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Federal Reserve Bank of Cleveland

1927

THIRTEENTH ANNUAL REPORT
TO THE
FEDERAL RESERVE BOARD

ANNUAL REPORT

of the

Federal Reserve Agent

of the

Fourth Federal
Reserve District

to the

Federal Reserve Board

Covering Operations

for the

Calendar Year

1927

FEDERAL RESERVE BANK OF CLEVELAND

Letter of Transmittal

January 19, 1928.

SIR:

I have the honor to transmit to you herewith the thirteenth annual report of the Federal Reserve Bank of Cleveland, covering operations for the calendar year 1927.

Respectfully,

GEORGE DE CAMP,
Federal Reserve Agent.

HON. ROY A. YOUNG, *Governor,*
Federal Reserve Board,
Washington, D. C.

Directors and Officers, 1928

DIRECTORS

CLASS A

CHESSE LAMBERTON, Franklin, Pa., 1928
ROBERT WARDROP, Pittsburgh, Pa., 1929
O. N. SAMS, Hillsboro, Ohio, 1930

CLASS B

R. P. WRIGHT, Erie, Pa., 1928
G. D. CRABBS, Cincinnati, Ohio, 1929
S. P. BUSH, Columbus, Ohio, 1930

CLASS C

L. B. WILLIAMS (Deputy Chairman), Cleveland, Ohio, 1928
GEO. DECAMP (Chairman), Cleveland, Ohio, 1929
W. W. KNIGHT, Toledo, Ohio, 1930

OFFICERS

GEO. DECAMP, Chairman of the Board and Federal Reserve Agent	E. R. FANCHER, Governor
W. H. FLETCHER, Assistant Federal Reserve Agent and Manager, Examination Department	M. J. FLEMING, Deputy Governor
J. B. ANDERSON, Assistant Federal Reserve Agent and Manager, Statistical Department	F. J. ZURLINDEN, Deputy Governor
F. V. GRAYSON, Auditor	H. F. STRATER, Cashier and Secretary
	W. F. TAYLOR, Assistant Cashier
	C. W. ARNOLD, Assistant Cashier
	G. H. WAGNER, Assistant Cashier
	D. B. CLOUSER, Assistant Cashier
	C. L. BICKFORD, Assistant Cashier

CINCINNATI BRANCH

DIRECTORS

CHAS. W. DUPUIS
FRED A. GEIER
B. H. KROGER
E. S. LEE
C. F. McCOMBS
JOHN OMWAKE
GEO. M. VERITY

OFFICERS

C. F. McCOMBS, Managing Director
B. J. LAZAR, Cashier
H. N. OTT, Assistant Cashier
BRUCE KENNELLY, Assistant Cashier

PITTSBURGH BRANCH

DIRECTORS

A. E. BRAUN
CHARLES W. BROWN
J. R. EISAMAN
A. L. HUMPHREY
R. B. MELLON
JOSEPH R. NAYLOR
J. C. NEVIN

OFFICERS

J. C. NEVIN, Managing Director
T. C. GRIGGS, Cashier
P. A. BROWN, Assistant Cashier
F. E. COBUN, Assistant Cashier

THIRTEENTH ANNUAL REPORT FEDERAL RESERVE BANK OF CLEVELAND

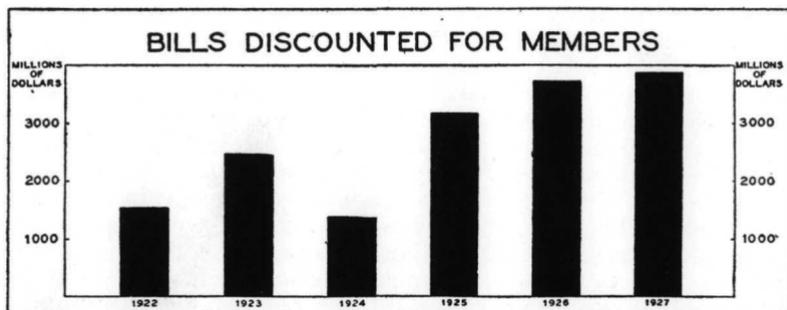
Holdings of bills discounted by this bank for member banks were smaller on the average in 1927 than in 1926, reflecting chiefly easier conditions in the money market and a slackening in business activity during the last six months of the year. The number of applications for credit extension on the part of member banks was lower by nearly 4,000 than in 1926, the number of banks accommodated was smaller,

*Comparison of various classes of rediscounts and loans, 1927 and 1926
(Amounts in thousands)*

	1927	1926
Secured by U. S. Government obligations	\$3,366,535	\$3,052,549
Commercial and industrial	498,685	643,451
Trade acceptances	5,071	4,723
Agricultural and live stock	2,080	3,655
	\$3,872,371	\$3,704,378

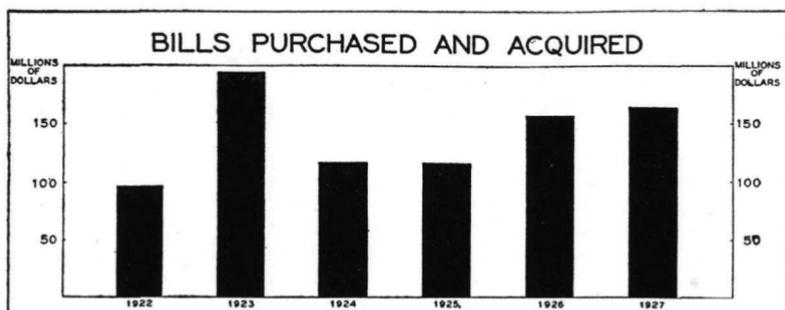
and the number of items discounted also showed a substantial decrease. The actual volume of discounts for member banks made during the year, on the other hand, was somewhat larger than in 1926, owing to the fact that there was an increase in the amount of temporary borrowing for short periods of time (generally one or two days).

