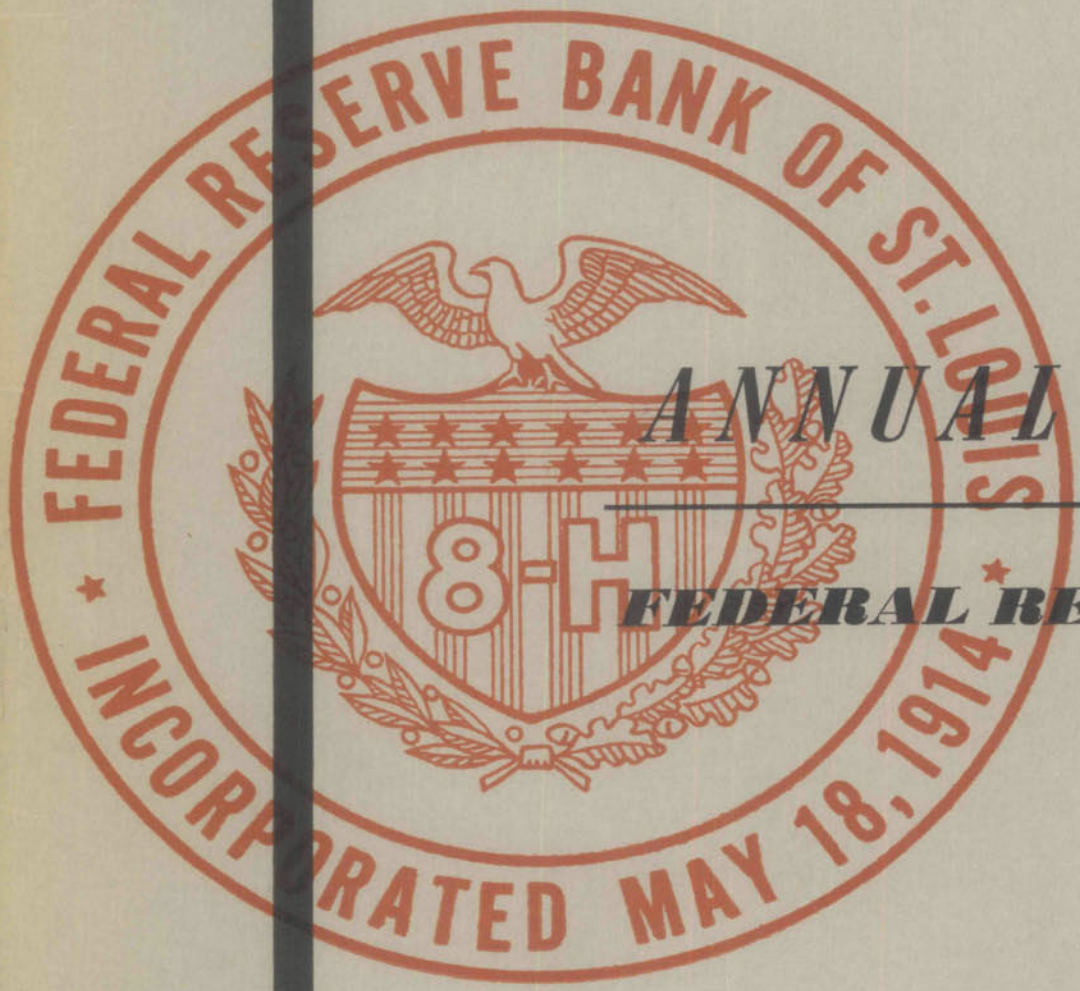
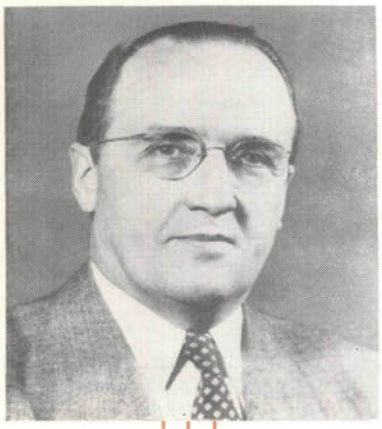


1951 ANNUAL REPORT

FEDERAL RESERVE BANK OF ST. LOUIS



TO THE MEMBER BANKS

I take pleasure in transmitting to you the Annual Report of the Federal Reserve Bank of St. Louis for the year 1951.

The year was significant in that inflationary pressures were generally held in check. I believe that you will find special interest in the record of the part played by the members of the financial community, particularly the bankers.

Very truly yours,

President.

TABLE OF CONTENTS

PROGRESS AND STABILITY IN 1951

The year 1951 should go down in economic history as an unusual year. There was general high level stability during most of 1951, coupled with a steadily growing defense program which absorbed an increasing share of total output. There was contrast between the economic record of the year as a whole when compared with 1950, and the running history of 1951 taken by itself. There was also contrast between the over-all economic indicators of 1951 and certain appreciable deviations from general averages for particular lines and prices. Finally, there was a return to prominence of monetary policy as a major instrument of economic stabilization.

Government outlays for national security rose considerably during 1951. In the fourth quarter of 1950 defense expenditures (including those for foreign economic and military aid and atomic energy) were running at an annual rate of $24 billion. By the last quarter of 1951 that rate had risen close to $45 billion. Ordinarily such a growth of the defense effort in an economy already operating fairly close to capacity would generate very great inflationary pressures. Actually, the inflationary potential was present throughout 1951, but after the first quarter the forces were mainly dormant and the potential did not become active. Instead, for most of 1951, the primary economic characteristic was stability at a high level of activity. This situation was the net result of several factors.

First, the defense program exerted less pressure on total supply than most people had anticipated. While defense outlays rose, they did not increase in quite the expected amount nor did they purchase quite the "mix" of goods and services that had been expected. Furthermore, the piling up of inventory in late 1950 and early 1951 had created a substantial cushion of civilian goods and made total civilian supply appreciably larger than current production would indicate. Consumers themselves had stocked up heavily in the two major buying waves of mid-1950 and early 1951.

Second, the stabilization program took hold and had a marked effect both directly and in terms of attitudes. The real heart of that

program was fiscal and monetary policy. High taxes reduced civilian spending power and increased Federal Government income so that on a cash basis Federal receipts were larger than expenditures. Particularly important as a matter of timing was the large Treasury surplus of the first quarter. Credit expansion was restricted mainly through the renewed ability of the Federal Reserve System to orient its open market operations primarily toward the credit situation rather than toward maintenance of fixed prices for Government securities. Credit restriction also resulted from the selective credit instruments (applying to consumer, real estate and stock market credit) and from the Voluntary Credit Restraint Program conducted by the financial community.

