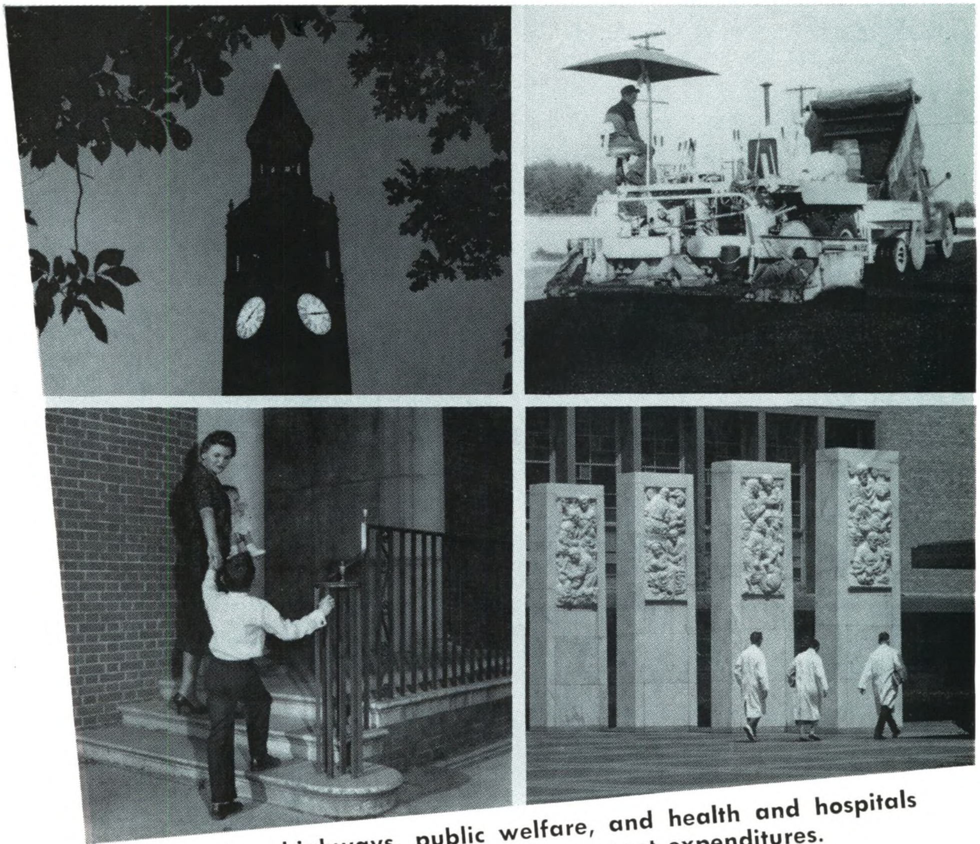
MONTHLY REVIEW

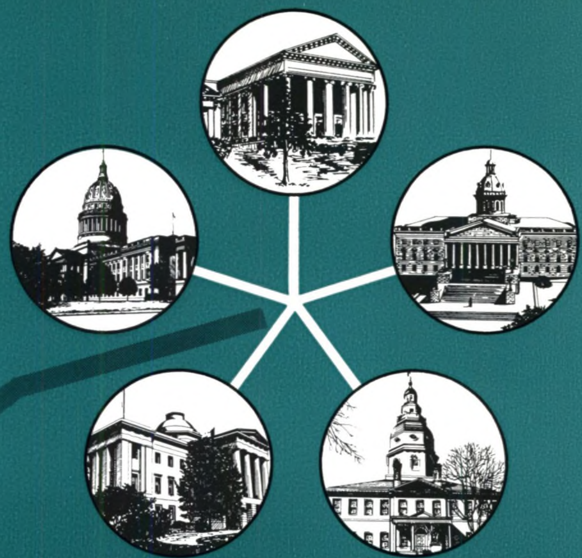


Education, highways, public welfare, and health and hospitals account for most State government expenditures.

