the commercial banks' own customers. As the commercial banks "purchased" currency from the Federal Reserve Bank, their own reserve deposits were reduced correspondingly, and, because of the rising reserve requirements, the Federal Reserve banks were forced to purchase securities in the open market and thus build up the banks' reserve position.

In addition to this, some of the larger banks periodically found themselves short of reserves just before each new war loan drive. This development occurred because of the shift between war loan drives of reserve-free war loan balances to the deposits of other customers whose deposit balances were subject to reserves. Total required reserves were thus increased.

These banks met this demand for added reserves by selling Treasury bills to the Federal Reserve Bank with the right to repurchase them again as soon as their reserve position eased. During 1945 the Federal Reserve Bank purchased a total of \$724 million of these Treasury bills on this provisional purchase plan.



BANK DEBITS piled up to a record level in 1945. Since bank debits are the total dollar volume of checks drawn on deposits at the banks, they are extremely sensitive to movements in business activity. It is quite understandable, therefore, that bank debits in 1945 were double the volume in 1940 and triple the volume in the depression year of 1933.

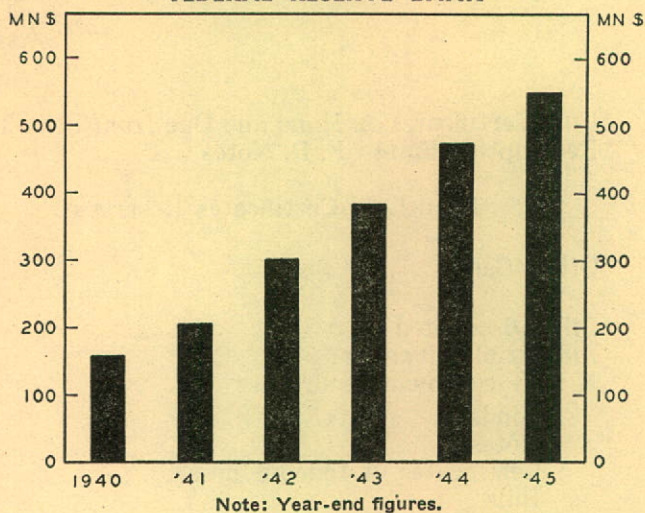
As a matter of fact, any banker will agree that a rough indicator of incomes and business activity in a community is the thickness of the daily cash letter.

The thickness of these cash letters in turn determines the volume of activity in the Federal Reserve Bank's check collection department. In 1945 the department cleared 48,000,000 items, representing an aggregate volume of \$13,800,000,000. The increased volume of business in the district is indicated by the fact that the dollar volume is 156.4 percent above 1940, the last prewar year, and four times the depression year of 1933.

A similar rough measure of business activity in the district is found in the comparative volume figures of the Federal Reserve Bank's noncash collection department. During 1945, collections not handled as cash items aggregated \$1,038,000,000, an increase of \$208,000,000 over 1944. These collections consisted largely of grain drafts which, due to the excellent crop and prevailing high prices, rose in dollar volume from \$544 million in 1944 to \$691 million in 1945. The number of grain drafts rose from 799,000 in 1944 to 837,000 in 1945. The increase in other noncash collections is principally a reflection of the increased retail trade activity in the district during 1945.

IN 1945, money in circulation pushed on to a record high. Every banker has experienced increased currency demands. These many separate demands converged on the currency department of the Federal Reserve Bank, where in 1945 a total of \$340 million of currency and coins was shipped out. This money

NOTES OUTSTANDING OF MINNEAPOLIS FEDERAL RESERVE BANK



was apparently being used; member banks returned to the Federal Reserve Bank \$290 million of this currency, a substantial part of which was unfit for further circulation. These unfit notes were then cancelled by this bank and returned to Washington for destruction.