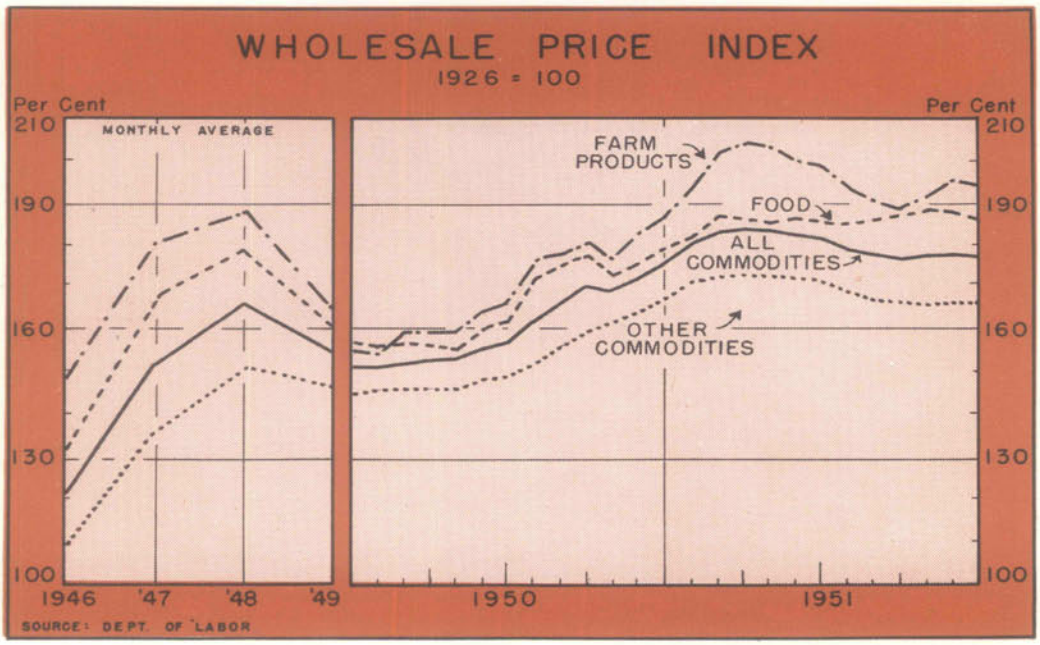
Direct control measures also helped stabilize the economy in 1951. Wage stabilization policies put some brakes on rising wage and salary payments. Price controls were particularly important in stemming the upward pushes on prices and on consumer demand early in the year. Allocations and priorities helped channel supplies to more essential uses and in some measure prevented wholesale bidding up of prices for scarce materials and items.

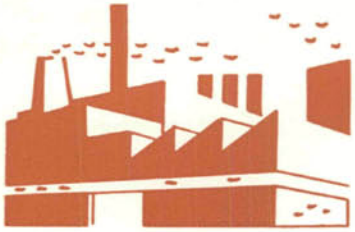
Third, consumer demand failed to increase in line with rising consumer income and saving increased appreciably. Thus there was less pressure on civilian supply. In part, this development stemmed from the failure of severe shortages to develop; in part, it reflected consumer confidence that the stabilization program would put some brakes on price rises; in part, it resulted from heavy anticipatory buying in the six months following the Korean war. The fact that the rate of consumer spending (seasonally adjusted) in the second and third quarters was below that of the first quarter and although fourth quarter expenditures rose they were still off slightly from those in the first quarter, points up a major factor in 1951's stability.

Looking at the year as a whole, 1951 stands well ahead of 1950 in terms of production, employment and income as well as in terms of average prices. But an inspection of the running record of 1951 shows that for the last three quarters of the year the major economic indicators were moving in a generally sidewise direction. The annual rate of the gross national product in the fourth quarter was only slightly

higher than the annual rate prevailing in the second quarter. The Federal Reserve index of industrial production averaged about 2 per cent less in the second half than in the first half. Wholesale prices were lower in December than in June, and were off 3 to 4 per cent from the peak reached earlier in the year.

The year 1951 was also characterized by appreciable divergences in economic trends of particular lines of activity and of particular prices. Reflecting the growing defense effort, total physical output of durables was higher at year end than in January. But manufacture of consumers durables was at a substantially lower rate in December than at the beginning of the year. Nondurables output in the second half was about 5 per cent smaller than in the first half. Prices of some commodities moved higher while others fell. Prices of basic raw materials at year end were off sharply from their peaks; as noted, the wholesale price index was down somewhat from the spring high; while consumer prices rose almost 6 per cent in the year.



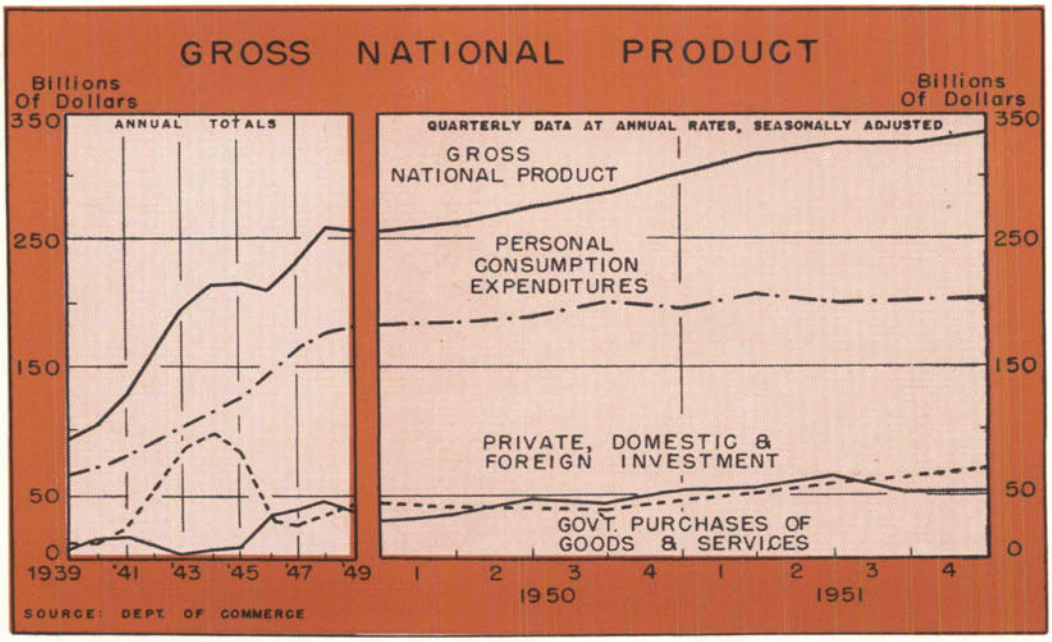


Production

The total value of goods and services produced in the United States in 1951 (the gross national product) reached a new peak of $327 billion, an increase of 16 per cent over 1950 output, which was valued at $283 billion. About half the gain represented increased physical output and half reflected higher average prices.

As noted earlier, while total output averaged higher in 1951 than in 1950, the 1951 record after the first quarter was one of relative stability, with physical production and value of total output not much different in the fourth quarter than it had been in the second. The increase in production for defense was offset almost completely by a decline in production for the civilian economy.

