Annual Report 1959

Federal Reserve Bank of Richmond

FEDERAL RESERVE BANK OF RICHMOND
FIFTH DISTRICT

featuring Emergency Planning

Annual Report 1959

Federal Reserve Bank of Richmond

with
Branches
in Baltimore
and Charlotte

to
the
Member
Banks

Our forty-fifth year of operation has drawn to a close. Throughout the following pages we have taken a brief look at some of our activities in 1959 which we feel will be of the most significance and interest to you.

This year our report features emergency planning, a subject which is of great importance to the American banking system and to our country. We present this information for your consideration in the hope that it will be of assistance to you in setting up your own emergency planning program. Also included are articles on banking and credit policy, the Fifth District economy, and our operations in 1959, as well as comparative financial statements.

On behalf of our directors and staff we take pleasure in presenting this report to you. Along with it goes our appreciation for the kindness and understanding you have shown us throughout the years.

Very truly yours,

Hugh Leach
President

Alonzo G. Decker, Jr.
Chairman of the Board

Emergency Planning

preparedness: the price of survival

*I believe that man will not merely endure: he will prevail. He is immortal, not because he alone among creatures has an inexhaustible voice, but because he has a soul, a spirit capable of compassion and sacrifice and endurance.**

William Faulkner

Prologue

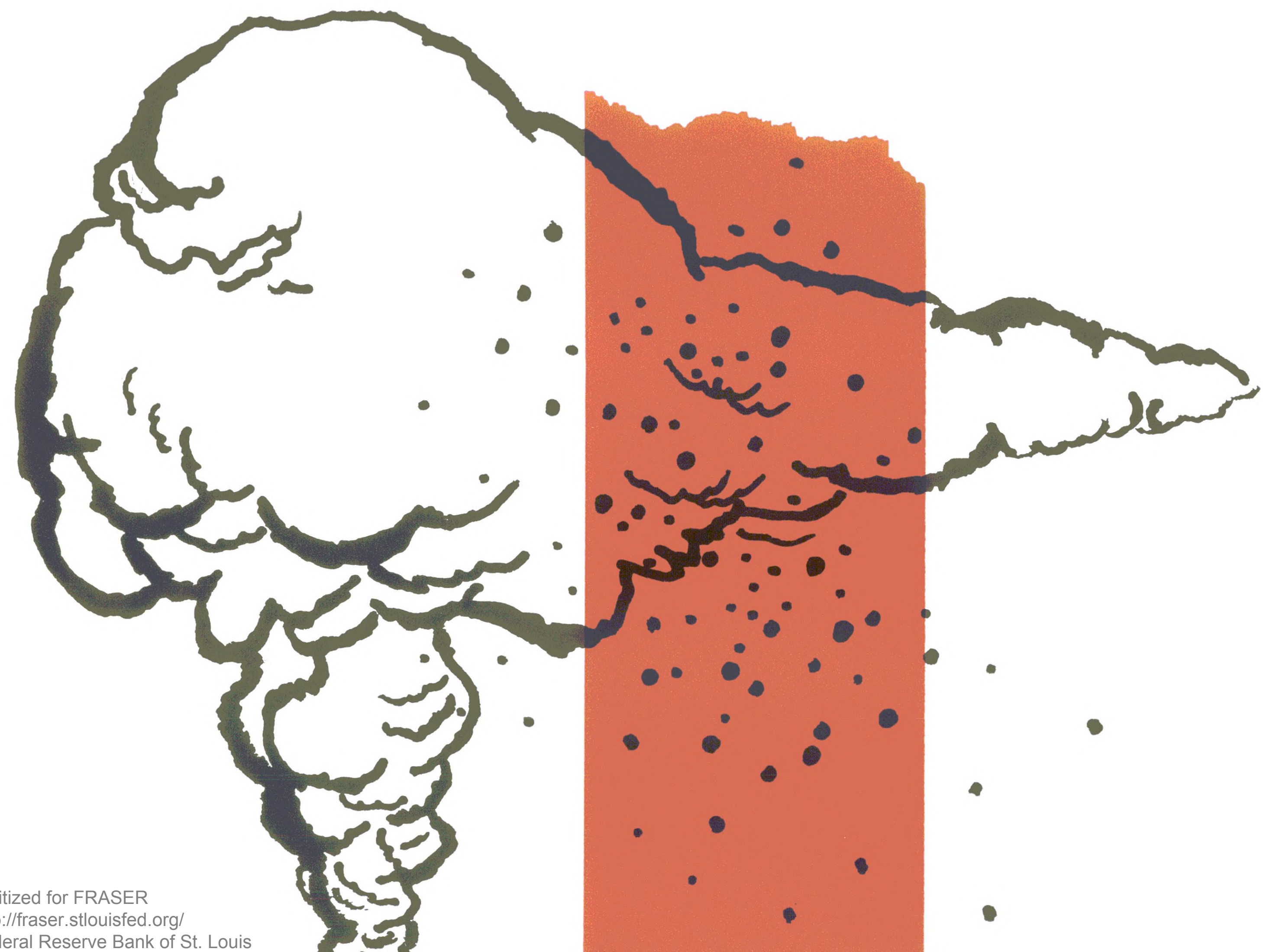
In the cool quiet dawn of July 16, 1945, a group of men with grim faces and great expectations stood on the arid desert of New Mexico and watched with intent eyes as a thirteen pound bomb blasted mankind into the atomic age. It happened in a fragment of a second. Throughout time man had taken thousands of years to bridge the ages, and yet on July 16, 1945, the very foundation of nature itself, the atom, was ripped apart in the length of time it takes a baby to awake in Baltimore, or a milkman to set down his bottles in St. Louis, or a streetcar conductor to check the time in San Francisco.

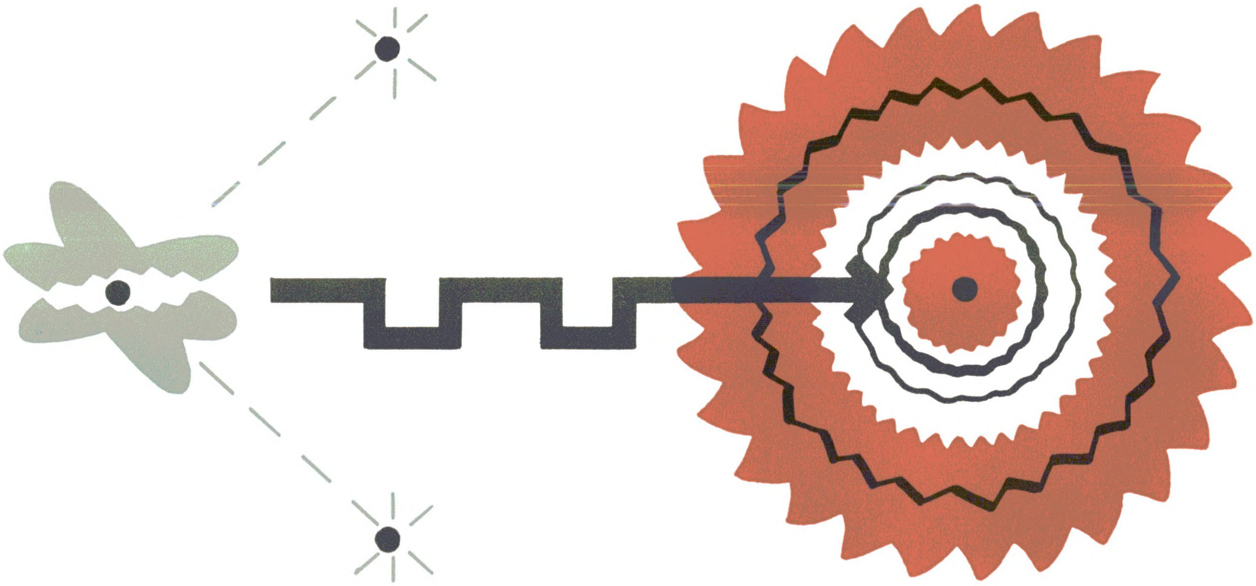
The new age was less than one month old when a B-29 banked slightly and started its bomb run over Hiroshima—dropping warfare's first atomic bomb, which killed 70,000 people and injured at least that many more. Three days later a similar bomb fell on Nagasaki, destroying 36,000 people and injuring 40,000 more. By now it was painfully clear to the world that the transition to the atomic age was complete, bringing with it a horror that even today man finds difficult to comprehend—although he has produced a weapon that is hundreds of times more powerful than the first.

**Faulkner, William, Speech of Acceptance, Nobel Prize for Literature, Random House, Inc., New York, 1953.*

A Burden of Trust

Man has advanced 15 years into the atomic era, and being trapped in this cubicle of time he has learned one truth above all else, that his survival will not be by accident, that to insure the best things of his life he must prepare for the worst. Certainly we Americans have learned this to the extent that we are willing to devote our time, our energy and our prayers to the pursuit of peace, while at the same time we are spending approximately 46 billion dollars a year for military preparedness. In the event of an enemy attack we look to our military forces for protection and counter-attack, we look to the Office of Civil and Defense Mobilization for leadership in sustaining the lives of those who survive, and we look to various groups in our society to pull order out of chaos. As bankers, we comprise one of these groups, and we are held responsible for the perpetuation of our monetary system, without which even the remnants of our modern civilization cannot survive. This is the greatest burden of trust ever placed on the American banking system.



