Federal Reserve Bank of Cleveland

Annual Report 1975

Federal Reserve Bank of Cleveland

Sixty-First Annual Report and Statement

To the Member Banks in the Fourth Federal Reserve District:

We are pleased to present the 1975 *Annual Report* of the Federal Reserve Bank of Cleveland. This year's report examines the impact of the economic and financial challenges of the early 1970's on the balance sheets and income statements of large manufacturing firms in the Fourth District.

The Bank, in the exercise of its monetary policy and bank regulatory responsibilities within the Federal Reserve System, has among its goals the maintenance of a strong and sound banking system in the Fourth District. The impact of monetary policy activities affects banks not only by influencing the flow of money and credit in the economy but also through its effects on financial decisions of households, nonfinancial firms, and financial institutions. Thus, the Federal Reserve Bank of Cleveland and the banking community have an interest in understanding how monetary policy interacts with financial decision-making of these groups. The long-standing importance of manufacturing activity in the District makes the interaction of monetary policy and corporate decision-making of special interest, particularly because of the District's heavy dependence on durable goods which in other periods contributed to more severe recessions and somewhat weaker recoveries here than in the nation. Understanding how national financial and economic conditions affect the District is vitally important.

The 1975 *Annual Report* highlights the financial behavior of major segments of the corporate sector of the District during the first half of the decade. The inquiry in this report focuses on the liquidity, debt structure, and profitability of District manufacturing firms between 1970 and 1974. It poses many questions about the financial performance of firms in a period characterized by expansion and contraction in economic activity, sustained inflation, and rapid technological change. Answers to these questions would contribute to an understanding of the interaction of monetary policy and corporate financial developments. We are concerned with these and other questions and will address ourselves to some of them in the year ahead.

Finally, we take this opportunity to thank the numerous people, especially member banks and directors, officers, and the staff of this Bank, who have helped us fulfill our varied responsibilities during 1975. We also ask them for their continued assistance in 1976 in accomplishing the many complex tasks with which the Bank is charged.

Chairman of the Board

President

A Review of Corporate Balance Sheets of Fourth District Manufacturers 1970–1974

Corporate balance sheets and income statements reflected a variety of volatile financial and economic conditions between 1970 and 1974. Some of the changes made mirrored cyclical developments associated with business expansion and contractions. The brief span of 5 years covered a complete business cycle beginning with the mild recession in 1970, followed by an expansion from 1971 to 1973, and ending with the worst recession since World War II. During this time, firms were also subjected to accelerating inflation, alternately tight and easy credit market conditions, widely fluctuating stock prices, and wage-price controls. The resulting buildup in debt and erosion in liquidity handicapped many corporations–bringing lower credit ratings for some firms and near bankruptcy for others.

The Federal Reserve Bank of Cleveland is vitally interested in corporate financial developments because its monetary policy responsibilities may be better carried out with an understanding of how business firms adjust their balance sheets to money and credit conditions. These developments are of particular interest in the Fourth District. Manufacturing accounts for about 31 percent of total employment in the District; but it also accounts for most of the wide fluctuations in income and employment in the District, because of the volatility of its large durable goods component. How financial conditions affect corporate balance sheets is also important to bankers because banks are frequently a major source of funds for firms.

This report analyzes balance sheets and income statements of firms in the heavily industrialized Fourth Federal Reserve District to determine the nature of changes that occurred between 1970 and 1974.[1] Among the 110 manufacturing firms headquartered in the District that are the subject of this report, 54 are among the top 500 firms on the Fortune list of largest industrial firms in the United States and 16 are among the 100 largest firms. Cleveland and Pittsburgh, the two largest metropolitan centers in the District, rank third and seventh, respectively, in the number of corporate headquarters for the largest industrial firms in the U. S. Many of the firms are multinational, with plants and subsidiaries throughout the world, and foreign sales of several of the largest firms account for 20 to 30 percent of their total sales. These large firms represent a cross-section of industries that includes chemicals, petroleum, rubber and plastics, primary metals, fabricated metals, nonelectrical machinery, electrical machinery and transportation, and that accounted for over 70 percent of manufacturing employment in the District last year.

The analysis shows that manufacturing firms in the District did well despite adverse economic and financial conditions between 1970 and 1974. Problems that do surface involve individual firms rather than the aggregate balance sheet for manufacturers. When viewed against some commonly accepted measures, reduction in liquidity was partly a cyclical phenomenon. Moreover, the buildup of debt was matched by growth in equity, and manufacturers were able to improve profit margins.

[1] Balance sheet data for 1975 are not yet available to indicate how well manufacturing firms in the Fourth District restructured balance sheets and how well they were able to maintain profitability. Financial data used in this report are based on balance sheet and income statement data collected by Investors Management Sciences, Inc., a subsidiary of Standard and Poor's Corporation. Data covered 110 manufacturing firms that had sales of $50 million or more in 1972.

Performance Measures

The financial aspects of firms in this study are evaluated using liquidity ratios, debt ratios, and profitability measures.

Liquidity, broadly defined, is the ability of a firm to meet short-term obligations. How well a firm may do this can be measured several ways. Each approach provides a somewhat different perspective because each relates a different category of assets to current liabilities. The current ratio is one measure of liquidity used here, and it measures the ability of a firm to pay short-term obligations with assets that are readily convertible to cash. It relates current assets, including cash, marketable securities, receivables, and inventories, to current liabilities, including accounts payable, short-term notes payable, maturing long-term obligations, and other miscellaneous liabilities. A current ratio of 2:1 has long been considered the standard for an acceptable level of liquidity. Another ratio used here, the quick ratio, relates the most liquid assets, cash and Government securities, to current liabilities. Accounts receivable and inventories are excluded from this ratio because neither is necessarily convertible into cash on short notice without losses.

Debt ratios measure a firm's leverage, i.e., the amount of firm financing through debt. Increased leverage can make a firm more susceptible to financial risks during both recessions and tight credit market conditions. A highly leveraged firm may have difficulty covering interest costs and other fixed charges when earnings decline. A high debt-equity ratio during tight credit market conditions may make it difficult for a firm to increase borrowing until more capital is provided through equity markets or retained earnings. A firm that does not have access to debt markets or decides not to add more debt for investment may decide to lease property or equipment. This alternative to debt financing allows the firm to acquire assets without necessarily adding to its debt structure. Therefore, debt-equity ratios for firms that use leasing could be higher than reported if leases were capitalized in the same manner as an investment in fixed assets. Under most leases, a firm neither adds to fixed investment nor to long-term debt, and can allocate its limited resources more fully to working capital needs.