Daily-average earning assets of this bank in 1927 were about \$4,000,000 less than in 1926. This decline reflected a decrease of

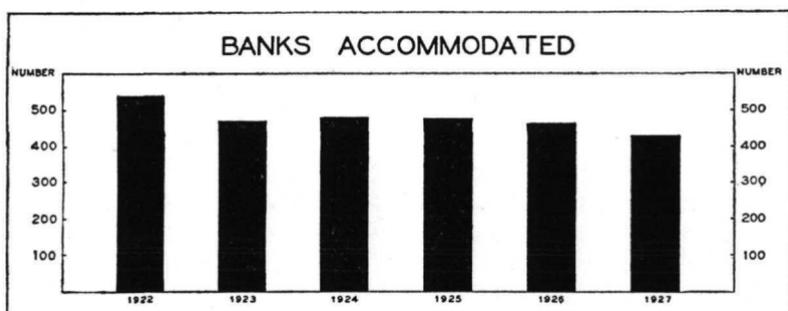


\$12,000,000 in the daily-average holdings of bills discounted for member banks, which was partially offset by a substantial increase in the amount of United States securities bought in the open market, representing the participation of this bank in the open-market operations

of the Federal Reserve System. Holdings of United States securities by this bank increased from less than \$35,000,000 in May to a maximum for the year of over \$75,000,000 in November.



In August the discount rate of this bank was reduced to $3\frac{1}{2}$ per cent from the 4 per cent rate which had been in effect since November, 1925.



MEMBER BANK CREDIT

The significant feature of member bank credit shown by data covering banks in principal cities which render condensed reports of condition weekly is the increase in investment account and in loans secured by stocks and bonds. The increase in these two items is practically equal *per centually* to the decrease in "commercial" loans. The reporting banks to which reference is made hold approximately two-thirds of all member bank resources in the district, and their figures may safely be regarded as indicative of changes in the figures of all banks. There is given below a tabulation covering the past seven years, showing as of approximately June 30 and December 31 of each year the loan and investment accounts of these reporting member banks—each item expressed as a percentage of the total of all loans, discounts and investments. This table shows clearly the changes in the character of credit instruments held. It also emphasizes the point made by bankers and students of banking that the percentage of paper eligible for rediscount at federal reserve banks is constantly decreasing.

Analysis of loans, discounts and investments, reporting member banks, Fourth District

(In thousands of dollars)

	Total loans, discounts and investments	Loans secured by stocks and bonds	% of total	"All other" loans	% of total	Investments	% of total
June 29, 1921	\$1,492,238	\$399,336	26.8	\$672,696	45.1	\$420,206	28.1
Dec. 28, "	1,412,520	382,464	27.1	617,177	43.7	412,879	29.2
June 28, 1922	1,455,614	364,421	25.0	623,357	42.8	467,836	32.2
Dec. 27, "	1,588,466	411,131	25.9	644,843	40.6	532,492	33.5
June 27, 1923	1,662,496	439,486	26.4	694,942	41.8	528,068	31.8
Dec. 26, "	1,645,803	436,936	26.5	684,662	41.6	524,205	31.9
July 2, 1924	1,712,763	431,604	25.2	710,758	41.5	570,401	33.3
Dec. 31, "	1,795,421	432,843	24.1	715,446	39.8	647,132	36.0
July 1, 1925	1,871,125	497,058	26.6	743,777	39.8	630,290	33.7
Dec. 30, "	1,894,927	519,196	27.4	758,084	40.0	617,647	32.6
June 30, 1926	2,001,796	565,102	28.2	793,883	39.7	642,811	32.1
Dec. 29, "	2,003,092	579,857	28.9	794,375	39.7	628,860	31.4
June 29, 1927	2,060,735	608,836	29.5	777,520	37.7	674,379	32.7
Dec. 28, "	2,097,043	618,610	29.5	760,986	36.3	717,447	34.2

It will be observed that since 1921 the percentage of "all other" loans has decreased from 45.1 per cent to 36.3 per cent of the total; investment account, or secondary reserve, has increased from 28.1 per cent to 34.2 per cent and that collateral loans have increased from 26.8 per cent to 29.5 per cent of the whole. There does not seem to be any definite relationship between fluctuations in "all other" loans and those of any of the accepted curves of business activity. From 1921 to the middle of 1923, when business was recovering from the post-war depression, the percentage of "all other" loans to total loans, discounts and investments steadily declined, while the amount in dollars remained relatively unchanged. In the recession beginning in 1923 and ending a year later, the percentage declined but slightly, while in the three-year period from 1924 to 1927, which was an interval of unusual industrial activity, it shows a still further decrease. During this seven-year period, the increase in this item was from \$674 million to \$760 million. The extreme range was from a low of \$617 million in December, 1921, to a high of \$794 million in 1926. This somewhat narrow range suggests the steadiness of borrowing in this district; i. e., the absence of any distinct seasonal fluctuation in credit needs for producing or distributing requirements.