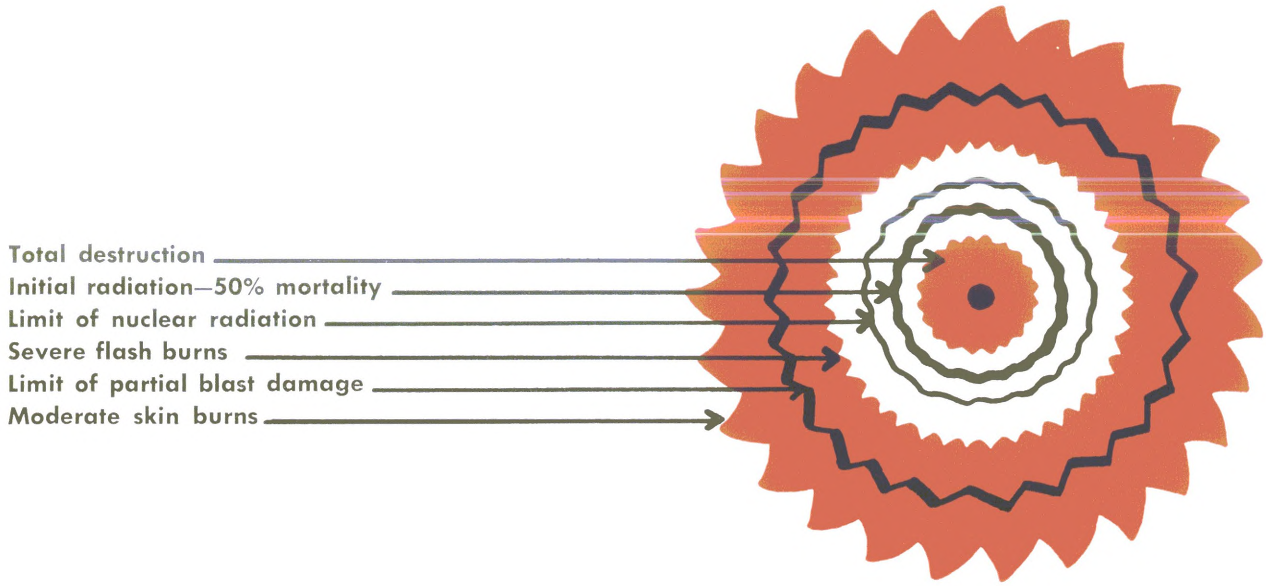


Historical Precedent

It is not the first time a people has placed heavy responsibility on its bankers for the continuance of their economic way of life. As recently as World War II when England's major cities were being bombed almost daily, when it was not certain from one day to the next which buildings would remain standing, the banks of England never closed. And the reason they did not close was that they had prepared in advance for the worst blitzkreig Hitler's legions could devise.

Very early in the war British leaders realized that the most important key to maintaining high morale was to assure that payrolls would be met and on time. They found that as long as the people's basic wants were satisfied and their confidence in the economy assured, they would turn out vital war production even under the most harassing circumstances of inconvenience and personal danger.

British bankers based their survival plans on the dual concept of decentralization and alternate location. To insure liquidity of the banking system, reserve stocks of currency were moved to numerous "cash centers" about the country. Individual banking offices maintained high levels of vault currency, principally in small denominations. Currency was kept in circulation until absolutely unfit for further use; and in order to spare transportation facilities, the banks agreed not to supply coin. The London Bankers Clearing House Association, which is the check clearing agency for the British Isles, moved to an alternate location in a rural area at the beginning of the war. Every banking office was assigned another banking office which served as custodian for duplicated essential records. This method of records protection significantly assured



the continuity of individual offices whose original records were destroyed.

A preconceived plan, immediately available, enabled the British banking system to maintain operating capability. Their experience provides a valuable precedent for us.

The National Plan

In a message to the U. S. Senate in August, 1959, President Eisenhower said, "It would be unwise to neglect our civil defense mission because our total defense is incomplete and meaningless without reliable and responsible home defense. Survival cannot be guaranteed merely with a capacity for reprisal. Equally important is our ability to recover. This means staying power and endurance beyond that ever before required of this Nation or any nation."

Congress has assigned national responsibility for non-military preparedness to the Office of Civil and Defense Mobilization, which is an arm of the Executive Office of the President. Many of the measures that England tested under fire have been included by OCDM in the *National Plan for Civil Defense and Defense Mobilization.*

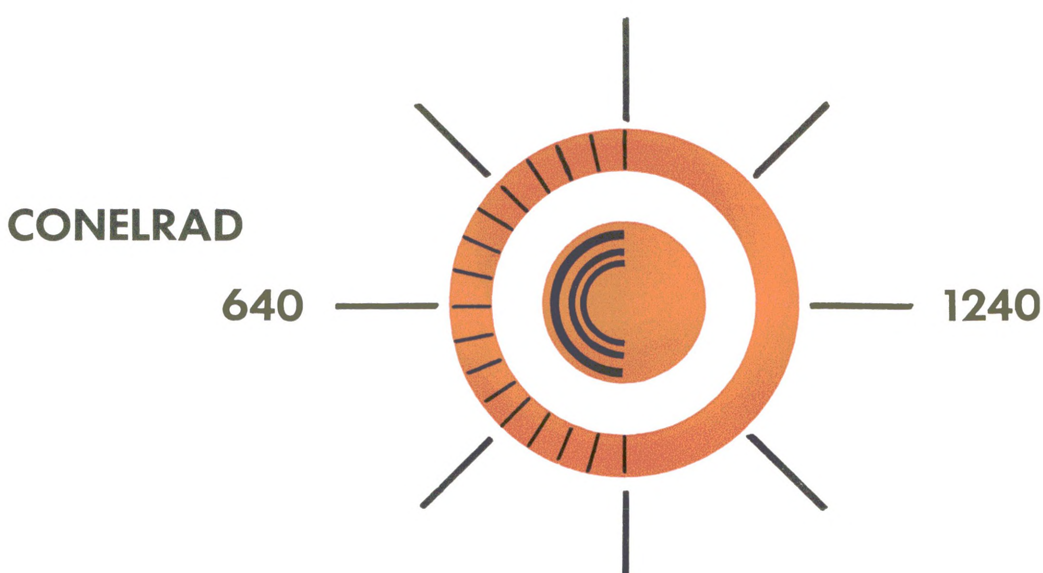
As a part of the broad plans, drafts of emergency legislation and regulations, contributing to the continuity of essential banking functions in undamaged areas, have been approved tentatively by the agencies responsible. The Board of Governors of the Federal Reserve System has drawn up emergency plans, which provide for the relocation of the Board and key personnel at an alternate site in case of attack, and a succession plan for surviving members of the Board. Provision is made for an "Interim" Board having temporary authority pending availability of a member of the Board, or appointment and qualification of a new member. In addition to specific plans for its own continuity, the Board's emergency plan provides for delegation of certain duties to the Reserve banks.

Reserve Bank Planning

Several years ago this bank set up an In-bank Civil Defense Program for protection of personnel and work in progress. Personnel have been trained as to what to do in case of emergency, and practice alerts are held about every six months. Emergency stores of food and medical supplies are maintained. Written instructions have been distributed to all members of our staff.

Provision has been made for management succession, operation at a relocation site (or an alternate site) and a records center has been established. Duplicates of all essential records are maintained at the records center; they enable complete reconstruction of all asset and liability accounts, including contingent items such as securities in custody. Emergency operation manuals are filed at all offices, including the records center.

For continuation of the check collection function in an emergency the Fifth District has been divided into 46 localized geographical areas. The commercial banks in each area will comprise an Emergency Clearing Group. This bank will be represented in each group by an agent which may be a bank, clearing house association, or other specially organized committee. Broadly, the Emergency Clearing Group plan contemplates the check agent acting as a group clearing house, which will effect settlements for exchanges among participating banks in its group. The agent will accumulate net debits and credits to be recorded on the books of the relocation office of this bank. For items payable outside its



group the check agent will operate in a manner similar to our transit department. This plan will be outlined in detail in an emergency circular soon to be issued to all banks in the District.

For the emergency distribution of currency this bank will designate strategically located member banks throughout the District as cash agents. In broad terms, the cash agent will effect an equitable distribution of currency available and forward entries arising from distribution and acquisition to our relocation office. Details of the currency distribution plan will be explained in a forthcoming emergency circular.

Commercial Bank Planning

During a period of national emergency the economic survival of this country would depend to a great extent on a functioning commercial banking system.

The Executive Office of the President through the Office of Civil and Defense Mobilization recognized this fact on February 15, 1956, when it issued Defense Mobilization Order I-20, which reads in part: The Federal Reserve Board (through the Reserve banks) in cooperation with the Department of the Treasury, the Federal Deposit Insurance Corporation, and others, "will develop national security preparedness programs relating to the operation of the banking system."