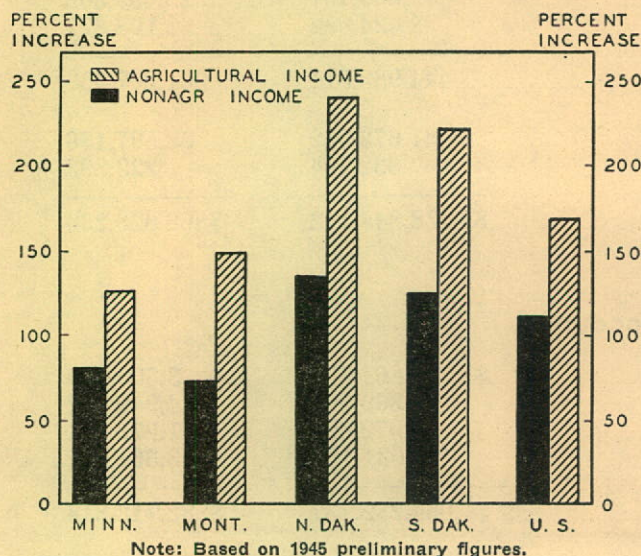
The amount of money returned was less than the amount sent out, which meant that money in circulation in the district expanded substantially. In fact, the Federal Reserve notes of the Minneapolis bank (which make up a large proportion of currency shipped out) rose from \$476 million outstanding at the beginning of the year to \$552 million on December 31, 1945.

WAR financing figured prominently in establishing 1945 as a record year. The member banks were required to assume a large part of the responsibility incident to this war financing. War loan accounts were maintained by 977 banks, which in the aggregate carried balances fluctuating between a high of \$593 million on December 11, 1945, and a low of \$160 million on May 22, 1945.

These war financing activities accounted for a large proportion of the activities of the Federal Reserve Bank, also. In order to effect the \$2,300 million of bonds sold during the year in the district, 4,800,000 pieces of securities cleared through the Federal Reserve Bank. In addition to this, the banks on October 2, 1944, were authorized to cash, directly, savings bonds, a development which increased materially the war financing activities of the commercial banks. In the aggregate during the year, 4,000,000 of these savings bonds were cleared through the Federal Reserve Bank for redemption, amounting to an aggregate of \$195 million.

Some of our banks participated also in loans specifically for the purpose of augmenting war production. Financing institutions in the district loaned \$37 million to war contractors under Regulation V loans processed by the Federal Reserve Bank as agent for the services.

WARTIME INCOME EXPANSION, 1940-45





Statement of Condition

Assets

| | Dec. 31, 1945 | Dec. 31, 1944 |
|--|-----------------|---------------|
| Gold Certificates on Hand and Due from U. S. Treasury..... | \$ 331,935,211 | \$345,552,531 |
| Redemption Fund—F. R. Notes..... | 20,144,526 | 14,820,114 |
| Total Gold Certificates Reserves..... | 352,079,737 | 360,372,645 |
| Other Cash | 7,687,084 | 5,932,747 |
| Bills Discounted | 1,081,000* | 0 |
| Industrial Advances..... | 0 | 0 |
| U. S. Government Securities: | | |
| Bonds | 26,275,000 | 22,553,000 |
| Notes | 58,818,000 | 28,444,000 |
| Certificates of Indebtedness..... | 232,112,000 | 88,636,000 |
| Bills | 312,354,000 | 326,202,000 |
| Total U. S. Government Securities..... | 629,559,000 | 465,835,000 |
| Total Bills and Securities..... | 630,640,000 | 465,835,000 |
| Due from Foreign Banks..... | 2,542 | 2,984 |
| F. R. Notes of Other F. R. Banks..... | 6,713,200 | 3,913,100 |
| Uncollected Items..... | 54,098,816 | 44,130,376 |
| Bank Premises | 1,263,071 | 1,251,622 |
| Other Assets..... | 1,798,287 | 1,274,344 |
| Total Assets | \$1,054,282,737 | \$882,712,818 |