Although analysts have expressed concern over business liquidity in recent years, investors tend to emphasize profitability when measuring how well a firm is managed. Therefore, profitability is used in this report to evaluate overall firm performance from 1970 to 1974. The two measures used are return on sales (net profit after taxes as a percent of sales) and return on net worth (net profit after taxes as a percent of net worth). Rates of return on sales and net worth are the product of many factors, including management goals, market structure of an industry, growth and stability of sales, and cost-price relationships. As a result, they differ widely among firms within an industry as well as between industries.

This report analyzes the financial aspects not only of the group of 110 manufacturing firms as a whole, but also of these manufacturers by industry, by size, and by sales growth rates. These three factors can cause an individual firm's liquidity ratios and debt structure to vary from overall manufacturing averages for several reasons. For example, one firm may require larger amounts of financing than another if it is in a more capital intensive industry than the other. If the firm is in a fast growing industry, it may be able to rely more on internal financing than if it is in a slow growing, cyclical industry. If it is a large firm with high earnings, it may have greater access to money, capital, and equity markets than if it is a small firm. If the firm has fast growing sales, it may have greater needs for financing for expansion than if it is a slow growing firm, but it also may be better able to attract investors willing to pay a premium for its stock because of its growth and earnings potential. Thus, analysis of firms in different industries, of different sizes, and with different growth rates can help determine the pervasiveness of financial changes and differences in financial characteristics among various groups.

Developments in Balance Sheets and Earnings

Corporate finance between 1970 and 1974 was marked by two major developments:

- The period opened with the liquidity position of manufacturers already eroded by heavy short-term financing and the consequent need to restructure debt and rebuild liquid assets. The period closed with liquidity and debt-equity relationships under pressure as a result of heavy debt financing to meet soaring demands for capital equipment and inventory investment.

- Manufacturers generally maintained profit margins and raised rates of return on equity through the period, but at a slightly lower level than in the prior 5 years. Return on equity and on sales averaged 11.0 percent and 4.8 percent, respectively, between 1970 and 1974; compared to an average of 11.9 percent and 6.2 percent, respectively, between 1965 and 1969. However, profits and retained earnings were not generated fast enough to support working capital needs as the expansion accelerated in 1973. Heavy debt-service charges, illusory profits from inventories and inadequate depreciation charges constrained internally generated funds and forced firms into another wave of debt financing in 1974.

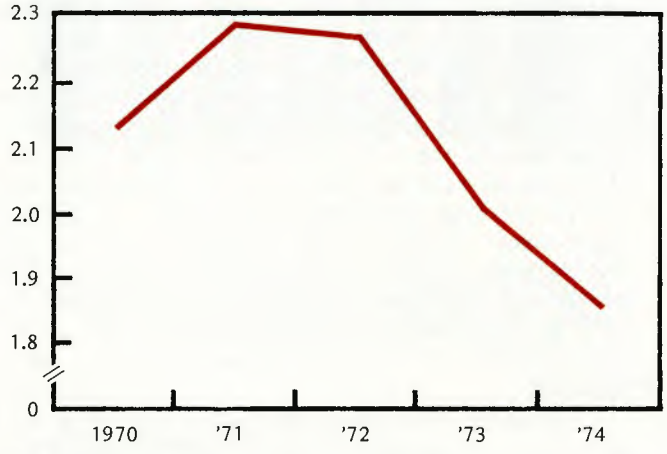
Liquidity

Liquidity ratios fluctuate with the business cycle. When an economic expansion begins, liquidity is rebuilt as profits increase and current assets, especially cash and securities, expand more rapidly than short-term debt and other current liabilities. As the expansion progresses, liquid assets rise slowly or are run down as demands strengthen to finance receivables, inventories and fixed assets. Short-term debt builds rapidly after the expansion is well underway. Liquidity weakens in the latter stages of expansion and continues to slide until late in a recession. In addition to this cyclical behavior, liquidity ratios have followed a long-term declining trend, as businesses have learned to manage cash balances more efficiently and to resort to short-term financing to provide funds.

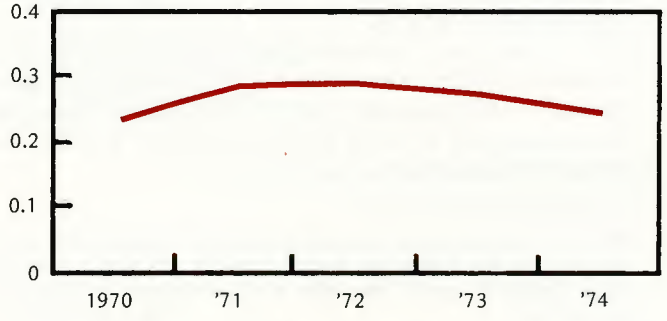
Behavior of liquidity ratios for manufacturing firms in the District from 1970 to 1974 roughly paralleled both the cyclical pattern and the long-term trend. During the recession in 1970, current assets exceeded current liabilities somewhat more than the 2:1 norm. Nevertheless, the current ratio was at a low, reflecting both cyclical and

Selected Financial Ratios of Fourth District Manufacturing Firms
1970 - 1974

Current Ratio



Quick Ratio



Source: Federal Reserve Bank of Cleveland and Investors Management Science, Inc.

