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Twenty-first Annual Report

Federal Reserve Bank
of New York

For the Year Ended December 31, 1935



Federal Reserve Agent
Second Federal Reserve District

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of New York

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**FEDERAL RESERVE BANK
OF NEW YORK**

New York, March 19, 1936

SIRS:

I have the honor to submit herewith the twenty-first annual report of the Federal Reserve Bank of New York, covering the year 1935.

Respectfully yours,

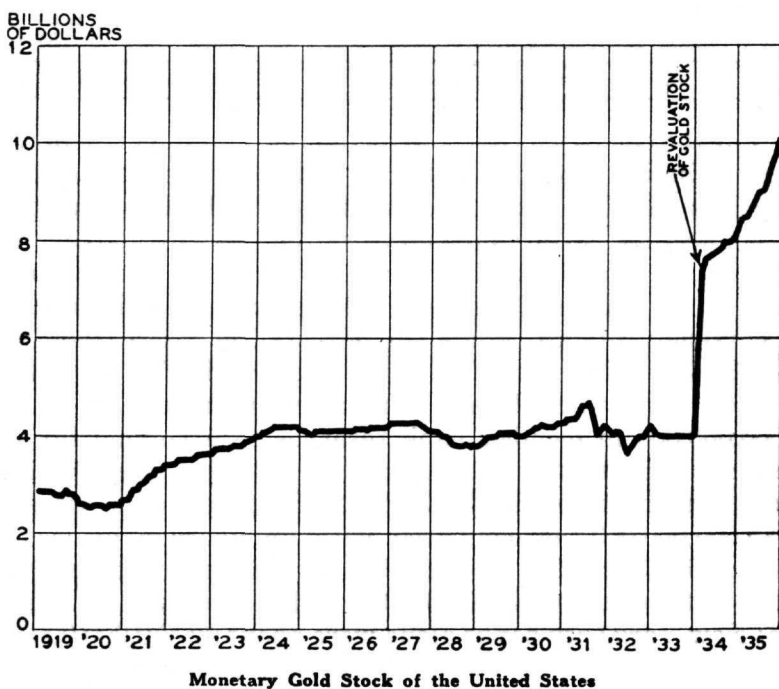
J. HERBERT CASE,
Chairman and Federal Reserve Agent.

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM,
Washington, D. C.

Twenty-first Annual Report Federal Reserve Bank of New York

The Money Market in 1935

The supply of funds in the New York money market, which previously had risen to a volume greatly in excess of the effective demand, was increased much further during 1935. The principal cause, as in the preceding year, was a heavy inflow of gold from abroad, which raised the dollar value of the monetary gold stock of the United States to approximately two and one-half times the average amount of the decade from 1924 to 1933. Net receipts of gold at New York during 1935 amounted to about \$1,690,000,000, as compared with a little over \$1,000,000,000 in 1934. Changes in the monetary gold stock of this country during recent years are shown in the accompanying diagram.

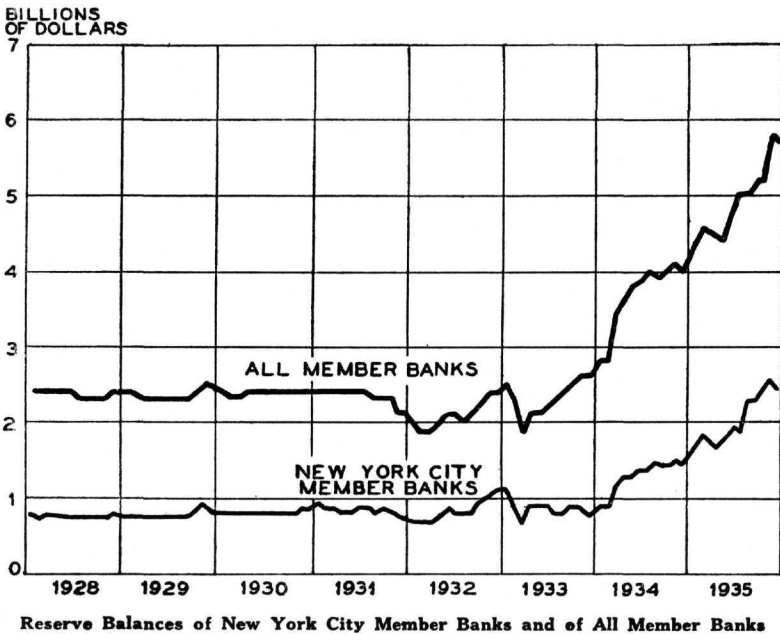


Movements of funds between New York and other parts of the country during 1935 were very large, and in the aggregate resulted in some net withdrawal of funds from the New York money market. The principal outward movement of funds was

through Treasury transactions. A substantial part of the excess of Government expenditures over receipts continued to be financed through the New York market, and Treasury withdrawals of funds from this district were somewhat in excess of the inflow of gold from abroad. On the other hand, there was a large return flow of funds to New York from other parts of the country, which represented in part the transfer of idle funds of banks in other districts to their balances with New York City correspondent banks, and in part a substantial inward movement of other funds, presumably for commercial accounts and for investment. The principal gains and losses of funds to the New York money market during 1935 are summarized in the following table.

	(In millions of dollars)
Gain through gold movement at New York.....	+1,692
Loss through Government transactions.....	-1,848
Gain through commercial and financial transactions.....	+1,238
Net loss through other transactions.....	- 84
Net gain through all transactions.....	+ 998

For the country as a whole the increase in the monetary gold stock, including newly mined gold and recoveries of scrap gold as well as gold imports, amounted to \$1,887,000,000 during 1935. In connection with Treasury purchases of silver about \$315,000,000 of additional silver coin and silver certificates was issued in the course of the year. On the other hand, the amount of currency of all kinds in circulation increased nearly \$350,000,000. The net effect of all changes in factors affecting the basic money supply and demand was an increase of about \$1,500,000,000 in member bank reserves to a volume far above existing requirements. At the end of 1935 the reserve balances of all member banks in the Federal Reserve Banks were close to \$5,600,000,000, as compared with an average of less than \$2,400,000,000 in 1928 and 1929, and with current reserve requirements of about \$2,700,000,000. The reserves of the principal New York City banks alone were about \$2,450,000,000 at the end of 1935, an amount which was about \$1,300,000,000, or 113 per cent, in excess of reserve requirements. For the country as a whole total member bank reserves were about \$2,850,000,000, or 104 per cent, in excess of current requirements. The high point of the year for excess reserves was reached just before the middle of December, when the New York City banks had



more than \$1,500,000,000 and the total for the country as a whole was \$3,300,000,000. During the December tax period a reduction of \$600,000,000 occurred, due to cash payments into Treasury account at the Reserve Banks for new Government securities sold at that time, as well as to tax payments. Treasury balances in the Reserve Banks remained large through the balance of the year. At the end of the year, however, excess reserves showed a renewed increase, due largely to the seasonal retirement of currency that began immediately after Christmas.

In view of the fact that the accumulation of excess member bank reserves during the past two years is attributable almost entirely to the inflow of gold and silver from abroad, the character of these movements is of particular interest. The inflow of gold appears to have been due largely to an inflow of capital to the United States from foreign countries. In 1934 there was a net amount due this country on merchandise trade and services of nearly \$500,000,000, but in 1935 the balance of payments due this country on such transactions was greatly reduced, and was probably more than offset by payments for silver purchased abroad, net silver imports during 1935 amounting to \$336,000,000. The inflow of capital in 1934 was due in part to a return movement to this country of funds which had been transferred abroad

during 1933. This return movement continued in 1935 and was accelerated during the period when the gold clause cases were pending before the Supreme Court in January and February, and the amount of American funds on deposit abroad was considerably reduced. Monetary uncertainties and war fears abroad led to a substantial further increase in the amount of European funds held on deposit in the New York market. The movement of such balances to this country was particularly heavy during April and May, when the devaluation of the Belgian monetary unit gave rise to doubts concerning the stability of the remaining European gold exchanges, and the flow again reached large proportions in the final quarter of 1935, owing to the uncertainty created by the hostilities in East Africa and to the renewed difficulties of the French fiscal situation. In addition, foreign working balances in this country, which had fallen to unusually low levels during the banking and exchange crises here and abroad, were restored to a more adequate level, and there was a marked revival of foreign investment interest in American securities during the second half of the year, stimulated chiefly by the further progress towards recovery in business volume and business profits in this country. Factors other than temporary transfers of foreign funds to this country have accounted for a considerable part of the gold inflow of the past two years, and tend to limit the amount of any reversal of the gold movement which may occur in the event of the development of more settled conditions abroad.

In the case of silver, the inward movement represents Treasury purchases of foreign silver under the Silver Purchase Act of 1934. This country, during the past year even more than in the previous year, has been the principal market for silver, especially in view of the fact that China, which in the past has usually been a large buyer of silver, became a heavy seller, and that India made no net purchases in 1935.