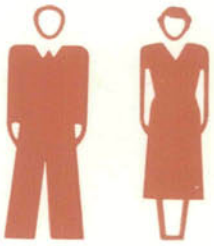
In the Eighth District during 1951 industrial activity also increased in some lines and declined in others, with the over-all movement of production about in keeping with the national trend. The Eighth



District, however, has received a relatively small amount of prime and subcontracts for defense work so that the increase in defense output in this region's industries was somewhat less pronounced than was true of the nation as a whole. At the close of 1951 it was estimated that about 50,000 district residents were being employed on direct defense work, including civilian employment at military posts and other Government defense establishments. Such transition as there was from civilian to defense production in the district was accomplished with only minor dislocations.

Eighth District farm production in 1951 was high—about the same as in 1950. Production increases were held down, however, as a result of flood, excessive rain, drouth and early frost. Some areas showed record yields of certain crops and a few areas almost complete crop failure.

District cotton production was about 21 per cent higher than in 1950, a gain substantially smaller than for the nation as a whole. The district tobacco crop was 19 per cent larger than in 1950 and prices were higher. The outturn of other important crops was not as large as a year earlier. Corn production was off 8 per cent, oats production declined 22 per cent, and rice output was off 4 per cent.



Employment

Reflecting the increase in output, employment in 1951 showed an increase over 1950. Total civilian employment in the nation averaged 61 million persons in 1951, up about 2 per cent over the 1950 level. Much of the gain in the total was the result of more workers in manufacturing industries, where employment in 1951 was about 7 per cent higher than in 1950.

Unemployment declined in 1951 and averaged only 3 per cent of the total civilian labor force as compared with about 5 per cent in 1950. At the close of 1951, approximately 1.7 million persons were unemployed in contrast to 2.2 million in December, 1950.

In the district's major industrial areas, 1951 employment averaged about 4 per cent higher than in 1950. Nevertheless, while certain skills were in short supply, moderate labor surpluses for most types of labor continued throughout the year. No district labor market was classed as tight in 1951 and some, particularly a few smaller areas, had substantial labor surpluses. The shift to defense production and the concurrent lull in some civilian lines caused an uneven demand for labor between areas and industries. Among the major district areas the largest increases over 1950 in non-farm employment occurred in Louisville and Memphis, where employment was up 7 per cent and 6 per cent respectively. St. Louis area employment averaged about 4 per cent larger than in 1950, while Little Rock employment increased but 2 per cent. In Evansville, where refrigerator and other hard goods industries predominate, cut-backs in civilian manufacture failed to be offset by defense contracts and thus employment at year end was about 2 per cent below the level a year earlier.

In the district and in the nation wage rates increased during 1951. Average hourly earnings increased about 7 per cent for durable goods manufacturing industries and somewhat less for employees in the non-durable goods manufacturing industries. The average factory work week was somewhat shorter at the year end than a year earlier. Most of the decrease in the work week was in industries producing consumer goods; the work week in defense industries increased during 1951.

Income

Personal income rose during 1951 but more slowly than in 1950. In the fourth quarter it was running at an annual rate of $257 billion, an increase of 8 per cent from the rate prevailing a year earlier. Labor income increased more slowly as 1951 progressed, due to fewer increases in wage rates, a shorter work week in manufacturing and only moderate gains in employment. Farm income continued upward from the postwar low reached in early 1950, almost entirely a result of higher prices for farm products. Taxes took an increasing part of income, but that available for spending continued to rise through 1951.

Farm income, which in the Eighth District represents a relatively larger proportion of total income than in the nation, showed an appreciably greater increase than non-farm income in 1951. Over-all district income averaged about one-eighth larger than in 1950.

Expenditures

A key factor in the stability that prevailed throughout most of 1951 was the increase in saving, or, to put it another way, the failure of consumer expenditures to increase in line with rising income. Personal income in 1951 was $26.5 billion higher than in 1950, and disposable income (after taxes) was over $18 billion higher. Of this gain, consumers elected to spend almost $12 billion and to save $6.5 billion in one form or another. The rate of saving rose to 9 per cent of disposable income in the last half of 1951 compared with an average of 5 per cent in 1950.

The record of consumer expenditures in 1951 shows a sharp upswing in the first quarter, a rather marked decline in the second quarter, a slight increase in the third quarter, and a gain in the fourth quarter that did not quite lift the seasonally adjusted rate back to the first quarter level. The relative decline in consumer demand during 1951 was concentrated in durable goods. Expenditures for passenger cars and major appliances in the latter half of 1951 were off almost one-third from the levels prevailing in the latter half of 1950. Purchases of other types of durable goods were about 10 per cent lower in the latter part of 1951 compared with late 1950. Expenditures for nondurable goods remained fairly constant throughout 1951 and those for services continued to expand slowly.

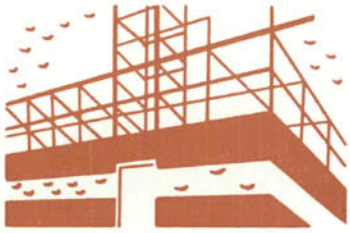
Relatively little of the decline in consumer expenditures for hard goods reflected limited supplies. In fact most consumer durables remained in ample supply during 1951.

Inventories were accumulated rapidly after Korea and in the first half of 1951. But after consumer demand fell off in the second quarter of 1951, the rate of accumulation was slowed. In retail lines inventories

were reduced and by year end were apparently about normal relative to retailers expectations of sales. The increase in manufacturers' inventories was nearly stopped by year end.

Business expenditures for new plant and equipment in the nation were at a record level in 1951—$23.1 billion compared with $17.8 billion in 1950. Expenditures continued to rise throughout most of 1951, and in the fourth quarter were 18 per cent larger than in the same period of 1950. However, in physical volume, the increase was not as large. The expansion of some basic industries was encouraged by allowing rapid amortization for tax purposes to ensure sufficient capacity to meet mobilization program goals. But the expansion in 1951 was largely the result of growing civilian demand evident prior to Korea.

In the Eighth District about $450 million in industrial plant and equipment was certified as necessary for the defense effort and allowed the rapid amortization privilege, and several Government production facilities were reactivated and expanded.