FEDERAL RESERVE BANK OF RICHMOND

MAY 1964

State Government Expenditures, 1950-62



The financial activities of State governments exert a continuing and substantial influence on the economy. States daily perform many governmental functions for individuals and business units and also assist in financing many of the functions of local governments. Total State expenditures are currently running close to $40 billion, or over three fourths of Federal expenditures exclusive of national defense. Further, State expenditures have been increasing steadily and somewhat more rapidly than Federal outlays; the total increase from 1950 to 1962 was 170% for States and 122% for the Federal Government.

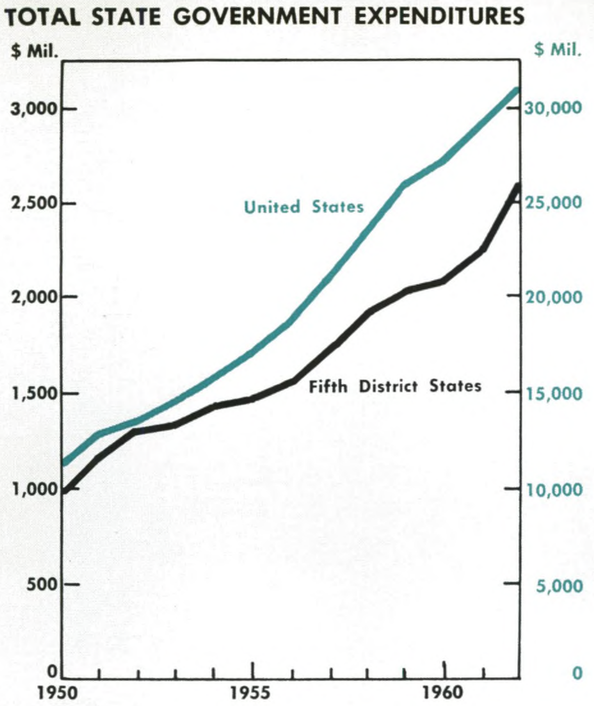
This is a brief look at State expenditures. Consideration is limited to *general expenditures,* which exclude the spendings of business-type enterprises (such as utilities and liquor stores) and of insurance-trust operations (such as retirement systems). The analysis covers the 12-year period 1950-1962, which is perhaps representative of the whole postwar period. All data are from the Governments Division of the U. S. Bureau of the Census and are for fiscal years, which usually end on June 30. Special attention is given to the States of the Fifth Federal Reserve District, omitting the District of Columbia since it is not in any State. Figures for Alaska are included beginning in 1959 and for Hawaii beginning in 1960. No adjustments were made for the introduction of these two units because their totals were not large enough to affect appreciably the trends or the conclusions given below.

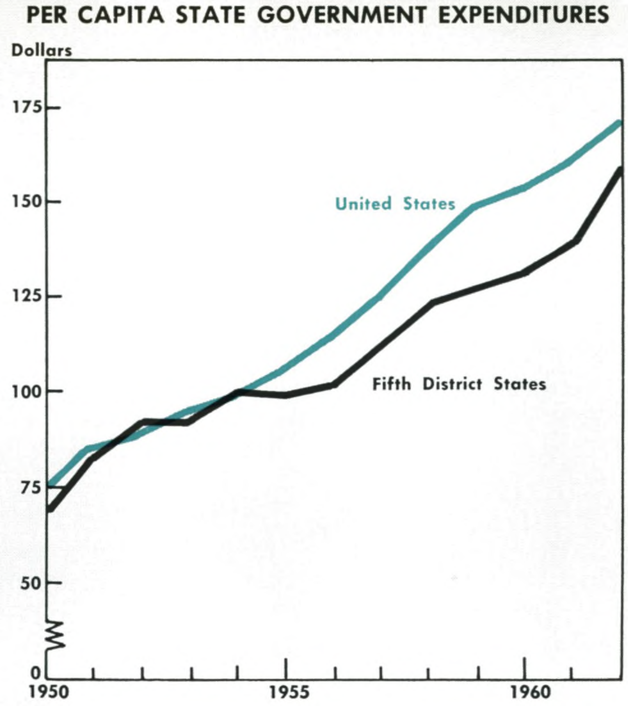
Total Expenditures Starting from $11.6 billion in 1950, general expenditures of all State governments by 1962 had reached nearly $31.3 billion. This was an increase of 170%, or an average annual increment of 8.9%. During the same period GNP rose about 95%, or at an annual rate of 5.1%. The increase in expenditures was fairly evenly spread over the period except that the rise was quite slow during the Korean War.