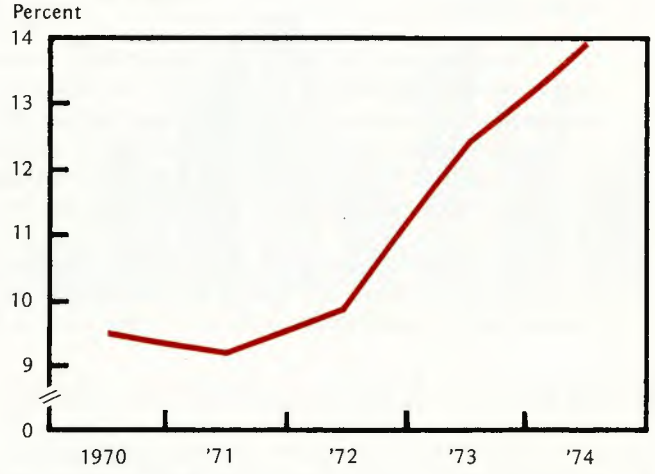
long-term influences. During 1971 and 1972, the District's economy was recovering from the recession and manufacturers rebuilt liquidity. Treasurers built their current assets, especially cash and liquid assets, more rapidly than short-term debt. At yearend 1972, liquidity measures were well above the low 2 years earlier. In 1973 and 1974, liquidity was squeezed as liquid assets were run down and short term credit expanded to finance soaring demand for inventories and capital spending. Corporate treasurers financed the bulk of their needs with short-term funds, mainly bank loans and commercial paper, expecting record borrowing rates to decline. Equity financing was not an attractive source of funds because of depressed stock prices. Also, long-term debt financing, especially in the bond market, was hindered because investors preferred the highest quality securities and because businesses were reluctant to issue debt when interest rates were high. At the end of 1974, the current ratio was well below the previous low in 1970, although the quick ratio holdings of liquid assets relative to current liabilities was higher than in 1970 (see charts on page 5).

Long-Term Debt/Equity

Percent

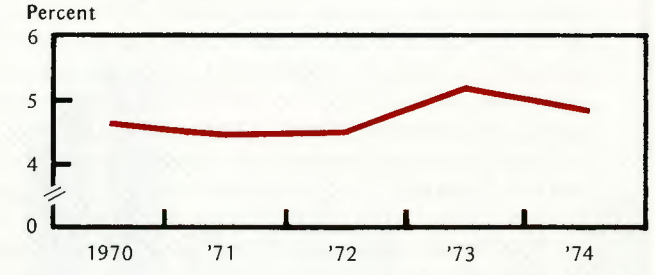
Return on Equity

Percent



Profit Margins

Percent



Debt Structure

Business firms have become increasingly dependent on borrowed funds in recent years, making huge demands on capital markets. Debt financing reflected inadequate profits and internal cash flows relative to capital investment and inventory investment program requirements.

Inadequate internal funds partly reflected the rampant inflation in the cost of doing business that drained corporate liquidity in recent years, especially in 1973 and 1974. In addition, inflation tended to overstate corporate profits which boosted taxes at a time when higher costs of new facilities increased the volume of funds needed for replacement. With equity prices at unattractive levels and tax advantages from debt financing, business firms relied heavily on debt financing. The sharp buildup in debt also strained the liquidity of many firms because much of the borrowing was concentrated in short-term markets.

As a result, manufacturing firms in the Fourth District acquired large amounts of debt between 1970 and 1974, but long-term debt relative to equity was at the same proportion at the end of 1974 as it was at the end of 1970. Apparently, manufacturers refunded some portion of the short-term debt acquired in 1970, reduced the proportion of debt to equity in 1972 and 1973, and then added debt more rapidly than equity in 1974. Looking at individual firms rather than aggregate data, 13 manufacturers had more long-term debt than equity in both 1970 and 1974.

Profitability

Manufacturers in the District successfully improved profit margins between 1972 and 1974 and considerably improved return on equity during the 5-year period. Return on equity improved from 9.2 percent in 1970 to 14 percent in 1974, as net income of Fourth District firms nearly doubled in response to a higher volume of sales and higher prices.

The upward movement in profitability paralleled but fell somewhat short of the gains experienced by all manufacturing corporations in the U. S.[2] Moreover, a large part of the reported gains in earnings in recent years were illusory because high rates of inflation overstated profits from inventories. Many manufacturers in the District used a first-in/first-out method of accounting that includes cost-of-goods-sold at historic costs instead of replacement costs; therefore, large profits from inventories were realized during this period of sharp increases in costs and prices. These profit gains were illusory because inventories had to be replaced at current higher costs. In 1974, for example, nearly 37 percent of total reported profits of nonfinancial corporations in the U. S. were inventory gains. If earnings of manufacturers in the District were adjusted for inventory profits in the same proportion as for nonfinancial corporations in the U. S., net income of the 110 manufacturers in 1974 would have fallen 3 percent from the previous year rather than increased by 23 percent. For 1970 to 1974, net income would have risen 22.5 percent after allowance for inventory gains, rather than nearly doubling.

Similarly, depreciation allowances in an inflationary period tend to overstate profits. Charges for depreciation are inadequate because of higher replacement costs, which are only partly compensated for by accelerated depreciation allowances.

In summary, relatively slow growth in earnings after inventory profits from 1970 to 1974, and an outright decline in 1974, squeezed liquidity and fostered reliance on external sources of funds to finance soaring demands for current and fixed assets.

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[2]For all manufacturing corporations in the United States, profit margins averaged 4 cents per dollar of sales in 1970 and 5.5 cents in 1974. Return on equity amounted to 9.3 percent and 14.9 percent, respectively.

Industry Differences and Behavior

Liquidity ratios and debt structure within an industry may vary widely from the overall developments reported above. These variances reflect differences in product, market structure, growth and stability of sales, and the ability to raise financing in the money, capital and equity markets. For instance, firms more capital intensive than others may require larger amounts of financing from both internal and external sources. Firms with fast growing sales and high returns on investment can depend more heavily on internal financing. Other firms with slower growing sales and insufficient depreciation allowances to meet their needs for fixed assets may depend more on external financing. The stability and growth of sales within an industry also affect its means of financing. Firms whose sales and earnings are highly cyclical and slow growing, such as steel firms, may have difficulty interesting investors in equity financing. Firms with stable and rapidly growing sales, such as chemical firms, can rely more on equity markets for financing expanding needs.

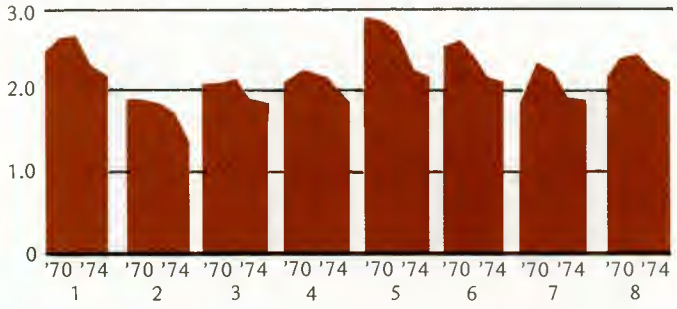
To help determine the pervasiveness of financial changes as well as differences in financial characteristics among various industries, eight groups of manufacturers are considered, including chemicals, petroleum, rubber and plastics, primary metals, fabricated metals, machinery, electrical machinery and equipment, and transportation equipment. Firms in these industries account for 71 percent of the firms included in this report and for about the same proportion of employment in manufacturing in the District last year.