The supply of funds in the money market at the beginning of 1935 was already so large that the further accumulation during the year appears to have had comparatively little effect on short term money rates. Competition for the available call loan business resulted in the spring in a break in the rate on call loans on Stock Exchange collateral from the 1 per cent rate which had been maintained for a number of months to $\frac{1}{4}$ per cent, but in the autumn the rate was advanced to $\frac{3}{4}$ per cent and main-

tained there. Yields on short term Government securities and rates on loans to customers declined slightly further, but rates on open market commercial paper and bankers acceptances were practically unchanged. The greatest change was in longer term rates which respond more slowly to a large supply of funds. Rates prevailing in the New York money market at the end of 1934 and at the end of 1935 were as follows:

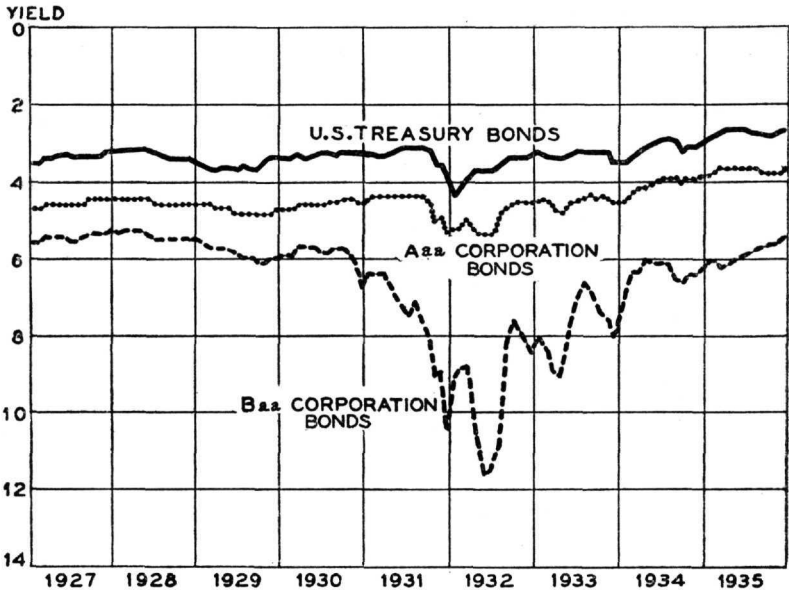
Money Rates at New York

	Dec. 31, 1934	Dec. 31, 1935
Stock Exchange call loans.....	1	$\frac{3}{4}$
Stock Exchange 90 day loans.....	$*\frac{3}{4}-1$	$*1$
Prime commercial paper—4 to 6 months.....	$\frac{3}{4}-1$	$\frac{3}{4}$
Bills—90 day unindorsed.....	$\frac{1}{8}$	$\frac{1}{8}$
Customers' rates on commercial loans.....	†1.96	†1.75
Average rate on latest Treasury bill sales		
182 day issue	0.10	....
274 day issue .....	....	0.08
Average yield on Treasury notes (1-5 years)..	1.13	0.73
Average yield on Treasury bonds (more than 5 years to earliest call date).....	2.83	2.50
Average yield on Aaa corporation bonds....	3.80	3.71
Federal Reserve Bank of New York rediscount rate	$1\frac{1}{2}$	$1\frac{1}{2}$
Federal Reserve Bank of New York buying rate for 90 day indorsed bills.....	$\frac{1}{2}$	$\frac{1}{2}$

*Nominal. †Average rate of leading banks at middle of month.

REVIVAL OF THE CAPITAL MARKETS

The chief effect of the large volume of surplus funds available for employment during 1935 appears to have been in the market for securities, though it cannot be stated with assurance that the further accumulation of funds had much greater effect in this regard than would the maintenance of conditions such as those prevailing at the end of 1934. There was a strong rise in prices of high grade bonds—corporation as well as Government—in the first few months of the year, which carried them to the highest levels in many years. A moderate setback occurred in the third quarter of the year, but there was a renewed advance in the last quarter. On the whole, the net rise in prices of such securities and the corresponding declines in their yields during 1935 were considerably less than in the preceding three years, due perhaps to the fact that in 1933 and 1934 the influence of low short term money rates and a large supply of available funds was supplemented by the effect of the beginning of business



Average Yield on Various Groups of Bonds (Moody's Investors Service average yields for Aaa and Baa corporation bonds, and Federal Reserve Bank of New York average yield on U. S. Treasury bonds; scale inverted to show movement of prices)

recovery. The influence of the business situation was again clearly evident in the movement of prices of lower grade securities during 1935, but apparently was not so large a factor in price movements of the highest grade securities.

The persistent strength in the market for high grade securities was favorable to the flotation of high grade new securities at low rates of interest, a condition which not only facilitated Government financing, but also promoted a resumption of refunding issues by corporations on a large scale. As the accompanying table indicates, a substantial volume of refunding was done also by States, municipalities, and other public bodies, including farm loan agencies, but a much larger proportion of total security flotations than in any other recent year represented refunding operations by corporations. These operations had the effect of materially reducing interest charges and thus reduced to some extent the cost of doing business for corporations which were able to avail themselves of the opportunity. Refunding of indebtedness through new security flotations was, therefore, an influence of some importance in facilitating a return to more profitable business operations.

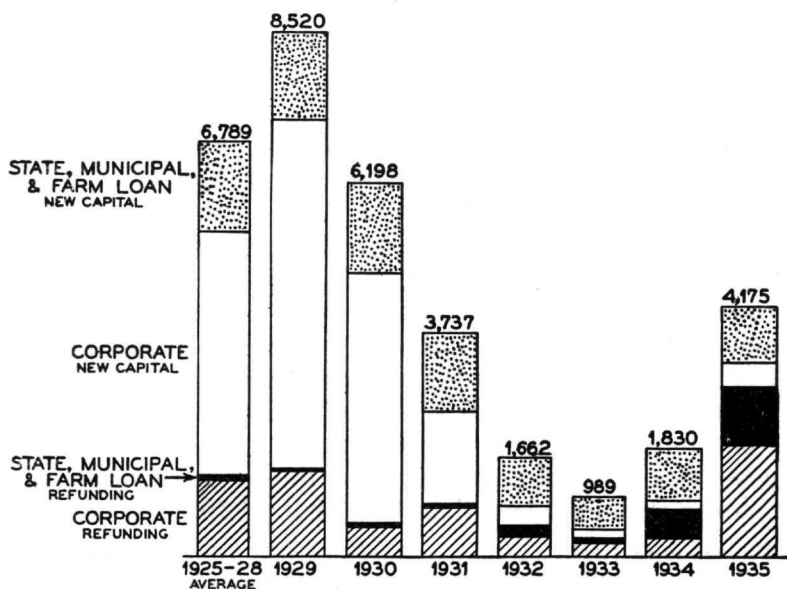
Domestic Capital Issues
(In millions of dollars)

Year	New capital			Refunding		
	Corporate issues*	State and municipal**	Total	Corporate issues*	State and municipal**	Total
1926	3,626	1,435	5,061	820	62	882
1927	4,393	1,562	5,955	1,842	127	1,969
1928	4,490	1,443	5,933	1,580	36	1,616
1929	5,716	1,418	7,134	1,373	13	1,386
1930	4,150	1,498	5,648	474	76	550
1931	1,536	1,309	2,845	820	72	892
1932	324	827	1,151	318	193	511
1933	160	541	701	219	69	288
1934	159r	881r	1,040r	312	478r	790r
1935	402	934	1,336	1,860	979	2,839

*Excludes investment trust issues, etc. **Includes Federal Land Bank and Federal Intermediate Credit Bank issues. r Revised.

Source: Commercial and Financial Chronicle (adjusted).

To this factor of lower interest costs is attributed a considerable part of the moderate upturn in aggregate profits of public utility companies in 1935, following a continued decline in profits in 1933 and 1934 despite a substantial increase in the



Offerings of Domestic Securities in 1935 Compared with Preceding Years
(Commercial and Financial Chronicle data—investment trust issues excluded;
in millions of dollars)

volume of business. A number of industrial companies also lowered their interest costs materially by refunding operations during the past year, but for a considerable part of the year the market for railroad securities was such as to discourage efforts by the railroads to reduce interest charges. Most of the large railroad refunding operations that occurred in 1935 were undertaken with the support of the Reconstruction Finance Corporation. The prospects for railroad refinancing in the market, at least for the stronger roads, were considerably improved by increased net earnings toward the end of the year.

As the table shows, there was a moderate increase in amount of new capital obtained by domestic corporations through security issues in 1935. The volume of new capital issues was the largest for any year since 1931, but was less than one tenth of average volume in the preceding five years.

There was also some improvement in the mortgage situation during the past year. Payments of interest and taxes on mortgaged property were reported to have improved considerably; foreclosures became less numerous; and the supply of funds in the hands of mortgage lenders increased. There was a downward tendency in interest rates on outstanding mortgages, and mortgage funds for conservatively financed new construction projects were available at moderate rates in increased volume.

The stock market was rather weak during the early months of the year. Railroad stocks declined to the lowest prices since the spring of 1933, public utility stocks reached new low points for many years, and industrial stocks, although they held well above the lowest levels of the depression, were also rather weak. Beginning in the latter part of March, however, a rise in stock prices got under way which continued without material interruption to the end of the year. At the end of December the general average of stock prices was about 65 per cent above the lowest point of the year, and was the highest since the spring of 1931. Industrial stocks in general were above their average prices in 1926, but public utility stocks remained somewhat below the average price level of that year, and the average price of railroad stocks remained less than half that of 1926.

There was little evidence during 1935 of any tendency on the part of industry to seek new capital through the flotation of additional stock issues, despite the substantial rise in stock prices during the year.

FURTHER RECOVERY IN BUSINESS

Among the outstanding developments in the business situation during 1935 were the acceleration of activity in industries producing industrial equipment and a marked revival in privately financed construction although such building still remained at an abnormally low level. A conspicuous example was the increase in orders for machine tools, which for a few months in the summer and early autumn reached the highest levels since the closing months of 1929. There was also a further increase in orders for other types of industrial equipment.

Reflecting rather unsatisfactory earnings during the first eight months of the year, railroad purchases of rolling stock and track supplies were in small volume during 1935, but after a strong upturn in railroad earnings in the later months of the year it was reported that a considerable increase in expenditures for such purposes was in prospect at the close of the year.

Changes in the volume of business in some of these lines are shown in the following table.

(In percentages of 1923-1925 averages)

	1929	1932	1933	1934	1935
Machine tools, orders*	223	28	39	66	123
Foundry equipment, orders*	160	16	30	49	84
Boilers, production	92	39	39	50	60
Pumps, orders*	122	30	40	43	50
Electric overhead cranes, shipments*	124	5	7	13	35
Wood working machinery, shipments	89	12	13	12	15
Factory construction, contracts*	169	16	34	32	29
Railroad track work, production	91	15	17	27	24
Freight cars, shipments	71	1	1	16	7
Locomotives, shipments	44	8	6	13	13

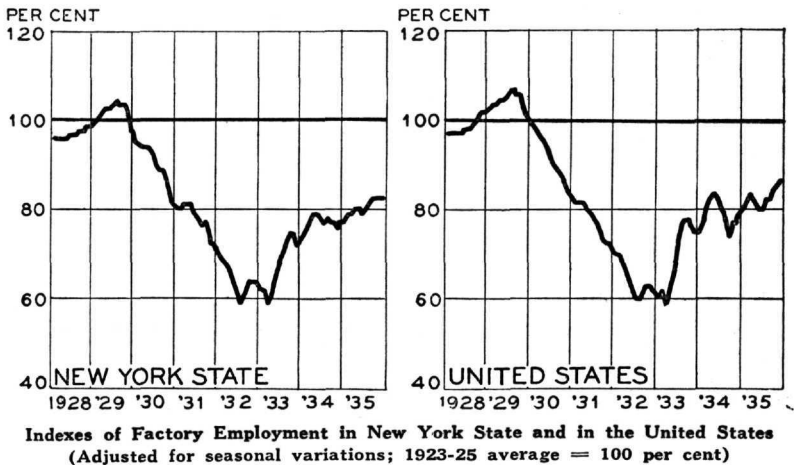
*Indexes based on dollar values.