Two committees of commercial bankers were formed under the authority of this order. The Advisory Committee on Commercial Bank Preparedness and the Banking Committee on Emergency Operations brought together some of the leading bankers of the country to study problems of emergency preparedness in the commercial banking system.

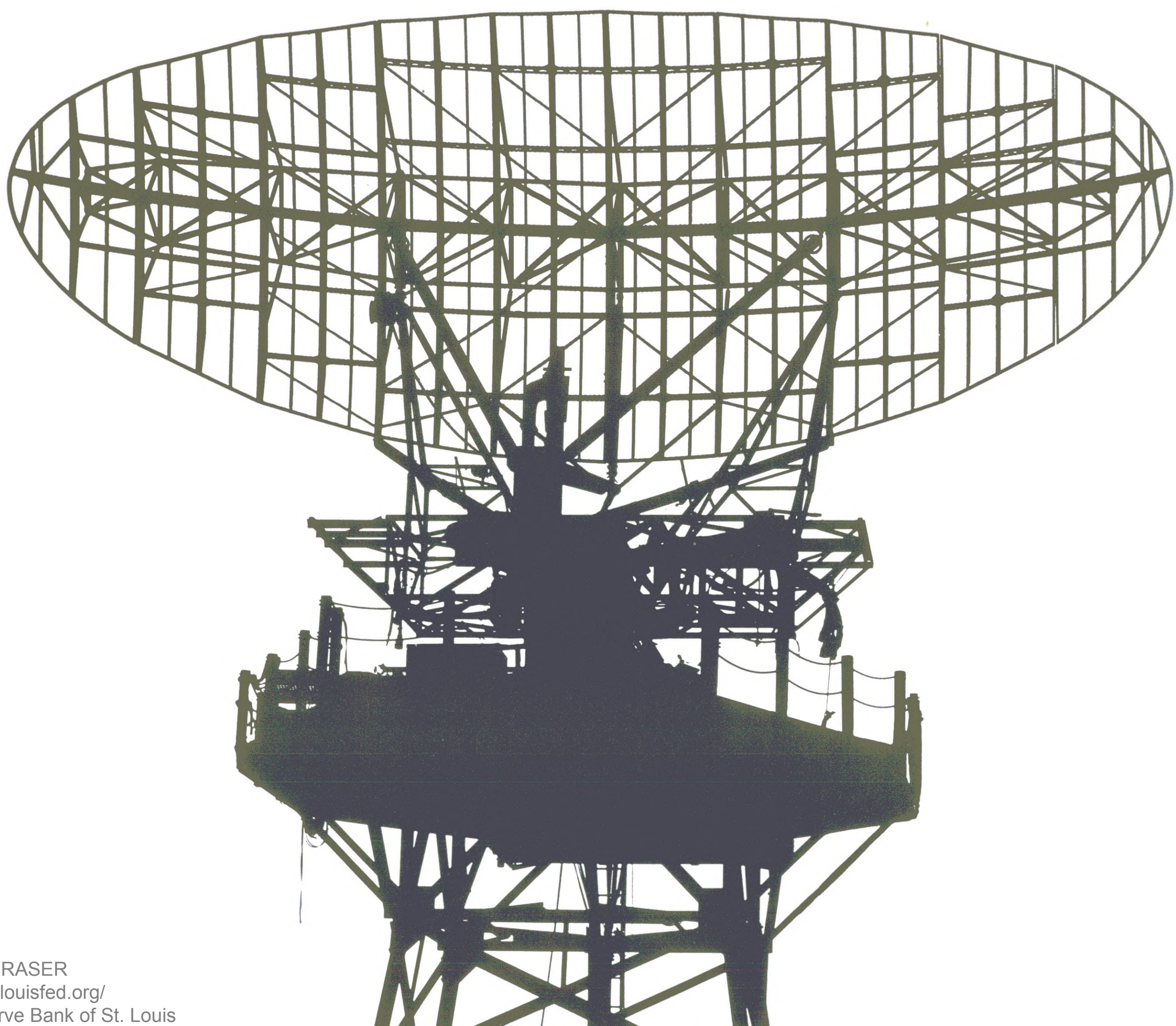
From the beginning the committees recognized that actual formulation of emergency plans would have to be undertaken by the management of each bank. Accordingly, they began developing manuals which could serve as broad, general guides for all banks, following the reasoning that measures which would be adequate for one bank may not necessarily prove suitable for another. Five manuals dealing with pre-attack planning have been issued to commercial banks in booklet form. Additional copies are available at fifty cents each from either of the above committees at 200 Madison Avenue, New York 16, New York. A bound reprint of the five booklets may be obtained from state and local civil defense authorities or direct from the Industry Office, Office of Civil and Defense Mobilization, Battle Creek, Michigan. The first booklet deals with the organization and administration of a preparedness program. The second one tells what should be done for protection of bank personnel, and the third deals with continuity of management and alternate headquarters. The last two published explain the precautions that should be taken for protection of physical properties and records. The committees are now working on manuals concerning post-attack measures, including collection of cash items, currency operations, credit and customer participation.

These plans are just words, of course, and are worthless unless used as *guides to action* by commercial bankers. A review of recent examinations of 453 member banks in the Fifth District indicated that only 18 banks, or 4 per cent, had taken any steps toward survival in case of a national emergency. This is slightly below the national average, where the latest study shows that about 5½ per cent of the commercial banks have taken at least some action.

We have not taken the lead in our communities. We have not, as yet, carried out our responsibilities to the nation, our customers, and stockholders. Should we be subjected to nuclear attack, most authorities agree we would be capable of retaliating with at least an equally devastating attack. But to continue with a successful war effort we would have to recover from the initial blow. Prompt economic recovery is essential to preserve order. As custodians of the monetary and credit structure of our country we have a rather large decision to make. Shall it be "preparedness" or "unpreparedness"? The price of the latter could be total destruction. On the other hand, "preparedness" is not solely a dollars-and-cents proposition; it has no specific price tag, but it is the price of survival.

An End, A Beginning

Here in the early grayness of the atomic age it is hard to tell if man stands at the twilight of an old civilization or the beginning of a new one. Future generations may look back on us with the same amused tolerance with which we stare at the early scratching on earthen walls. They may laugh at our feeble efforts at survival as we laugh at the caveman who ran from a spark of fire. But these things do not matter. What really matters is that there be future generations, and that they can say Twentieth Century Man faced an uncertain future with the same unyielding courage and dignity that has made him indomitable from the dawn of history to the Atomic Age.



credit policy and Banking

"... with a view to fostering conditions in the money market conducive to sustainable economic growth and stability."

This quotation is from the Policy Directive of the Federal Open Market Committee under which open market purchases and sales of Government securities were being conducted as 1958 became history and 1959 reality. As recovery from recession was gradually replaced by broadly based economic expansion, emphasis was placed on the "sustainable" aspects of growth. What does Federal Reserve's emphasis on sustainable economic growth have to do with banking developments in the Fifth District in 1959?

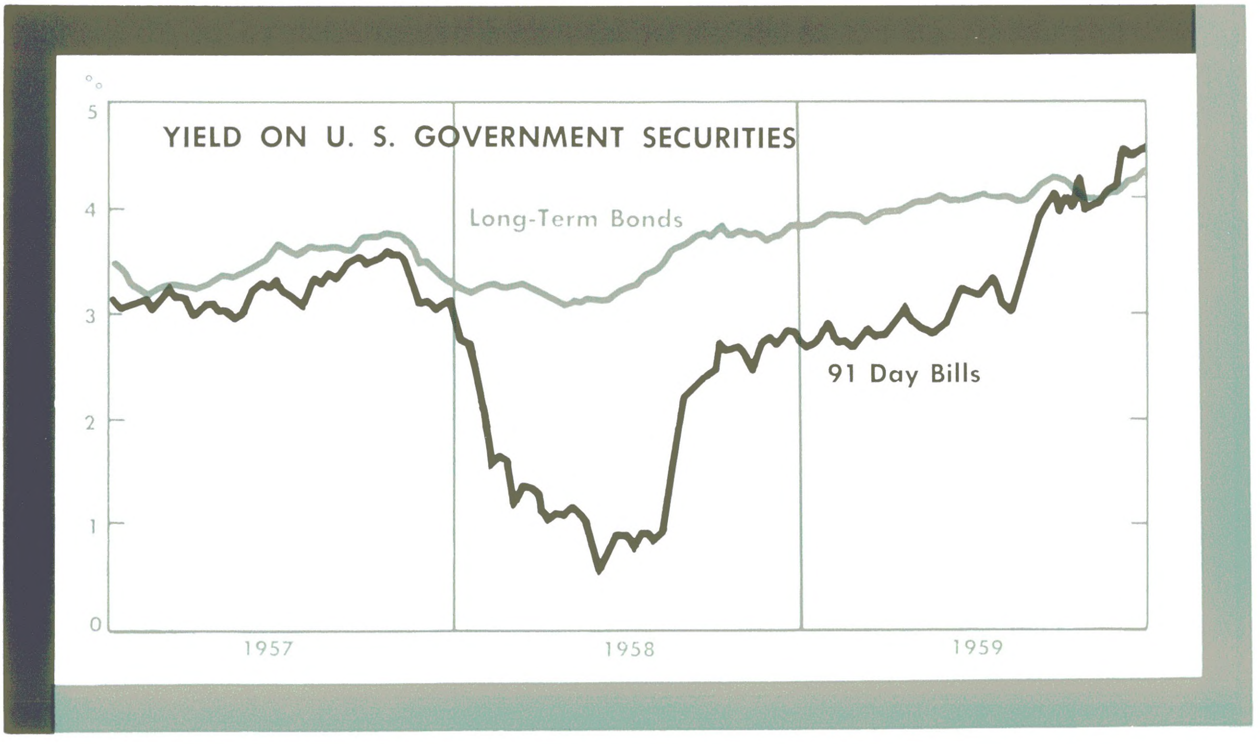
The Basis for Economic Growth

The rate of economic growth stems largely from inventiveness, improvements in technology, or increased capacity to produce through additions to plant and equipment already in use. The materialization of these means for growth, however, depends upon a number of economic factors including (1) the rate at which saving is made available for capital formation, (2) the prudent utilization of the power to create new money to supplement sources of funds for investment in plant and equipment, and (3) the maintenance of a favorable long-run outlook for the businessman.

