annual report

1964

FEDERAL RESERVE BANK OF CLEVELAND

To the Banks in the Fourth Federal Reserve District:

We are pleased to present the Annual Report of the Federal Reserve Bank of Cleveland for 1964.

The business and financial life of the Fourth Federal Reserve District was vigorous in 1964. This, of course, reflected the fact that the nation's economy fared well during the year. Total economic activity in the nation expanded to new highs, sparked mainly by consumer spending and business capital investment. A large-scale tax cut early in 1964 contributed importantly to developments in those areas and more generally to the forward advance of the economy throughout the year. The number of persons employed in the nation increased and the proportion of unemployed receded moderately. Commodity prices on balance remained stable, although upward pressures developed in some areas as the year progressed. The deficit in the nation's balance of payments declined slightly, but remained uncomfortably high.

Monetary policy was expansionary in 1964 for the fourth successive year. A sizable increase in the reserve base of the banking system made possible substantial increases in both bank credit and the nation's money supply. Interest rate patterns were mixed in 1964, with long-term interest rates virtually unchanged and short-term rates up moderately. In November, the Federal Reserve discount rate was increased in order to maintain the alignment of interest rates between here and abroad, and to help defend and preserve the stability of the dollar. This was necessitated by the increase in the British bank rate from 5 percent to 7 percent.

On behalf of the directors, officers, and staff, we wish to express our sincere appreciation to the industrial, agricultural, and financial leaders of the Fourth Federal Reserve District for their assistance and cooperation.

Chairman

President

CONTENTS

A DECADE OF FOURTH DISTRICT BANKING

The resources, earnings, and facilities of Fourth District member banks have grown impressively during recent years. Against the background of this growth, a number of important changes have occurred in the nature and composition of sources and uses of funds, in the character of income and expenses, and in the structure of District banking. The purpose of this article is to review briefly the highlights of overall growth and less-than-total changes in the period from 1953 through 1963.

Resources. As indicated in Table I, total resources of Fourth District member banks increased from $13.4 billion to $20.3 billion, or by slightly more than 50 percent, in the 1953-63 period. Time deposits represented the principal source of additions to member bank funds during the period, increasing by nearly 120 percent. The $4.4 billion expansion of time deposits accounted for four-fifths of the gain in total deposits and nearly two-thirds of the increase in funds from all sources. The sharp increase in time deposits resulted mainly from higher rates of interest paid on such deposits and the introduction of negotiable time certificates of deposit. Both steps served to attract a larger proportion of the funds of individuals, corporations and state and local governments.

In contrast, the growth of demand deposits was relatively small in the 1953-63 period. At the end of 1963 demand deposits amounted to $9.6 billion, some $1.1 billion, or 13 percent, more than the amount as of the end of 1953. The gain in demand deposits accounted for only one-fifth of the increase in total deposits. As a result of this modest growth, the ratio of demand deposits to total deposits declined from nearly 70 percent in 1953 to 54 percent in 1963.

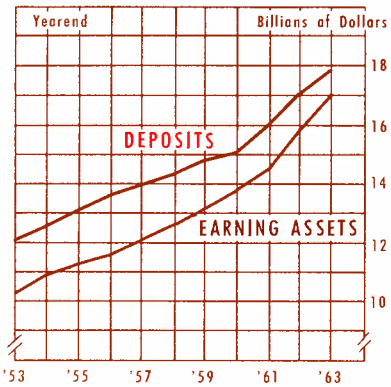
Other liabilities and capital accounts (including borrowed funds) accounted for $1.3 billion, or nearly 20 percent, of the increase in member bank funds from all sources during the decade under review. At the end of 1963, this category constituted about one-eighth of total bank resources, which compared with one-twelfth at the end of 1953.

The large amounts of reserves supplied to the banking system by the Federal Reserve enabled banks to expand total assets as well as increase earning assets in relation to total assets in the 1953-63 period. The pronounced shift in the composition of sources of bank funds also influenced asset management practices during the period. A larger content of time deposits in the total deposit mix prompted member banks to select longer-term and higher-yielding assets.

The accompanying chart indicates that the volume of earning assets increased at a faster rate than total deposits in the 1953-63 period—nearly 65 percent as compared with 45 percent. As a result, the ratio of earning assets to total deposits rose to about 95 percent at the end of 1963, as compared with 84 percent in 1953.

TOTAL DEPOSITS AND
TOTAL EARNING ASSETS

Fourth District Member Banks



A similar increase is found in the ratio of earning assets to total assets, which rose from 77 percent in 1953 to 84 percent in 1963.

That the composition of total earning assets changed markedly is revealed in the fact that loans outstanding increased by 120 percent, accounting for nearly four-fifths of the expansion in total earning assets, while investments rose by only 24 percent (see Table I). Along with the increase in total loan volume, heavy emphasis was placed on acquiring higher yielding real estate and consumer loans. The increase in these two loan categories accounted for more than one-half of the total rise in loan volume. Although the rate of growth in loans to businesses was considerably smaller than for other loan categories, the increase in business loans accounted for about one-fifth of the rise in loan volume.

The relatively small increase in the size of investment portfolios was centered entirely in holdings of state and local government securities. While municipal holdings were expanded by 270 percent, holdings of U. S. Government securities were reduced slightly. Thus, as was the case with loans, the emphasis in investments was towards increasing the rate of return on earning assets.

Earnings. Changes in the composition of assets and liabilities had a noticeable impact on the profitability of Fourth District member banks during the period under review. As indicated in the accompanying chart, growth of operating revenues lagged behind the pace of operating expenses. The result was that, while profits did increase substantially, there was a gradual, but significant reduction in operating profit margins.