Another encouraging development in the business situation was a substantial upturn in contracts for residential building. After the first few months of the year the volume of such contracts, after allowance for the usual seasonal movements, showed a steady increase, and in the latter part of the year was more than double the volume of a year previous, although it remained far below pre-depression levels. The increase in the volume of residential building contracts was supplemented by a strong upturn in contracts for publicly financed projects in the latter part of the year, the volume of such contracts reaching the highest

level since the year-end of 1933-1934, when the Public Works Administration program was at its height.

In general, the progress of recovery in 1935 was more pronounced in the durable goods industries than in industries producing nondurable goods, although the latter in general operated at high levels during the year. An important factor in the expanding production of durable goods, however, was in the general category of consumers' goods, rather than producers' goods—the substantial increase in the production and sales of passenger automobiles. During the year 3,286,000 passenger automobiles were produced, the largest number for any year since 1929. This industry contributed largely to business recovery, especially in the later months of the year when the introduction of new models two months earlier than usual was responsible for unusual activity, not only in the automobile industry, but in industries that supply materials or parts, and also in related movements of freight.

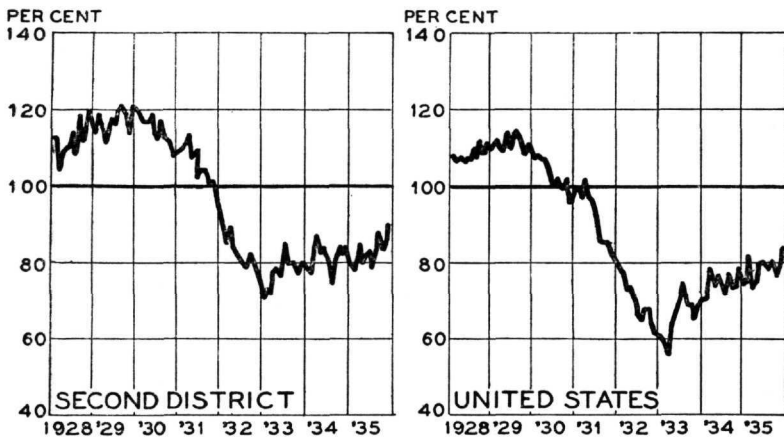
This district, with its wide variety of industries, participated in the further recovery in industrial activity, and factory employment in New York State at the end of 1935 had recovered about half its depression loss, a slightly smaller recovery than in the United States as a whole.



General business in this district apparently has not shown as rapid a recovery as industrial activity. "White collar" employment is of especially great importance in this district, due to the concentration of certain activities such as the security

markets, banking, advertising, insurance, foreign trade, and the central offices of many large corporations in New York City and vicinity. Thus far it appears that there has been no such revival of employment opportunities for "white collar" workers as for factory operatives in this district, and, furthermore, the volume of construction in the district, although it expanded considerably during 1935, remained far below pre-depression levels, and opportunities for employment on privately financed construction projects remained quite limited. Under these circumstances, the number of people dependent upon relief or publicly financed employment in this district continued at a high level.

Retail trade, as reflected in department store sales, showed some further improvement during 1935. The recovery in this district has been more gradual than for the country as a whole, but the preceding decline from 1929 to 1933 also had been less abrupt. For the year as a whole, department store sales showed an increase of less than 2 per cent in this district, as compared with an increase of 5 per cent for the entire country.



Indexes of Department Store Sales in the Second District and in the United States (Adjusted for seasonal variations; 1923-25 average = 100 per cent)

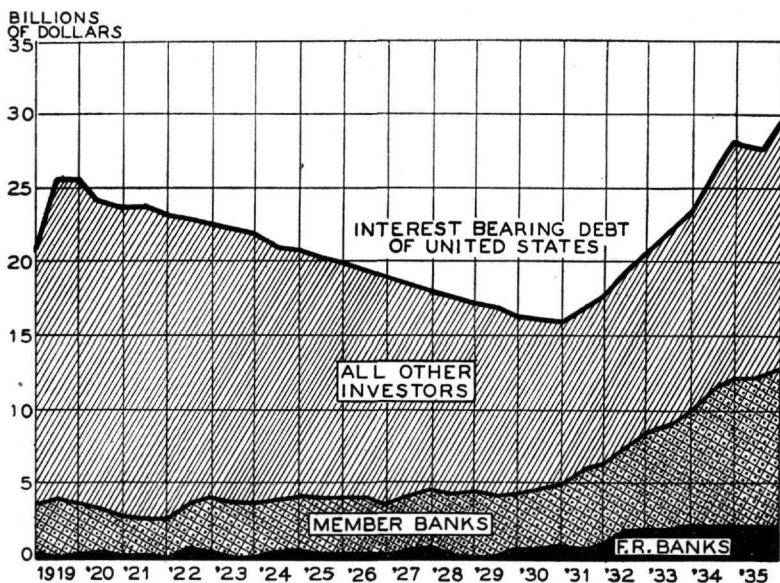
The extent of recovery, and the levels of activity prevailing in varied types of production and business activity, as reflected by this bank's indexes, are shown in the following table. These indexes represent percentages of the computed long term trend of growth in each line, rather than percentages of a fixed base period, and are adjusted for seasonal variations and where necessary for price changes.

	1929 average	1932-33 low	December 1934	December 1935
Cement production	111	30	42	54
Building contracts	107	14	26	71
Pig iron production	115	16	37	75
Steel ingot production.....	118	18	56	87
Bituminous coal production.....	107	48	69	76
Electric power production.....	109	67	72	76
Passenger automobile production...	114	21	66	76
Meat packing	98	82	113	83
Wheat flour production.....	104	68	89	86
Tobacco products output.....	106	68	90	89
Mill consumption of cotton.....	104	56	80	91
Wool consumption	106	34	88	105
Silk mill activity.....	109	45	65	67
Shoe production	105	75	105	128
Exports	109	39	44	58
Imports	113	51	60	79
Mail order house sales.....	122	65	74	79
Department store sales, U. S.....	102	64	76	79
Department store sales, 2nd Dist...	101	69	73	75
Car loadings, merchandise and misc.	108	51	61	67
Car loadings, other	104	38	61	66
Bank debits, 140 cities outside N. Y.				
City	112	55	62	68
Bank debits, N. Y. City.....	135	42	45	44
Advertising	104	45	60	69
New life insurance sales.....	132	53	59	55
New corporations formed in N. Y.				
State	98	63	52	58

MEMBER BANK CREDIT

The principal expansion in member bank credit during 1935 was again in holdings of Government securities. The increase in such holdings, however, was much less than in 1934, due partly to the fact that the interest bearing debt of the Government showed a materially smaller increase in 1935 than in the preceding year and that Consols and Panama Canal bonds which were retired during the year were held largely by National banks to secure their note circulation, and partly to a relatively larger increase in purchases of Government securities by other investors.

The increase in the interest bearing debt of the National Government during 1935 amounted to \$1,652,000,000, as compared with an increase of \$4,494,000,000 in 1934. There were several reasons for the much smaller increase in the National debt during the past year. In the first place, Government borrowing went considerably ahead of expenditures during 1934, so that Government balances in depositary banks showed an in-



Total Interest Bearing Debt of the United States Government; Amounts Held by Member Banks and Federal Reserve Banks, and by All Other Investors

crease of nearly \$700,000,000 during that year, whereas in 1935 Government expenditures exceeded new borrowings, and balances in depository banks were reduced by approximately \$800,000,000. Another factor was the retirement in 1935 of \$675,000,000 of Consols and Panama Canal bonds, which previously had been used largely to secure National bank note circulation. These bonds were not replaced by other Government securities, but for the most part were retired, directly or indirectly, out of a part of the proceeds of the revaluation of the monetary gold stock of the country. A third factor was the considerably smaller amount of borrowing in 1935 than in 1934 to finance Government lending agencies such as the Reconstruction Finance Corporation.

Government financing operations in 1935 included the retirement of a large volume of callable bonds, especially the remainder of the Fourth Liberty Loan and the outstanding First Liberty Loan bonds. In partial replacement of these and other maturing securities, large amounts of new Government bonds of fairly long maturity were sold during the year and were purchased more largely by other investors than by banks, which in general continued to invest chiefly in the shorter term Government securities, especially Treasury notes of 1 to 5 year matur-

ity. For this reason and because of the fact that the Consols and Panama Canal bonds retired during the year were largely from bank holdings, member bank holdings of Government bonds, as distinguished from Treasury bills and Treasury notes, showed a reduction during the year.