The ability of an economy to show real growth rests ultimately upon the extent to which its resources are applied toward this end. Saving represents refraining from consumption, and thereby permits the diversion of resources from the production of consumer goods to the production of producer goods. Thus, in general, an increase in saving enables investment expenditures to be made, increasing the capacity of the economy to produce new or improved products or a larger quantity of existing products.

In addition to the flow of funds from saving into capital formation, there is generally at the outer margin of change in the economy some amount of expenditures based on the creation of new money. Monetary policy is more immediately directed toward this margin of change, and through its influence here such policy can contribute to stability in the value of the dollar and to sustainable economic growth.

When there are unused resources in the economy, the creation of new purchasing power by the banking system may supplement funds available for investment and contribute to real economic growth by bringing about a fuller employment of resources. At other times, however, the creation of new purchasing power by the banking system cannot result in real economic growth. When our resources are already close to full utilization, additional spending made possible through new money creation can only generate upward price pressures. What may appear momentarily to be growth may turn out to be nothing more than inflation. The first half of 1959 threatened the emergence of such a time as the economy shifted out of recovery from recession and into rapid expansion. Accordingly, Federal Reserve policy emphasized the *sustainability* of the growth getting under way and attempted to contribute toward a credit environment conducive to increased saving and one favorable to the prudent investment of funds by businessmen to make available to the public the fruits of the nation's inventiveness and its technological progress over the long-run.

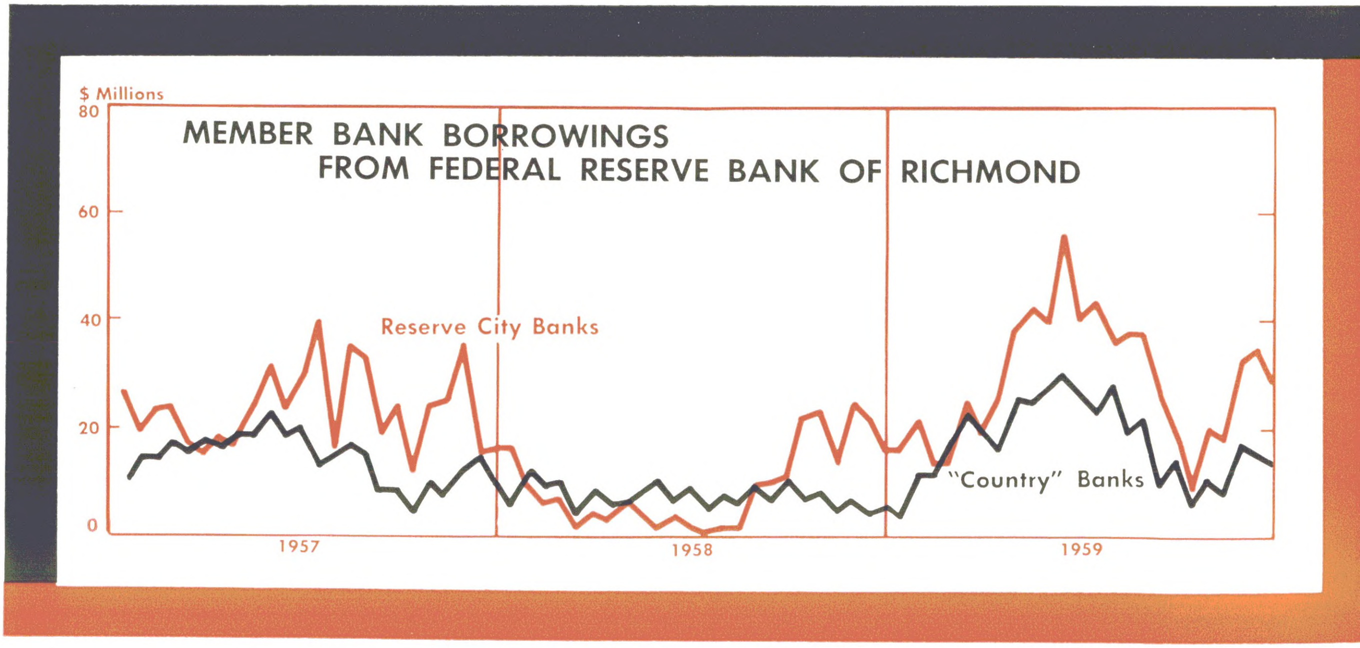


The Credit Environment in 1959

As part and parcel of the broad economic expansion sweeping the nation in the first half of 1959, borrowers' demands for funds were very strong. Despite the 116-day steel strike which straddled the third and fourth quarters of the year, demands for funds by many classes of borrowers continued at very high levels at that time, and those demands which were affected by the strike rebounded toward the end of the year.

Rising demands, when not accompanied by an adequate supply of the commodities involved, bring upward pressures on prices. And rising demand put the price of money—interest rates—in an upward trend during 1959. The interest yield on 91-day Treasury bills, the best-known and most widely used of all very short-term market credit instruments, began the year at around $2\frac{3}{4}\%$ and closed the year at over $4\frac{1}{2}\%$. As indicative of changes in rates on longer term borrowing, the average yield on long-term U. S. Government bonds was around $3\frac{3}{4}\%$ at the beginning of 1959 and by the close of the year had advanced to over $4\frac{1}{4}\%$.

The continuing strong demand for credit during the year was accompanied by Federal Reserve actions designed to limit bank credit expansion in the interest of encouraging a continuation of economic growth on a sustainable basis. Federal Reserve purchases of Government securities in the open market, on balance, supplied only a relatively small amount of reserves to the banking system during the year. As market rates tended upward, the

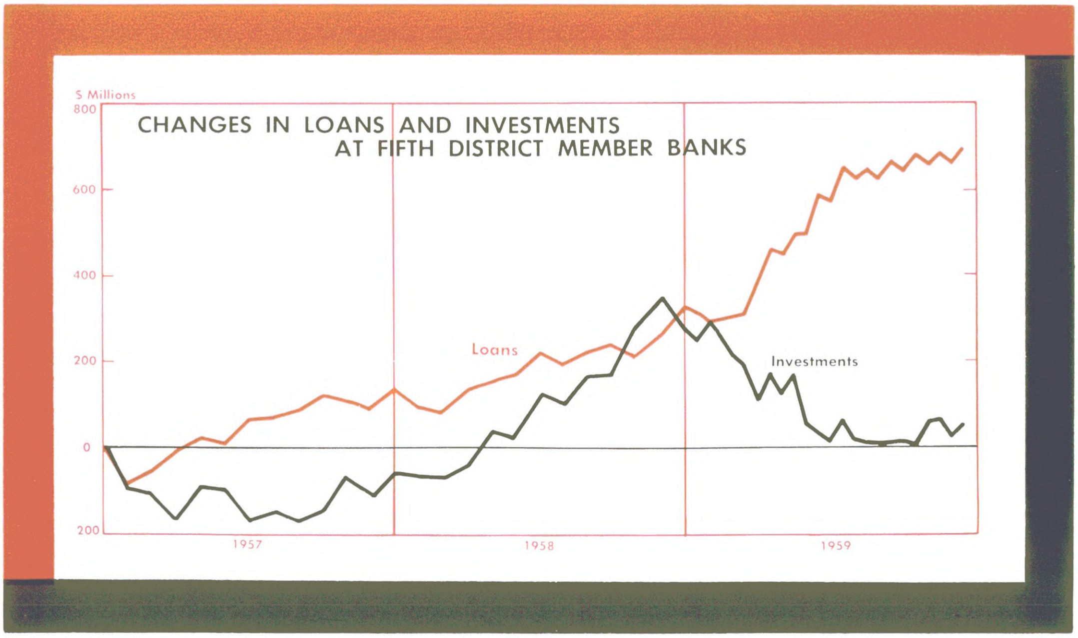


discount rate at the Federal Reserve Banks—the interest rate that member banks pay when they borrow from the Fed—was increased in three steps during the year from 2½% to 4%, the increases at the Richmond Bank being effective March 13, June 12, and September 11.