It should be pointed out, however, that while manufacturing of varied kinds, including many basic industries, forms the keystone of business in this district, it would be misleading to assume that the volume of "commercial" loans reported by banks in this territory accurately reflects the demand for credit from these sources. Much of the credit required is obtained through recourse to other and more important money markets where in many instances the principal offices of corporations having large plants in this district are located, or where they are compelled to borrow for their larger needs because of legal limitations imposed upon banks with respect to credit lines of borrowers. Furthermore, "all other" loans (generally referred to as "commercial" loans) include loans on real estate, which in many large state banks constitute a substantial part of their earning assets.*

On the other hand, demand deposits have increased from \$779 million to \$1,039 million and time deposits from \$431 million to \$882 million, or a total increase for both classes of \$711 million. This *increase* alone would practically cover the entire "commercial" borrowings of reporting member banks' customers, and appears to offer ample evidence that banking resources in this district have far outstripped commercial demand; consequently, banks have had to look to other fields for employment of funds, and a sizable increase is found in collateral loans and in investment account. The increase in all three items—commercial loans, collateral loans, and investments—is smaller, however, by more than \$100 million than the increase in deposit liability.

With bank deposits (especially time) increasing at a faster rate than the demand for commercial funds, interest rates have been

*On June 30, 1927, "all other" loans for reporting member banks in the Fourth District, totaling \$777,520,000, included \$318,339,000 of real estate loans.

shaded somewhat during the year. This condition has encouraged refunding of high-rate corporation bonds issued during the war and post-war period and the flotation of new capital issues. A new "high" for such issues was established during the year.

An interesting development of this seven-year period has also been the relatively larger increase in time deposits than in demand deposits. For the reporting member banks the percentage of demand deposits to the total of demand and time deposits has decreased from 64 per cent at the end of 1921 to 54 per cent at the close of 1927, and for all member banks in the district the corresponding percentages were 58 and 50 respectively for 1921 and 1927. Inasmuch as time deposits require a reserve of only 3 per cent to be held at the Federal reserve bank, while the legal reserve for demand deposits is 7 per cent for country banks and 10 per cent for reserve city banks, member banks now need to carry about \$14 million less in reserves than would be required were the proportion between demand and time deposits the same as in 1921. As a consequence the lending power of the member banks is considerably larger than it would have been had time deposits and demand deposits increased at an equal rate.

EARNINGS AND EXPENSES OF MEMBER BANKS

An analysis of earnings and expenses of all fourth district member banks for the year ended June 30, 1927, shows a continuation of the upward trend in expenses and losses and of the downward trend of dividends and undivided profits. Salaries and wages have remained practically stationary for the past six years, on the basis of the percentage of expenses charged to that item. Interest paid on deposits has shown a further increase from last year, and is more than 12 per cent higher than the percentage paid on that account five years ago.

Analysis of earnings and expenses of member banks in the Fourth District
(Years ended June 30)

	1922 %	1923 %	1924 %	1925 %	1926 %	1927 %
Distribution of Earnings:						
Expenses.....	67.1	67.6	71.0	70.5	71.5	71.6
Losses.....	9.7	8.1	7.2	7.1	7.9	9.0
Dividends.....	14.7	15.2	14.2	13.2	13.6	12.7
Undivided profits.....	8.5	9.1	7.6	9.2	7.0	6.7
	100.0	100.0	100.0	100.0	100.0	100.0
Distribution of Expenses:						
Salaries and wages.....	24.8	25.1	25.2	25.0	24.8	24.9
Interest on borrowed money.....	4.6	1.9	2.2	1.2	1.9	1.7
Interest on deposits.....	46.3	49.5	49.7	51.3	51.3	52.0
Taxes.....	9.4	8.3	7.7	7.7	7.4	7.7
Other expenses.....	14.9	15.2	15.2	14.8	14.6	13.7
	100.0	100.0	100.0	100.0	100.0	100.0
Distribution of Losses:						
On loans.....	43.4	52.4	51.7	45.4	58.2	50.5
On securities.....	37.0	22.5	32.7	33.0	25.3	28.0
Other losses.....	19.6	25.1	15.6	21.6	16.5	21.5
	100.0	100.0	100.0	100.0	100.0	100.0

This reflects the faster growth of time deposits as compared with demand deposits, on which nominal rates (if any) are paid on daily balances. Taxes and "other" expenses are tending to lower levels. There is given below data bearing on member bank earnings and expenses which show for the past six years (ending June 30) trends in the principal items.

CHANGES IN MEMBERSHIP

Nine banks (eight national and one state bank) were admitted to membership during the year. There were 26 withdrawals, twenty-three being national banks and three state banks. The net result of such additions and losses in membership was a loss of 17 banks. On December 31, 1927, there were 731 national and 110 state bank members in the Fourth District.