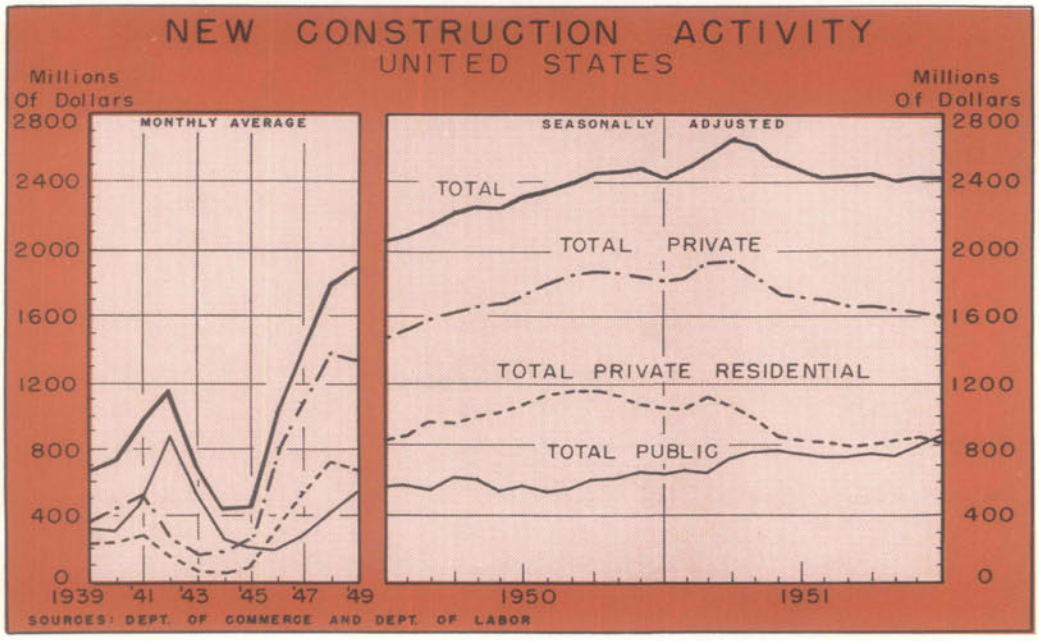
Construction

New construction put in place in the nation in 1951 was valued at close to $30 billion—a record in terms of dollar outlays. In terms of physical volume, however, 1951 was about the same as 1950 since higher construction costs absorbed most of the increase in expenditures. Beginning in September, the value of total new construction was less than in corresponding months of 1950. In line with mobilization policy, construction of essential facilities was expanded while less essential construction, especially recreational, commercial and private residential, was cut back.

Construction in the Eighth District also reached a new record in 1951 as a result of more new housing, more industrial construction and the Atomic Energy Commission plant near Paducah, Kentucky. The total value of work contracted for in the district last year was $1,310 million, or 51 per cent more than in 1950.

In dollar terms residential construction during 1951 in this district did not follow the declining trend in the rest of the nation, but instead increased 4 per cent over 1950, reaching a total of $364 million in contracts awarded. Again, however, physical volume of starts was lower. Also part of the increase was due to public housing contracts which were about three times larger than in 1950. At year end nine areas of the district had been classed as defense housing areas (where housing was critical) and 3,800 dwelling units had been programmed for private construction under relaxed credit restrictions.

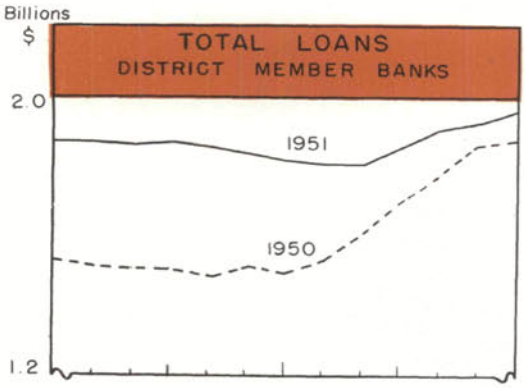
The Atomic Energy Commission plant near Paducah and two allied electric power generating plants were started in 1951. About 20,000 construction workers were employed on these projects at year end. The AEC plant will cost about $500 million and the two generating plants will represent an investment of about $200 million.



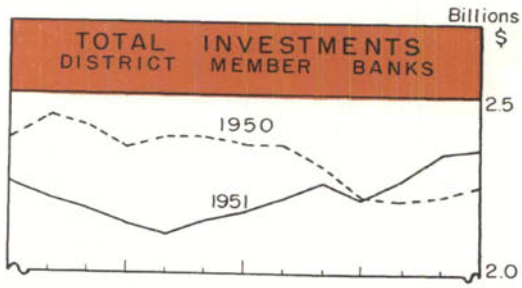
FINANCIAL DEVELOPMENTS IN 1951

In 1951 Federal Reserve System control over the supply and availability of bank reserves was restored in substantial degree. The monetary authorities were relieved of the burden of supporting Government securities at fixed prices. Thus monetary action could resume its place as an effective stabilizing factor in the economy during the year. General monetary policy was able to and did make a major contribution toward reducing inflationary pressure even though bank credit and the money supply continued to expand. Loan growth in 1951, especially during the latter half of the year, was channeled toward production of goods and creation of additional defense capacity rather than toward financing consumer purchases and business inventory accumulation. Thus the increase in the bank loans was smaller and the growth in total bank credit had less inflationary impact than in the preceding year.

Loan volume at district member banks increased $100 million in the course of the year reflecting the forces at work nationally to expand bank credit. Most of the district loan expansion went to business with the largest share used to finance marketing and processing of farm crops. As in other sections of the country, loans for nondefense inventories expanded much less and defense loans increased more during 1951 than in 1950. Loan growth here was greatest at banks in the St. Louis, Louisville, and Evansville areas.

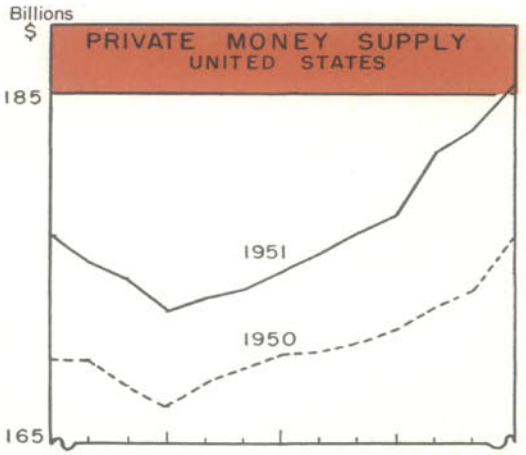


Investments at district member banks were up $110 million notwithstanding some liquidation early in the year to meet increased reserve requirements. The growth in portfolio centered in short-term United States Government obligations, although holdings of other securities, largely municipal bonds, rose moderately at the smaller banks.



Earning assets of district member banks increased almost as much as nationally, where the growth averaged 6 per cent. It should be noted, however, that loan growth in the Eighth District was less than the national average, reflecting in part the smaller impact of defense orders in this district. Nationally the growth in bank earning assets was much more concentrated in loans.

Primarily as a result of bank loan expansion, the nation's money supply rose $9 billion in 1951. Increased investment holdings of the banking system, largely Federal Reserve purchases early in the year, contributed moderately to the growth in the money supply. A shift of funds from foreign to domestic accounts over the year also added somewhat to the private money supply. Gold outflow and net Treasury receipts reduced the supply in the first half of the year but reversed themselves, adding substantially to the supply in the second half of the year, leaving their net effects virtually nil over the year as a whole. The other miscellaneous factors tended to reduce the money supply.