District Banks Felt the Credit Tightness

Early in the year the demand for loans at District member banks began mounting, and the banks were faced with a growing scarcity of free reserve funds to meet this increasing loan demand. In the absence of the creation of additional reserves by Federal Reserve and because of the necessitous desire to meet all legitimate requests for loans from their customers, District banks sought other sources of funds. During the six months from the end of January through the end of July, the period of strongest loan demand, District member banks reduced their securities portfolios by $275 million as one means of obtaining funds to satisfy loan customers. This approach to raising funds became more and more costly as the months progressed and bond prices declined with the gradual tightening in general credit conditions.

The twin pressures of increasing loan demand and declining bond prices led many District member banks to borrow funds from their Federal Reserve Bank. Recourse to this source of funds rose sharply in the first half of the year, reaching an average daily amount outstanding of $86 million in the first half of June, the

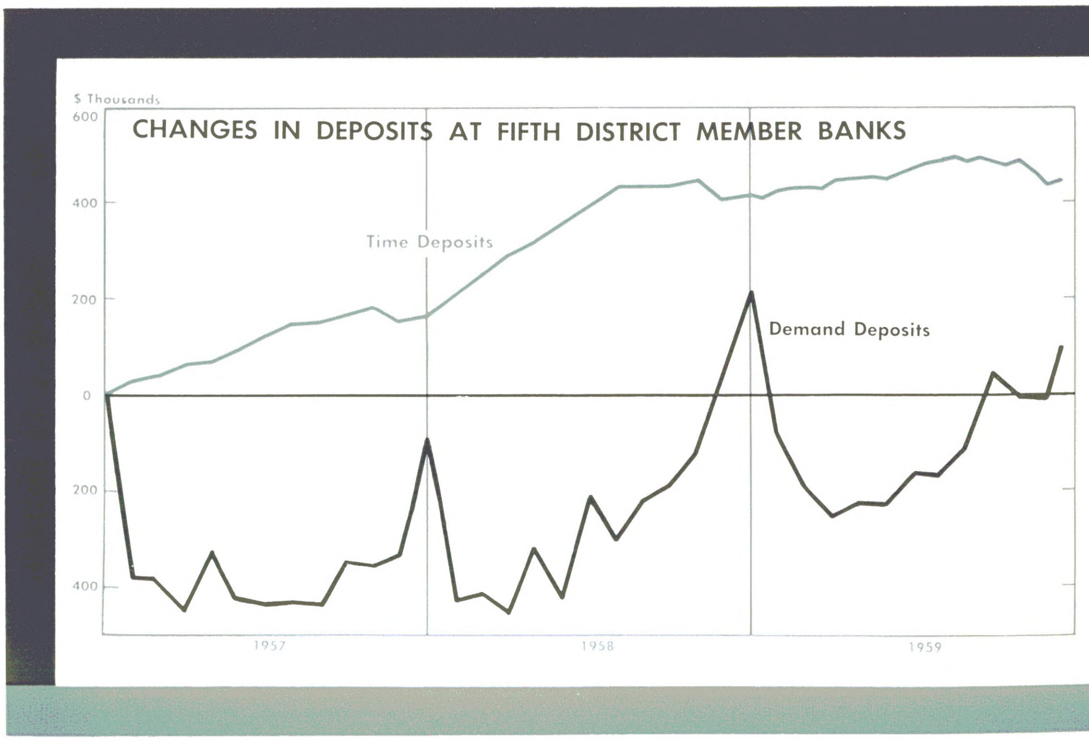


highest level of such borrowings for many years. The larger reserve city banks borrowed by far the larger dollar amount of funds from the Federal Reserve Bank of Richmond during this period, but many banks outside the four reserve cities (Baltimore, Washington, Richmond, and Charlotte) were also heavy borrowers. A larger number of banks, as a matter of fact, borrowed from the Federal Reserve Bank of Richmond in the first half of 1959 than in the comparable period in any other post World War II year.

Over-all loan demand facing District member banks held relatively stable near the high level reached in July as the steel strike spread its influences throughout the economy. Repayments on outstanding loans were sufficient to meet most of the loan demands during this period so that the need to liquidate securities was not as pressing as earlier in the year and borrowing from the Federal Reserve Bank was reduced. However, with the resumption of steel production under court injunction in early November, providing a pre-Christmas boost to the economy, District banks again faced the problem of raising funds to support further expansion in their loans.

Who Were the Borrowers?

Despite the difficulties in doing so, District member banks did increase their loans in 1959 and by a substantial amount. Total



loans outstanding rose by over $400 million during 1959 as compared with less than $200 million in both 1958 and 1957.

Commercial and industrial firms, contrary to what might normally be expected, did not provide the major additions to District member bank loans in 1959. Although borrowing by business firms picked up seasonally in the second quarter, their bank loans then remained at this high level with only minor fluctuations until toward the end of the year. The pre-Christmas pickup in business borrowing was about as intense as usual, but for the year as a whole the increase in outstanding commercial and industrial loans at District member banks was only a little greater than in the two preceding recession-straddled years.

The unusually high utilization of borrowed money by individuals for personal expenditures throughout the nation in 1959 was reflected in a high demand for such funds at District member banks. Loans for the purchase of automobiles accounted for more than a third of the total increase in consumer loans at District banks. Consumers also borrowed a substantial amount from the banks on instalment and single payment notes for unspecified purposes which, in general, cover such things as consolidation of bills, educational and medical expenses, funds for household operation, and the like.

Loans for home purchase also added to the demand pressure on the banks. District member banks increased their mortgage loan portfolios considerably over the year, mostly with "conventional" loans, meaning loans not guaranteed or insured by the Federal Government. They increased their holdings of FHA loans by a small amount but, on balance, reduced their holdings of VA loans.

Deposit Money Reacted to Restraint

Credit restraint is employed during a period of rapid expansion in part to reduce the availability of newly created money and thus to moderate additions to the total amount of spending taking place. The largest portion of our "immediately available for spending" money supply is made up of demand deposits of commercial banks. As indicated in the accompanying chart, demand deposits at Fifth District member banks, after a greater than seasonal decline in the first three months of the year, were increased only moderately in ensuing months and failed to approach their previous peak until the end of the year. District banks felt the pressure of tightening credit in 1959 as they sought to meet a strong loan demand; and the adjustments they found it necessary to make in meeting this demand restrained the expansion of deposit money.

growth with Stability in 1959

"The natural effort of every individual to better his own condition, when suffered to exert itself with freedom and security, is so powerful a principle, that it is alone, and without any assistance, not only capable of carrying on the society to wealth and prosperity, but of surmounting a hundred impertinent obstructions with which the folly of human laws too often incumbers its operation . . ."

This was Adam Smith's summary of the origins of economic growth. It first appeared in print in 1776 in his famous book, *The Wealth of Nations.* Smith himself was a man of virtue and intellect. His theories clearly assume that a growing society will possess these qualities in good measure. Division of labor, mass production, and higher standards of living for the whole of society were all part of Smith's vision.

The modern concept recognizes stable and sustained economic growth as the goal toward which an economic system should be guided. A necessary adjunct to *growth,* which provides more of the admittedly good things of life for each citizen, is *stability,* which provides each citizen with protection against the uncertainties of excessive fluctuations in economic activity. Relatively stable prices contribute substantially to effective economic planning, especially to the planning of savings to finance growth. Stability of employment at the highest sustainable level is most desirable. The attainment of these mutually interdependent objectives calls for insight and responsible participation on the part of both public officials and private citizens. Customs and practices which are designed to continue existing economic relationships in the status quo invariably obstruct growth. Such practices dampen the fires of individual initiative, and block the introduction of new products, methods, and machinery. Growth requires that resources be ready to move into new opportunities, willing to face the risks and able to reap the benefits of rapid change.

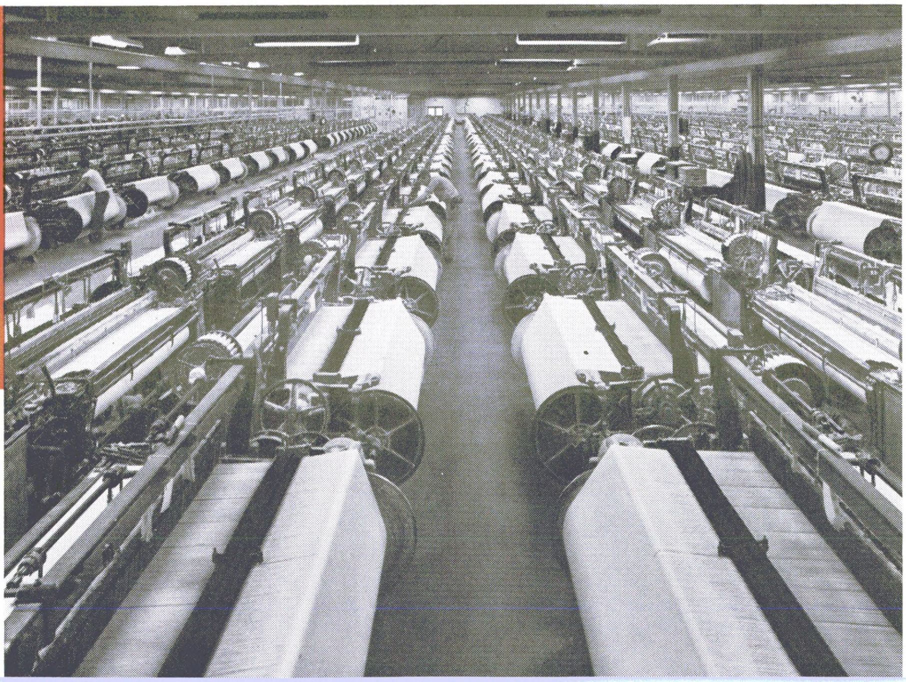
The year 1959 has been in considerable degree a year of stable and sustained economic growth.