All industries, except electrical machinery and equipment, had lower current ratios in 1974 than in 1970, and most industries had more debt relative to equity in 1974 than in 1970. Firms in the chemical industry had the lowest debt relative to equity and the best returns on sales and equity. Firms in the machinery industry were the lowest earners and had the highest debt to equity of any industry (see charts on page 7).

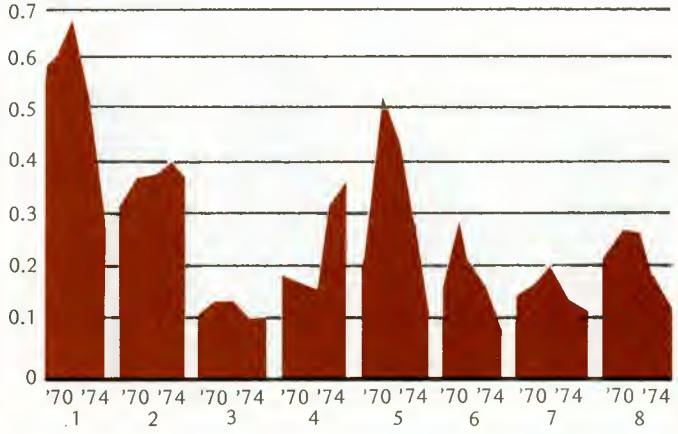
Liquidity

The cyclical nature of liquidity is suggested by the behavior of liquidity ratios for the various industries during

Current Ratio



Quick Ratio



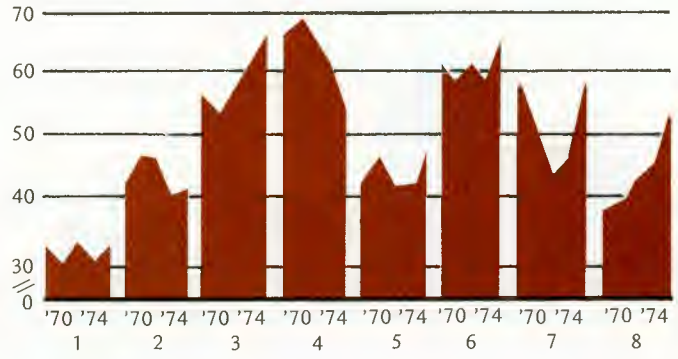
Selected Financial Ratios of Fourth District Manufacturing Firms by Major Industries

Industry	No. of Firms
1. Chemicals and Allied Products	8
2. Petroleum	6
3. Rubber and Plastics	8
4. Primary Metals	14
5. Fabricated Metals	5
6. Nonelectrical Machinery	15
7. Electrical Machinery	8
8. Transportation	14

Source: Federal Reserve Bank of Cleveland and Investors Management Science, Inc.

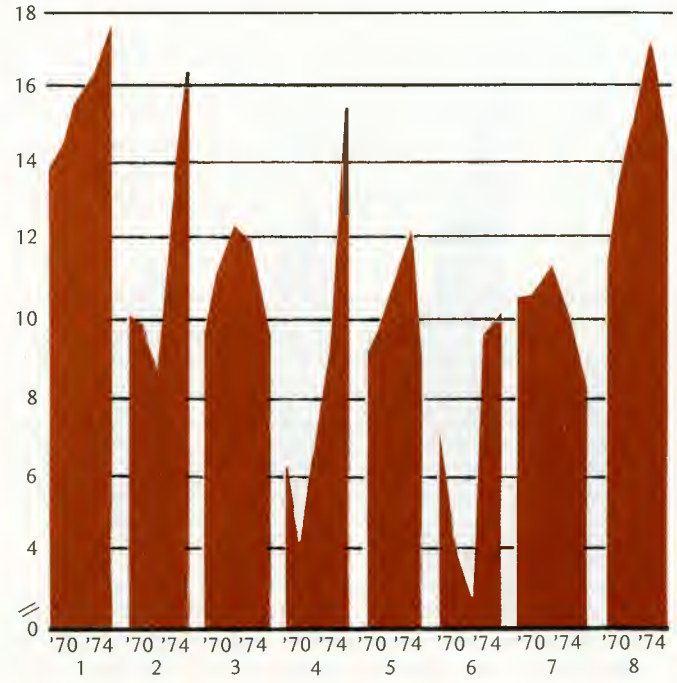
Long-Term Debt/Equity

Percent



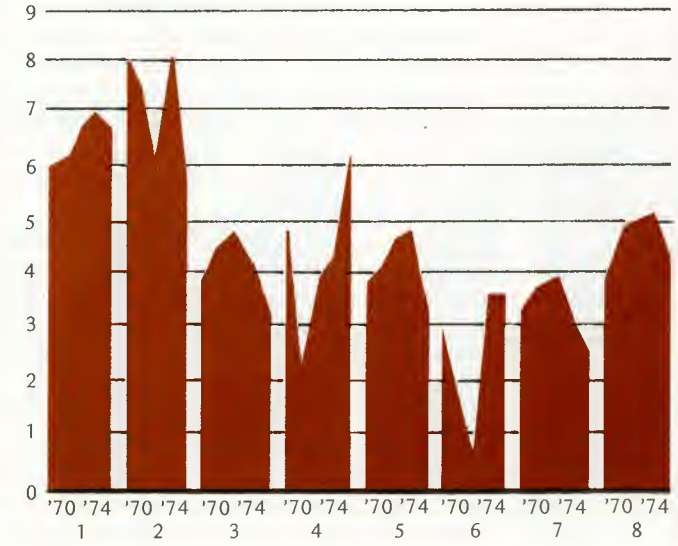
Return on Equity

Percent



Profit Margins

Percent



the period. From lows, generally in 1970, liquidity ratios rose in 1971 and 1972 and then fell to new lows in 1974.