Of the seventeen banks above-mentioned, one voluntarily liquidated, ten suspended operations, and the rest were merged or consolidated with other banks. Three of these banks merged or consolidated with state non-members.

The tabulation below exhibits changes in membership for the past six years:

Comparative statement of membership

	1922	1923	1924	1925	1926	1927
National banks	764	761	753	747	746	731
State banks	117	118	119	116	112	110
Total	881	879	872	863	858	841

RELATIONS WITH MEMBER BANKS

The contact with members through the medium of the bank relations department of the bank has been maintained, 1716 visits having been paid by members of our staff last year. Sixteen calls for one purpose or another were also made on non-members. Requests made to furnish speakers to explain the federal reserve system numbered 25, and 28 meetings or conventions were attended. The official staff of the bank was also generally represented at group or state association meetings.

BANK EXAMINATION

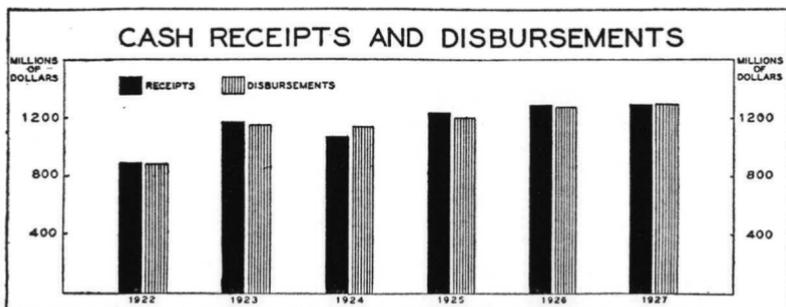
A total of 84 examinations and credit investigations was made by the department of examination of this bank, 74 of which were made in conjunction with examining staffs of the various states in which the banks examined were located. One independent examination in connection with an application for membership of a state bank was also made.

This department also analyzes applications for permission to serve on interlocking directorates, and for permission to exercise various trust powers. During the year sixty such applications were examined, and recommendations made.

The removal of the local offices of the Ohio State Banking Department to the federal reserve bank building has further engendered the close cooperation which we have received from the banking departments of all the states which are in fourth district territory. This move now places the national, state, clearing-house and federal reserve examination departments under the same roof, and enhances the cordiality of relations between them.

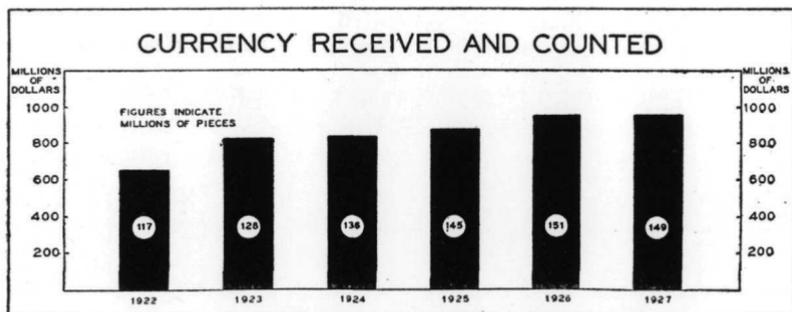
FEDERAL RESERVE NOTES

The feature of federal reserve note issues during 1927 was the absence of the usual seasonal increase in circulation in the fall months. From late April to the first of December, the extreme range was but \$10,000,000, while the December increase was but about \$15,000,000. The volume of notes in circulation at the end of the year (\$216,594,780) was slightly lower than that of a year ago.



A study of the inter-district movement of federal reserve notes reveals the interesting fact that in the settlement between federal reserve banks for federal reserve notes this district consistently loses.

The law provides a penalty for the payment by any reserve bank of the notes of another reserve bank. The purpose of the law is, obviously, to give to each bank control over its own note issues. Hence, when a federal reserve bank finds itself in possession of notes of other reserve banks, the following procedure is customary:

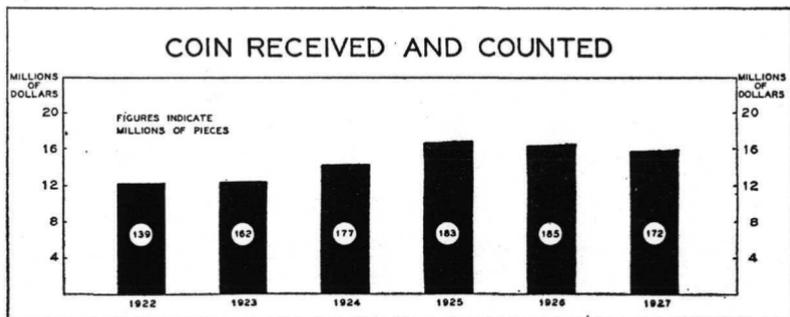


- (a) These notes are sorted as to fitness for further circulation;
- (b) Fit notes are forwarded direct to the bank of issue;
- (c) Unfit notes are forwarded direct to Washington for redemption and destruction, with advice to the bank of issue.

Payment for notes shipped to or for the account of another reserve bank is obtained through the medium of the gold settlement fund.