Employment's Upward Trend

It has been a year of steady progress for major Fifth District industries. Nonagricultural employment adjusted for normal seasonal variations increased steadily month by month during 1959, except in Maryland and West Virginia where the steel strike had its sharpest impact. The close of the year found Maryland nonfarm employment with the lost ground regained and running better than 2% ahead of 1958. West Virginia, the only District state which failed to equal its 1958 nonfarm employment record, was down by less than 1%. Relative to 1958, late 1959 employment levels in the District (excluding farms) were up 3.2% in Virginia, 2.6% in North Carolina, and 1% in South Carolina. The District total showed a better than 2% improvement over 1958. The national gain was almost 3%.

Employment data, even though they seem to reflect the success of an economic system in its most essential function of providing people with an opportunity to meet their basic needs, are really an uncertain measure of economic progress. Of great significance, although difficult to evaluate, are the *ways* in which labor is used. Plant modernization and expansion in the Fifth District indicate that industry is in a period of physical growth and technical improvement which is gradually increasing output per employee. The great textile industry, its recent history marked by many difficult years, is an excellent symbol of this trend. All of the District's

Long, clean rows of looms symbolize the great size and productivity of the District textile industry.



growing industries are bringing new and renovated facilities into production as 1960 begins. Plans now in process will carry this current expansion well into, if not throughout, 1960.

Manufacturing Man-Hours Reveal Gains

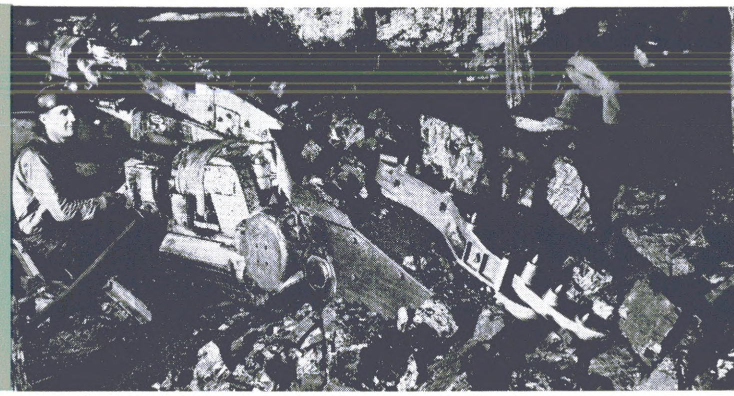
The strength of District business revealed by the record of employment gains a sharper outline upon examination of man-hours statistics. In terms of total hours worked, District manufacturing industries by the end of 1959 had about returned to the levels established at the peak of activity in 1956. North Carolina had toward the close of the year established records which were above comparable 1958 man-hour figures by 11% in total manufacturing, 14% in durable goods, and 10% in nondurable goods. South Carolina's record in the above three categories respectively showed gains of 7%, 13%, and 6%. The increases in the Virginia figures were 7%, 12%, and 5%. Maryland and West Virginia showed gains in spite of the steel strike. The District as a whole improved between 1958 and 1959, according to the man-hour yardstick, by 7% in all manufacturing, 9% and 6% in durables and nondurables, respectively. Allowing for the adverse influences of a long steel strike, these percentage gains in a single year are impressive.

In all major manufacturing industries of the District except transportation equipment and food, activity measured by man-hours showed gains over 1958. Although District coal mining employment in 1959 was about 7% below the 1958 level, output was slightly higher. Production in 1958 and 1959, however, was about 20% below the previous two years during which the output of coal also held about even. Modest gains of from 2% to 4% were registered in tobacco, chemicals, and printing. Increases over 1958 in the other manufacturing sectors of the District ranged from 7% to as high as 16%.

The modern, dynamic chemical industry gives added diversification and new promise for the future.

Increased efficiency at the mines and growing demands for power strengthen the sagging outlook for District coal.

District steel has advantages of coal by rail, ore by water, and convenient facilities for shipping.



Textiles Gain Significantly

The relative gain for the textile industry was not the largest established in 1959 over 1958, but may well be the most significant since the textile industry is the largest manufacturing employer in the Fifth District. Textile man-hours toward the close of 1959 were supporting a level for that year about 9% above 1958. Peak production came in July when the seasonally adjusted index of textile mill products for the United States reached 123, its highest level, 4 percentage points above its previous high which was established back in 1950.

The present period of gathering strength is reaching all sectors and levels of the textile industry except for certain relatively small volume specialty items. Textile prosperity began to take definite form during the final quarter of 1958 and gained steadily to the July peak. Then, while orders continued to pile up into very large backlogs, bottlenecks in carding and spinning, accentuated by a shift in demand toward a greater volume of the heavier fabrics which require more yarn per yard of product, caused output to slow down. The fact that the response of manufacturers to these specific problems and to the extraordinary strength of demand has been gradual and deliberate attests to the industry's intention to follow policies which will tend to stabilize its growth.

The impact of strong demand has caused substantial increases in textile prices. At the same time plentiful supplies of cotton have contributed to lower prices of this basic item of cost. Textile industry profits, only 0.3% of sales in early 1958, have risen steadily. With the end of 1959 drawing near, the textile companies were still reporting gradually rising profits, heavy order backlogs (some lines of production sold into the 1960 fourth quarter), and low inventories.

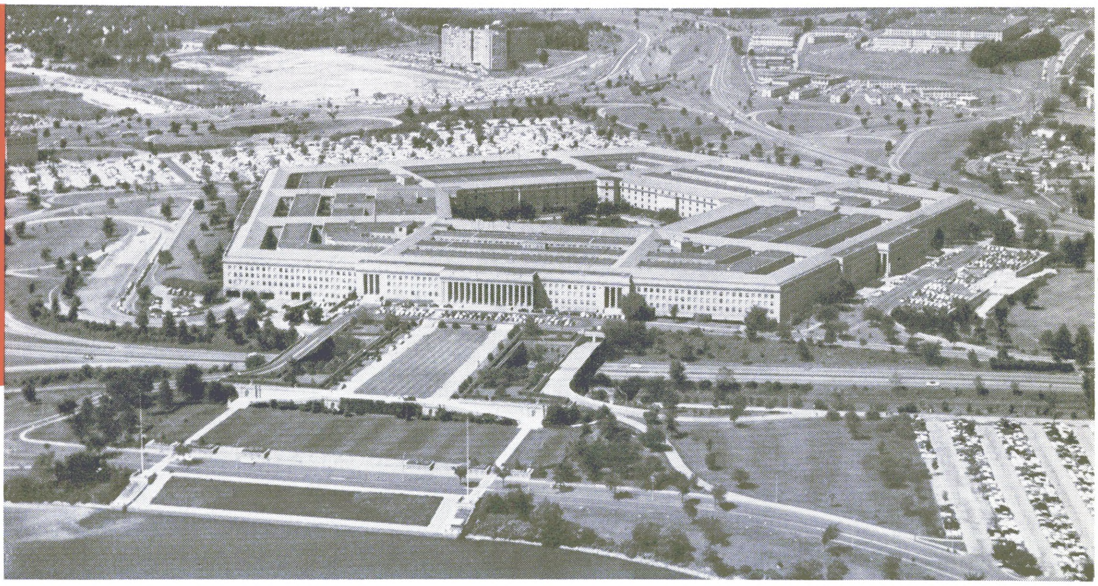
"Furniture's Greatest Year"

Furniture's percentage gain for 1959 over 1958 in terms of factory man-hours was 16%, best among major District industries. Furniture production in 1959, based on rather incomplete evidence, appears to have exceeded 1958 by more than one-fourth, an indication of increasing efficiency. Production and shipments reached a seasonal high in March, then, following the June-July low, began to set new records in each successive month. Like the textile industry, furniture is expanding under the impetus of new orders accumulating at the highest rate in recent years. Orders booked, cumulative for 1959, were about one-third higher than in 1958, 1957, and 1956, three years of rather similar, although gradually decreasing activity. The highly successful fall furniture market, centered in the District, set the stage for a strong finish for what some are calling "furniture's greatest year."