Total operating revenues of mem-

Table I. ASSETS AND LIABILITIES

Fourth District Member Banks

	Call dates: Dec. 31, 1953		Dec. 20, 1963	
	Millions of dollars	Percent of total	Millions of dollars	Percent of total
Assets				
Total Loans (net)	4,404	33	9,680	48
Total Investments	5,927	44	7,329	36
Total Earning Assets	10,331	77	17,009	84
Other Assets	3,055	23	3,244	16
Total	**13,386**	**100%**	**20,253**	**100%**
Liabilities				
Demand Deposits	8,555	64	9,650	48
Time Deposits	3,713	28	8,155	40
Total Deposits	12,268	92	17,805	88
Other Liabilities and Capital Accounts	1,118	8	2,448	12
Total	**13,386**	**100%**	**20,253**	**100%**

Table II. OPERATING REVENUES AND OPERATING EXPENSES

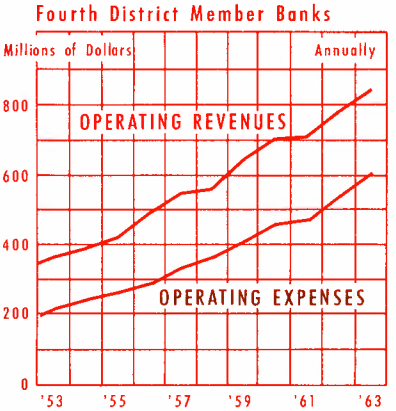
Fourth District Member Banks	1953 Millions of dollars	1963 Millions of dollars
Operating Revenues		
Loans	197	510
Investments	118	234
Other	50	100
Total	**$365**	**$844**
Operating Expenses		
Interest Payments	39	247
Officer and Employee Compensation	103	212
Other	79	144
Total	**$221**	**$603**
Net Operating Earnings	**$144**	**$241**

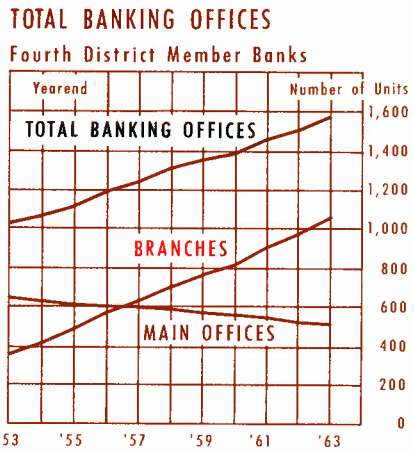
ber banks expanded considerably, by 131 percent, reaching a record high of $844 million in 1963 (see Table II). Income from loans, which increased by nearly 160 percent, accounted for about two-thirds of the total gain in revenue. In addition, the average annual yield on the loan portion of earning assets increased without interruption, from 5.38 percent in 1953 to 6.32 percent in 1963. Income from investments and all other operating sources doubled during the period, accounting for the remaining one-third of the gain in revenues. As in the case of loans, the average weighted yield on investment portfolios increased during the decade, from 2.16 percent to 3.28 percent, reflecting the rise in the level and structure of interest rates over the period.

Operating expenses grew at a faster rate than did revenues, due mainly to an unusually sharp increase in interest expense on a growing volume of time deposits. Total operating expenses in 1963 were nearly 173 percent higher than in 1953, with nearly 55 percent of the $382 million increase resulting from larger interest expense. Interest expense in 1963 was more than six times the amount in 1953, due to a higher proportion of time deposits as well as a substantial rise in the average rate paid on such deposits (from 1.04 percent in 1953 to 2.86 percent in 1963). Reflecting this trend, interest expense accounted for 41 percent of total operating expenses in 1963, as compared with only 18 percent ten years earlier.

Other operating expenses did not rise as much as interest payments. Compensation costs (officers and employees) doubled during the ten-year period 1953-63, while all other operating expenses rose by 82 percent. These expenses grew at a slower

TOTAL OPERATING REVENUES AND TOTAL OPERATING EXPENSES
Fourth District Member Banks





rate than operating revenues, however; and they also accounted for a declining share of total expenses.

Growth in net operating earnings of Fourth District member banks in the 1953-63 period was substantial, amounting to 67 percent. However, the somewhat larger rise in expenses caused the ratio of operating profits to operating revenues to decline from nearly 40 percent in 1953 to 29 percent in 1963.

Structure. Substantial growth in assets and revenues of Fourth District member banks in 1953-63 was accompanied by a large increase in the number of banking offices. As shown in the accompanying chart, all of the increase in total banking offices was accounted for by marked expansion in the number of branch operations. (The number of member banks declined steadily throughout the period.) Table III outlines the highlights of these developments.

A net gain of 546 offices—an increase of 53 percent—was more than accounted for by the addition of 685 branches, as 139 banks suspended operations for one reason or another (see below). Nearly three times as many branch offices were in existence at yearend 1963, as compared with ten years earlier. About four-fifths of the addition to branch offices was accounted for by newly established branches, with District banks opening new facilities at a rapid rate to accommodate population movements to the perimeters of most metropolitan areas. The rest of the branches (140) were added by member banks through mergers and acquisitions.

In contrast to the trend in branch operations, the number of member banks (main offices) declined steadily during the 1953-63 period, reflecting principally the mergers and acquisitions through which existing banks were absorbed into other operations.

Table III. STRUCTURE OF COMMERCIAL BANKING 1953-1963
Fourth District Member Banks

TOTAL BANKING OFFICES

Yearend, 1953		Yearend, 1963	
Number of Member Banks	652	Number of Member Banks	513
Branches	375	Branches	1,060
Total Offices	**1,027**	**Total Offices**	**1,573**

CHANGES IN NUMBER OF BANKING OFFICES DURING PERIOD

Member Banks	−139
Total Branches	+685
Newly established Branches	+545
Established by Merger*	+140
Total	**+546**

* Includes net increase in branches due to mergers, consolidations, acquisitions, conversions, and withdrawals.

NATURAL RESOURCES OF THE FOURTH DISTRICT

Few areas of the world possess a combination of natural resources more advantageous to human habitation and utilization than the midwestern portion of the United States. Productive soils, a climate favorable to agriculture, extensive mineral deposits, forest reserves, and a system of fresh water lakes and rivers unequaled anywhere else are the major components of the resource base.

The Fourth Federal Reserve District, a geographically diverse area encompassing all of Ohio and parts of Pennsylvania, West Virginia, and Kentucky, lies in the eastern quadrant of the midwestern United States and shares fully in the natural resource endowment of that general area.

The landscape of the Fourth District varies from practical, if somewhat monotonous, agricultural areas to landforms of great scenic beauty. Ugliness is also present in places where the land has been ravaged and denuded as a result of the exploitation of resources.

Water resources are plentiful. Climatic conditions in the Fourth District are for the most part favorable for agriculture, with moderate changes from season to season. Mineral resources include coal, oil, gas, limestone, clay, salt, stone, and sand and gravel.

Land Resources. The Fourth District's 47 million acres, or 2 percent of the land area in the United States, display much geological diversity.

The eastern terrain of the Fourth District consists of the steep slopes of the Appalachian Plateau known regionally as the Allegheny Plateau. On its northern boundary, the plateau extends part way along the shores of Lake Erie. Near Cleveland the plateau boundary turns south, passing through Ohio and Kentucky and continuing into Tennessee. The southern limit of the plateau lies in the Cumberland Mountains of West Virginia, Kentucky, and Tennessee.