New York City banks showed an increase of less than \$200,000,000 in their total holdings of direct obligations of the United States Government in 1935, as compared with an increase of nearly \$900,000,000 in 1934, and had a considerably smaller increase in their holdings of Government guaranteed securities in 1935 than in 1934. The proportion of their aggregate investments in Government securities to total loans and investments remained practically unchanged at 45½ per cent. In Chicago and other Reserve cities, member banks again increased their holdings of Government direct and fully guaranteed obligations substantially, but in this case also the increase was smaller in 1935 than in 1934. Member banks in other localities—"country" banks—showed a net reduction in their holdings of direct obli-

(In millions of dollars)

	U. S. Government securities			Per cent total U. S. securities to total loans & investments
	Direct	Fully guaranteed	Total	
<i>New York City banks</i>				
Dec. 31, 1930.....	1,239		1,239	14.4
" 30, 1933.....	2,362		2,362	33.8
" 31, 1934.....	3,246	278	3,524	45.4
" 31, 1935.....	3,425	401	3,826	45.5
<i>Chicago and other Reserve City banks</i>				
Dec. 31, 1930.....	1,727		1,727	12.5
" 30, 1933.....	3,209		3,209	31.6
" 31, 1934.....	4,552	356	4,908	42.3
" 31, 1935.....	5,136	744	5,880	46.5
<i>Country banks</i>				
Dec. 31, 1930.....	1,159		1,159	9.3
" 30, 1933.....	1,683		1,683	20.9
" 31, 1934.....	2,108	355	2,463	28.1
" 31, 1935.....	1,940	623	2,563	28.7
<i>All member banks</i>				
Dec. 31, 1930.....	4,125		4,125	11.8
" 30, 1933.....	7,254		7,254	28.8
" 31, 1934.....	9,906	989	10,895	38.7
" 31, 1935.....	10,501	1,768	12,269	40.9

gations of the Government, and although they continued to purchase Government guaranteed securities, their total Government security holdings showed comparatively little change, and remained under 29 per cent of their total loans and investments.

The relatively small increase in holdings of Government and Government guaranteed securities by member banks resulted in a much smaller increase in total loans and investments during 1935 than in 1934, despite the fact that other forms of member bank credit showed greater stability or even increased moderately in 1935, following the declines of several preceding years.

In New York City, the increase in holdings of direct obligations of the Government accounted for only a little more than one fourth of the increase in total loans and investments. In this case the largest element in the increase in total earning assets of member banks was an expansion in loans to security brokers and dealers in New York City, which increased by more than \$350,000,000, or over 50 per cent. Part of this increase was in replacement of loans previously made by out of town banks, which were withdrawn in the spring of the year when the rate on call loans dropped to $\frac{1}{4}$ per cent, a return only sufficient to cover the charge made by the New York banks for placing and servicing such loans. The total volume of loans to security

(In millions of dollars)

	New York City			United States		
	Dec. 30, 1933	Dec. 31, 1934	Dec. 31, 1935	Dec. 30, 1933	Dec. 31, 1934	Dec. 31, 1935
Loans on securities:						
To brokers and dealers.	751	716	1,078	1,006	1,030	1,243
To others	989	820	792	3,606	3,110	2,893
Bankers acceptances.....	187	226	173	260	287	210
Commercial paper bought.	20	6	5	132	232	272
Loans to banks.....	146	63	42	287	156	98
Real estate loans.....	148	139	140	2,359	2,273	2,284
All other loans.....	1,213	1,189	1,203	5,184	4,940	5,176
U. S. Government obligations:						
Direct	2,362	3,246	3,425	7,254	9,906	10,500
Fully guaranteed	*	278	401	*	989	1,768
Other securities	1,179	1,078	1,159	5,132	5,227	5,541
Total loans and investments	6,995	7,761	8,418	25,220	28,150	29,985

*A small amount of fully guaranteed securities included in other securities.

brokers and dealers by all member banks showed a net increase during the year of \$213,000,000, but as the preceding table indicates, loans on securities to others declined \$217,000,000 further during the year, so that there was practically no change in the total volume of security loans by all member banks, despite the substantial rise in security prices during 1935.

The volume of bankers acceptances bought in the open market declined further during 1935, especially in New York City banks, accompanying a continued reduction in the total volume of such paper outstanding. An important element in the reduction, however, was the financing by the Government of certain commodity loans which previously had been financed through the banks. Loans on real estate increased slightly, and all other loans, including the bulk of loans for ordinary business purposes, also showed a slight increase in New York City and an increase of more than \$230,000,000 for all member banks in the country.

MEMBER BANK DEPOSITS

The volume of deposits in member banks showed a further large increase during 1935, although, reflecting primarily the smaller increase in Government security holdings, the increase was not as large as in 1934. The increase again occurred chiefly in demand deposits, and although interbank deposits continued to be a substantial element, there was also a large increase in other demand deposits (adjusted demand deposits) amounting to 22 per cent for New York City banks, 20 per cent for other Reserve city banks, and 18 per cent for "country" banks. The two largest factors in this rapid expansion of demand deposits were the heavy inflow of funds from abroad and Government expenditures. Government expenditures in excess of current receipts were reflected in a substantial reduction in Government deposits, as well as in the further increase in Government securities held by the banks. The inflow of funds from abroad was reflected only partly in the increase in foreign bank deposits shown in the following table, a considerable amount going into other deposit accounts, either directly, or indirectly through the purchase of securities in this country.

Total demand deposits for all member banks, adjusted to exclude interbank deposits and duplication of deposits represented by checks and other items in process of collection, rose during 1935 to new high levels, well above the highest points reached in 1928 and 1929. The total increase since June 1933

has amounted to 42 per cent in New York City, 62 per cent in other Reserve cities, and 65 per cent in "country" banks. Although the percentage increase was largest for the banks out-

(In millions of dollars)

	Dec. 30, 1933	Dec. 31, 1934	Dec. 31, 1935
<i>New York City banks</i>			
Demand deposits of domestic banks....	1,200	1,798	2,338
Demand deposits of foreign banks.....	112	126	410
U.S. Government deposits.....	422	792	224
Other demand deposits*.....	4,325	5,069	6,193
Demand deposits all accounts.....	6,059	7,785	9,165
Time deposits	748	659	610
<i>Chicago and other Reserve City banks</i>			
Demand deposits of domestic banks....	1,685	2,430	2,943
Demand deposits of foreign banks.....	17	19	33
U.S. Government deposits.....	434	666	483
Other demand deposits*.....	5,021	6,324	7,562
Demand deposits all accounts.....	7,157	9,439	11,021
Time deposits	4,012	4,385	4,689
<i>Country banks</i>			
Demand deposits of domestic banks....	254	342	415
Demand deposits of foreign banks.....	1	2	1
U.S. Government deposits.....	111	178	137
Other demand deposits*.....	3,328	4,292	5,047
Demand deposits all accounts.....	3,694	4,814	5,600
Time deposits	4,366	4,864	5,115
<i>All member banks</i>			
Demand deposits of domestic banks....	3,139	4,569	5,696
Demand deposits of foreign banks.....	130	147	444
U.S. Government deposits.....	967	1,636	844
Other demand deposits*.....	12,674	15,686	18,802
Demand deposits all accounts.....	16,910	22,038	25,786
Time deposits	9,126	9,908	10,414

* "Adjusted demand deposits"—adjusted by inclusion of certified and officers' checks, cash letters of credit and travelers' checks outstanding, and amounts due to Federal Reserve Banks (deferred credits), and by deduction of cash items on hand or in process of collection and exchanges for the clearing house.

side New York City and other Reserve cities, including Chicago, the volume of deposits in such banks remained below the 1928-1929 levels, as the preceding shrinkage in deposits also had been greatest outside of the principal cities. Furthermore, the volume of deposits in nonmember banks is far below the levels of six or seven years ago, due partly to the closing of a large percentage of such banks and partly to conversions of nonmember into member banks.

In dollar volume, about 70 per cent of the total increase in adjusted demand deposits of all member banks since June 1933 has been in member banks in New York City and other Reserve cities.

The rapid increase in deposits, occurring so largely in the form of demand deposits and in the larger centers where reserve requirements are higher than in the smaller localities, resulted in a further increase of \$450,000,000 in member bank reserve requirements, of which about \$270,000,000 was in New York City alone. This large absorption of reserves by increased requirements was much more than offset, however, by the heavy gold inflow, so that the amount of idle reserves at the end of 1935, as previously indicated, was much larger than ever before, and the capacity for further expansion of bank credit was consequently much greater than at the beginning of the year.

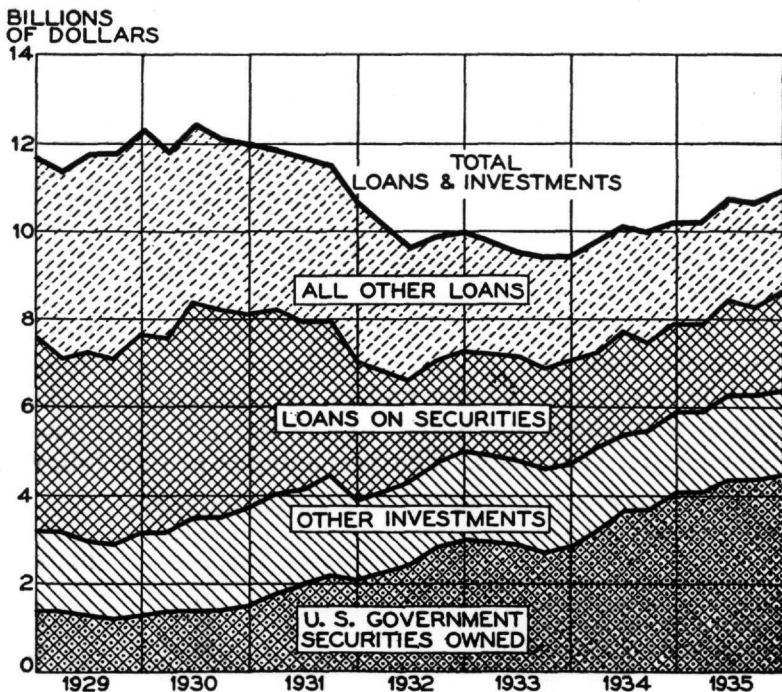
The volume of transactions financed by the use of bank deposits, as reflected in bank debits, increased considerably during 1935, the increase amounting to about 11 per cent in New York City and 15 per cent in 140 other centers throughout the country. These increases, however, were less than the increase in the volume of demand deposits, so that the average rate of turnover or velocity of demand deposits declined further instead of showing the increase that in past years has frequently accompanied business revival. The indication, therefore, is that the volume of deposits in the banks at the end of 1935, if used as intensively as in most years since the war, would be sufficient to finance a much larger volume of business transactions.