Other Industries Improve

Other typical District industries improved their records in 1959. In terms of productive man-hours, 1959 exceeded 1958 in tobacco manufactures by 4%, in apparel and paper by 10%, in machinery by 11%, and in lumber and glass by 12%. Cigarettes cannot be expected to show spectacular gains but continue to hold their own as a reliable source of Fifth District employment and income. The Federal Department of Agriculture estimates 1959 cigarette production in the United States at 3% above the previous record level established in 1958. Fifth District cigarette production represents 81% of the national total.

The colossal Pentagon Building symbolizes a stable sector of District employment in government.

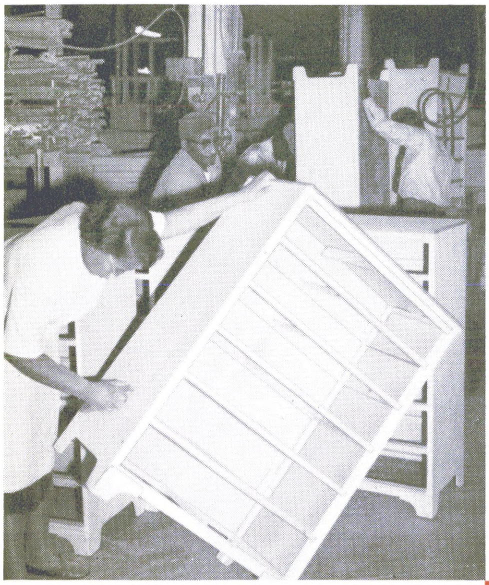


The fortunes of many farmers declined in 1959, especially when compared with the very good year they had in 1958. Farmers planted larger acreages of most crops, which helped to maintain crop income in spite of lower yields and reduced prices for cotton and peanuts. Livestock income, however, was substantially reduced by lower prices of hogs, broilers, and eggs. Total production expenses again increased, so that net income declined by a greater amount than sales.

The Case for Confidence

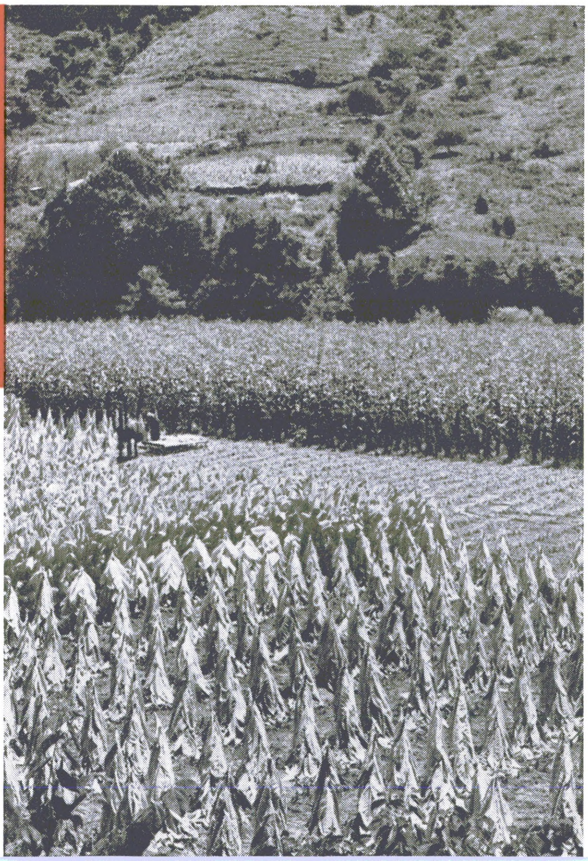
The year 1959 has been one of significant accomplishment for Fifth District industry. The rising trends which originated in the later months of 1958 gained strength through the first half of 1959. Except where the impact of the steel strike was direct, the upswing in District industries paused only briefly, or continued upward at a slower pace. When production was resumed, Baltimore steelworkers returned in force to start filling the depleted distributive channels. Miners and transportation workers also returned to work to dig coal and haul it to the furnaces.

In 1959 the national economy demonstrated imposing basic strength in weathering a protracted strike in a key industry. The effects in the District were largely confined to a few industries and to a few geographic areas. The impact on general economic activity was relatively light. Expansion of Fifth District industries which are sources of relatively stable employment—tobacco, textiles, utilities, forest products, foods, chemicals and government service—justify confidence as 1960 begins.



Imagination in design and ingenuity in production keep southern furniture producers among the leaders in their field.

District agriculture is both a source of important raw materials and a market for goods and services.



Operations

Our forty-fifth year of operation has been a busy one!

Expanding along with the Fifth District's economy, the volume of operations of this bank and its branches increased in nearly all areas of activity. We topped $97 billion in checks cleared in 1959, which was about $6 billion more than the amount cleared in the preceding year. During the year the amount of currency handled was over $5 billion, surpassing 1958 by about 3% The amount of coins received and paid out was also up, nearly $10 million (8%) over the previous year.

Probably the sharpest contrast in our 1959 activities was in the area of transfers of funds, which amounted to more than $91 billion —topping 1958 by $22 billion.

Another item which may be of interest to our members is that considerably more government securities were issued, exchanged, or redeemed during this year—well over $6 billion as compared with $5 billion in 1958.

Our net earnings before payments to the U. S. Treasury amounted to $45.9 million, an increase of $8.1 million from 1958. Statutory dividends paid to member banks amounted to $1.0 million. Payments to the U. S. Treasury as interest on Federal Reserve notes totaled $61.7 million. These payments consisted of all net earnings after dividends and that portion of surplus in excess of subscribed capital (which is twice paid-in capital).

Section 13b

On August 21, 1959, Section 13b of the Federal Reserve Act went out of existence. A year earlier Congress repealed it by passing the Small Business Investment Act. A significant part of Section 13b had authorized Reserve banks to make loans direct to business.

Changes In Official Staff

There were several changes in our official staff during 1959. John G. Deitrick and Raymond E. Sanders, Jr., were made assistant vice presidents and Welford S. Farmer was named secretary, and assistant counsel. Stuart P. Fishburne, William B. Harrison, III, and Joseph F. Viverette were made assistant cashiers. At the Charlotte Branch Fred C. Krueger, Jr., was also made assistant cashier. During the year Vice Presidents Robert L. Cherry and C. B. Strathy retired. Mr. Cherry was succeeded as officer in charge of the Charlotte Branch by Thomas I. Storrs, vice president from the Head Office. Robert R. Fentress, assistant cashier at the Head Office, also will assume new duties at the Charlotte Branch early in 1960.

New Member Banks

a year's summary

Two newly organized banks in the Fifth District joined the Federal Reserve System in 1959. They were: the National Bank of Bethesda-Chevy Chase, Bethesda, Maryland, which opened on June 15; and the Potomac National Bank of Potomac, Maryland, which opened for business on April 17.

New Department

The emphasis on nationwide emergency preparedness by the banking system led to the establishment of an Emergency Planning Department at this bank in 1959. Assistant Vice President J. Gordon Dickerson, Jr., is the officer in charge.

Changes In Boards of Directors

The Board of Governors reappointed Alonzo G. Decker, Jr., executive vice president of The Black & Decker Manufacturing Company of Towson, Maryland, to a three-year term as Class C director and renamed him chairman of the Board and Federal Reserve Agent of this bank for 1960. Mr. Decker has served on the Board since 1954. D. W. Colvard, dean of agriculture of North Carolina State College, and a director since 1954, was renamed deputy chairman of the Board.

In November H. H. Cooley, president of the Round Hill National Bank of Round Hill, Virginia, was elected Class A director to succeed Robert Gage, president of the Commercial Bank of Chester, South Carolina, and Raymond E. Salvati, president of the Island Creek Coal Company, Huntington, West Virginia, was elected Class B director to succeed Wm. A. L. Sibley, vice president and treasurer of Monarch Mills, Union, South Carolina.

At the Charlotte Branch the Board of Governors appointed J. C. Cowan, Jr., vice chairman of the board of Burlington Mills, Inc., Greensboro, North Carolina, to succeed William H. Grier as director. Charles D. Parker, vice chairman of the board and first executive vice president, First Union National Bank of North Carolina, Asheville, North Carolina, was reappointed to the board of directors.

At the Baltimore Branch the Board of Governors reappointed Gordon M. Cairns, dean of agriculture of the University of Maryland, to a three-year term as director. Also reappointed for a three-year term is James W. McElroy, president of the First National Bank of Baltimore, Maryland.