MAJOR FACTORS AFFECTING THE MONEY SUPPLY

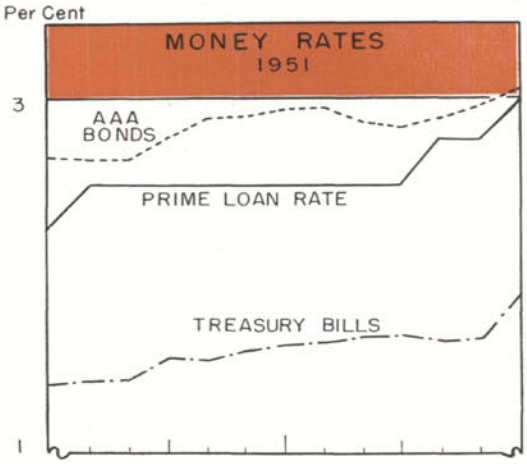
(In Billions of Dollars)

Sign Indicates Effect on Private Money Supply[1]

	1951 1st half	1951 2nd half	1951 Year
Bank Credit:[2]			
Loans	+ 3.5	+ 3.9	+ 7.3
Investments:			
U. S. Government	— 2.1	+ 3.4	+ 1.3
Other	+ 0.4	+ 0.6	+ 1.1
Gold Stock	— 1.0	+ 0.8	— 0.1
Foreign Deposits	+ 0.1	+ 0.1	+ 0.2
Treasury Deposits	— 3.0	+ 2.9	-0-
Other Factors[3]	— 0.1	— 0.9	— 1.0
Private Money Supply	— 2.2	+11.0	+ 8.8
Composition of Money Supply:			
Demand Deposits	— 3.3	+ 9.1	+ 5.8
Time Deposits	+ 0.7	+ 1.3	+ 2.0
Currency outside banks	+ 0.4	+ 0.5	+ 0.9

[1] Figures may not add to totals due to rounding.
[2] Includes Commercial, Mutual Savings, and Federal Reserve Banks.
[3] Includes Capital Accounts, Treasury Currency and Miscellaneous Accounts.

The increase in the money supply in 1951 generated less inflationary pressure than the rise in 1950. In the first place new bank credit centered in financing production and additional defense capacity rather than in financing consumer and business purchases of finished goods. In the second place in both 1951 and 1950, the bulk of the rise in the money supply came in the latter part of the year. In 1951 it was accompanied by a declining rate of deposit turnover whereas in 1950 it was accompanied by a rising rate of turnover. To say this in another way, the additions to civilian income in 1950 tended to be spent in much larger proportion than in 1951 and the saving rate was considerably higher in late 1951 than in the comparable period of 1950.



Throughout most of the year (and especially after the Federal Reserve Treasury accord) the commercial banks faced lessened availability of bank reserves. With reserves in relatively more limited supply, and at higher cost, banks were less willing to expand credit. Tighter capital markets and higher money rates developed.

FACTORS AFFECTING MEMBER BANK RESERVES

(In Millions of Dollars)

(+) indicates addition to reserves
(—) indicates reduction in reserves

Money Market:	1st* Quarter	2nd* Quarter	3rd* Quarter	4th* Quarter	Aggregate 4 Quarters
Currency	+ 880	—563	—536	—1,266	—1,485
Treasury Operations	— 264	+660	—374	+ 554	+ 576
Gold and Foreign	— 918	—149	+436	+ 767	+ 136
Float	— 309	+ 77	+137	+ 289	+ 194
Miscellaneous	+ 17	+ 69	— 21	— 114	— 49
Total	— 594	+ 94	—358	+ 230	— 628
Deposit Changes	—2,120***	— 29	—273	— 736	—3,158
System Open Market Operations	+2,269	+236	+630	+ 29	+3,164
Borrowings	+ 174	—251	— 5	+ 580	+ 498
Total Changes	— 271	+ 50	— 6	+ 103	— 124
Excess Reserves at End of Period**	488	538	532	635	635

*Based on closing Wednesday figures of each quarter
**Excess Reserves were estimated at $759 million at the close of 1950
***Includes increase in reserve requirements

MONETARY AND FISCAL ACTION

The tight reserve positions of banks and the restricted availability of bank credit reflected measures by the Federal Reserve System, the financial community, and the Treasury to lessen the inflationary use of credit. In 1951, three major steps were taken in the monetary and banking fields.

Member bank reserve requirements were increased (2 per cent for net demand deposits and 1 per cent for time deposits), effective January 11—February 1. This action absorbed $2 billion of member bank free funds (about $80 million for district banks) and reduced the ability of banks to expand credit.

The most significant credit development was the accord reached early in March by the Federal Reserve and the Treasury. Under this agreement, System open market operations could be directed primarily toward the credit situation and providing for orderly markets rather than toward fairly rigid price supports for Government securities. So long as prices of Governments were supported by residual Federal Reserve purchases, banking and nonbanking investors could monetize the public debt merely by selling Government securities. With the accord, the System regained a considerable measure of control over the supply and availability of bank reserves and so was again able to influence restrictively the ability of banks to expand credit.

A third major development in finance was the formation of the Voluntary Credit Restraint Program in March 1951 with the cooperation of leaders in commercial banking, insurance, investment banking and other financial institutions. The objective of the program was to screen loan applications with the view of reducing nonessential loans to a minimum and eliminating speculative loans. Common standards for recognition of loans in these categories were developed, with the result that there was less pressure on financing institutions to make such loans in order to maintain competitive positions. The program helped channel new loans into defense and defense-supporting fields and away from nonessential uses. Loan expansion in 1951 reflected the joint impact of the restricted availability of bank reserves and the Voluntary Credit Restraint Program.

Finally, important steps were taken in Government fiscal and debt management fields during 1951. Although defense outlays were expanding rapidly, the Government was able, through sharply increasing revenue, to operate at a cash surplus. In the early months of 1951 the net surplus was a potent anti-inflationary force. Public debt management was used to induce savers to invest in and hold Government securities. Among the significant steps taken were: (1) offer of a non-marketable 2¾ per cent long-term bond in exchange for the 2½ per cent restricted bonds outstanding; (2) measures to encourage retention of savings bonds after maturity; (3) issue of a new series of savings notes at a higher yield, and (4) issues of two series of tax-anticipation bills.

AN ACTIVE YEAR FOR THE FEDERAL RESERVE BANK OF ST. LOUIS

The work of the Federal Reserve Bank of St. Louis in 1951 showed generally increased activity, reflecting the higher levels characteristic of the district economy and particularly of the financial community. Work volume increased generally in the field of operations for member banks. A new function, handling of postal money orders for the Post Office Department, was added. Activity incident to this Bank's participation in new or renewed Federal Reserve System responsibilities under the defense program increased. There were more calls upon officers and staff for information and judgment with respect to the major System responsibility—regulation of this country's money supply. And with this increased work, the internal staff which operates to take care of and supervise plant, personnel and procedure found its work growing.