In western Ohio, which is the beginning of the Corn Belt, the land is relatively flat. Glaciers in this area at one time extended south as far as the Ohio River, smoothing the region over which they passed and mixing local soils with Canadian soils. In the unglaciated area south of the Ohio River, the steeper slopes of the Appalachian Plateau taper into the Bluegrass Region around Lexington where the land is somewhat hilly.

Most of the soil in the Fourth District is of a gray-brown type that developed in the humid, temperate climate of the area under deciduous trees such as oak, maples, birches, etc. The highly productive loams of western Ohio and the Bluegrass Region have a limestone base. Soils on the hilly section of the eastern part of the Fourth District have a base of

Note: Grateful acknowledgment of helpful assistance is made to Lucile Carlson, Associate Professor of Geography, Western Reserve University; Donald A. Crane, President's Appalachian Regional Commission; Henry L. Hunker, Associate Professor of Geography, The Ohio State University; William A. Withington, Associate Professor of Geography, University of Kentucky. Responsibility for technical and other errors remains with the Federal Reserve Bank of Cleveland.

sandstones and shales.

The quality of land in the Fourth District is better on average (measured in terms of suitability for cultivation) than in the nation as a whole, according to a study by the Soil Conservation Service.[1] Of the 39 million acres of farm land in the Fourth District, 29 million acres, or 73 percent, is classified as "suitable for cultivation". In comparison, 56 percent of all agricultural land in the U. S. is so classified.

Climate. The climate of the Fourth District, for the most part, changes moderately from season to season. The extreme weather conditions that occasionally occur are largely the result of air currents moving across land, as distinct from the tempering influences of air currents that have moved over large bodies of water such as Lake Erie.

The average annual temperature within the Fourth District ranges from 48° F. to 59° F., with both topography and latitude serving as important influences. The lowest annual averages are in the mountains of western Pennsylvania while the highest are in southern Kentucky. In Ohio, the intermediate state with respect to temperature, the thermometer in a typical year will move above 90° F. twenty times and above 100°F. once or twice; in winter, two to four days of subzero weather is possible.

The growing season, or frost-free period, varies widely in the Fourth District. The longest and the shortest growing seasons are both in the northern portion of the District. The longest growing season of 200 days occurs along the lake shore while the shortest of 130 days is found in the northern Pennsylvania section of the Fourth District not on the lake. In southeastern Kentucky, the frost-free period averages about 166 days.

Precipitation is abundant in the Fourth District, averaging in most parts somewhat above the national average of 30 inches per year. This is an important factor in the availability of water for industrial and

[1] "Soil and Water Conservation Needs," Statistical Bulletin 317, U. S. Department of Agriculture, Washington, D. C., August 1962.

public use as well as for agriculture.

Topography has much to do with rainfall. Higher regions of the District receive relatively more rain as humid air masses are forced to rise over higher ground, resulting in the cooling and condensation that create rainfall.

Although all portions of the Fourth District have some snowfall in the winter, the northeastern portion averages 60 inches per year, well in excess of other parts. Northerly winter winds pick up moisture and heat coming across Lake Huron and Lake Erie. As the moisture is lifted over the boundary of the Appalachian Plateau, a short distance from the lake, it condenses and falls as snow.

Water Resources. Water resources of the Fourth District are among the best in the nation. Water is available from four main sources: Lake Erie, the Ohio River, other inland surface water (including streams, lakes, and reservoirs), and underground water supplies.

The inland surface supply is the most important source, accounting for nearly one-half of the total water used. The Ohio River, which serves parts of all four of the states of the Fourth District, ranks as the second most important source of water. Lake Erie, the third most important source, contributes 23 percent of the water used in Ohio. Underground sources supply only a small part of the total amount used.

The water supply in the Fourth District can be more fully used if needed. Water can be impounded in reservoirs during rainy seasons for use in periods of deficient rainfall. Wider distribution of water from Lake Erie and the Ohio River can be obtained by use of longer pipelines. Anti-pollution measures also permit re-use of water.

Timber and Wildlife Resources. About 35 percent of the land area in the Fourth District is covered by forest. Species of trees vary according to topography, climate, and soil, but hardwoods predomi-

MAJOR SURFACE RELIEF AREAS AND AVERAGE ANNUAL PRECIPITATION

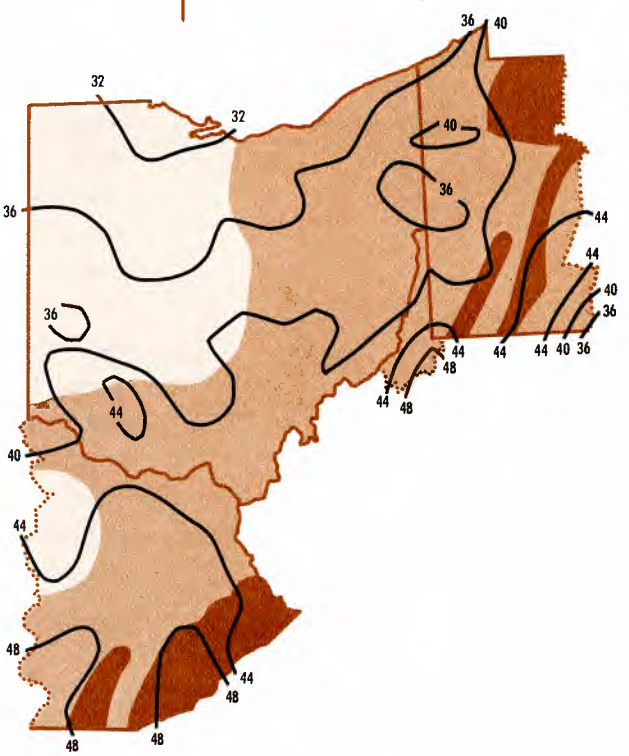
Areas with soil and surface relief predominantly very favorable for crops

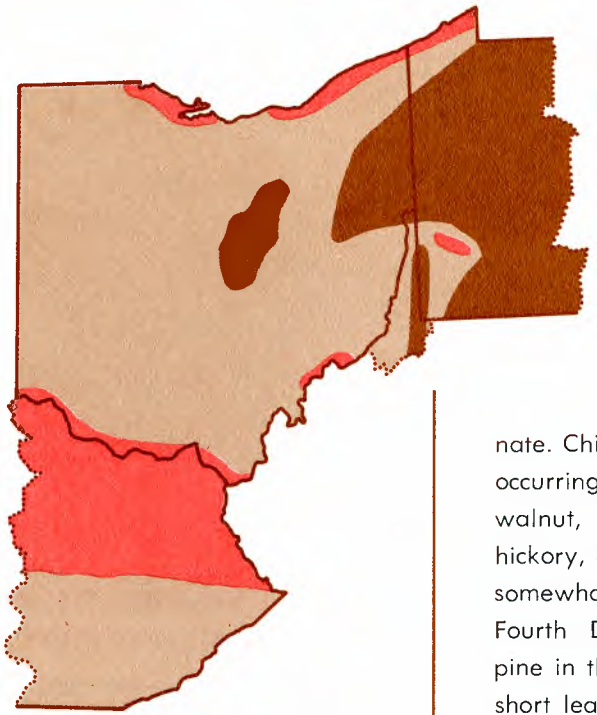
Areas with a medium range in soil and surface relief for crops

Areas with predominantly steep slopes or rocky soil

NOTE: Isolines are drawn through points of approximately equal precipitation measured in inches.