In 1950 State expenditures ranged from a low of $21.5 million in Nevada to a high of $1,375 million in New York. California was second highest and was the only other State with spendings above $1 billion. At the other extreme, there were 15 States with totals below $100 million.

By 1962 the range was from a low of $92.8 million to a high of $3,705 million. Nevada was still the low State and only two others were below the $100 million mark—New Hampshire and Vermont. California was top State and was joined by six others in the billion-dollar class—Illinois, Michigan, New York, Ohio, Pennsylvania, and Texas.

Total expenditures for the five States of the Fifth District rose from $962 million in 1950 to $2,574 million in 1962. This was an increase of 168%—almost the same as for all States. The range in the District was much smaller than in the nation largely because the Fifth District States are more nearly uniform in size, population, and income. The District range in 1950 was from $130.8 million in South Carolina to $303.6 million in North Carolina. From 1950 to 1962 North Carolina had the second lowest rate of increase, 145%, but nevertheless retained top





position with total spendings of $745.2 million in 1962. West Virginia had the lowest rate of increase, 114%, and displaced South Carolina as low State with a total of $320.4 million. Maryland recorded the largest relative growth, 215%, but still finished in third position with $572.1 million, close behind Virginia's $591.3 million.

Not all the expenditures were made directly by the States; a substantial amount was paid out as grants or subsidies to local governments. For the country as a whole, such aid rose from $4.0 billion in 1950 to $10.9 billion in 1962. In each year the amount was slightly more than a third of total expenditures. Expenditures for schools, welfare, and highways accounted for over 80% of all State aid. In the Fifth District States the story was much the same except that State aid payments grew more rapidly than the total, rising from $331 million in 1950 to $936 million in 1962. As a result of this 181% gain, aid payments rose from 34.5% of total expenditures in 1950 to 37.4% in 1962.

Reflecting larger increases in spending than in revenues, gross debt of all States rose from $5.3 billion in 1950 to almost $22 billion in 1962. The 1950 figure was about half of general expenditures for that year, while the corresponding ratio for 1962 was slightly over two thirds. The combined debt for the Fifth District States in this period rose from $512 million to $1,743 million, or somewhat less, proportionally, than in all States.

Per Capita Expenditures States differ sharply in physical size, terrain, population, income, and in the division of governmental functions between State and local governments. For this reason interstate comparisons of total State expenditures are practically meaningless. If, however, expenditures are reduced to a per capita basis some significant comparisons can be made.

Nationwide, per capita State expenditures rose from $76.97 in 1950 to $168.96 in 1962, an increase of 119.5%. They ranged between $54.48 and $161.98 in 1950, and between $110.47 and $423.99 in 1962. The top States in the earlier year were, in descending order, Washington, North Dakota, Louisiana, Wyoming, and Nevada, and their median figure was $140.58. The low States were, in ascending order, New Jersey, Kentucky, Georgia, Texas, and Alabama. Their median figure was $60.73, or considerably less than half that for the high States.

By 1962 the two newest States—Alaska and Hawaii—had taken the lead in per capita expenditures. Alaska's high figure is due in part to its low population density, which always makes for high per capita expenses. In both States, the structure of local government has not been fully developed, with the consequence that the State governments perform functions undertaken by localities elsewhere.