During 1927, the amount of our notes so handled by other federals greatly exceeded the amount of their notes handled by this bank. It is noteworthy that we lost \$58,000,000 in gold through the inter-district movement of notes, the net balance being against us in every month of the year, and also against us in settlements with each of the other eleven reserve banks. The loss so occasioned in 1927 was greater by \$8,000,000 than in the previous year.

It is obvious that such a drain on the gold reserves of this bank must be offset to prevent the eventual loss of our entire stock of gold, and in actual practice it is compensated by a gain in other settlements through the fund—chiefly in payment of checks and collection items, which are usually heavily in favor of this district.



The accompanying charts show the principal money operations of this bank for the year.

CHECK COLLECTION AND CLEARING OPERATIONS

The work of the check clearing and collection department has shown but normal growth during 1927, the number of items handled increasing from 72 million to nearly 78 million. The amount involved shows a slightly lower percentage of gain, increasing from \$28 billion to \$29½ billion. The appended schedule gives the details of the work of this department at both main office and branches.

Transit department check clearings and collections for 1927 Cleveland

	No. of Items	Amounts
On Cleveland banks	7,603,712	\$8,285,361,193.70
On other banks in District No. 4	23,849,831	2,576,142,578.30
On banks in other districts	923,739	134,121,712.80
On Treasurer of United States	1,134,255	107,549,012.26
Total	33,511,537	\$11,103,174,497.06
Items sent to Cincinnati and Pittsburgh branches	533,840	\$111,270,033.94

Cincinnati

On Cincinnati banks	3,568,668	\$5,101,340,526.43
On other banks in District No. 4	13,017,482	1,171,403,237.63
On banks in other districts	646,429	87,250,897.22
On Treasurer of United States	783,678	117,422,715.85
Total	18,016,257	\$6,477,417,377.13
Items sent to Main Office and Pittsburgh branch	239,642	\$54,817,886.34

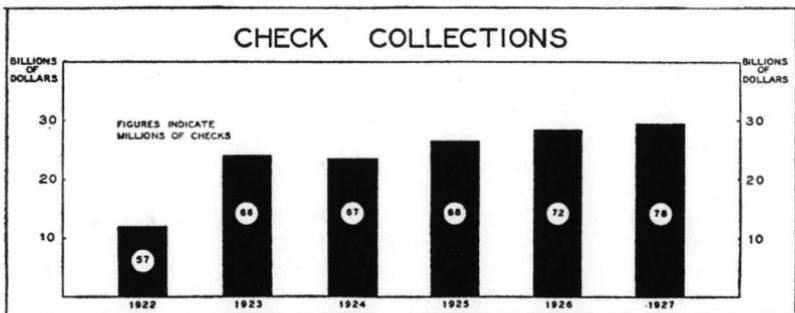
Pittsburgh

On Pittsburgh banks	7,223,923	\$9,827,075,818.68
On other banks in District No. 4	16,959,401	1,489,829,158.21
On banks in other districts	1,314,183	512,322,598.18
On Treasurer of United States	653,367	82,115,755.89
Total	26,150,874	\$11,911,343,330.96
Items sent to Main Office and Cincinnati branch	377,733	\$98,835,894.82

Recapitulation

Total number of items handled	77,678,668	
Total amount of items handled		\$29,491,935,205.15
Items and amount handled by both parent bank and branches and not duplicated in above figures	1,151,215	\$264,923,815.10

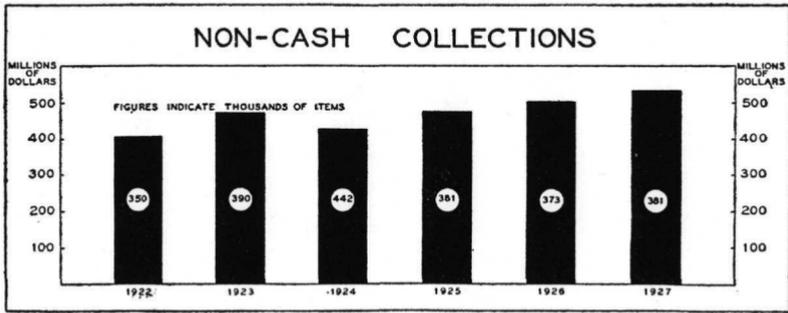
To meet the continued growth of checks handled by local banks and to speed the payment or return of their items, the Cleveland Clearing House Association on December 15 inaugurated the plan of clearing items three times daily. The first exchange is effected at one-thirty in the morning; at nine there is a special branch clearance, which enables the outlying banks to meet on even terms checks payable in the down-town district. The final exchanges are made at ten-fifteen a. m., at which time settlement for all three clearances is made. This procedure is of particular benefit to commercial banks, in that with the assistance of a small night force the commercial bookkeepers may begin posting at the beginning of the day instead of waiting until the middle of the morning for the arrival of their checks.



NON-CASH COLLECTIONS

In 1927, 380,924 items, amounting to \$532,142,257.46, were handled through the non-cash collection department. This was an

increase of two per cent over 1926 in the number of items handled, and an increase of 5.9 per cent in amount over last year.