The decline in both current and quick ratios was most pronounced in the chemical, fabricated metals, and nonelectrical machinery industries. Several firms in these industries held fewer liquid assets in 1974 than in 1970 and 1971. They has also added substantially to short-term debt to finance soaring demand for inventories and capital equipment.

Primary metals producers, especially steel, held a higher proportion of liquid assets to current liabilities in 1973 and 1974 as a result of high earnings in those years. Nevertheless, some deterioration in their current ratio occurred as working capital and fixed capital needs rose sharply.

Debt Structure

Five of the eight industries held more debt relative to equity in 1974 than in 1970. Two capital intensive industries, petroleum and primary metals, reduced their long-term debt relative to equity. Most primary metal producers reduced the proportion of debt to equity between 1970 and 1974. Steel companies improved their debt-equity relationship as a result of improved earnings from a high volume of steel operations and substantial price increases following wage-price decontrol in April 1974. They also stepped up modernization and expansion of facilities in 1973 and 1974. Producers of chemicals and allied products, another capital intensive industry, held the lowest amount of debt relative to equity of any of the eight industries.

Profitability

Manufacturers generally were able to improve their return on equity between 1970 and 1974, but not all improved their profit margins. Profit margins generally peaked in 1973 but then dropped as a result of lower sales volume and higher costs that were not recoverable in some industries, such as rubber and automotive, because of weak market conditions.

Rates of return on sales and on equity varied considerably between the highest and lowest earners. In 1974, profit margins ranged from a low of 2.6 cents per dollar of sales in electrical machinery to a high of 6.7 cents per dollar in chemical and allied products and from a low of 8.8 percent return on equity in fabricated metals to a high of 17.7 percent in chemicals. Return on equity in 1974 was higher than in 1970 for all industries except fabricated metals and electrical equipment.

Size Differences and Behavior

Different size firms may also have liquidity ratios and debt structures that vary widely from the overall developments discussed earlier. These variances reflect firms' different financial needs and abilities to finance those needs. For instance, smaller firms are typically more conservatively managed and may have less access to debt and equity markets than larger firms. Larger firms generate stronger cash flows but frequently not enough to permit modernization and expansion of capacity. Thus, larger firms typically need external financing, particularly for fixed assets. Working capital needs also vary among smaller and larger firms. Smaller firms depend heavily on current asset management, and trade credit is an important source of external financing for them. Larger firms with higher earnings have access to a variety of debt and equity sources and resort to external financing to meet both working capital and fixed asset needs.

To determine how changes in financial markets affected different size firms, the 110 manufacturing firms are classified into four groups based on 1970 sales. These classifications are: firms from $50-$100 million in sales; firms from $100-$500 million; firms from $500 million to $1 billion; and firms with sales of more than $1 billion.

Balance sheet and income performance between 1970 and 1974 was substantially different for large and small firms. In 1974, the largest firms in the District ($1 billion and over) held lower current ratios, higher debt-equity ratios, and higher returns on sales and equity than the smallest firms ($100 million or less). Firms with sales between $500 million and $1 billion were the most profitable (see charts on page 9).

Liquidity

Both liquidity measures followed the cyclical pattern described earlier. Both ratios peaked in 1971 and slid gradually to lows in 1974. Firms in all size classes reduced holdings of current assets relative to current liabilities between 1970 and 1974, but the largest reduction occurred for firms in size classes $100/$500 million and $1 billion and over. Firms in the smallest size group were the most liquid, and the largest firms the least liquid.

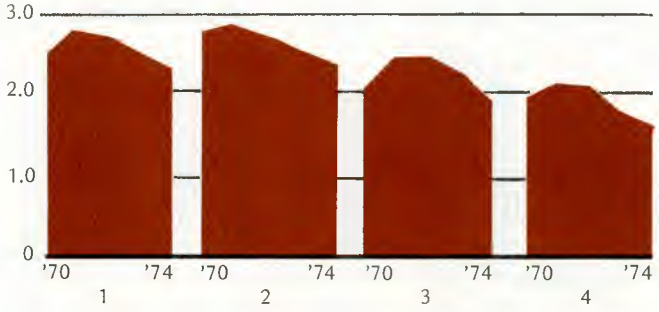
Debt Structure

Smallest firms held the lowest proportion of debt to equity of any of the four groups. Firms in the $500 million/$1 billion size class were the only group that consistently added more debt than equity between 1970 to 1974, and they were also the group with the highest proportion of debt to equity. For other size classes, debt to equity was generally lower in 1974 than in 1970.

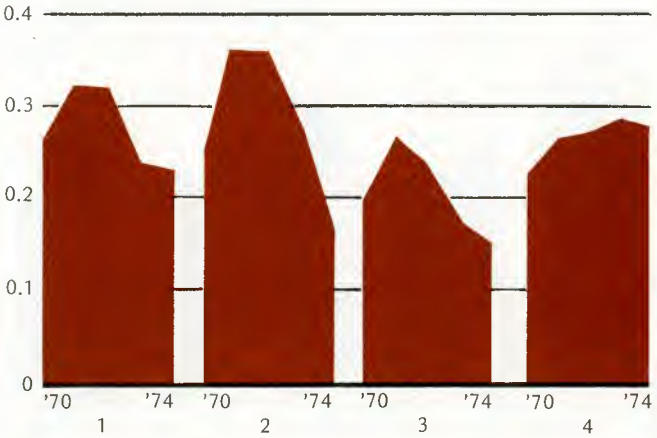
Profitability

Manufacturers in all size classes earned a higher return on equity in 1974 than in 1970, and a return on sales that was nearly the same or better in 1974 than in 1970.

Current Ratio



Quick Ratio



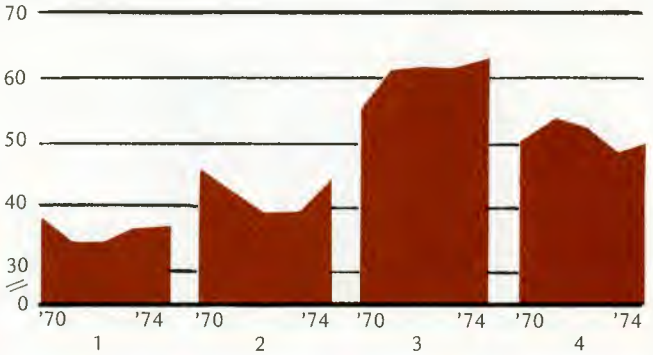
Selected Financial Ratios of Fourth District Manufacturing Firms by Size

Size	No. of Firms
1. $50 Million to $100 Million	40
2. $100 Million to $500 Million	43
3. $500 Million to $1 Billion	11
4. $1 Billion and Over	16

Source: Federal Reserve Bank of Cleveland and Investors Management Science, Inc.