Source of data: U. S. Department of Commerce





AVERAGE NUMBER OF FROST-FREE DAYS

Between Last 32°F. in Spring and First 32°F. in Autumn

180 days and over

150-180 days

Under 150 days

Source of data: U.S. Department of Commerce

nate. Chief among hardwoods is oak; occurring to a lesser extent are ash, walnut, maple, poplar, basswood, hickory, and beech. Softwoods are somewhat less important in the Fourth District; they include white pine in the northeastern counties and short leaf or southern yellow pine in the southern sections.

Wildlife species are widespread and include a large variety of animals, birds, and fish. Altogether, more than 60 different species of wildlife mammals and nearly 400 kinds of birds may be found within the Fourth District.

Mineral Resources. The Fourth District is endowed with rich deposits of both fuel and nonfuel minerals, as can be seen on the accompanying map. The richest and best known of these is bituminous coal. A large part —about 32 thousand square miles— of the Appalachian coal field, which is the largest in the world, lies in the Fourth District. Despite heavy mining in the past, huge supplies of coal still remain. It is estimated that bituminous coal reserves in the District total nearly 150 billion tons. In comparison, only 17 billion tons have been mined to date.

Although most of the oil and gas deposits are interspersed in the coal fields, notable exceptions are the established oil fields of northeastern Ohio and the new field in Morrow County, Ohio. In addition, there are natural gas deposits in central Ohio just west of the coal fields.

A nonfuel mineral found in quantity in the Fourth District is clay. Better grades of clay are found in eastern Ohio. Lower-grade clay deposits are widespread throughout the District.

Salt deposits are extensive, underlying much of the eastern half of the Fourth District.

Much of western Ohio and eastern Kentucky have limestone and dolomite deposits. Limestone is also present throughout Ohio's coal fields. Important gypsum deposits are found in Ohio, particularly in Sandusky County, where much of the District's production is mined.

Ohio's deposits of sandstone are extensive, with the state leading the nation in production. Beds of sand-

stone are found near Lake Erie, as well as under much of the eastern half of Ohio. Sand and gravel occur in various parts of the Fourth District but particularly in Ohio.

Other minerals found in the Fourth District, although not in great quantity, include peat and gem stones.

Land Use. Agricultural use of land in the Fourth District far outshadows any other use. About 39 million acres —more than four-fifths of the District's 47 million acres—is in farms; approximately 16 million acres, or 35 percent of land in the District is cropland. For the U. S. as a whole, cropland accounts for only 20 percent of the land area.

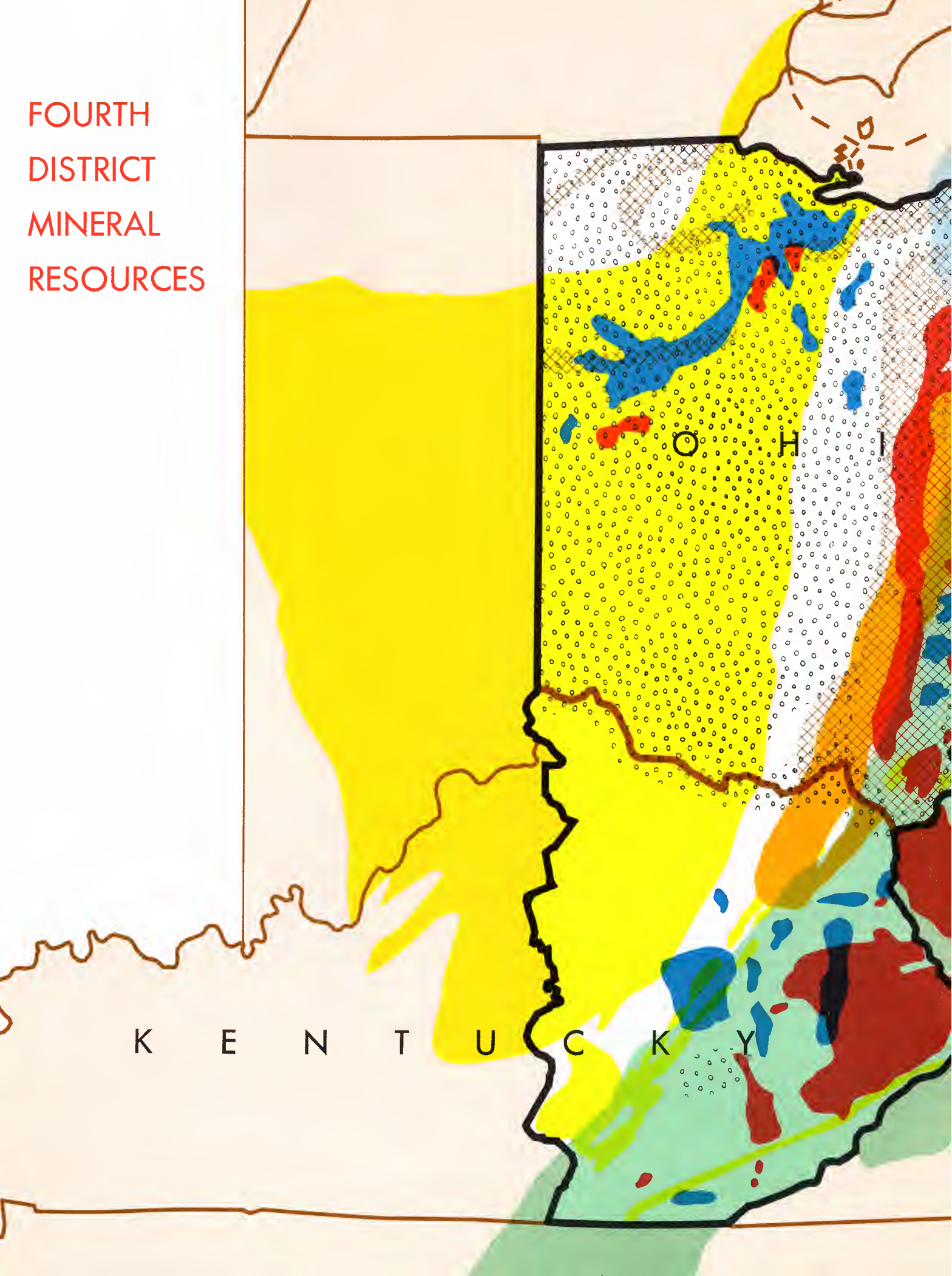
An especially large proportion of land is used in crop production in western Ohio and the Bluegrass Region of Kentucky where, as previously noted, the soils, topography, and climate are highly conducive to agricultural production. Western Ohio, which lies within the Corn Belt, is predominantly a corn, soybean, and livestock producing area. Burley tobacco is the major crop in the Bluegrass Region, with this section also known for the production of Thoroughbred horses.