The number and amounts of items handled at the main office and branches at Cincinnati and Pittsburgh are given below:

Non-Cash Collections

	Number	Amount
Main office.....	325,921	\$417,112,962.61
Cincinnati office.....	27,787	60,211,753.04
Pittsburgh office.....	27,216	54,817,541.81
Total.....	380,924	\$532,142,257.46

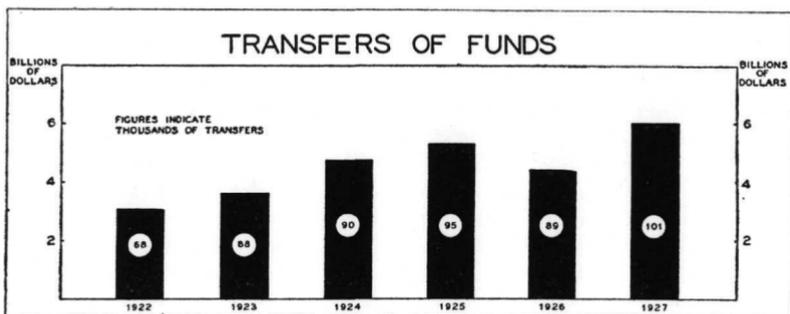
Since 1923 the branches at Cincinnati and Pittsburgh have handled only such non-cash items as are payable in their respective cities. All other items are handled through the main office at Cleveland.

On the items handled through the three offices, collecting banks made charges on 32,983, aggregating \$13,639,097.18, at the rate of one tenth of one per cent.

Member banks sent direct to other federal reserve banks and branches for collection, 44,938 items aggregating \$60,370,238.48.

TRANSFERS OF FUNDS

Transfers of funds from this district to other federal reserve districts exceeded by one and one-half billions of dollars the amount transferred last year. The total amount was in excess of six billion dollars and establishes a high point in this particular service to our member banks. While a portion of this increase over previous years was no doubt occasioned by the retirement of Second Liberty Loan bonds, the decided increase during 1927 indicates that member banks are availing themselves more and more of the opportunities which this bank affords for the speedy transfer of funds.



FISCAL AGENCY OPERATIONS

The most important accomplishment of the year 1927 was the retirement of the Second Liberty Loan, which was effected by exchanges for new issues, by purchases for the Treasury, and by cash payment on or after November 15, the called redemption date.

Second Liberty Loan bonds were retired through this bank as follows:

In exchange for five-year 3½% Treasury notes of Series A 1930-32, dated March 15.....	\$ 68,530,550
In exchange for 3¾% Treasury bonds of 1943-47, dated June 15.....	31,112,950
In exchange for five-year 3½% Treasury notes of Series B 1930-32, dated September 15.....	19,049,300
In exchange for seven-month 3¼% Treasury certificates of indebtedness of Series TJ 1928, dated November 15.....	537,500
By cash purchases for the Treasury at various dates from June 16 to November 12 at prices ranging from 100½ to par.....	8,586,850
By redemption in cash from November 15 to December 31, inclusive.....	91,329,650
Total.....	\$219,146,800

Allotments on cash subscriptions in this district to the five series of Treasury certificates of indebtedness, one series of Treasury notes and one series of Treasury bonds offered for payment in cash were as scheduled hereunder:

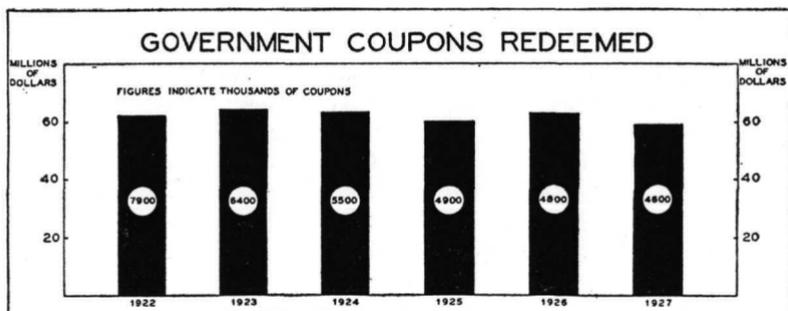
March 15 Six-month 3¼% certificates.....	\$ 9,570,000
March 15 One-year 3¼% certificates.....	21,622,000
June 15 3¾% bonds of 1943-47.....	20,985,700
September 15 Six-month 3% certificates.....	8,958,500
September 15 Five-year 3½% notes.....	17,314,200
November 15 Seven-month 3¼% certificates.....	26,949,400
December 15 One-year 3¼% certificates.....	20,422,500

All of such issues were offered for cash subscription at par except the Treasury bonds of 1943-47, which were offered at 100½.

Government securities received for exchange of denomination or of form (within the issue) consisted of 136,660 pieces in coupon form and 20,153 pieces in registered form, aggregating \$124,470,300.

Against such receipts there were delivered 41,845 obligations in coupon form and 14,462 in registered form. There were 16,069 separate exchange transactions.

Government and federal farm loan coupons redeemed during 1927 totaled 4,620,445, aggregating \$58,938,293. Government obligations presented for redemption, including Second Loan bonds exchanged for new issues and paid in cash, numbered 53,606 in registered form and 409,317 in coupon form and had a value of \$286,776,077. There also were redeemed 13,755 federal land bank bonds valued at \$13,572,700. In all, 40,304 separate redemption transactions were functioned.