Liabilities

| | | |
|--|-----------------|---------------|
| Federal Reserve Notes in Actual Circulation..... | \$ 551,859,465 | \$475,793,675 |
| Deposits: | | |
| Member Bank—Reserve Account..... | 385,402,603 | 317,789,302 |
| U. S. Treasurer—General Account..... | 38,287,065 | 15,877,076 |
| Foreign Bank | 18,869,161 | 25,432,302 |
| Other Deposits | 2,424,682 | 2,108,879 |
| Total Deposits | 444,983,511 | 361,207,559 |
| Deferred Availability Items..... | 41,673,052 | 32,597,136 |
| Other Liabilities | 332,104 | 229,893 |
| Total Liabilities | \$1,038,848,132 | \$869,828,263 |

Capital Accounts

| | | |
|---|-----------------|---------------|
| Capital Paid in..... | \$ 3,861,350 | \$ 3,500,550 |
| Surplus (Section 7)..... | 8,869,500 | 4,949,737 |
| Surplus (Section 13b)..... | 1,072,621 | 1,072,621 |
| Other Capital Accounts..... | 1,631,134 | 3,361,647 |
| Total Liabilities and Capital Accounts..... | \$1,054,282,737 | \$882,712,818 |

*Consists solely of foreign loans on gold.





Earnings and Expenses

| | 1945 | 1944 |
|---|-------------|-------------|
| Earnings from: | | |
| Discounted Bills | \$ 55,166 | \$ 18,549 |
| United States Government Securities..... | 3,597,156 | 2,665,717 |
| Industrial Advances | 0 | 3,979 |
| All Other | 4,765 | 4,542 |
| Total Current Earnings..... | \$3,657,087 | \$2,692,787 |
| Expenses: | | |
| Net Operating Expenses..... | \$1,254,434 | \$1,132,873 |
| Assessment for Expenses of Board of Governors of the Federal Reserve System..... | 53,409 | 49,461 |
| Federal Reserve Currency: | | |
| Original Cost | 26,527 | 115,984 |
| Cost of Redemption..... | 10,953 | 6,953 |
| Total Current Expenses..... | \$1,345,323 | \$1,305,271 |
| Current Earnings | \$2,311,764 | \$1,387,516 |
| Additions to Current Net Earnings: | | |
| Profits on Sales of U. S. Government Securities..... | \$ 95,519 | \$ 99,777 |
| All Other | 6,798 | 92,442 |
| Total | \$ 102,317 | \$ 192,219 |
| Deductions from Current Net Earnings..... | 413 | 405 |
| Net Additions to Current Net Earnings..... | \$ 101,904 | \$ 191,814 |
| Net Earnings | \$2,413,668 | \$1,579,330 |
| Dividend Paid | \$ 221,687 | \$ 206,159 |
| Paid to U. S. Treasurer (Section 13b)..... | 0 | 20,155 |
| Transferred to Surplus (Section 13b)..... | 0 | 72,320 |
| Transferred to Surplus (Section 7)..... | 2,191,981 | 1,280,696 |

Surplus Account (Section 7)

| | | |
|--|-------------|-------------|
| Balance at Close of Previous Year..... | \$4,949,737 | \$3,669,041 |
| Transferred from Profits of Year..... | 2,191,981 | 1,280,696 |
| Transferred from Reserves for Contingencies..... | 1,727,782 | 0 |
| Balance at Close of Year..... | \$8,869,500 | \$4,949,737 |

Surplus Account (Section 13B)

| | | |
|---|-------------|-------------|
| Balance at Close of Previous Year..... | \$1,072,621 | \$1,000,301 |
| Transferred to Surplus (Section 13b)..... | 0 | 72,320 |
| Balance at Close of Year..... | \$1,072,621 | \$1,072,621 |





Volume of Operations in Principal Departments

(Dollar amounts in thousands)