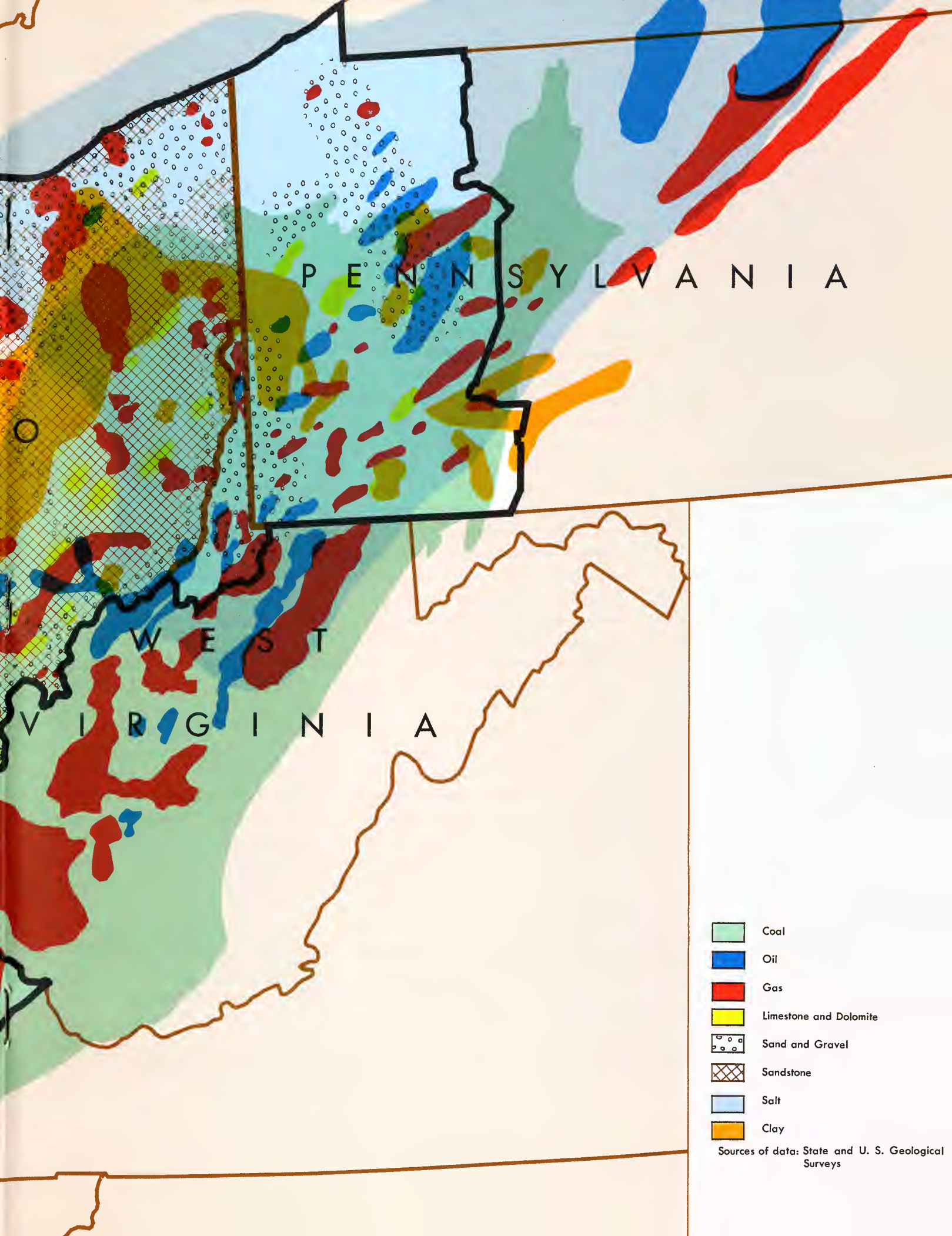
Although dairy farming is carried on throughout the Fourth District, it tends to be concentrated in northeastern Ohio and western Pennsylvania. The rolling or rough topography of those sections is not a barrier to dairy farming; the location near large population centers provides access to a ready market for milk.

Acreage devoted to pasture (including that used for dairy farming) accounts for 14 percent of the land area in the Fourth District, with the largest proportions in West Virginia and Kentucky. Forest and woodland acreage totals 15 million acres, or about one-third of the entire Fourth District; more than half of the land in the Fourth District portions of Kentucky and West Virginia is in forest and woodland.

Seven percent of the land in the Fourth District is in urban and built-up areas, a much larger proportion than the 2 percent for the nation as a whole. The ten largest cities in the District account for almost half of the 700 thousand acres in this category.