Operating Functions for Member Banks

Check Collection—1951 marked the eighteenth consecutive year in which the volume of checks collected increased over that of the preceding year. On July 16, 1951, a record day's volume of 606,000 checks of all classes was handled at St. Louis. Almost 158 million items were handled in 1951, compared with 134 million in 1950. In terms of dollars the checks collected in 1951 aggregated nearly $53 billion, about $6 billion more than in 1950.

One-third, or 8 million items, of the increase of 24 million items, resulted from this Bank's share of a new Federal Reserve System duty assumed on July 1, 1951, the handling of Postal Money Orders in punch card form for the Post Office Department. This development, which aids in speeding up collection time for such items, was the outcome of a long period of study by representatives of the Post Office Department, the Treasury Department, the American Bankers Association, and the Federal Reserve System. Another 10 million items of the additional volume resulted from a substantial increase in the number of United States Treasury checks handled. The remaining 6 million items of additional volume reflected the continued rising trend in the number of commercial bank checks.

Further progress was made in 1951 with the check routing symbol program. A survey conducted near the close of the past year indicated that approximately 80 per cent of all checks on par banks in this district then bore the routing symbol. A similar survey made a year earlier indicated 73 per cent bore the symbol.

Coin and Currency—Counting, sorting and shipping of currency and coin in 1951 was in greater volume than in 1950.

Both the number of pieces of currency handled and the dollar volume was larger in 1951—209 million pieces as against 199 million pieces in 1950 and $1.2 billion as against $1.1 billion in the preceding year. More coins were counted and sorted in 1951 than in 1950—309 million pieces as compared with 293 million pieces—but dollar volume declined slightly reflecting more activity in coins of smaller denominations.

Currency shipments to member banks totaled about 20,000 in 1951, up only slightly from activity in 1950. The number of coin shipments increased by 4,000, however.

Safekeeping—Securities were held in safekeeping for 457 member banks and 463 nonmember banks in 1951. The number of securities in safekeeping at year end totaled 159,000—up from a year earlier. Nonmember banks have these facilities available only for savings bonds held for safekeeping, for securities pledged as collateral to Treasury Tax and Loan Accounts or to secure deposits of public funds.

As a service to banks, coupons were clipped as they matured and accounts of the banks were credited. The number clipped in 1951 totaled 266,000 and dollar volume was $20.4 million. Both number and amount were larger than in 1950.

Traffic in and out of the department was not quite as heavy in 1951 as in the previous year. Securities received numbered 66,000, and those released 60,000.

Transfer of Funds—An important service rendered to member and nonmember clearing banks is the transfer of funds, largely by wire. The dollar amount of funds transferred and the number of transfers

in 1951 were the largest on record. The dollar total was over $22 billion and the number exceeded 105,000. In 1950, the comparable totals were $16 billion and 95,000.

Noncash Collections—The total number of noncash collections handled in 1951 was about 382,000, and the amount exceeded $364 million, as against 368,000 items aggregating $329 million in 1950. Slightly less than 800,000 United States Government interest coupons (including those received from our safekeeping department and from banks and others) were paid.

Accounting—At the end of 1951, 494 member banks maintained reserve balances and 36 nonmember banks maintained clearing accounts with the Federal Reserve Bank of St. Louis. Each day these banks were furnished with transcripts reflecting details of entries that arose from check collections and clearings, noncash collections, transfers of funds, money shipments and receipts, and other deposits and withdrawal of funds.

In addition to the preparation of these transcripts, accounting operations included a large number of bookkeeping entries arising from internal affairs of the Bank itself; entries reflecting this Bank's share of transactions in the System Open Market Account, transactions through the Federal Reserve Interdistrict Settlement Fund, and semimonthly payroll and other operating expenses and earnings.

Credit Operations

Reflecting the tighter money market position referred to in previous sections, member bank borrowing from the Federal Reserve Bank of St. Louis was substantially larger in 1951 than in 1950. Aggregate borrowings were almost $2.4 billion in 1951 as compared with $1.4 billion in 1950. The average daily amount of outstandings in 1951 was about $13 million as compared with just over $7 million in 1950.

Regulation V—Regulation V, reactivated in September, 1950 under the Defense Production Act, authorizes the Bank, acting for the Departments of the Army, Navy, Air Force, Commerce, Interior and Agriculture, the Atomic Energy Commission and the General Services Administration, to issue guarantees of loans made by financing institu-

tions to companies engaged in production deemed essential for national defense. As was noted earlier, defense work in the Eighth District has been light relative to this district's manufacturing capacity. As a result, demand for V-loan guarantees has been small.

Regulation W—As of the end of 1951, more than 13,000 registration statements from lenders and venders whose businesses come within the scope of the Regulation were on file in this Bank. About 2,400 of these registrations were filed during 1951. In carrying out this Bank's responsibility under Regulation W, the investigating staff examined the accounts of 4,736 registrants during the year. In addition, more than 900 memorandum calls in special situations were made.

Regulation X—At the close of 1951, this Bank had on file about 3,300 registration statements of lenders or lenders agents in the real estate credit field. During the year examinations were made of the records of 972 registrants and an additional 1,200 registrants were visited for brief checks.

Services for the United States Government

Fiscal Agency—The volume of work in the Fiscal Agency Department in 1951 was somewhat less heavy than in 1950, mainly reflecting slightly less activity in both issuance and redemption of savings bonds. This activity accounts for a substantial portion of the work performed by this Bank as Fiscal Agent of the United States.

Most sales and redemptions of savings bonds in the Eighth District in 1951, as in the previous year, were made through the 1,600 issuing agents and 1,558 paying agents appointed and served by the Bank. In connection with serving these issuing and paying agents and in processing and tabulating work necessary at this Bank even on bond sales or redemptions handled by the agents, the Fiscal Agency Department has a considerable volume of activity. In 1951, however, sales through issuing agents represented 2.2 million bonds and redemptions through paying agents 3.3 million bonds as against comparable totals of 2.4 million and 3.5 million in 1950. The number of bonds issued directly by the Bank in 1951 was also somewhat smaller than in 1950.

The Bank also acts for the Treasury in handling the direct work of sale, exchange or redemption of marketable Government security

issues. Activity in this field was considerably lighter in 1951 than in 1950. Last year the number of pieces allotted on original subscriptions was 58,000 (for a total of over $2 billion) as against 75,000 pieces allotted in 1950. The Bank handled 161,000 exchange and redemption transactions (totaling $3.5 billion) in 1951, substantially less than the 201,000 transactions (for $5.1 billion) in 1950.

Transactions involving purchase and sale of securities for member banks numbered 5,400 in 1951 as against 6,500 in 1950. Telegraphic transfers of securities, mainly for member banks, totaled 7,000 in 1951 as against 7,500 in 1950.

Almost 110,000 transactions were processed through the Treasury Tax and Loan Account in 1951, slightly more than were handled in 1950. There were 1,011 qualified depositaries at the end of the year, ten more than a year earlier. During 1951 over 48,000 depositary receipts for Withheld Income and Employment Taxes were received direct from employers, over 155,000 from qualified depositaries, and almost 212,000 from Collectors of Internal Revenue. Activity in this field was at a higher level than in 1950.