PERSONNEL

On October 6 occurred the death of Mr. John Stambaugh, who had served continuously as a Class B member of the board of directors of this bank since 1916. Mr. Stambaugh's term would have expired on December 31, 1927, and it was generally understood that because of ill health he would not have been a candidate for reelection.

The board of directors at their December meeting adopted the following minute:—

“For twelve years John Stambaugh served as a director of the Federal Reserve Bank of Cleveland. His extended period of service was distinguished by a high sense of duty to his trust, by clear reasoning, and a sparing but trenchant observation and opinion. His associates respected no judgment upon their common problems more profoundly than they respected his. He considered all questions touching the welfare of persons with fairness of mind and a thoughtfulness marked by sympathy. His approach to the large question of banking policy was always marked by a calm and clear reasoning and underlying regard for the economic effect upon human welfare. His sense of responsibility toward this bank and his discharge of that responsibility were lighted by his quiet, incisive wit and fine capacity for companionship. All his attributes and instincts were those of

the brave and chivalrous gentleman whose passing leaves an abiding sorrow.

“His associates among the directors and officers of the Federal Reserve Bank of Cleveland offer this brief tribute as a part of their deliberations, as recorded in the minutes of the meeting of December 9, 1927.”

In the November election Mr. O. N. Sams of Hillsboro, Ohio, was reelected and Mr. S. P. Bush of Columbus, Ohio, elected Class A and Class B directors respectively for three-year terms. Mr. W. W. Knight of Toledo, Ohio, was reappointed by the Federal Reserve Board a Class C director for the term expiring December 31, 1930.

To serve on the Cincinnati branch board, Mr. Geo. M. Verity of Middletown, Ohio, was reappointed by the Federal Reserve Board for a three-year term. Mr. B. H. Kroger of Cincinnati, Ohio, was appointed by this bank for a similar term, and Mr. C. F. McCombs was reappointed Managing Director. At Pittsburgh, Mr. J. R. Naylor of Wheeling, West Virginia, was reappointed for three years by the Reserve Board, and Mr. R. B. Mellon of Pittsburgh, Pennsylvania, was reappointed by this bank for the same period. Mr. J. C. Nevin was reappointed Managing Director.

On February 1, 1927, Mr. Bruce Kennelly, formerly Assistant Auditor at the Cincinnati branch, was appointed Assistant Cashier to fill the vacancy created by the resignation of Mr. J. P. H. Brewster, to accept a position with a non-member bank. The office of Assistant Federal Reserve Agent was discontinued at the beginning of the year.

There has been no material change in the total number of employees of this bank during the year.

BUSINESS CONDITIONS

Although this country's business on the whole has been fair during 1927, the year has not held up to the 1926 level either in production or in profits. The output of factories and mines was high in the first few months of 1927, but declined almost without interruption after May until the general level of industrial production in November was lower than at any time since 1924. Corporation earnings underwent a corresponding reduction. The wholesale commodity price level finally advanced about the middle of the year after a two-year decline, but this was due to a marked rise in agricultural prices which proved to be one of the bright spots of the year; in fact, the agricultural price level is now above that of all commodities for the first time in two years.

The general trend of business in the Fourth Federal Reserve District was similar to that in the United States. Activity in iron and steel, the district's largest industry, was high during the first quarter, but receded rather sharply thereafter until in the late summer operations fell almost to 60 per cent of capacity and prices were also weak.

Demand from the construction industry held up fairly well, but buying from other important sources, particularly the motor and oil industries, was unsatisfactory. The effect of the poor business in the second and third quarters is seen in the nine-months' earnings of 16 large steel companies, including United States Steel, which were 17 per cent less than in the same period in 1926. A moderate improvement was under way as the year closed, with operations definitely expanding in response to an increasing demand for deliveries early in 1928. On December 28 operations had reached about 70 per cent of capacity, as compared with about 60 per cent in August, and finished steel prices showed a strengthening tendency.

The bituminous coal industry in 1927 suffered from overproductive capacity as in previous years. The soft coal strike, called on April 1, heightened the existing depression in this district's union coal fields, especially in Ohio, while production in the non-union fields of Kentucky and West Virginia continued at high levels, even increasing in spots. A number of former union mines have reopened on a non-union basis, particularly in western Pennsylvania. In spite of the strike, soft coal prices have sagged lower and lower in recent months, owing to the very heavy storage stocks laid in by industrial consumers prior to April 1, the smaller demand resulting from slackening industrial operations, the unseasonably warm weather in the first three months of the year and also in the fall which curtailed householders' purchases, and the reopening of the union mines in Illinois, Indiana, and other states with a consequent addition to productive capacity. All these difficulties combined have served to keep the industry in a state of depression.

Activity in tire and rubber manufacturing plants held up well in 1927, in spite of the falling-off in demand for tires as original equipment. The replacement demand was steady, the mild weather creating a longer touring season than usual, and sales of mechanical rubber goods, rubber footwear, etc., were very satisfactory. In addition, manufacturers were aided by the comparative stability of crude rubber prices. As a result of these factors, the industry as a whole was enabled to make a much better showing as to net earnings than in 1926, which was not a good year for rubber concerns. The increase for the first six months for eight important companies combined was 32 per cent.