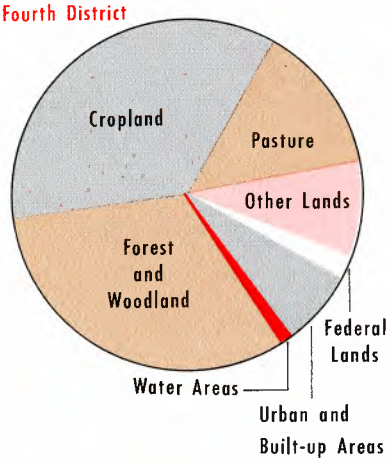
FOURTH DISTRICT MINERAL RESOURCES



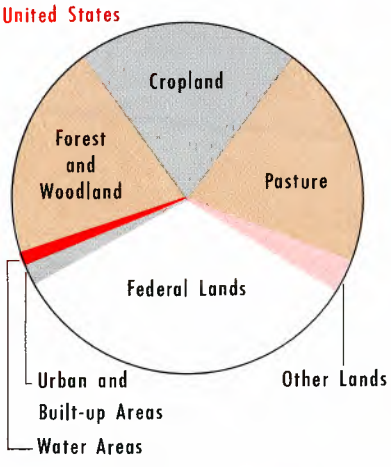

PENNSYLVANIA
WEST
VIRGINIA
Coal
Oil
Gas
Limestone and Dolomite
Sand and Gravel
Sandstone
Salt
Clay
Sources of data: State and U. S. Geological Surveys

LAND UTILIZATION

Fourth District



United States



Percent Distribution — 1958
Source of data: U. S. Department of Agriculture

Only 2 percent of land in the Fourth District is federally owned, as against one-third for the nation as a whole. Less than 1 percent of the land area of the Fourth District (excluding Lake Erie) is covered by water.

Recreation Areas. The Fourth District has a wide variety of recreation areas suitable to outdoor activities. Such areas range in size from Cumberland National Forest in Kentucky, which consists of nearly one-half million acres, to roadside parks that offer only a picnic table. Much of the District's 130 thousand acres of inland water and some of the Lake Erie shoreline lie within these public recreation areas.

In all, there are about 1.4 million acres devoted to public outdoor recreation in the Fourth District. These are shown in the map on page 15. Many of the parks, forests, and wildlife areas are clustered in south-central Ohio and most are owned by the State rather than the Federal government. Twelve national parks, forests, and wildlife areas are scattered throughout the District. The two national forests besides Cumberland in Kentucky are Wayne National Forest in Ohio and Allegheny National Forest in Pennsylvania.

Further development of recreational resources and facilities may be expected, particularly in the less populated southeastern section of the Fourth District. That area's relative proximity to the heavily populated East encourages such development. In this connection, the proposed State-Federal Appalachian Region Program, which includes nearly one-half of the Fourth District's counties, emphasizes the importance of developing recreational facilities.

Water Use. According to a report by the U. S. Geological Survey, the estimated annual withdrawal of water in states wholly or partially in the Fourth District, exclusive of that used for water power, totaled about 32,000 million gallons per day in 1960, or about 12 percent of the total water withdrawn in the nation as a whole.[2] (Data are not available by county and thus cannot be derived for the Fourth District.)

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[2] MacKichan, K. A., and Kammerer, J. C., "Estimated Use of Water in the United States, 1960," Geological Survey Circular 456, U. S. Department of the Interior, Washington, D. C., 1961.

Water withdrawn is that which is removed from the ground or diverted from streams or lakes and used, but returned to the ground, stream, or lake. The largest withdrawal of water in the Fourth District states is for industrial purposes. As shown in the accompanying table, industry withdrew 31,300 million gallons per day in 1960. Among the withdrawal uses of water in industrial processes, fuel-electric power generation ranks as the largest; two-thirds of water withdrawn by all industry is used in the production of electricity. As can be noted in the table, however, very little water withdrawn for this purpose is actually consumed.

Water consumed is that which is removed from the ground or diverted from streams or lakes and used, but not returned. In effect it is water that evaporates or is incorporated into products; it is not, therefore, available for re-use. Industry was also the major consumer of water in the Fourth District states in 1960, consuming 455 million gallons per day as shown in the table. Most water used by industry is obtained from surface water supplies, i.e., streams or lakes, rather than being pumped out of the ground.

Public water supply systems are the second largest water consumers in the Fourth District states, using 270 million gallons per day as shown in the table; total withdrawal of these systems, however, was estimated at 2,650 million gallons per day in 1960. Most water for public systems is drawn from lakes, streams, or rivers, with only 15 percent from underground sources.

Ground water is the primary source of water consumed in rural areas. Domestic use and water consumed by livestock shared about equally in the 236 million gallons per day consumed in 1960. Irrigation is a small factor in Fourth District states, with golf course irrigation consuming the largest amount, followed by crop irrigation and greenhouse and nursery irrigation.

One of the major resource problems in the

PUBLIC OUTDOOR RECREATION AREAS

- National Park, Forest, and Wildlife Services
- State Park, Forest, and Wildlife Services
- County Park Services
- Local Park Agencies

Source of data: Outdoor Recreation Resources Review Commission

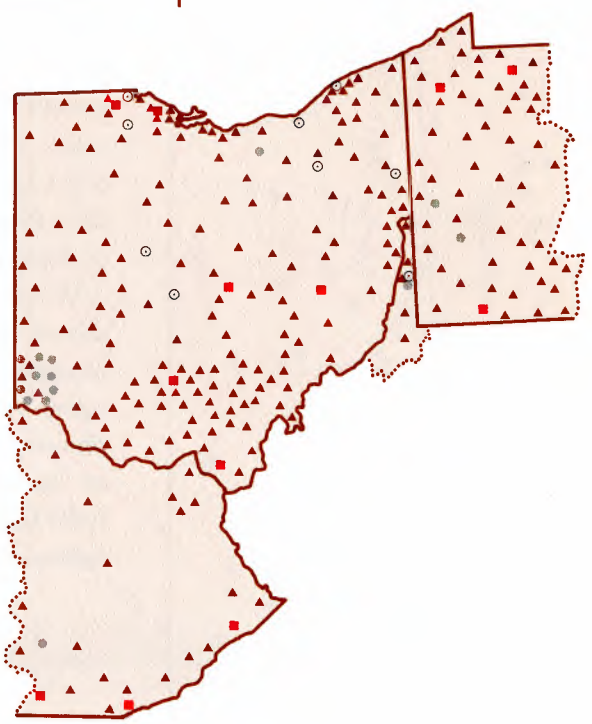

Table I
WATER USE

	Fourth District States		United States	
	Withdrawn (mgd)	Consumed (mgd)	Withdrawn (mgd)	Consumed (mgd)
Industry	31,300	455	140,000	3,200
Electric power generation (fuel)	20,483	37	102,200	224
Public supplies	2,650	270	20,600	3,470
Rural use	562	236	3,600	2,800
Irrigation	11	10	84,000	52,000[a]
Water power	123,780	—	2,000,000	———

mgd — million gallons per day
[a] an additional 23,000 mgd is lost in conveyance

1960
Source of data: U.S. Geological Survey

Fourth District is water pollution. Pollution prevents re-use of water in many areas of the Fourth District. The primary sources of pollution are domestic sewage and industrial wastes.