MEMBER BANK POSITION AT THE END OF 1935

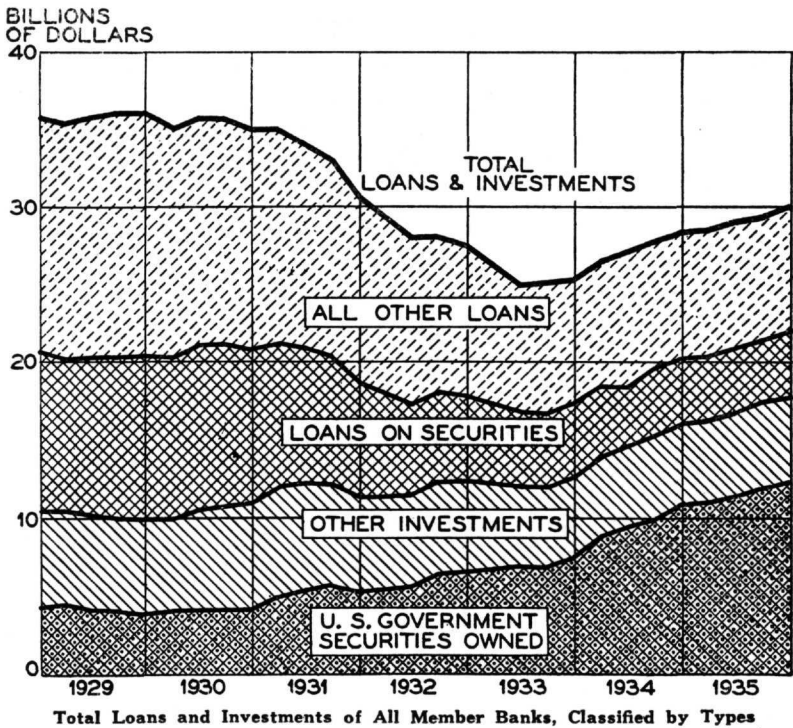
The large increase in deposits during the past year tended to reduce somewhat the ratios of bank capital funds to deposits, but in general the ratios had been quite high at the beginning of the year, due in many cases to the additional capital supplied by the Reconstruction Finance Corporation, and although a

small part of the capital so supplied was retired in 1935, the ratios of capital to deposits in general were quite ample at the end of the year. In a number of instances, bank capital has been increased during the past year by recoveries on loans and investments previously written down because of depreciation in market or appraised value.

From the viewpoint of liquidity, the banks generally were in strong position. Not only were their reserves far in excess of current requirements, but the proportion of their assets in the form of Government securities and other paper readily usable to secure loans from the Reserve Banks was unusually high. Furthermore, under the Banking Act of 1935 all forms of sound bank assets are eligible as security for advances from the Reserve Banks if occasion requires, subject to regulations to be prescribed by the Board of Governors of the Federal Reserve System. Commercial loans of the kinds to which eligibility for rediscount at the Reserve Banks was originally limited by the Federal Reserve Act remained very small in relation to the total earning assets of member banks in this district and



Total Loans and Investments of Member Banks in Second Federal Reserve District, Classified by Types



elsewhere, and loans acquired in the open market, such as call loans, bankers acceptances, and open market commercial paper, which formerly were counted upon as important elements in the liquid assets of the banks, also remained at comparatively low levels.

In view of the low levels to which the volume of loans has fallen, the investment position of the banks is now especially important. At the end of 1935, investments in securities represented more than half of the total loans and investments of member banks in this district and in the country as a whole, as compared with about one fourth to one third of total loans and investments six years ago. The percentages are as follows:

Per Cent Investments to Total Loans and Investments

	1929 Average	Dec. 31, 1935
New York City member banks.....	23	59
Other Second District member banks.....	33	56
All member banks in United States.....	28	59

A review of the securities held by a considerable number of member banks in this district, which was made near the end

of the year on the basis of recent reports of examination, indicated that bank investments are now predominantly of high quality. The investments of the New York City banks covered by the study were 75 per cent in United States Government securities, and of the remaining securities nearly three quarters were municipal securities and corporation bonds rated Aaa to A. For the banks in other parts of the district that were covered by the study, a little over half of the total investments were in United States Government securities, and about 70 per cent of the remainder were in municipal and high grade corporation bonds. A classification of the investments of the banks studied is as follows:

Per Cent of Total Investments

Type of Security	16 New York City banks	100 Other Second Dist. banks
U.S. Government	75	53
Municipal	11	17
Aaa to A corporation.....	7	16
Baa and lower grade corporation.....	7	14
All types	100	100

In general, the investments of the New York City banks were not only rated higher but were also of shorter maturity than were the investments of other banks in the district. It is especially important for the New York City banks to hold securities that are readily marketable, in view of their high ratios of demand deposits to total deposits. These demand deposits include large amounts of deposits held for out of town banks and for foreign depositors which are presumably more volatile than others. More than half of the investments of the New York City banks mature within two years, and three quarters mature within five years. Other banks throughout the district had comparatively small holdings of securities maturing within two years, but about 37 per cent of their total invest-

Per Cent of Total Investments

Maturities	16 New York City banks	100 Other Second Dist. banks
1935-1937.....	54	12
1938-1940.....	21	25
1941-1945.....	10	10
1946-1950.....	5	19
After 1950.....	10	34
All maturities.....	100	100

ments mature within five years. These banks in general have large proportions of time deposits, as in many cases they take the place of savings banks in their respective communities, and also hold only small amounts of balances of other banks.

Credit Policy and Operations of the Bank During 1935

In view of the large amount of surplus funds held by most member banks during the past year, the calls upon the Federal Reserve Bank of New York by member banks for funds to supplement their available cash and reserves were extremely small. Few member banks had occasion to rediscount commercial paper or to obtain advances from the Reserve Bank, and offerings of bankers acceptances to the Reserve Bank were negligible in amount.

The rediscount rate of the bank was held at the low rate of $1\frac{1}{2}$ per cent, which had been in effect during most of 1934, but the rate was of comparatively little importance in view of the small amount of member bank borrowings. Investments in Government securities for the bank's own account and its participation in the System investment account remained practically unchanged at the relatively high level which has prevailed since the autumn of 1933.

The policy of this bank, in cooperation with the other Reserve Banks and the Board of Governors of the Federal Reserve System continued to favor low money rates and an ample supply of credit for business use. Increasing attention was given, however, to the problem created by the extraordinary accumulation of excess reserves in member banks, in view of the fact that those reserves have supplied the basis for potential expansion of credit far in excess of any probable need.

The Banking Act of 1935 provided the Federal Reserve System with a new instrument for dealing with this situation, in that it authorized the Board of Governors to increase member bank reserve requirements to not more than twice their present amount, if necessary to avoid injurious expansion of credit. The heavy inflow of gold during the past two years has raised member bank reserves to a volume that is beyond the scope of open market operations by the Reserve Banks, the principal method of control employed in the past. For the country as a whole, excess reserves at the end of the year amounted to about \$2,850,000,000, and enough additional funds were in

sight, including the seasonal retirement of currency then in progress, and the unusually large amounts of Government deposits in the Reserve Banks, to raise excess reserves to about \$3,500,000,000, whereas the total Government security holdings of all Federal Reserve Banks amounted to a little over \$2,400,000,000. This situation has given rise to new problems concerning the proper order of application and timing of the various instruments of Federal Reserve policy. Past experience of the System has indicated that open market operations and changes in Reserve Bank discount rates have been most effective when member banks in the aggregate not only had no excess reserves but needed several hundred million dollars of Federal Reserve credit in order to keep their reserves at the required levels.

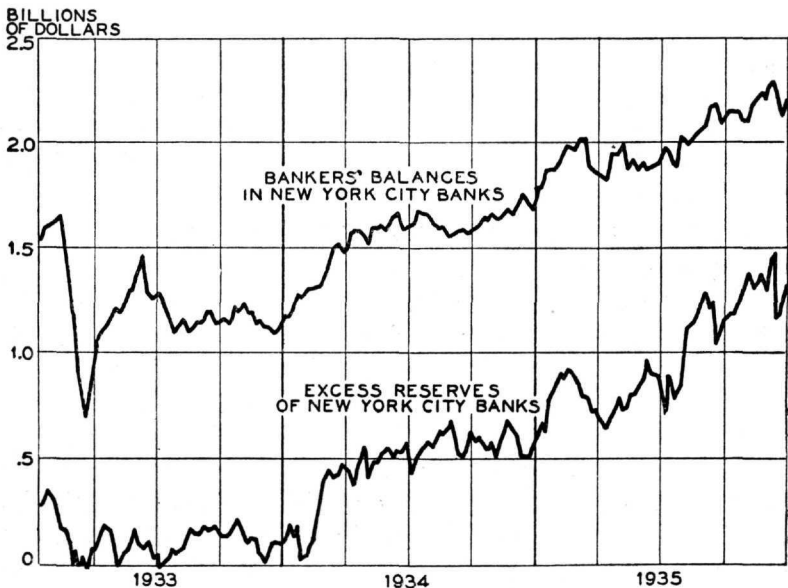
In connection with a system-wide study of the reserve position of member banks, the position of individual banks in this district was examined near the end of the year. When reserve balances in Federal Reserve Banks only were considered, it appeared that more than one fourth of the member banks in the district had excess reserves amounting to less than 25 per cent of their reserve requirements, and only about 36 per cent of the banks had excess reserves amounting to 100 per cent or more of their requirements. It was known, however, that many banks especially in the smaller communities followed the practice of keeping a substantial part of their surplus funds on deposit with their city correspondents rather than in the Reserve Bank. In order to obtain a more adequate view of the reserve position of member banks, therefore, balances due from other banks in this country were listed as well as reserve balances on deposit in the Reserve Bank.

The inclusion of deposits with other banks completely altered the indicated position of member banks in this district with respect to surplus funds. Only 22 banks out of a total of 793 had reserve balances and deposits with correspondents amounting to less than 25 per cent in excess of their requirements; only 51 banks had such funds amounting to less than 50 per cent in excess of their requirements; and only 133 banks, or about one sixth of all member banks in the district had funds on deposit in the Reserve Bank or with other domestic banks amounting to less than double their reserve requirements. It is true, however, that a part of the funds on deposit with other banks should be regarded as normal working balances, and should not be regarded altogether as surplus funds.