Building construction also compared favorably with 1926, as represented by the value of contracts awarded (including engineering projects). For the entire year of 1927, contracts awarded in the Fourth District were 10.7 per cent greater than in the same period last year. A number of industries allied with building, such as paint and building tile, also enjoyed a good year, but the lumber trade was only fair, owing to exceedingly keen competition. In the latter months of the year some lumber manufacturers reported business increasingly dull, amounting to actual depression in a few instances.

The agricultural season in this district was fair, but hardly up to 1926. Corn, the principal crop, got away to a poor start. Warm

weather in the fall materially aided in developing and maturing the crop, and the final returns were better than had been expected, but even so the yield was materially less than last year. The condition of the wheat crop was fairly good, but the yield was some 30 per cent below that of 1926, and the yield of oats was likewise about 10 per cent under 1926. The burley tobacco crop in Kentucky was 36 per cent less than in 1926 and 45 per cent less than the 1922-1926 average, due in large part to reduced acreage. A number of crops were benefited by a rise in price; this was notably true of burley tobacco, early December sales bringing around \$25 per 100 pounds as compared with \$16 a year ago and an average of about \$22.50 for 1923-1925 inclusive.

Retail trade in 1927 was in about the same volume as in the previous year. For the entire year, sales of 60 department stores in the district increased 0.1 per cent over the corresponding period in 1926, and sales of 19 wearing apparel firms gained 0.8 per cent.

Detailed statistics covering the operations of this and other Federal reserve banks will be found in the forthcoming annual report of the Federal Reserve Board.

*Statement of the condition of the Federal Reserve Bank of Cleveland
December 31, 1927 and December 31, 1926*

RESOURCES	Dec. 31, 1927	Dec. 31, 1926
Cash Reserves:		
Gold with Federal Reserve Agent	\$178,569,005.00	\$153,371,170.00
Gold settlement fund—Federal Reserve Board	43,425,822.14	56,281,555.12
Gold redemption fund—Federal Reserve notes	4,351,517.97	7,461,587.37
Gold bullion, coin and certificates	39,093,329.11	46,532,543.55
Total gold reserves	\$265,439,674.22	\$263,646,856.04
Legal tender notes, silver coin and certificates	13,013,234.00	11,400,132.00
Total cash reserves	\$278,452,908.22	\$275,016,988.04
Non-Reserve Cash:		
National bank notes	\$6,965,600.00	\$5,508,500.00
Federal reserve bank notes	11,183.00	14,445.00
Subsidiary silver, nickels and cents	583,592.32	611,068.79
Total non-reserve cash	\$7,560,375.32	\$6,134,013.79
Bills and Securities:		
Member bank collateral notes	\$53,934,800.00	\$57,875,507.77
Bills discounted for member banks	6,872,110.29	21,566,386.84
Bills bought in open market	20,147,536.96	33,217,340.50
Participation in investments through foreign banks	27,071.25
Past due paper	37,729.93
U. S. Government Securities:		
U. S. 4 1/4% Liberty Loan bonds	\$18,678,000.00	\$547,330.00
U. S. bonds issued since 1921	226,250.00	205,300.00
Other U. S. bonds	414,800.00	414,800.00
Treasury notes	6,492,850.00	15,540,700.00
Treasury certificates of indebtedness	423,700.00	5,431,500.00
Participation in special investment	35,275,000.00	14,015,000.00
Par value of bills and securities	\$142,529,848.43	\$148,813,885.11
Uncollected Items	\$67,867,984.62	\$66,323,749.52
Bank Premises:		
Land	\$1,312,000.00
Buildings and vaults	5,199,362.46	\$7,804,618.70
Fixed machinery and equipment	1,680,334.54
Total bank premises	\$8,191,697.00	\$7,804,618.70
Less reserves for depreciation	1,326,641.97	686,033.25
Bank premises—net	\$6,865,055.03	\$7,118,585.45
Miscellaneous assets	1,317,322.39	886,756.51
Total Resources	\$504,593,494.01	\$504,323,978.42
LIABILITIES		
Federal Reserve notes (in actual circulation)	\$216,594,780.00	\$219,960,625.00
Deposits:		
Members—Reserve account	\$182,380,540.72	\$178,471,876.37
U. S. Treasurer—General account	1,339,565.38	1,260,328.50
Foreign banks	490,595.72	3,012,715.04
Non-members—Clearing account	961,973.35	816,812.53
Official checks and drafts outstanding	333,925.38	161,570.53
Total deposits	\$185,506,600.55	\$183,723,302.97
Deferred Availability Items	63,508,984.11	62,307,999.61
Other Liabilities:		
Capital stock paid in	\$13,979,300.00	\$13,617,750.00
Surplus fund	24,021,461.25	23,745,854.58
Miscellaneous liabilities	982,368.10	968,446.26
Total Liabilities	\$504,593,494.01	\$504,323,978.42

Profit and loss account—1927

Net income available for dividends, reserves and surplus, January 1, 1927 to December 31, 1927	\$1,504,721.65
Distribution:	
Dividends paid to members	832,583.10
Depreciation allowances on bank premises	274,823.00
Reserves for self insurance—other liabilities	121,708.88
Transferred to surplus	275,606.67
	\$1,504,721.65