The Fourth District is well supplied with navigable waters, including Lake Erie and the St. Lawrence Seaway, that connect with other parts of the U. S., Canada, and the ocean. River navigation in the Fourth District centers on the Ohio River and its major tributaries. The Ohio River is a link to the south through the Mississippi River and ultimately to the Gulf of Mexico.

Water conservation through flood control programs has been widely practiced in the Fourth District for many years. As shown in an accompanying map, an extensive system of reservoirs and dams to control flood waters has been built and further construction is anticipated. Reservoirs detain water during the spring when thaws and heavy rainfall create flood conditions. In many cases, the impounded water is released during dry periods; the reservoirs and dams thus function both as flood control devices and as storage for augmenting streamflow.

Commercial Forest Use. Timber cut in the Fourth District states in 1958 totaled 410 million cubic feet and was valued at $32 million, the latest figures available. The volume of timber cut in 1958 was one-fourth less than in 1954. Saw logs were the major wood product in each of the states, with pulpwood the second most important use. Kentucky was the leading Fourth District state in terms of volume cut, followed by Pennsylvania, West Virginia, and Ohio in that order.

Mineral Production. In 1963, the value of minerals produced in the

Fourth District totaled nearly $1 billion, which was 5 percent by value of the nation's mineral output. As shown in the accompanying table, the value of mineral production increased 6 percent from a year earlier, with all minerals except oil and gas recording year-to-year gains. Also, the value of mineral output in 1963 was 15 percent above that of ten years earlier.

Fuels account for nearly three-fourths of mineral production in the Fourth District, with bituminous coal making up by far the largest portion. In 1963, coal production was valued at $580 million. Electric power utilities were the largest coal users.

In recent years, the increase in coal output in the Fourth District has not matched that in the nation. As a result, a declining share of the nation's coal production is mined in the Fourth District — 29 percent in 1963 in contrast to 33 percent in 1954. Although all states wholly or partially in the Fourth District showed declines in shares of the nation's total, Pennsylvania experienced the most substantial reduction. In contrast to Fourth District coal areas, coal fields that gained a larger share of coal output include those in Virginia, western Kentucky, and Illinois.

Crude oil production in the Fourth District has declined in physical volume during the past ten years, but, because of a price rise, the value of production has increased. Thus, although crude oil output was valued at $55 million in 1963, 7 percent higher than in 1954, the number of

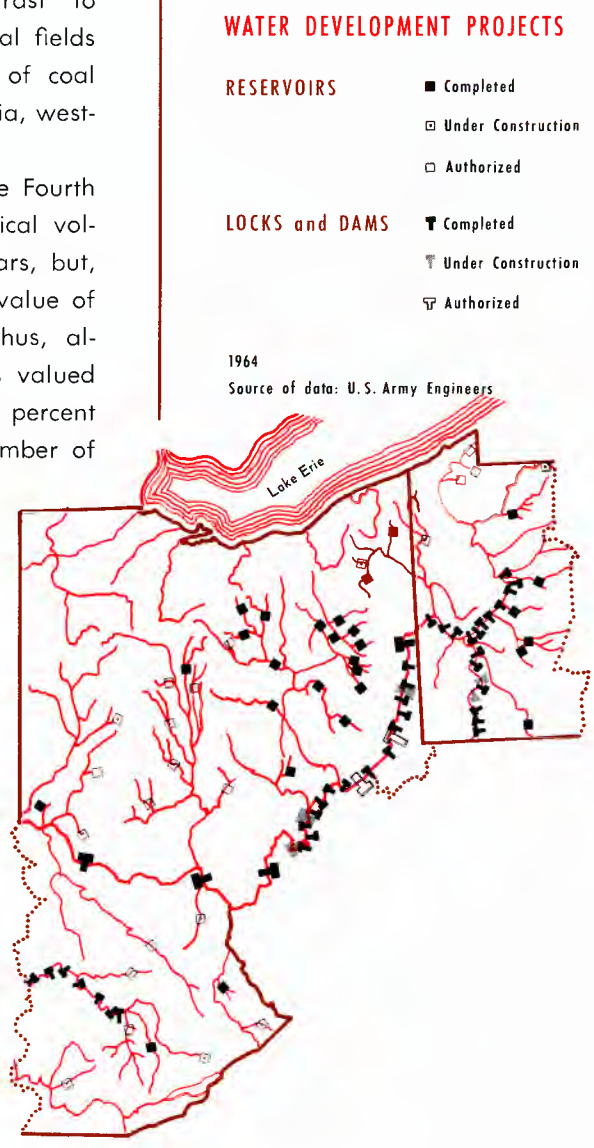

Table II

MINERAL PRODUCTION — Fourth District

	Production 1963 (mil. of dol.)	Percent Change From:		Percent of Total U.S. Production	
		1962	1954	1963	1954
Fuels					
Coal	$580	+ 6%	+ 2%	29%	33%
Oil	55[a]	0	+ 7	1	1
Gas	51[b]	− 1	− 23	2	8
Nonfuels					
Stone	80	+ 8	+ 31	8	10
Sand & Gravel	66	+14	+ 79	8	7
Lime	46	+ 5	+ 46	23	31
Salt	30	+ 3	+140	16	12
Clay	23	+12	+ 20	12	15
Total Mineral Production[c]	940	+ 6	+ 15	5	6

[a] Includes entire state of Kentucky

[b] Includes entire states of Kentucky and Pennsylvania

[c] Includes production of gem stones, peat, abrasive stone, and gypsum

Source of data: U.S. Department of the Interior

barrels produced declined 5 percent over the interval. In comparison, the value of production in the U. S. increased 24 percent in the ten-year period while volume produced increased 19 percent.

In the past ten years, production of natural gas in the Fourth District has declined due to reduced output in Pennsylvania. Fourth District states currently produce only 2 percent of U. S. natural gas output, compared with 8 percent in 1954. U. S. production increased sharply over the ten-year interval by some 69 percent.

Of the various "construction-type" minerals produced in the Fourth District, the most important in value is stone. Other such minerals include sand and gravel, lime, and clay. Production of stone totaled $80 million in 1963. In the past ten years, U. S. stone production increased 77 percent but that of the Fourth District moved up by only 31 percent.

Ohio and Pennsylvania are the nation's leading producers of stone. Nearly four-fifths of the stone produced in the District is limestone, with sandstone, slate, and calcareous marl accounting for the remainder. By far the major use of limestone is for road building. Limestone is also used for lime, fluxing stone, and cement.