| | 1945 | | 1944 | |
|--|---------------|---------------------|---------------|--------------------|
| | Number | Amount | Number | Amount |
| Loans and Discounts: | | | | |
| Advances to Member and Non-member Banks, Secured by U. S. Government Obligations | 304 | \$ 1,450,391 | 68 | \$ 329,280 |
| Advances to Member Banks Secured by Other Collateral | 0 | 0 | 0 | 0 |
| Rediscounts | 0 | 0 | 0 | 0 |
| Industrial Advances | 0 | 0 | 47 | 896 |
| U. S. Treasury Bill Purchases Under Repurchase Option | 452 | 723,734 | 585 | 652,262 |
| Currency and Coin: | | | | |
| Currency Received and Counted..... | 47,991,151 | \$ 286,643 | 46,715,078 | \$ 250,655 |
| Coin Received and Counted..... | 41,578,085 | 3,018 | 33,155,795 | 2,472 |
| Check Collection: | | | | |
| U. S. Government Checks | 8,761,761 | \$ 1,956,890 | 7,189,985 | \$1,930,181 |
| Other Checks | 38,933,565 | 11,829,827 | 34,770,857 | 10,707,866 |
| Noncash Collection: | | | | |
| Grain Drafts | 837,472 | \$ 690,585 | 799,351 | \$ 544,144 |
| Country and Other City Collections..... | 113,759 | 347,301 | 115,133 | 286,184 |
| United States Government Coupons Paid: | | | | |
| Coupons from U. S. Government Direct Obligations | 543,326 | \$ 37,786 | 456,073 | \$ 29,443 |
| Coupons from Issues of Other U. S. Government Agencies | 19,206 | 341 | 67,486 | 821 |
| Issues, Redemptions and Exchanges by Fiscal Agency Department: | | | | |
| U. S. Government Direct Obligations.... | 10,006,404 | \$ 4,212,703 | 10,291,133 | \$4,460,963 |
| Other U. S. Government Agencies..... | 12,570 | 23,149 | 49,718 | 49,173 |
| Transfers of Funds..... | 34,844 | \$ 4,773,454 | 32,188 | \$4,478,307 |
| Safekeeping—Member Banks: | | | | |
| Amount of Securities Held in Custody for Member Banks on Last Day of Year | | \$ 1,077,302 | | \$ 882,482 |
| Number of Coupons Cut from Securities Held for Member Banks..... | 282,078 | | 275,454 | |
| Purchase and Sale of Securities for Account of Banks Located in the Ninth Federal Reserve District..... | 5,196 | \$ 767,555 | 5,213 | \$ 499,292 |

Personnel

December 31, 1945

| | Head Office | Helena Branch | Total |
|---|-------------|---------------|-------|
| Number of Officers and Employees at End of Year: | | | |
| Officers | 17 | 2 | 19 |
| Employees | 716 | 69 | 785 |
| Employees who entered the Armed Forces..... | 110 | 15 | 125 |
| Employees Released from Service..... | 55 | 9 | 64 |
| Died in Service..... | 5 | 0 | 5 |





State Banks Which Became Members During 1945

MONTANA

BILLINGS STATE BANK
Billings, Montana

FIRST STATE BANK OF CHINOOK
Chinook, Montana

SECURITY STATE BANK, HARLEM, MONTANA
Harlem, Montana

THE FIRST STATE BANK OF MALTA
Malta, Montana

TRADERS STATE BANK OF POPLAR, MONTANA
Poplar, Montana

FIRST STATE BANK OF STEVENSVILLE, MONTANA
Stevensville, Montana

SOUTH DAKOTA

BLACKPIPE STATE BANK
Martin, South Dakota

Number of Member Banks

| | 1945 | 1944 |
|--|-----------|-----------|
| Number of Member Banks at end of Year: | | |
| National Banks | 356 | 356 |
| State Banks | 117 | 111 |
| | <hr/> 473 | <hr/> 467 |
| Changes during the year 1945: | | |
| New National Banks Organized..... | 3 | 1 |
| State Banks Admitted to Membership..... | 7 | 16 |
| | <hr/> 10 | <hr/> 17 |
| National Banks Succeeded by Non-member State Banks..... | 2 | 1 |
| National Banks Liquidated..... | 0 | 2 |
| State Member Bank Converted to National Bank..... | 0 | 1 |
| National Banks Absorbed by Non-member Banks..... | 1 | 1 |
| State Member Banks Absorbed by Other State Member Banks..... | 1 | 0 |
| | <hr/> 4 | <hr/> 5 |
| Net Increase in Number of Member Banks..... | 6 | 12 |