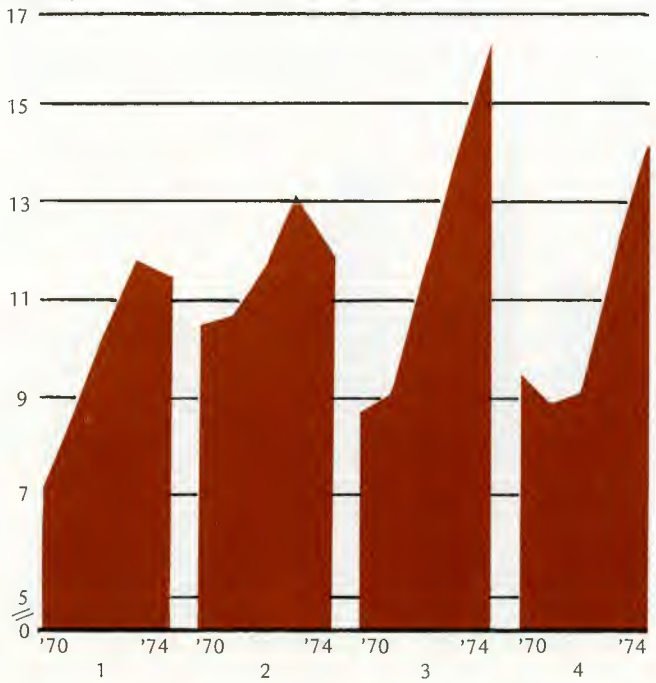
Long-Term Debt/Equity

Percent



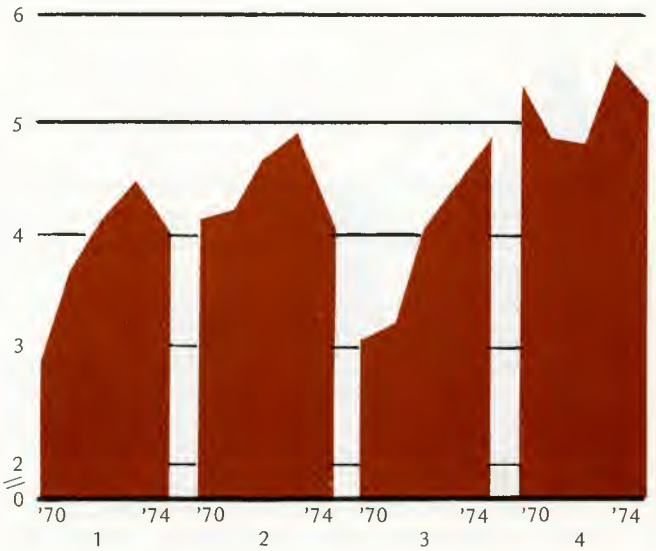
Return on Equity

Percent



Profit Margins

Percent



Nevertheless, margins in 1974 were lower than in 1973 for firms in all size classes except in the $500 million/$1 billion group. Firms in the largest size class consistently earned the highest return per dollar of sales, but firms in the $500 million/$1 billion class earned the highest return on equity (1972-1974).

Growth Differences and Behavior

Liquidity ratios and debt structures will also vary from the overall developments discussed at the beginning of this report among firms with different rates of growth in sales. On the one hand, faster growing firms are likely to have larger working capital needs and maintain lower liquidity than slower growing firms. This reflects the faster growing firms' needs to meet expanding receivables, inventories and capacity. Heavier demands for working capital may cause cash flow problems for faster growing firms. On the other hand, faster growing firms may have greater access to both equity and debt financing than slower growing firms. Faster growing firms attract investors who are willing to pay some premium for their stock because of its growth and earnings potential.

To analyze these differences, the 110 firms are classified according to their growth rates in sales. Growth here is defined as a compound annual rate of change in net sales from 1970 to 1974. Manufacturers are classified into five groups according to their growth: percentage growth in sales of 0-5 precent; 5-10 percent; 10-15 percent; 15-20 percent; and 20 percent or higher. Growth rates for individual firms ranged from a low of 4 percent to a high of 43 percent. Fastest growth rates were frequently associated with firms in the petroleum industry (whose sales were inflated by the sharp increase in oil prices) and firms that merged or acquired other firms. Firms with the fastest growth rates tend to be least liquid, have higher returns on sales and equity, and lower debt to equity (see charts on page 11).

Liquidity

All classes of firms but those with the slowest growth rates (0-5 percent and 5-10 percent) had lower liquidity ratios at the end of 1974 than at the end of 1970. Firms with the fastest growth rates accounted for a good part of the decline in the current ratio for total manufacturing industries between 1970 and 1974 but also held a steadily larger proportion of their current assets in cash and securities than other groups. Slowest growth firms improved their liquidity between 1970 and 1974.

Debt Structure

All classes of firms except the 10-15 percent growth class held less debt relative to equity in 1974 than in 1970. The proportion of debt held among the five classes differed widely, with the lowest proportion held by firms in the slowest growth class and the highest proportion held in 1973 and 1974 by the 5-10 percent growth class.

Profitability

All growth classes of firms but the 5-10 percent class reported higher rates of return on equity in 1974 than in 1970. Also, all classes of firms reported higher returns on sales in 1974 than in 1970, again with the exception of firms with growth rates of 5-10 percent.

Fastest growth companies showed the highest returns on equity in 1973 and 1974, and were the second highest earners in previous years.