Sand and gravel production in the District totaled $66 million in 1963.

Sand and gravel production in the District has fared better than in the U. S. as a whole. Since 1954, Fourth District production has increased 79 percent as compared with 63 percent for the nation. Kentucky and Pennsylvania produce some sand and gravel, but Ohio is the largest producer in the District, ranking second in the nation (behind California) in the value of sand and gravel produced. Primary uses of sand and gravel are for building and highway construction.

Virtually all of the lime in the Fourth District is produced in Ohio, which leads the nation in production. The largest use of lime is for chemical and other industrial purposes, followed by refractory, building, and agricultural uses. As shown in the table, the volume of lime production in the District in 1963 was $46 million. Again, since production in the nation has increased faster than in Ohio, the Fourth District's share of lime output has declined from 31 percent in 1954 to 23 percent in 1963.

Clay is also an important product in the Fourth District. Most clay is used for heavy clay products, cement, and refractories. Ohio also leads the nation in value of clay production but some clay is also produced in Kentucky and Pennsylvania. In total, Fourth District clay production amounted to $23 million in 1963. Like some other minerals, during the past ten years, the Fourth District's share of clay production has slipped; in 1963 the District accounted for 12 percent of the nation's clay output, which compared with 15 percent ten years earlier.

Another important mineral in the Fourth District is salt, the production of which was valued at $30 million in 1963. Salt is used principally for ice control and for chemical applications. Salt production in the District in 1963 contributed a larger share of the nation's total salt output than was the case ten years earlier; over that period, the District showed a 140-percent increase in salt output, almost double the gain nationally. Ohio is the Fourth District's primary salt producer, ranking fifth among all states.

COMPARATIVE STATEMENT OF CONDITION

ASSETS	Dec. 31, 1964	Dec. 31, 1963
Gold Certificate Account	$1,146,855,209	$1,072,428,053
Redemption Fund for Federal Reserve Notes	137,794,660	120,891,715
Total Gold Certificate Reserves	1,284,649,869	1,193,319,768
Federal Reserve Notes of Other Banks	47,080,029	31,391,715
Other Cash	10,554,686	10,938,681
Total Cash	1,342,284,584	1,235,650,164
Discounts and Advances	22,730,000	8,701,000
U. S. Government Securities:		
Bills	505,161,000	343,270,000
Certificates	—0—	585,699,000
Notes	2,105,047,000	1,469,507,000
Bonds	440,816,000	385,044,000
Total U. S. Government Securities	3,051,024,000	2,783,520,000
Total Loans and Securities	3,073,754,000	2,792,221,000
Cash Items in Process of Collection	616,036,242	509,071,091
Bank Premises	5,930,897	6,427,573
Other Assets	47,990,376	34,414,996
Total Assets	$5,085,996,099	$4,577,784,824
LIABILITIES		
Federal Reserve Notes	$3,004,814,099	$2,811,931,560
Deposits:		
Member Bank — Reserve Accounts	1,350,868,097	1,158,351,902
U. S. Treasurer — General Account	69,558,192	43,915,293
Foreign	20,020,000	14,880,000
Other Deposits	8,396,712	7,910,939
Total Deposits	1,448,843,001	1,225,058,134
Deferred Availability Cash Items	481,765,168	399,373,828
Other Liabilities	56,392,031	6,738,252
Total Liabilities	4,991,814,299	4,443,101,774
CAPITAL ACCOUNTS		
Capital Paid In	47,090,900	44,894,350
Surplus	47,090,900	89,788,700
Total Liabilities and Capital Accounts	$5,085,996,099	$4,577,784,824
Contingent Liability on Acceptances Purchased for Foreign Correspondents	$ 11,174,800	$ 8,546,700

COMPARISON OF EARNINGS AND EXPENSES

	1964	1963
Total Current Earnings	$110,642,402	$94,972,347
Net Expenses	16,449,582	15,652,180
Current Net Earnings	94,192,820	79,320,167
Additions to Current Net Earnings:		
Profit on Sales of U. S. Government Securities (Net)	51,271	26,166
Profit on Foreign Exchange Transactions (Net)	13,545	27,303
All Other	26,569	18,646
Total Additions	91,385	72,115
Deductions from Current Net Earnings	3,991	1,415
Net Additions	87,394	70,700
Net Earnings Before Payments to U. S. Treasury	94,280,214	79,390,867
Dividends	2,762,834	2,653,643
Payments to U. S. Treasury (Interest on F. R. Notes)	134,215,180	73,916,924
Transferred to Surplus	$–42,697,800	$ 2,820,300

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Deputy Chairman

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Armco Steel Corporation ..... Middletown, Ohio

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Pittsburgh National Bank ..... Pittsburgh, Pennsylvania

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The Warner & Swasey Company ..... Cleveland, Ohio

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Clay Tobacco Company ..... Mt. Sterling, Kentucky

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The Ohio National Bank of Columbus ..... Columbus, Ohio

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R. JOSEPH GINNANE ..... *Assistant Vice President*

WILLIAM H. HENDRICKS ..... *Assistant Vice President*

ROBERT G. HOOVER ..... *Assistant Vice President*

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THOMAS E. ORMISTON, JR. ..... *Assistant Cashier*

JAMES H. CAMPBELL ..... *Assistant General Auditor*

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President
The Philip Carey Manufacturing Company
Cincinnati, Ohio

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Portsmouth, Ohio

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Burley-Belt Fertilizer Company
Lexington, Kentucky

JOHN W. WOODS, JR.
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The Third National Bank of Ashland
Ashland, Kentucky

OFFICERS

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Vice President

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Cashier

JOSEPH W. CROWLEY
Assistant Cashier

GEORGE W. HURST
Assistant Cashier

HOWARD E. TAYLOR
Assistant Cashier

PITTSBURGH BRANCH

DIRECTORS

Chairman

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Carnegie Institute of Technology, Pittsburgh, Pennsylvania

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The Grove City National Bank
Grove City, Pennsylvania

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Koppers Company, Inc.
Pittsburgh, Pennsylvania

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Pittsburgh, Pennsylvania

S. L. DRUMM
President
West Penn Power Company
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First National Bank of Meadville
Meadville, Pennsylvania

ALFRED H. OWENS
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The Citizens National Bank of New Castle
New Castle, Pennsylvania

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Vice President

ROY J. STEINBRINK
Cashier

J. ROBERT AUFDERHEIDE
Assistant Cashier

PAUL H. DORN
Assistant Cashier

CHARLES E. HOUPT
Assistant Cashier

fourth federal reserve district