expected to boost automobile sales, the opposite can be expected from price increases announced when the new models were introduced. List prices advanced an average of 4 percent, as reported by the Bureau of Labor Statistics for the new car component of the consumer price index. In recent model years, discounts from list prices have been common following introduction of new models. Nevertheless, an upward trend in annual price averages has continued strong.

It must also be recognized that an increasing array of products now competes with the automobile for the consumer's dollar. The needs of growing families, the desire to build new homes or to improve existing ones and furnish them anew, and the attractions of new or improved products may be leading to less emphasis on having the shiniest, biggest, and most elaborately equipped automobile. That this possibility is very real seems evident in the fact that the major automobile producers are expected to bring out their own versions of the so-called "compact" car toward the end of the year. Observers seem to agree that important changes are taking place in the automobile industry. The relative success of new car sales this year will weigh heavily in determining the rapidity with which these changes take place.

PHILIP M. WEBSTER

Higher Profits Despite Increased Costs

The uptrend in operating costs of Sixth District member banks continued during 1958 despite recessionary forces that prevailed during much of the year. Furthermore, the rise in costs during the year was greater than that in total earnings. Operating costs consumed 73 cents out of each dollar of earnings during 1958, compared with about 70 cents in 1957. Ten years earlier, in 1948, costs accounted for 61 cents.

Average Operating Ratios of all Member Banks in the Sixth Federal Reserve District

SUMMARY RATIOS:	1953	1954	1955	1956	1957	1958
Percentage of total capital accounts:						
Net current earnings before income taxes	16.3	15.5	16.2	16.9	15.7	14.2
Profits before income taxes	14.2	15.1	13.2	12.8	12.6	14.1
Net profits	9.0	9.9	8.5	8.4	8.4	9.6
Cash dividends declared	3.1	3.1	3.0	3.0	3.0	2.9
Percentage of total earnings:						
Total earnings	3.25	3.26	3.43	3.66	3.88	4.01
Net current earnings before income taxes	1.15	1.10	1.18	1.23	1.16	1.09
Net profits	.64	.71	.63	.62	.63	.74
SOURCE AND DISPOSITION OF EARNINGS:						
Percentage of total earnings:						
Interest on U.S. Govt. Securities	23.0	22.4	21.8	22.2	22.5	20.9
Int. and div. on other sec.	5.7	5.9	5.9	6.0	6.2	7.2
Earnings on loans	58.6	58.8	59.7	59.6	59.4	59.4
Service charges on dep. accts.	6.4	6.7	6.6	6.5	6.6	7.3
Trust department earnings[1]	**2.2**	**2.6**	**2.6**	**2.6**	**2.6**	**2.6**
Other current earnings	6.3	6.2	6.0	5.7	5.3	5.2
Total earnings	100.0	100.0	100.0	100.0	100.0	100.0
Salaries and wages	32.0	32.3	31.6	31.2	30.2	30.3
Interest on time deposits[2]	**9.1**	**10.4**	**10.8**	**11.3**	**16.4**	**18.5**
Other current expenses	32.5	33.9	34.2	35.0	39.7	42.5
Total expenses	64.5	66.2	65.8	66.2	69.9	72.8
Net current earnings before income taxes	35.5	33.8	34.2	33.8	30.1	27.2
Net losses (or recoveries and profits +)[3]	3.8	+ 1.0	3.5	4.9	3.2	+ 2.5
Net increase (or net decrease +) in valuation reserves	.5	1.4	2.3	2.9	2.4	2.6
Taxes on net income	11.3	11.4	9.9	8.7	7.9	8.6
Net profits	19.9	22.0	18.5	17.3	16.6	18.5
RATES OF RETURN ON SECURITIES AND LOANS:						
Return on securities:						
Interest on U.S. Govt. Securities	2.04	2.06	2.12	2.46	2.64	2.65
Int. and div. on other sec.	2.67	2.60	2.52	2.52	2.66	2.82
Net losses (or recoveries and profits +) on total sec.[3]	.08	+ .27	.17	.27	.11	+ .44
Return on loans:						
Earnings on loans	6.30	6.19	6.35	6.35	6.67	6.71
Net losses (or net recoveries +) on loans[3]	.20	.17	.10	.15	.15	.13
DISTRIBUTION OF ASSETS:						
Percentage of total assets:						
U.S. Government securities	33.9	33.4	33.0	31.4	31.4	30.3
Other securities	7.9	8.1	8.6	9.0	9.4	10.4
Loans	30.8	31.5	32.8	34.8	34.8	35.7
Cash assets	26.2	25.8	24.3	23.4	22.8	21.9
Real estate assets	1.0	1.0	1.1	1.2	1.4	1.5
All other assets	.2	.2	.2	.2	.2	.2
Total assets	100.0	100.0	100.0	100.0	100.0	100.0
OTHER RATIOS:						
Total capital accounts to:						
Total assets	7.5	7.7	7.7	7.8	7.9	8.2
Total assets less Government securities and cash assets	20 0	19.6	18.9	18.0	18.1	17.7
Total deposits	8.2	8.4	8.5	8.6	8.8	9.1
Time deposits[4] to total deposits	23.5	24.8	25.8	26.0	28.2	31.7
Interest on time deposits[4] to time deposits	1.23	1.36	1.42	1.62	2.36	2.46
Number of banks	358	362	369	378	387	397

[1] Banks with none were excluded in computing this average. Ratio included in "Other current earnings."
[2] Banks with none were excluded in computing this average. Ratio included in "Other current expenses."
[3] Includes recoveries or losses applied to either earnings or valuation reserves.
[4] Banks with none were excluded in computing this average.

Most of the rise in expenses during 1958 reflected a further increase in interest paid on time deposits resulting from rises in both the average rate paid and in the total amount of time deposits. These payments amounted to 18.5 percent of total earnings during 1958, compared with 16.4 percent in 1957. In 1956, before the general increase in rates paid on such deposits, interest payments accounted for only 11.3 percent of earnings.

Although operating costs rose faster than operating earnings during 1958, member banks were still able to push their net profits substantially above the previous year's total. These banks reported net profits equal to 9.6 percent of capital accounts, compared with 8.4 percent in 1957. Stated differently, 18.5 cents out of each earnings dollar went into net profits, whereas net profits amounted to 16.6 cents during the preceding year.

The sizable rise in net profits was made possible by a sharp increase in profits and recoveries on securities, principally United States Government obligations. Curiously enough, it was the same recessionary forces that adversely affected profits of other types of businesses that made much of these capital gains possible. Since Government security prices strengthened because of declining interest rates, as they customarily do during a recession, bankers were able to sell at a profit. Profits and recoveries amounted to .44 percent of average security holdings of all types during the year. In contrast, net losses amounted to .11 percent during 1957, when prices of U. S. securities were falling.

Despite the trend toward higher net profits, some bankers saw red ink appear on their annual statements. Six of the 397 member banks in operation during all of 1958 suffered a loss from net current operations. Profits and recoveries from security sales and from other sources were not sufficient to convert this to a net profit for three of these banks.

Sixth District bankers earned about the same rate on their holdings of U. S. Government securities in 1958 as they did in 1957. Their rate of return on other securities and on loans, however, was significantly higher than during the previous year.

W. M. DAVIS