The per capita figure in 1962 was $423.99 for Alaska and $313.55 for Hawaii. The next highest States, in order, were Wyoming, Nevada, and Louisiana. The median of these high States was $283.69. New Jersey still occupied the bottom position with $110.47 and other low States were, in ascending order, Ohio, Illinois, Florida, and Texas. The median for these States was $131.55, again less than half the figure for the high States. A notable development here was that two Southern States moved out of the low group and were replaced by two Midwestern States.

In the Fifth District States, average per capita expenditures rose from $69.29, or 90% of the U. S. average, in 1950 to $157.87, or over 93% of the U. S. average in 1962. The absolute difference between the District and the national averages, however, increased from $8 to $11 over the period. The chart at the right on page 3 shows the behavior of these two averages. The spread within the District was fairly narrow—from $59.15 to $77.21 in 1950 and from $141.56 to $180.73 in 1962. Maryland led the District in 1950 but by 1962 West Virginia had gone ahead, due in large part to a decline in population. The other States retained their same order, with North Carolina third, South Carolina fourth, and Virginia fifth.

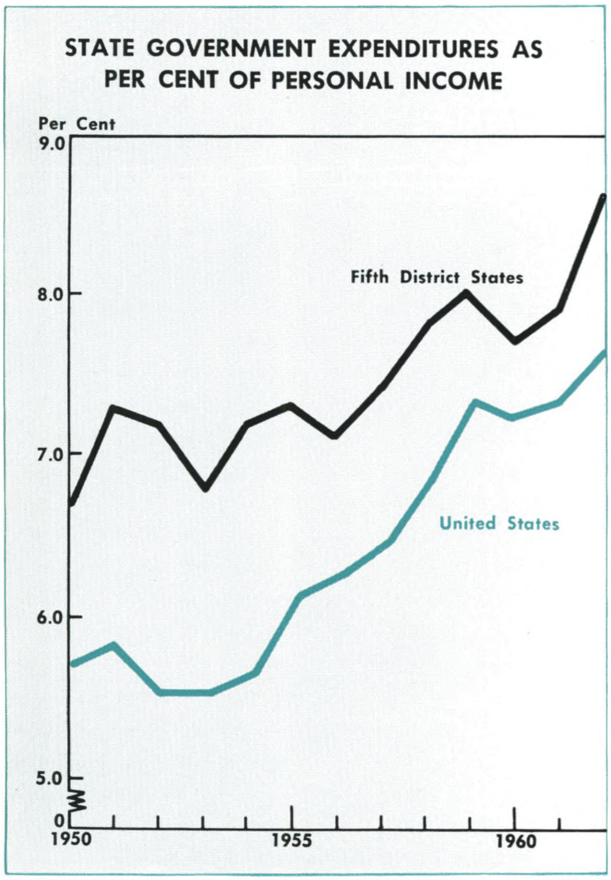
A brief examination of the structure of per capita expenditures in the different groups of States affords some understanding of why their totals differ. The following table shows average per capita expenditures for certain major functions in different State groupings for 1962. The figures are unweighted averages of per capita expenditures; the high and low States are those identified above.

Function	High States	U. S. Average	Fifth District States	Low States
Education	$99.17	$57.99	$57.65	$43.59
Highways	82.92	43.02	42.66	36.50
Public Welfare	24.24	23.16	16.63	19.06
Hospitals	14.60	10.66	10.53	7.92
Natural Resources	16.67	5.36	4.38	3.94

Two patterns in the figures are noteworthy. First, except for public welfare, the figures for the high States approximate or exceed twice the corresponding figures for the low States. Second, again excepting public welfare, the figures for the Fifth District States are close to, and only slightly below, the U. S. average.

Ratio of Expenditures to Personal Income Data on personal income permit further significant interstate comparisons. The ratio of expenditures to the personal income received in a State is a useful measure of the burden of those expenditures to the people of that State.