The distribution of Central Reserve City (New York City—Manhattan) and other member banks in this district with respect to their reserve position on November 1, 1935, before and after inclusion of balances due from other banks, was as follows:

Per Cent Reserves in Excess of Reserve Requirements	Distribution of banks based on			
	Reserves with Federal Reserve Bank only		Reserves and Balances Due from domestic banks	
	Central Reserve City banks	All Other Member banks	Central Reserve City banks	All Other Member banks
Less than 25.....	12	207	4	18
25 to 49.....	6	128	5	24
50 to 99.....	8	143	9	73
100 or more.....	12	277	20	640
Total	38	755	38	755

Although in dollar volume the excess reserves of the New York City banks were far greater than the excess reserves of all other member banks in the district, in proportion to existing



Bankers' Balances Held by New York City Banks for Account of Out of Town Banks, and Excess Reserves of New York City Banks

reserve requirements the percentages of excess reserves were less for the City banks than for the "country" banks, especially if balances with other domestic banks are taken into account. Furthermore, the large New York City banks held deposits due to other domestic banks amounting near the end of 1935 to around \$2,200,000,000, as compared with \$900,000,000 to \$1,000,000,000 in 1928 and 1929. As the accompanying diagram indicates, there has been a fairly close parallel between the trend of these balances held for other banks by the New York City banks and the trend of excess reserves of the New York City banks during the past three years. It would appear, therefore, that a large part of the excess reserves of the large New York City banks in effect belong to out of town banks and are subject to withdrawal by those banks, though a considerable part of present balances are in the nature of normal working balances that are unlikely to be withdrawn rapidly.

VOLUME OF OPERATIONS

The volume of ordinary operations, including services performed for the Government as fiscal agent, and services rendered to business and the public generally in supplying currency and facilitating settlements for business and financial transactions, increased moderately over 1934, probably due in part to the further progress of business recovery.

Operations as fiscal agent for the Government expanded somewhat further, although, as previously pointed out, the amount of new money raised by the Treasury through sales of securities was not as large as in 1934. Transactions by the Federal Reserve Bank of New York in Government securities, including sales of new issues, redemptions or exchanges of securities that matured or were called for payment during the year, and denominational exchanges of Government securities by the bank, totaled a little more than 20 billion dollars during 1935. This amount included 8½ billion dollars of new securities issued, over 6 billion dollars of securities exchanged or redeemed, and more than 5 billion dollars of denominational exchanges. During the early part of the year the remainder of the Fourth Liberty Loan outstanding was called for redemption, and around the middle of the year the First Liberty Loan and all of the "circulation" bonds (Consols and Panama Canal bonds which were eligible as security for National bank notes) were called for redemption. Included in the First and Fourth

Liberty Loan bonds especially were a large number of bonds of small denominations, requiring more handling than corresponding dollar amounts of the more recent issues, which for the most part have been issued in larger denominations.

The bank also carried through a large volume of work for subsidiary corporations of the Government, especially the Reconstruction Finance Corporation, in connection with the receipt and custody of collateral for loans made by such corporations. The bank also continued to act as agent for the Treasury in the purchase of silver and transactions in gold and exchange. Beginning in August, the Reserve Bank was also requested to handle for the Treasury the payment of checks issued by the Works Progress Administration in this district.

	1934	1935
Number of Pieces Handled		
Bills discounted:		
Applications*	6,046	2,579
Notes discounted	17,655	5,498
Industrial advances:		
Notes discounted	64	273
Commitments	44	112
Bills purchased in open market for own account.....	4,016	1,932
Currency received and counted.....	596,026,000	612,567,000
Coin received and counted.....	991,453,000	1,018,339,000
Checks handled	157,703,000	163,755,000
Collection items handled:		
United States Government coupons paid.....	5,033,000	4,257,000
All other	2,364,000	2,271,000
United States Government direct obligations—issues, redemptions, and exchanges by fiscal agency department	1,275,000	1,728,000
Transfers of funds.....	271,000	255,000
Amounts Handled		
Bills discounted	\$415,086,000	\$130,525,000
Industrial advances:		
Notes discounted	960,000	8,567,000
Commitments	3,970,000	8,820,000
Bills purchased in open market for own account.....	17,424,000	11,984,000
Currency received and counted.....	3,043,595,000	2,918,512,000
Coin received and counted.....	107,597,000	103,281,000
Checks handled	56,048,590,000	62,516,767,000
Collection items handled:		
United States Government coupons paid.....	351,076,000	358,221,000
All other	1,843,785,000	2,176,684,000
United States Government direct obligations—issues, redemptions, and exchanges by fiscal agency department	19,421,691,000	20,052,189,000
Transfers of funds.....	28,642,418,000	31,061,836,000

*Including applications for industrial advances.

The total dollar volume of checks handled showed an increase of 12 per cent over 1934, the first increase since 1929. The amount of these checks—\$62,500,000,000—was far below that of pre-depression years, but was equal to something like 12 to 15 per cent of the estimated total volume of all business and financial transactions in the United States during the year. Wire transfers of funds through the bank also showed some increase during the year and amounted to more than \$31,000,000,000. The dollar volume of currency handled was slightly less than in 1934, but the number of pieces of paper currency and coin handled showed moderate increases over the preceding year, and the amount outstanding in this district appears to have increased during the year.

Bank examination work, which was greatly expanded during 1933 and 1934, continued to be an important element in the work of the bank in 1935. The examiners of this bank participated with State examiners in all examinations of State member banks, and developed considerably the examination of trust departments.

INDUSTRIAL LOANS

The bank continued to receive a considerable number of applications for loans of working capital, under legislation enacted in June 1934, from business organizations unable to obtain the credit desired from the usual sources, though the number of new applications received tended to diminish as the year progressed.

The number of formal applications received during the year was approximately 500, or about the same number as was received in the latter half of 1934. The number of loans approved, however, was proportionately greater in 1935 than in 1934. In 1935, 37 per cent of the applications passed upon by the Board of Directors were definitely approved, and an additional 8 per cent of the applications were given conditional approval, as compared with 30 per cent of definite approvals and an additional 5 per cent of conditional approvals in 1934. The dollar amount of loans approved in 1935 showed a considerable increase, aggregating \$20,420,000, as compared with \$11,000,000 in 1934. The following table summarizes the action taken by the Board of Directors with respect to all industrial loan applications up to the end of 1935, following their investigation by the staff assigned to this work and consideration and recommendations by the Industrial Advisory Committee.

Applications for Industrial Loans at the Federal Reserve Bank of New York
June 19, 1934 to December 31, 1935.

	Number of applications	Amount
Approved	322	\$26,908,000
Conditionally approved and under consideration by the applicants at the end of the year.....	6	344,000
Conditionally approved and nonacceptance indicated by the applicants	45	4,205,000
Rejected	585	31,522,000
Total.....	958	\$62,979,000

The total amount actually advanced on approved loans up to the end of 1935 amounted to about \$8,700,000, and commitments had been made up to that time to advance an additional \$11,900,000. Repayments and expired commitments that were not availed of by the applicants up to the end of 1935, however, reduced the total advances and commitments outstanding at the end of 1935 to about \$17,700,000.

More than half of the loans in number, and three fourths of the total in dollar amount, were made through banks and involved commitments by the Reserve Bank to rediscount the loans and to assume a substantial proportion of the risk involved. The record of advances actually made and of commitments against which advances had not yet been made by this bank at the end of 1935 is as follows:

Advances and Commitments Made
June 19, 1934 to December 31, 1935

Direct advances	\$ 4,432,000
Advances on commitments to banks.....	4,288,000
Direct commitments	254,000
Commitments to banks.....	11,644,000
Total advances and commitments made.....	\$20,618,000
Advances repaid or sold and commitments expired.....	2,929,000
Total advances and commitments outstanding December 31, 1935.....	\$17,689,000

The gradual decline in the number of applications received may probably be interpreted as indicating that with the further

progress of business recovery the financial position of many concerns has been gradually improved, so that potential borrowers are able to offer a better basis for credit from their usual sources of credit. While the total volume of funds actually advanced through the industrial loans made by the Reserve Bank remains comparatively small, the loans in a number of cases have enabled business concerns to continue operations and maintain employment which otherwise might have been discontinued for lack of working capital.

The Foreign Exchanges and Gold Movements

The principal changes in the status of foreign currencies during 1935 were the devaluation of the Belgian monetary unit (the belga) by 28 per cent at the end of March, following a severe banking and exchange crisis, and the measures taken in November by the Chinese Government to demonetize silver. With the exception of the accompanying declines in the external value of these two currencies, variations in exchange rates in 1935 were relatively small, and the foreign exchanges in general showed narrower fluctuations than in any of the preceding four years. Stability of the currencies of the European gold bloc countries other than Belgium, however, was maintained only by heavy international gold movements. The external value of the dollar in terms of gold and gold currencies was held steady, the Treasury standing ready, in accordance with the statement of the Secretary of the Treasury dated January 31, 1934, to purchase imported gold or to sell gold for export to foreign central banks (whenever dollar exchange with gold standard currencies reached the gold export point), at a price of 35 dollars per fine ounce minus or plus certain charges.

The pound sterling and its related currencies, although having no fixed and established connection with gold, showed comparatively restricted movements, the dollar-sterling rate fluctuating during the year between a low of \$4.74 $\frac{1}{4}$ and a high of \$4.98 $\frac{3}{8}$, or over a range of only 5 per cent. The rigid supervision of exchange dealings in Germany continued to be effective in preventing a decline in the official rate for the reichsmark, the so-called free reichsmark, in which dealings were comparatively limited, being held close to its theoretical parity. In Italy, although exchange restrictions were increased in scope and rigor, and the Bank of Italy's gold holdings, together with the

foreign assets and gold holdings of Italian nationals, were mobilized for use in meeting payments abroad, the largely nominal official rate for the lira depreciated about 7 per cent, partly as a result of the adverse effects on Italy's balance of payments of the hostilities in East Africa.