Examination

During the year, each State member bank in the district was examined at least once. Following established practice, examinations were made jointly with examiners for the seven State Bank Departments, except in a few instances where practicable schedules could not be arranged. In addition, a number of investigations, both joint and independent, were made. A table showing the number of examinations and investigations undertaken during the year follows.

EXAMINATIONS OF STATE MEMBER BANKS

	Joint	Independent
Commercial Departments	149	20
Trust Departments	34	10
Holding Company Affiliates	0	1
Affiliates other than Holding Companies	15	3
INVESTIGATIONS		
Holding Company Affiliates	1	1
Affiliates other than Holding Companies	27	10
Applications for New National Bank Charters	2	0

Research and Communication

During 1951 there was increased activity at the St. Louis Bank in connection with the gathering, analysis and interpretation of economic information. To evaluate the impact of the growing national defense program upon the district economy and to trace developments in the financial community under a tighter monetary policy required more than the usual checking and interpretation throughout the year. Along with this increased activity relative to current economic analysis, the Bank's broad program of long-range research which is keyed to sound economic development in the Eighth Federal Reserve District was continued. In addition to the uses made of the factual and interpretive material within the Federal Reserve System, much of the information was made available to bankers, businessmen, students and the public generally through articles in the Monthly Review, periodic reports and special publications.

Information with respect to regional development possibilities, particularly in the fields of agriculture and community development, also was discussed with bankers and others in a series of field meetings held in various parts of the district. In Kentucky the bank participated in five agricultural field meetings; in Mississippi, in two agricultural credit clinics; in Tennessee, in two community development programs; and in Missouri, in one forestry field meeting. All of these meetings were under the joint sponsorship of the state universities, the state bankers associations, and the St. Louis Reserve Bank. They were attended by a total of approximately 1,100 bankers, bank directors and other interested persons. Also under joint sponsorship, the Bank participated in one session of the Arkansas Bankers Summer Seminar. One additional meeting with representatives of the state university, agricultural groups and the Bank was held in Tennessee to discuss relations between farmers and lenders.

Furthering our desire to maintain channels for two-way communication between the Federal Reserve Bank, the commercial banks and the Eighth District community, representatives of this Bank continued their calls on both member and nonmember banks throughout the Eighth Federal Reserve District. A total of 1,427 visits to the district's banks were made in 1951. Also visits to the head office and branches were encouraged, as in the past, with about 3,600 visitors viewing the

Bank in operation. About three-fourths of these visitors were from various schools and colleges located in the district.

Films on banking subjects continued to be made available to schools, civic clubs, bankers meetings and similar groups. Films showing something of the work and operations of a Federal Reserve Bank were used, both inside and outside the Bank, and in 1951 were shown to 68 banking groups, 68 school groups, and 26 groups of other kinds. The Bank's currency exhibit, which is loaned out to member banks in the district, was put on display at 16 different banks in the year.

People and Plant

Officers and employees at St. Louis and the three branch offices numbered 1,261 at the end of 1951, a net increase of 144 during the year. A major factor in the increase was enlarged volume of activity in the Check Collection Department; 91 of the additional employees went into this operation.

Since the date of the last Annual Report, February 21, 1951, there were a number of official changes in the Federal Reserve Bank of St. Louis. At the May meeting of the Board of Directors, Frederick L. Deming, Howard H. Weigel, Joseph C. Wotawa and Dale M. Lewis were promoted from Assistant Vice President to Vice President. Also in May, William H. Stead resigned his position as Vice President to serve as Economic Adviser to the Secretary of the Interior on defense programs administered by the Department. In July, Assistant Vice President S. F. Gilmore, who had been associated with the Bank for many years, died.

With employment rising generally during 1951 and unemployment declining, net addition of new personnel was somewhat more difficult than in 1950. The rate of turnover increased (although it was below the rate prevailing during World War II years). New hirings in the year totaled 620 but, with 476 separations, the net employment increase amounted to the 144 noted above. With as many new people coming into employment as there were in 1951, training activity necessarily increased.

In addition to this on-the-job training, the Bank's formal Executive Development and Training Program continued, with various trainees working on training assignments during 1951. The discussion seminars for trainees and other key personnel begun in 1949 were continued in 1951. Emphasis in the seminars, as in the past, was on current economic and credit policy problems. A third phase of the formal training program involves encouragement of senior personnel to attend the various schools of banking. In 1951, 11 men from the St. Louis office and branches were enrolled in these schools. Two men were graduated in 1951.

Adequate plant and equipment are essential to smooth operations. As is the case of any building in constant use, much work was necessary to keep it in a good state of repair. Work also was continued on conversion to fluorescent lighting.

The Chester C. Davis Building, was occupied by a division of the United States Army Corps of Engineers and by the National Bank Examination staff in 1951.

Audit

The Audit Department conducted periodic reviews of the records of the Bank and its branches to insure that all functions and accounts affecting assets and liabilities of the Bank were properly handled. In accordance with an approved frequency schedule, all operating departments and all functions and accounts affecting assets and liabilities were audited during 1951. Annual balance sheet audits were conducted at each of the branches. Reports of major audits were submitted directly to the Chairman of the Board of Directors and to the Audit Committee of Directors.

DIRECTORS AND OFFICERS

DIRECTORS

Chairman

RUSSELL L. DEARMONT, *Chief Counsel for Trustee*
Missouri-Pacific Lines
St. Louis, Missouri

Deputy Chairman

WM. H. BRYCE, *Vice-President and Manager*
Dixie Wax Paper Company
Memphis, Tennessee

M. MOSS ALEXANDER, *President*
Missouri-Portland Cement Company
St. Louis, Missouri

PHIL E. CHAPPELL, *President*
Planters Bank & Trust Company
Hopkinsville, Kentucky

J. E. ETHERTON, *President*
Carbondale National Bank
Carbondale, Illinois

WM. A. MCDONNELL, *President*
First National Bank in St. Louis
St. Louis, Missouri

JOSEPH H. MOORE, *Farmer*
Charleston,
Missouri

RALPH E. PLUNKETT, *President*
Plunkett-Jarrell Grocer Company
Little Rock, Arkansas

LOUIS RUTHENBURG, *Chairman of Board*
Servel, Incorporated
Evansville, Indiana

OFFICERS

DELOS C. JOHNS, *President*

O. M. ATTEBERY, *First Vice-President*
WM. E. PETERSON, *Vice-President*
FREDERICK L. DEMING, *Vice-President*
JEROME H. GALES, *Asst. Vice-President*
FRANK N. HALL, *Asst. Vice-President*
HOWARD H. WEIGEL, *Vice-Pres. and Secy.*
JOSEPH C. WOTAWA, *Vice-President*
DALE M. LEWIS, *Vice-President*
G. O. HOLLOCHER, *Asst. Vice-President*
EARL R. BILLEN, *Asst. Vice-President*
JOHN J. CHRIST, *Assistant Vice-President*