John S. Alfriend, chairman of the board of the National Bank of Commerce, Norfolk, was again selected by the directors of this bank to represent the Fifth District on the Federal Advisory Council.

comparative statement of condition

ASSETS:	December 31, 1959	December 31, 1958
Gold certificate account	$1,067,069,499.70	$1,033,458,931.24
Redemption fund for Federal Reserve notes	79,239,995.00	85,802,850.00
TOTAL GOLD CERTIFICATE RESERVES	1,146,309,494.70	1,119,261,781.24
Federal Reserve notes of other banks	69,408,050.00	57,451,560.00
Other cash	25,493,580.05	22,111,899.70
Discounts and advances	5,300,000.00	2,487,900.00
U. S. Government securities:		
Bills	166,997,000.00	146,487,000.00
Certificates	673,373,000.00	1,213,948,000.00
Notes	705,628,000.00	186,655,000.00
Bonds	159,180,000.00	161,674,000.00
TOTAL U. S. GOVERNMENT SECURITIES	1,705,178,000.00	1,708,764,000.00
TOTAL LOANS AND SECURITIES	1,710,478,000.00	1,711,251,900.00
Due from foreign banks	719.69	740.28
Cash items in process of collection	502,789,096.60	433,573,331.73
Bank premises	6,650,914.13	6,654,466.73
Other assets	16,638,938.98	9,478,946.92
TOTAL ASSETS	$3,477,768,794.15	$3,359,784,626.60
LIABILITIES:		
Federal Reserve notes	$2,131,599,915.00	$2,135,757,205.00
Deposits:		
Member bank—reserve accounts	789,451,309.56	764,579,827.90
U. S. Treasurer—general account	56,936,761.42	29,422,293.73
Foreign	17,400,000.00	11,985,000.00
Other	28,317,225.98	4,634,454.51
TOTAL DEPOSITS	892,105,296.96	810,621,576.14
Deferred availability cash items	399,443,648.83	343,292,737.60
Other liabilities	1,592,432.04	1,130,296.22
TOTAL LIABILITIES	3,424,741,292.83	3,290,801,814.96
CAPITAL ACCOUNTS:		
Capital paid in	17,283,050.00	16,438,600.00
Surplus	34,566,100.00	44,845,979.55
Other capital accounts	1,178,351.32	7,698,232.09
TOTAL LIABILITIES AND CAPITAL ACCOUNTS	$3,477,768,794.15	$3,359,784,626.60
Contingent liability on acceptances purchased for foreign correspondents	$ 4,115,000.00	$ 3,457,800.00

comparative statement of earnings and expenses

	1959	1958
EARNINGS:		
Discounts and advances	$ 1,559,501.81	$ 365,806.69
Interest on U. S. Government securities	54,981,403.12	47,475,123.97
Other earnings	18,329.15	14,559.23
TOTAL CURRENT EARNINGS	56,559,234.08	47,855,489.89
EXPENSES:		
Operating expenses (including depreciation on bank premises) after deducting reimbursements received for certain Fiscal Agency and other expenses	9,821,945.58	9,168,681.94
Assessments for expenses of Board of Governors	321,400.00	301,300.00
Cost of Federal Reserve currency	500,821.04	580,121.83
NET EXPENSES	10,644,166.62	10,050,103.77
CURRENT NET EARNINGS	45,915,067.46	37,805,386.12
ADDITIONS TO CURRENT NET EARNINGS:		
Profit on sales of U. S. Government securities (net)	11,746.06	9,794.79
Transferred from Reserves for contingencies (net)	6,500,111.52	----------
All other	265.56	1,718.64
TOTAL ADDITIONS	6,512,123.14	11,513.43
DEDUCTIONS FROM CURRENT NET EARNINGS:		
Reserves for contingencies	----------	42,636.11
All other	1,385.24	2,080.06
TOTAL DEDUCTIONS	1,385.24	44,716.17
Net Additions (+) or Deductions (−)	+6,510,737.90	−33,202.74
NET EARNINGS BEFORE PAYMENTS TO U. S. TREASURY	$ 52,425,805.36	$37,772,183.38
Dividends paid	$ 1,016,949.98	$ 961,325.46
Paid U. S. Treasury (interest on Federal Reserve notes)	61,688,734.93	33,129,772.25
Transferred to surplus	−10,279,879.55	3,681,085.67
TOTAL	$ 52,425,805.36	$37,772,183.38

SURPLUS ACCOUNT

	1959	1958
Balance at close of previous year	$ 44,845,979.55	$41,236,411.12
Paid U. S. Treasury (interest on Federal Reserve notes)	10,279,879.55	----------
Deduction account of transfer from Section 13b Surplus	----------	71,517.24
	34,566,100.00	41,164,893.88
Addition account of profits for year	----------	3,681,085.67
BALANCE AT CLOSE OF CURRENT YEAR	$ 34,566,100.00	$44,845,979.55

CAPITAL STOCK ACCOUNT

(Representing amount paid in, which is 50% of amount subscribed)

	1959	1958
Balance at close of previous year	$ 16,438,600.00	$15,695,050.00
Issued during the year	979,450.00	879,300.00
	17,418,050.00	16,574,350.00
Cancelled during the year	135,000.00	135,750.00
BALANCE AT CLOSE OF CURRENT YEAR	$ 17,283,050.00	$16,438,600.00

directors Federal

Alonzo G. Decker, Jr.	Chairman of the Board and Federal Reserve Agent
D. W. Colvard	Deputy Chairman of the Board

CLASS A

H. H. Cooley	President, The Round Hill National Bank Round Hill, Virginia
Denver L. Morgan	Executive Vice President, The Charleston National Bank Charleston, West Virginia
A. Scott Offutt	President, Anacostia National Bank of Washington Washington, D. C.

CLASS B

L. Vinton Hershey	President, Hagerstown Shoe Company Hagerstown, Maryland
Robert O. Huffman	President, Drexel Furniture Company Drexel, North Carolina
Raymond E. Salvati	President, Island Creek Coal Company Huntington, West Virginia

CLASS C

D. W. Colvard	Dean of Agriculture, North Carolina State College of Agriculture and Engineering Raleigh, North Carolina
Alonzo G. Decker, Jr.	Executive Vice President, The Black & Decker Manufacturing Company Towson, Maryland
Edwin Hyde	President, Miller & Rhoads, Inc. Richmond, Virginia

member federal advisory council

John S. Alfriend	Chairman of the Board, National Bank of Commerce of Norfolk Norfolk, Virginia

Reserve Bank of Richmond

officers

Hugh Leach	President
N. L. Armistead	Vice President
J. Dewey Daane	Vice President
Donald F. Hagner	Vice President
Aubrey N. Heflin	Vice President and General Counsel
Upton S. Martin	Vice President
Joseph M. Nowlan	Vice President and Cashier
James M. Slay	Vice President
Thomas I. Storrs	Vice President
Charles W. Williams	Economic Adviser
John G. Deitrick	Assistant Vice President
J. Gordon Dickerson, Jr.	Assistant Vice President
Welford S. Farmer	Secretary, and Assistant Counsel
H. Ernest Ford	Assistant Vice President
R. Pierce Lumpkin	Senior Economist
Edward A. Wayne	First Vice President
Edmund F. Mac Donald	Assistant Vice President
George W. McKinney, Jr.	Assistant Vice President
John L. Nosker	Assistant Vice President
Victor E. Pregeant, III	Assistant General Counsel
Raymond E. Sanders, Jr.	Assistant Vice President
Clifford B. Beavers	Assistant Cashier
E. B. Coleman	Assistant Cashier
Stuart P. Fishburne	Assistant Cashier
John E. Friend	Assistant Cashier
William B. Harrison, III	Assistant Cashier
John C. Horigan	Chief Examiner
Joseph F. Viverette	Assistant Cashier
Wythe B. Wakeham	Assistant Cashier

G. Harold Snead — General Auditor

Baltimore Branch

directors

Gordon M. Cairns	Dean of Agriculture, University of Maryland College Park, Maryland
Harvey E. Emmart	Senior Vice President and Cashier, Fidelity-Baltimore National Bank Baltimore, Maryland
James W. McElroy	President, The First National Bank of Baltimore Baltimore, Maryland
John T. Menzies, Jr.	President, The Crosse & Blackwell Company Baltimore, Maryland
J. N. Shumate	President, The Farmers National Bank of Annapolis Annapolis, Maryland
John W. Stout	President, The Parkersburg National Bank Parkersburg, West Virginia
Clarence R. Zarfoss	Vice President, Western Maryland Railway Company Baltimore, Maryland

officers

Donald F. Hagner	Vice President
A. A. Stewart, Jr.	Cashier
B. F. Armstrong	Assistant Cashier
E. Riggs Jones, Jr.	Assistant Cashier
A. C. Wienert	Assistant Cashier

Charlotte Branch

directors

George H. Aull	Agricultural Economist, Clemson College Clemson, South Carolina
J. C. Cowan, Jr.	Vice Chairman of the Board, Burlington Industries, Inc. Greensboro, North Carolina
Charles D. Parker	Vice Chairman of the Board and First Executive Vice President, First Union National Bank of North Carolina Asheville, North Carolina
Ernest Patton	Chairman of the Board, The Peoples National Bank of Greenville Greenville, South Carolina
I. W. Stewart	Chairman of the Board, American Commercial Bank Charlotte, North Carolina
Clarence P. Street	Secretary and General Manager, McDevitt & Street Co. Charlotte, North Carolina
G. G. Watts	President, The Merchants and Planters National Bank of Gaffney Gaffney, South Carolina

officers

Thomas I. Storrs	Vice President
Stanhope A. Ligon	Cashier
Robert R. Fentress	Assistant Cashier
Fred C. Krueger, Jr.	Assistant Cashier
E. Clinton Mondy	Assistant Cashier

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FEDERAL RESERVE BANK OF RICHMOND
FIFTH DISTRICT

Federal Reserve Bank of Richmond

Annual Report 1959