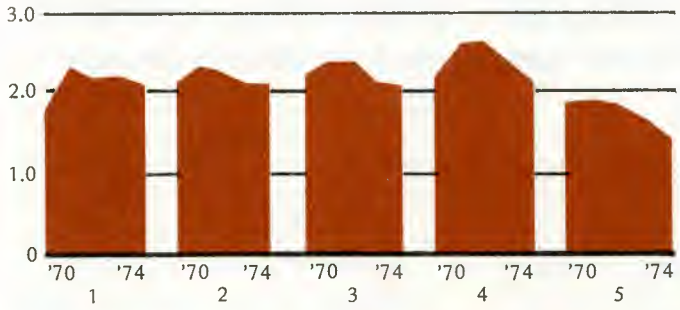
Concluding Comment

This analysis shows that financial performance of manufacturing firms in the aggregate was better than might be expected in view of highly volatile conditions during the early 1970's. However, the broad analysis conceals some individual problems. For some firms, liquidity was strained more seriously and servicing debt was more difficult than indicated for manufacturers generally. Nevertheless, analysis of manufacturing firms by industry, size, or growth rates did not surface any special problem areas in a period that might be classified as one of the most traumatic since World War II.

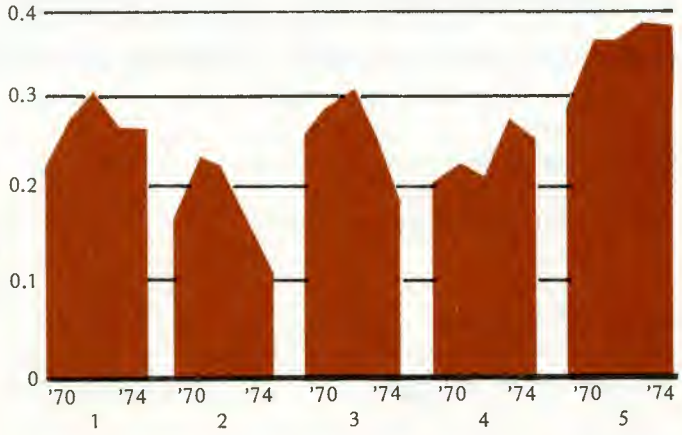
This overview shows how business managers adjusted their balance sheets during the recent volatile financial market conditions, but it leaves unanswered many questions concerning what factors these business managers considered in making these adjustments. For instance, what is the relationship between cash flow and fixed investment decisions? What is the relationship between highly leveraged firms, earnings and the business cycle? What are the trade-offs between liquidity and soundness of firms? In what ways do small firms seek to finance their needs during tight credit conditions? Will banks be willing and able to finance assets, given liquidity and leverage trends of recent years? These are among the questions this Bank will investigate in future research projects.

J. J. Erceg

Current Ratio



Quick Ratio



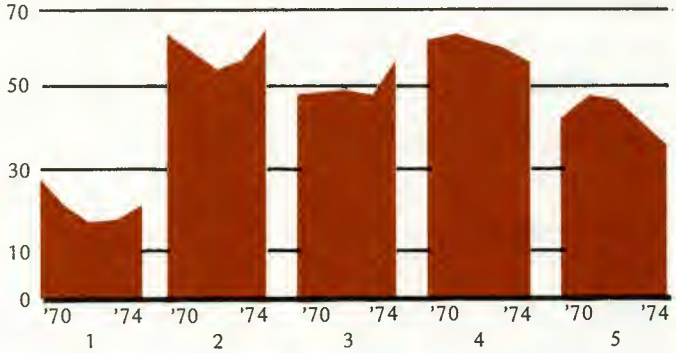
Selected Financial Ratios of Fourth District Manufacturing Firms by Sales Growth

Average Annual Sales Growth	No. of Firms
1. 0-5 Percent	6
2. 5-10 Percent	25
3. 10-15 Percent	40
4. 15-20 Percent	22
5. 20 Percent and Over	17

Source: Federal Reserve Bank of Cleveland and Investors Management Science, Inc.