HAROLD B. KLINE, *Counsel*
G. W. HIRSHMAN, *General Auditor*

MEMBER OF FEDERAL ADVISORY COUNCIL

VANCE J. ALEXANDER, *President*
Union Planters National Bank
Memphis, Tennessee

MEMBERS OF INDUSTRIAL ADVISORY COMMITTEE

JACOB VAN DYKE, *President*
Western Textile Products Company
St. Louis, Missouri

G. A. HEUSER, *President*
Henry Vogt Machine Company
Louisville, Kentucky

CLARENCE S. FRANKE, *President*
American Furnace Company
St. Louis, Missouri

JAMES LOUIS CRAWFORD, *President*
Walsh Refractories Corporation
St. Louis, Missouri

MARVIN W. SWAIM, *First Vice-President and General Manager*
Alton Box Board Company
Alton, Illinois

LITTLE ROCK BRANCH

DIRECTORS

Chairman

STONEWALL J. BEAUCHAMP, *President*
Terminal Warehouse Company
Little Rock, Arkansas

HARVEY C. COUCH, JR., *President*
Union National Bank
Little Rock, Arkansas

GAITHER C. JOHNSTON, *Investments*
Dermott,
Arkansas

H. C. MCKINNEY, JR., *President*
First National Bank
El Dorado, Arkansas

SHUFORD R. NICHOLS, *Farmer, Ginner and Cotton Broker*
Des Arc, Arkansas

THOS. W. STONE, *Exec. Vice-President*
The Arkansas National Bank
Hot Springs, Arkansas

SAM B. STRAUSS, *President*
Pfeifers of Arkansas
Little Rock, Arkansas

OFFICERS

C. M. STEWART, *Vice-President and Manager*

CLIFFORD WOOD, *Assistant Manager*

CLAY CHILDERS, *Assistant Manager*

W. J. BRYAN, *Assistant Manager*

LOUISVILLE BRANCH

DIRECTORS

Chairman

ALVIN A. VOIT, *President*
Mengel Company
Louisville, Kentucky

SMITH BROADBENT, JR., *Farmer*
Cadiz,
Kentucky

PIERRE B. MCBRIDE, *President*
Porcelain Metals Corporation
Louisville, Kentucky

M. C. MINOR, *President*
Farmers National Bank
Danville, Kentucky

NOEL RUSH, *President*
Lincoln Bank and Trust Company
Louisville, Kentucky

A. C. VORIS, *President*
Citizens National Bank
Bedford, Indiana

IRA F. WILCOX, *Vice-President and Cashier*
The Union National Bank
New Albany, Indiana

OFFICERS

C. A. SCHACHT, *Vice-President and Manager*

FRED BURTON, *Assistant Manager*

L. K. ARTHUR, *Assistant Manager*

L. S. MOORE, *Assistant Manager*

MEMPHIS BRANCH

DIRECTORS

Chairman

HUGH M. BRINKLEY, *Farmer*
Hughes, Arkansas

JOHN A. MCCALL, *President*
First National Bank
Lexington, Tennessee

M. P. MOORE, *Owner*
Circle M Ranch
Senatobia, Mississippi

WILLIAM B. POLLARD, *President*
National Bank of Commerce
Memphis, Tennessee

C. H. REEVES, *President*
Merchants and Farmers Bank
Columbus, Mississippi

CAFFEY ROBERTSON, *President*
Caffey Robertson Company
Memphis, Tennessee

BEN L. ROSS, *Chairman of Board*
Phillips National Bank
Helena, Arkansas

OFFICERS

PAUL E. SCHROEDER, *Vice President and Manager*

C. E. MARTIN, *Assistant Manager*

S. K. BELCHER, *Assistant Manager*

H. C. ANDERSON, *Assistant Manager*

COMPARATIVE STATEMENT OF CONDITION

ASSETS

	Dec. 31, 1951	Dec. 31, 1950
GOLD CERTIFICATES	$ 554,749,934	$ 590,355,112
REDEMPTION FUND	49,274,118	40,724,909
OTHER CASH	18,944,006	15,013,766
Total Cash	622,968,058	646,093,787
DISCOUNTS AND ADVANCES	55,000	500,000
U. S. GOVERNMENT SECURITIES	1,286,902,000	1,137,613,000
Total Loans and Securities	1,286,957,000	1,138,113,000
F. R. NOTES OF OTHER BANKS	10,529,300	9,788,730
UNCOLLECTED ITEMS	136,889,537	212,191,132
BANK PREMISES (NET)	3,265,547	3,509,443
OTHER ASSETS	6,982,842	6,469,198
Total Assets	2,067,592,284	2,016,165,290

LIABILITIES

FEDERAL RESERVE NOTES	1,167,160,705	1,097,440,250
DEPOSITS:		
Member Bank—Reserve Account	740,737,142	651,163,354
U. S. Treasurer—General Account	3,560,640	24,658,746
Other Deposits	31,340,025	64,253,191
Total Deposits	775,637,807	740,075,291
DEFERRED AVAILABILITY ITEMS	87,484,985	144,200,366
OTHER LIABILITIES	605,061	227,309
Total Liabilities	2,030,888,558	1,981,943,216

CAPITAL ACCOUNTS

CAPITAL PAID IN	8,365,500	7,398,000
SURPLUS (Section 7)	21,788,221	20,295,334
SURPLUS (Section 13b)	522,837	521,317
OTHER CAPITAL ACCOUNTS	6,027,168	6,007,423
Total Liabilities and Capital Accounts	$2,067,592,284	$2,016,165,290

COMPARATIVE STATEMENT OF EARNINGS AND EXPENSES

	1951	1950
EARNINGS	$21,225,423	$15,197,121
EXPENSES:		
Operating Expenses	$ 5,058,269	$ 4,358,331
Assessment for Expenses of Board of Governors	151,700	125,300
Federal Reserve Currency	512,303	380,545
Total Current Expenses	5,722,272	4,864,176
Current Net Earnings	15,503,151	10,332,945
Additions to Current Net Earnings:		
Profit on Sales of U. S. Government Securities		1,973,676
Other Additions	6,244	174
Total Additions	6,244	1,973,850
Deductions from Current Net Earnings	87,289	83,918
Transferred to Reserves for Contingencies	22,607	17,999
Paid United States Treasury (Interest on Outstanding Federal Reserve Notes)	13,435,403	10,595,592
Net Earnings After Reserves and Payments to United States Treasury	1,964,096	1,609,286
Dividends Paid	471,209	431,812
Transferred to Surplus (Section 7)	1,492,887	1,177,474

SURPLUS ACCOUNT (SECTION 7)

Surplus January 1	20,295,334	19,117,860
Transferred to Surplus—as above	1,492,887	1,177,474
Surplus December 31	$21,788,221	$20,295,334