Serious weakness in the belga developed in March, and after an unsuccessful attempt to halt an outflow of funds which led to a substantial reduction in the gold holdings of the National Bank of Belgium, the Belgian cabinet resigned on March 19, and the new government announced a 28 per cent devaluation of the belga on March 31. Although the transition to the new parity took place much more swiftly in Belgium than it had in the United States a year earlier, the Belgian devaluation was similar in some of its aspects. In both cases, the abandonment of the old parity was preceded by banking difficulties and flight of capital. There was a transition period of ambiguous currency status, during which exchange control was established and unrestricted private gold shipment discontinued. This was followed by devaluation, which, in the Belgian case as in our own, was accomplished by Executive action following the passage of legislation authorizing devaluation within a defined range. A part of the "profit" resulting from the revaluation of Belgian gold holdings was set aside in a stabilization fund.

The devaluation of the belga served to arouse doubts concerning the stability of other gold bloc exchanges, and both the guilder and the Swiss franc immediately became subject to severe pressure. The weakness of Dutch exchange began to abate in the latter part of April after a heavy gold drain had occurred, but the outflow of capital from Switzerland continued until early in June, when the rejection by popular referendum of a proposed change in national economic policy led to a subsidence of exchange pressure. Accompanying a fiscal crisis during May, the French franc, which had shown only intermittent weakness in the previous month, also became subject to exceedingly strong pressure, and the Bank of France lost over \$650,000,000 of gold from May 3 to June 7. The crisis was terminated by the formation of a new government with special emergency powers in matters relating to the defense of the franc.

Apart from the devaluation of the belga, the principal effects of the gold bloc crisis of March, April, and May in the

sphere of gold movements and the foreign exchanges were a heavy gold flow to the United States; an accelerated movement of gold into hoards and other unreported holdings abroad; and a recovery in sterling exchange. From the latter part of March to early in June the French, Dutch, and Swiss central banks lost \$1,100,000,000 of gold, of which close to \$470,000,000 was shipped to this country. A considerable part of the remainder entered private hoards abroad and other unreported holdings including the British Exchange Equalization Account. There were indications of a substantial movement of funds to London during this period, and the pound advanced from \$4.74¼ on March 12 to \$4.97 on June 4.

Closing Cable Rates at New York

Exchange on	Par	1935		
		High	Low	December 31
Belgium	\$1.695*	\$2.368	\$1.681	\$1.689
Denmark .....	.4537	.2226	.2111	.2203
England	8.2397	4.9838	4.7425	4.9325
France .....	.0663	.06683	.06510	.06629
Germany .....	.4033	.4078	.3972	.4026
Holland .....	.6806	.6869	.6680	.6800
Italy .....	.0891	.0860	.0803	.0803
Norway .....	.4537	.2505	.2382	.2479
Spain .....	.3267	.1385	.1350	.1375
Sweden .....	.4537	.2570	.2446	.2543
Switzerland .....	.3267	.3293	.3192	.3256
Canada	1.6931	1.0100	.9812	.9947
Argentina** .....	.7187	.3324	.3162	.3288
Brazil** .....	.2025	.0871	.0830	.0860
Uruguay**	1.7511	.8075	.8000	.8050
Japan .....	.8440	.2947	.2792	.2882
India .....	.6180	.3768	.3587	.3728
Shanghai .....	.....	.4213	.2925	.2938
Hongkong .....	.....	.6175	.3188	.3206

*Belga devalued by 28 per cent by decree of March 31, 1935. **Official rates.

In the latter part of July, developments in the silver market began to exert an important influence on the European exchanges and on gold movements. After reaching a peak of 81 cents an ounce late in April, the market price of silver declined steadily to 69¾ cents at the end of June, receding slightly thereafter to 65⅜ cents at the middle of August. An extended speculative position in silver had been built up in the London market, and, as the upward movement of prices ceased, the volume of

offerings increased, becoming very heavy during July and August. The United States Treasury enlarged the volume of its purchases during this period, and on a single day, August 14, about 25,000,000 ounces of silver were acquired, according to an announcement of the Secretary of the Treasury. The principal direct effects of these heavy silver purchases in the field of foreign exchange rates and gold movements were to give a strong undertone to sterling exchange, which reached \$4.98 $\frac{3}{8}$ on August 14, and to diminish the volume of gold imports to the United States. Gold shipments aggregating \$60,000,000 were received during July and August, however, of which \$30,000,000 was exported from Holland during the political crisis at the end of July.

The tense European political situation in September and October growing out of Italian hostilities in East Africa gave rise to a heavy movement of foreign balances from London to New York and to considerable liquidation of gold held in London on private account. These developments were chiefly responsible for gold movements to this country during these two months of \$460,000,000. About two thirds of this movement represented shipments from France, since the Paris market in this period acted as an international clearing center for gold, its exports to the United States presumably being covered chiefly by receipts from official British holdings as well as from Holland and Italy. The pound receded to a low of \$4.88 $\frac{3}{4}$ on October 4 but again showed a firmer tendency as European war fears abated, closing the year at \$4.93 $\frac{1}{4}$.

Towards the end of October French gold losses to the United States ceased to be covered by receipts from other countries, and in the six weeks ended December 6 the gold holdings of the Bank of France showed a decrease of \$415,000,000. The bulk of this gold was shipped to the United States, although a portion was reported to have been taken by the British exchange authorities in connection with their operations to prevent an advance in sterling. The French gold loss was the counterpart of a renewed outflow of capital, occasioned by uneasiness over the difficult fiscal and political situation in France. A change in the immediate political situation, with which the question of the future of the franc was popularly associated, halted the outflow of capital from France early in December, thus permitting a recovery in the franc and a cessation of the gold outflow.

(In thousands of dollars)

Country	Exports to	Imports from	Net
Canada	70	95,244	95,174
China and Hongkong..	...	10,435	10,435
Colombia .....	...	10,909	10,909
Ecuador .....	...	4,646	4,646
England .....	...	300,944	300,944
France	17	924,515	924,498
Holland .....	...	227,622	227,622
India .....	...	83,706	83,706
Mexico	872	14,584	13,712
Philippines .....	...	15,350	15,350
Russia .....	...	18,098	18,098
All Other	28	18,828	18,800
Total	987	1,724,881	1,723,894

Early in November, following an exceedingly sharp decline in Shanghai exchange from 38 5/16 cents to 31 cents per yuan during October, the Chinese Government adopted a series of measures having the object of terminating the use of silver as circulating money and establishing a more complete central banking mechanism. These measures provided for the nationalization of all domestically held silver coin and bullion and for the granting of a monopoly of note issue to the three government-controlled banks. These banks were also charged with the responsibility for controlling the external value of the Chinese monetary unit, and provision was made for the gradual assumption by the Central Bank of China (later to be known as the Central Reserve Bank of China) of other central banking functions, including the holding of government funds and of the reserves of other banks, the extension of rediscount facilities to such banks, and the exclusive right of note issue.

Although the variable equalization tax on silver exports imposed in October 1934 had been at least partially successful in divorcing the external value of Chinese currency from the value of its silver content, the premium on silver which subsequently developed provided a powerful incentive to smuggling, and it seems probable that such smuggling reached large proportions in 1935. The inability of the Chinese Government to exercise full control over silver exports, in the circumstances then prevailing in the world silver market, led to the adoption of the measures described above. Shortly after the announcement of the new Chinese monetary program, the Hongkong Gov-

ernment placed an embargo on silver exports and subsequently nationalized domestic silver stocks and established an exchange stabilization fund. A sharp decline in the price of silver in December 1935 probably facilitated the fulfilment of the Chinese Government's nationalization order by greatly reducing the profitability of smuggling.

Changes in the monetary gold stock of the United States, most of which were caused by the international movements of gold reviewed in the preceding pages, are summarized in the accompanying tables.

(In millions of dollars)

	Jan. 1—Dec. 31, 1935
Shipments:	
Imports	1,724.9
Exports	1.0
Net Imports	1,723.9
Gold earmarked here for foreign account:	
New earmarkings	16.7
Release from earmark.....	16.5
Net earmark	0.2
Other factors, including newly mined domestic gold and scrap gold	163.5
Total addition of new gold to monetary stock.....	1,887.2

Foreign Relations

During 1935 accounts were opened at this bank, with the approval of the Board of Governors of the Federal Reserve System, for the Bank of Canada, the Central Bank of the Argentine Republic, and the National Bank of Nicaragua. The account of the Bank of Java was closed. As a result, the number of accounts maintained by the Federal Reserve Bank of New York on behalf of all twelve Federal Reserve Banks for foreign banks of issue and the Bank for International Settlements rose from thirty-six at the end of 1934 to thirty-eight at the end of 1935. Balances maintained by foreign correspondents with this bank rose from \$4,233,000 at the close of 1933 and \$19,394,000 at the end of 1934, to \$28,935,000 at the end of 1935.

In the spring of 1935, and again in the autumn, short term loans were extended by this bank, on behalf of all Federal Reserve Banks, to a foreign central bank, against a deposit of gold as collateral, in order to meet the seasonal requirements for dollar exchange of the country of the borrowing bank, pending the marketing of its principal crop. The balance of such loans outstanding at the close of the year was \$350,000.

The principal amount of the credit outstanding in favor of the National Bank of Hungary, described in the Nineteenth Annual Report of this bank, was reduced to \$2,522,270 by the repayment of \$617,815 during the past year.

At the close of 1935 this bank maintained balances abroad in its own behalf, and in behalf of the other Federal Reserve Banks, in an aggregate amount equivalent to \$665,000, of which \$541,000 was repayable in dollars. It also held commercial bills denominated in foreign currencies in an aggregate amount equivalent to \$4,656,000, inclusive of the Hungarian credit referred to above. Of this aggregate amount, \$4,532,000 was repayable in dollars.

Membership Changes in 1935

At the end of 1935, the number of member banks in this district was 793, a net gain of two for the year. The organization of one new National bank and the admission of three State banks and Trust companies to membership more than offset the decrease in number of members caused by the merger of two member banks with other member banks. There were no insolvencies and no withdrawals during 1935. The proportion of member banks to the total number of commercial banks and Trust companies in this district, at 74 per cent, was the highest since the beginning of the System in 1914. The accompanying tables show the member and nonmember banks classified according to their charters, and indicate the nature of the changes in membership during the year.

Number of Member and Nonmember Banks in Second Federal Reserve District at End of Year

TYPE OF BANK	December 31, 1935			December 31, 1934		
	Members	Non-Members	Per Cent Members	Members	Non-Members	Per Cent Members
National Banks	626	0	100	627	0	100
State Banks*	54	135	29	52	137	28
Trust Companies	113	144	44	112	153	42
Total	793	279	74	791	290	73

*Excludes Savings Banks.