Number of Member Banks in each State or part of State, in the Ninth Federal Reserve District at the end of Year 1945:

| | National Banks | State Banks | Total |
|--------------------|----------------|-------------|-----------|
| Michigan | 26 | 15 | 41 |
| Minnesota | 186 | 25 | 211 |
| Montana | 40 | 38 | 78 |
| North Dakota | 42 | 0 | 42 |
| South Dakota | 35 | 25 | 60 |
| Wisconsin | 27 | 14 | 41 |
| | <hr/> 356 | <hr/> 117 | <hr/> 473 |

Member of Federal Advisory Council

JULIAN B. BAIRD
President, First National Bank
Saint Paul, Minnesota

Industrial Advisory Committee

SHELDON V. WOOD, *Chairman*
President, Minneapolis Electric Steel Castings Co.
JOHN M. BUSH, Negaunee, Michigan
The Cleveland-Cliffs Iron Company

C. O. FOLLETT, Fargo, North Dakota
President, Smith, Follett and Crowl
ALBERT L. MILLER, LaCrosse, Wisconsin
President, Miller Broom Company



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DIRECTORS AND OFFICERS OF THE FEDERAL RESERVE BANK OF MINNEAPOLIS AND HELENA BRANCH 1946

Directors

ROGER B. SHEPARD
President, Finch, Van Slyck & McConville
St. Paul, Minnesota
Chairman of the Board and Federal Reserve Agent

W. D. COCHRAN
Cochran Freight Lines
Iron Mountain, Michigan
Deputy Chairman

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

CLARENCE E. HILL
Chairman of the Board, Northwestern National Bank
Minneapolis, Minnesota

RAY C. LANGE
President, Chippewa Canning Company
Chippewa Falls, Wisconsin

F. D. MCCARTNEY
Vice President, First National Bank
Oakes, North Dakota

J. R. MCKNIGHT
President, Pierre National Bank
Pierre, South Dakota

PAUL E. MILLER
Director of Agricultural Extension
University of Minnesota
Minneapolis, Minnesota

J. E. O'CONNELL
President, Eddy's Bakeries
Helena, Montana

Officers

JOHN N. PEYTON, *President*
OLIVER S. POWELL, *First Vice President*

BANKING DEPARTMENT

HAROLD C. CORE, *Personnel Officer*

ARTHUR R. LARSON, *Assistant Cashier*
Check Collection
Ration Checks

MILFORD E. LYSÉN, *Operating Research Officer*

HAROLD G. MCCONNELL, *Vice President*
Consumer Credit
Loans and Discounts

ALBERT W. MILLS, *Cashier and Secretary*
General Bank Operations

OTIS R. PRESTON, *Vice President*
Banks and Banking

WALTER H. TURNER, *Assistant Cashier*
Collection Department
Currency and Coin
Securities Safekeeping

HARRY I. ZIEMER, *Vice President*
Loans and Discounts

BANK EXAMINATION DEPARTMENT

ERNEST W. SWANSON, *Vice President*

FISCAL AGENCY DEPARTMENTS

EARL B. LARSON, *Assistant Vice President*
Government Securities

WILLIAM E. PETERSON, *Assistant Cashier*
Custodian for Governmental Agencies
Withheld Taxes

RESEARCH DEPARTMENT

PAUL W. MCCracken, *Director of Research*

AUDIT DEPARTMENT

ORTHEN W. OHNSTAD, *Auditor*

LEGAL COUNSEL

SIGURD UELAND, *Vice President and Counsel*
MAURICE H. STROTHMAN, Jr., *Assistant Counsel*

HELENA BRANCH (MONTANA)

Directors

B. M. HARRIS
President, The Yellowstone Bank
Columbus, Montana

MALCOLM E. HOLTZ
Agriculturalist
Great Falls, Montana

P. B. MCCLINTOCK
Cashier, Farmers National Bank
Chinook, Montana

R. B. RICHARDSON
President, Western Life Insurance Company
Helena, Montana

R. E. TOWLE, *Managing Director*

Officers

R. E. TOWLE, *Managing Director*

C. J. LARSON, *Assistant Manager*