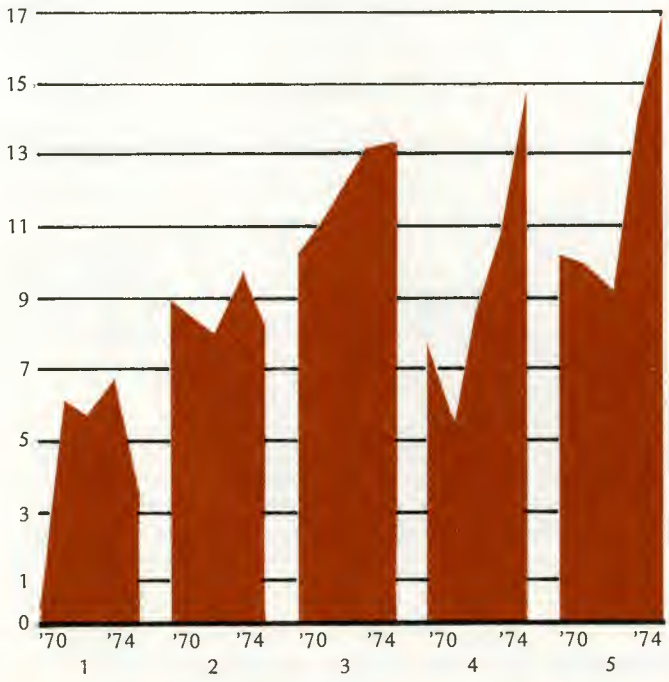
Long-Term Debt/Equity

Percent



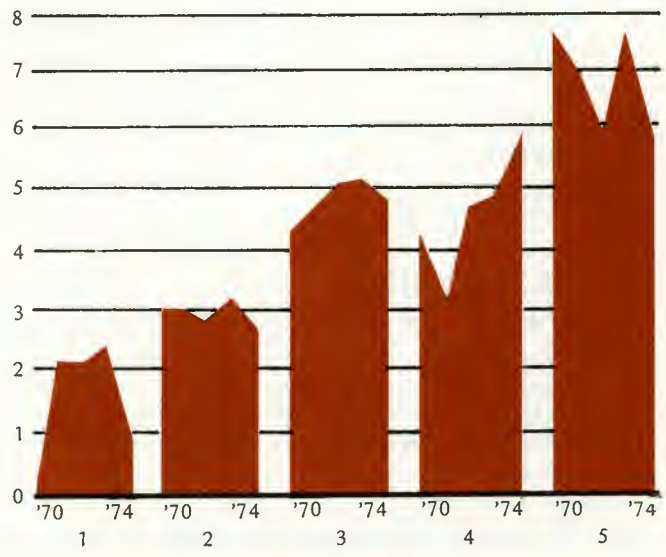
Return on Equity

Percent



Profit Margins

Percent



Comparative Statement of Condition

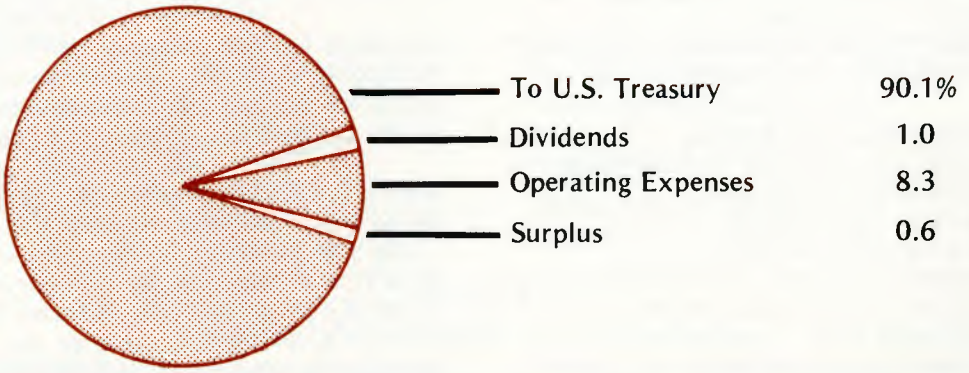
	Dec. 31, 1975	Dec. 31, 1974
ASSETS		
Gold Certificate Reserves	$ 888,341,331	$ 661,606,707
Special Drawing Rights Certificates	43,000,000	33,000,000
Federal Reserve Notes of Other Banks	121,257,590	90,672,838
Other Cash	44,629,033	30,605,087
Loans to Member Banks	100,000	300,000
Federal Agency Obligations - Bought Outright	479,750,000	398,634,000
U. S. Government Securities:		
Bills	2,939,681,000	3,116,800,000
Notes	3,475,489,000	3,391,864,000
Bonds	436,259,000	278,356,000
Total U.S. Government Securities	6,851,429,000	6,787,020,000
Total Loans and Securities	7,331,279,000	7,185,954,000
Cash Items in Process of Collection	558,094,757	527,729,755
Bank Premises	25,335,174	26,335,214
Operating Equipment	697,574	-0-
Interdistrict Settlement Account 1	654,068,671	-0-
Other Assets	103,121,178	79,903,681
Total Assets	$9,769,824,308	$8,635,807,282
LIABILITIES		
Federal Reserve Notes	$6,770,159,378	$6,233,786,708
Deposits:		
Member Bank - Reserve Accounts	1,689,907,719	1,269,243,074
U.S. Treasurer - General Account	597,027,539	376,618,253
Foreign	22,846,200	25,520,000
Other Deposits	18,263,605	41,980,972
Total Deposits	2,328,045,063	1,713,362,299
Deferred Availability Cash Items	413,832,654	440,514,973
Other Liabilities	96,517,013	92,300,702
Total Liabilities	$9,608,554,108	$8,479,964,682
CAPITAL ACCOUNTS		
Capital Paid in	80,635,100	77,921,300
Surplus	80,635,100	77,921,300
Total Liabilities and Capital Accounts	$9,769,824,308	$8,635,807,282
Contingent Liability on Acceptances Purchased for Foreign Correspondents	$ -0-	$ 86,486,400

1 Prior to 1975 this amount was included in Gold Certificate Reserves.

Comparison of Earnings and Expenses

	1975	1974
Total Current Earnings	$483,991,239	$468,639,828
Net Expenses	38,663,613	36,217,420
Current Net Earnings	445,327,626	432,422,408
Additions to Current Net Earnings:		
Profit on Sales of U. S. Government Securities (Net)	3,012,563	(3,165,278)
All Other	138,099	673,549
Total Additions	3,150,662	(2,491,729)
Deductions from Current Net Earnings:		
Loss on Foreign Exchange Transactions (Net)	21,035,480	2,988,899
All Other	61,300	435,266
Total Deductions	21,096,780	3,424,165
Net Deductions	17,946,118	5,915,894
Net Additions	-0-	-0-
Net Earnings before Payments to U.S. Treasury	$427,381,508	$426,506,514
Dividends Paid	$ 4,790,394	$ 4,631,401
Payments to U.S. Treasury (Interest on F.R. Notes)	419,877,314	418,281,863
Transferred to Surplus	2,713,800	3,593,250
Total	$427,381,508	$426,506,514

Disposition of Gross Earnings



As of March 1, 1976

Federal Reserve Bank of Cleveland

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Chairman of the Board and Chief Executive Officer
TRW Inc.
Cleveland, Ohio

Deputy Chairman
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Chairman and Chief Executive Officer
Westinghouse Electric Corporation
Pittsburgh, Pennsylvania

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First National Bank of Middletown
Middletown, Ohio

MERLE E. GILLIAND
Chairman of the Board and Chief Executive Officer
Pittsburgh National Bank
Pittsburgh, Pennsylvania

CHARLES Y. LAZARUS
Chairman
The F. & R. Lazarus Co.
Columbus, Ohio

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Chairman of the Board and Chief Executive Officer
Rubbermaid Incorporated
Wooster, Ohio

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The First National Bank
Bellevue, Ohio

OTIS A. SINGLETARY
President
University of Kentucky
Lexington, Kentucky

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The Cleveland Trust Company
Cleveland, Ohio

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JAMES W. KNAUF, *Assistant Vice President*
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DAVID A. TRUBICA, *Assistant Vice President*
ROBERT VAN VALKENBURG, *Assistant Vice President*

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Cincinnati, Ohio

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The National Bank of Cynthiana
Cynthiana, Kentucky

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Cincinnati, Ohio

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Winters National Bank and Trust Company
Dayton, Ohio

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The Provident Bank
Cincinnati, Ohio

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Erie, Pennsylvania

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Toronto, Ohio

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Graduate School of Industrial Administration
Carnegie-Mellon University
Pittsburgh, Pennsylvania

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PAUL E. ANDERSON, *Assistant Vice President*

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WEST VA.
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CLEVELAND, OHIO