Changes in Federal Reserve Membership in Second District During 1935

Total membership beginning of year.....	791
Increases: (a)	
National banks organized (b).....	1
Admission of State banks and Trust companies.....	3
Total increases	4
Decreases:	
Member banks combined with other members.....	2
Member banks combined with nonmembers.....	0
Insolvencies	0
Voluntary liquidations	0
Withdrawals	0
Succeeded by newly chartered members.....	0
Total decreases	2
Net increase	2
Total membership end of year.....	793

(a) In addition to figures shown on this table, one nonmember bank was absorbed by a member bank during the year.

(b) Organized to succeed bank under conservator, deducted in previous report.

Financial Statement

Complete operating statistics of each Federal Reserve Bank will be published in the annual report of the Board of Governors of the Federal Reserve System, but the statements of condition and of income and disbursements of this bank are given in the following pages.

STATEMENT OF CONDITION (In thousands of dollars)

ASSETS	Dec. 31, 1935	Dec. 31, 1934
Gold certificates on hand and due from U. S.		
Treasury	\$3,320,993	\$1,836,675
Redemption fund—Federal Reserve notes.....	1,792	1,500
Other cash	54,360	56,764
Total reserves	\$3,377,145	\$1,894,939
Redemption fund—Federal Reserve Bank notes..		\$ 1,427
Bills discounted:		
Secured by U. S. Government obligations, direct and/or fully guaranteed	\$ 832	\$ 1,538
Other bills discounted	2,198	2,690
Total bills discounted	\$ 3,030	\$ 4,228
Bills bought in open market.....	\$ 1,738	\$ 1,983
Industrial advances	7,741	813
U. S. Government securities:		
Bonds	\$ 55,908	\$ 141,018
Treasury notes	498,307	475,234
Treasury bills	187,668	161,566
Total U. S. Government securities.....	\$ 741,883	\$ 777,818
Total bills and securities.....	\$ 754,392	\$ 784,842
Due from foreign banks.....	\$ 265	\$ 299
Federal Reserve notes of other banks.....	5,483	6,950
Uncollected items	166,040	126,519
Bank premises	10,781	11,437
All other assets	27,956	30,002
Total assets	\$4,342,062	\$2,856,415

(In thousands of dollars)

LIABILITIES	Dec. 31, 1935	Dec. 31, 1934
Federal Reserve notes in actual circulation.....	\$ 807,718	\$ 680,935
Federal Reserve Bank note circulation—net.....		25,468
Deposits:		
Member bank—reserve account	\$2,747,431	\$1,749,711
U. S. Treasurer—general account.....	330,925	29,697
Foreign bank	10,542	6,848
Other deposits	165,156	123,496
Total deposits	\$3,254,054	\$1,909,752
Deferred availability items.....	\$ 160,139	\$ 120,723
Capital paid in.....	51,006	59,606
Surplus (Section 7).....	50,825	49,964
Surplus (Section 13b).....	7,744	773
Reserve for losses and contingencies.....	8,849	7,510
All other liabilities	1,727	1,684
Total liabilities	\$4,342,062	\$2,856,415
Ratio of total reserves to deposit and Federal Reserve note liabilities combined	83.1%	73.1%
Contingent liability on bills purchased for foreign correspondents		\$ 247
Commitments to make industrial advances.....	\$ 9,948	\$ 3,892

INCOME AND DISBURSEMENTS

Data of income and disbursements for the year 1935, with comparable figures for 1934, are given in the table below. Earnings in 1935 were \$13,131,000, or \$2,951,000 less than in 1934, due partly to a slightly smaller volume of loans and investments but more largely to a lower average rate of return on loans and investments. Current expenses increased \$864,000 to \$8,200,000, leaving current net earnings of \$4,931,000, which was \$3,815,000 less than in 1934. Additions to current net earnings, which included a profit of \$2,678,000 on United States Government securities sold, were less than the amounts charged off for depreciation and for reserves for losses and contingencies, so that net earnings were reduced somewhat further to \$4,336,000, as compared with \$8,307,000 in 1934. Regular dividends of \$3,411,000 were paid to member banks and \$861,000 was transferred to surplus.

PROFIT AND LOSS ACCOUNT

(In thousands of dollars)

	1935	1934
Earnings	\$ 13,131	\$ 16,082
Current expenses	8,200	7,336
Current net earnings	\$ 4,931	\$ 8,746
Additions to current net earnings:		
Profit on U. S. Government securities sold.....	\$ 2,678	\$ 2,481
All other	82	240
Total additions	\$ 2,760	\$ 2,721
Deductions from current net earnings:		
Bank premises—depreciation	\$ 1,144	\$ 186
Furniture and equipment	52	76
Reserve for losses and contingencies.....	1,290	2,836
Reserve for self-insurance	59	57
All other	810	5
Total deductions	\$ 3,355	\$ 3,160
Net deductions from current net earnings.....	\$ 595	\$ 439
Net earnings	\$ 4,336	\$ 8,307
Withdrawn from surplus (Section 13b).....		8
	\$ 4,336	\$ 8,315
Dividends paid	\$ 3,411	\$ 3,568
Section 13b earnings paid the United States.....	64	
Transferred to surplus (Section 7).....	861	4,747

Changes in Directors and Officers

At a regular election during the autumn of 1935, Edward K. Mills, President, Morristown Trust Company, Morristown, New Jersey, was reelected by member banks in Group 2, as a Class A director for a term of three years beginning January 1, 1936, and Walter C. Teagle, President, Standard Oil Company (New Jersey), New York, N. Y., was reelected by member banks in Group 2 as a Class B director for a term of three years beginning January 1, 1936.

The Board of Governors of the Federal Reserve System redesignated J. Herbert Case as Chairman of the Board and as Federal Reserve Agent for two months beginning January 1, 1936.

The Board of Directors of this bank appointed William A. Dusenbury, President, First National Bank, Olean, N. Y., for two years, beginning January 9, 1936, to fill the unexpired term of Edward B. Vreeland of Salamanca, N. Y., whose resignation from the Buffalo Board of Directors due to illness, became effective January 1, 1936.

The Board of Directors of this bank appointed Frank F. Henry, Chairman, Washburn Crosby Company, Inc., Buffalo, N. Y., as a director of the Buffalo Branch for a term of three years, ending December 31, 1938, to succeed Lewis G. Harriman, Buffalo, N. Y., whose term expired December 31, 1935.

The Board of Directors of this bank reappointed Robert M. O'Hara as Managing Director of the Buffalo Branch for the year 1936.

MEMBER OF FEDERAL ADVISORY COUNCIL

The Board of Directors of this bank redesignated James H. Perkins, Chairman, The National City Bank of New York, New York, N. Y., as a member of the Federal Advisory Council for the year 1936.

CHANGES IN OFFICERS

On April 30, 1935, Jay E. Crane, Deputy Governor, resigned to accept a position as Assistant Treasurer of the Standard Oil Company (New Jersey).

On June 28, 1935, Harold V. Roelse resigned as Assistant Secretary of the bank but continued as Assistant Federal Reserve Agent and Manager of the Reports Department. Herbert H. Kimball was appointed Assistant Secretary by the Board of Directors and continued as an Assistant Deputy Governor.

On January 3, 1936, Allan Sproul, formerly Assistant to the Governor and Secretary, was appointed Deputy Governor, and resigned as Secretary. Herbert H. Kimball was appointed Secretary of the bank, and Horace L. Sanford was appointed Assistant Secretary. John H. Williams, formerly Economist of the bank, was appointed Deputy Governor. Arthur Phelan, formerly Manager of the Discount Department, was appointed Assistant Deputy Governor. Valentine Willis, formerly Manager of the Collection Department, was appointed Assistant Deputy Governor. Silas A. Miller, formerly Chief of the Securities Department, was appointed Manager of the Securities Department.

Effective February 1, 1936, E. O. Douglas was appointed Manager of the Collection Department, in addition to his duties as Manager of the Bill Department.

DIRECTORS AND OFFICERS

January 1, 1936

DIRECTORS

Class	Group		<i>Term Expires Dec. 31</i>
A	1	GEORGE W. DAVISON, Greenwich, Conn. Chairman, Board of Trustees, Central Hanover Bank and Trust Company, New York, N. Y.	1937
A	2	EDWARD K. MILLS, Morristown, N. J. President, Morristown Trust Company	1938
A	3	CECIL R. BERRY, Waverly, N. Y. President, The Citizens National Bank of Waverly	1936
B	1	THOMAS J. WATSON, Short Hills, N. J. President, International Business Machines Corporation, New York, N. Y.	1937
B	2	WALTER C. TEAGLE, Port Chester, N. Y. President, Standard Oil Company (New Jersey) New York, N. Y.	1938
B	3	ROBERT T. STEVENS, Plainfield, N. J. President, J. P. Stevens & Company, Inc., New York, N. Y.	1936
C		J. HERBERT CASE, New York, N. Y., <i>Chairman</i>	1937
C		CLARENCE M. WOOLLEY, Greenwich, Conn. Chairman, American Radiator and Standard Sanitary Corpora- tion, New York, N. Y.	1936
C		Vacancy, <i>Deputy Chairman</i>	1938

MEMBER OF FEDERAL ADVISORY COUNCIL

JAMES H. PERKINS

Chairman, The National City Bank of New York, New York, N. Y.

OFFICERS OF FEDERAL RESERVE AGENT'S FUNCTION

J. HERBERT CASE, *Federal Reserve Agent*

RAY M. GIDNEY, <i>Assistant Federal Reserve Agent</i>	HERBERT S. DOWNS, <i>Assistant Federal Reserve Agent and Manager, Bank Relations Department</i>
WILLIAM H. DILLISTIN, <i>Assistant Federal Reserve Agent and Manager, Bank Examinations Department</i>	HAROLD V. ROELSE, <i>Assistant Federal Reserve Agent and Manager, Reports Department</i>

EDWARD L. DODGE, *General Auditor*GEORGE W. FERGUSON, *Assistant General Auditor*