For the nation, the ratio of State government expenditures to personal income in the early years of the period fluctuated between 5.5% and 6.0%. The figure was relatively low in 1952 and 1953, perhaps because of curtailment of State activities during the Korean War. After 1954 the ratio rose steadily, reaching 7.6% in 1962. The chart on this page shows the averages for both the U. S. and the Fifth District States.



In 1950 the ratio ranged from 2.3% in New Jersey to 11.4% in Louisiana. The States with the highest ratios were Louisiana, Oklahoma, North Dakota, New Mexico, and Washington, with a median figure of 9.7%. The low States were New Jersey, Illinois, New York, Connecticut, Nebraska, and Ohio, and their median was 3.9%. By 1962 the range was higher and wider, from 3.8% in New Jersey to 15.9% in Alaska. In the high group were the two newest States plus Louisiana, Mississippi, New Mexico, and Wyoming. Their median was 13.6%. The low group, with a median of 5.4%, was composed of New Jersey, Illinois, Ohio, Nebraska, and Massachusetts.

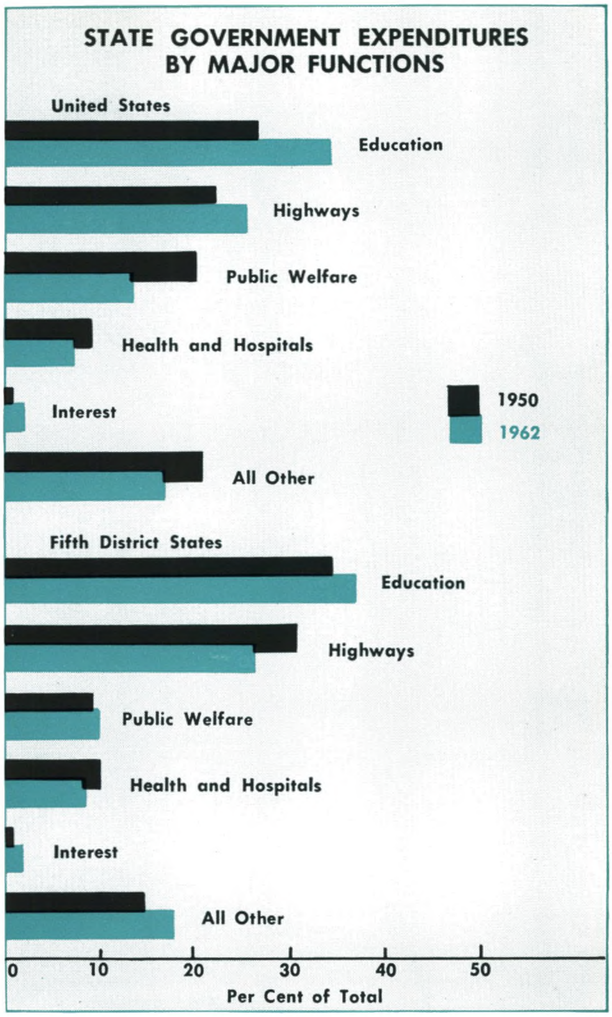
The average ratio for the Fifth District States was consistently above the U. S. average. The difference fluctuated from as little as one-half point to as much as a point and a half. Thus, in the District the burden of State expenditures was somewhat heavier than in the country as a whole. Within the District, Maryland consistently had the lowest ratio of expenditures to personal income, while Virginia had the second lowest. Maryland's ratio did not exceed 6% until 1956 and did not pass 7% until 1962. For the period as a whole, South Carolina had the highest ratio. Its ratio was 10% or higher in five of the years and reached a peak of 10.6% in 1959. North Carolina's ratio was second highest; in no year did it touch 10%, but in several years it was barely below this figure. West Virginia was in the middle position most of the time but in the final three years its ratio rose sharply from 8.8% to 10.3% to take the lead in the District.

Expenditures by Major Functions Expenditures for all functions have increased, but much more for some functions than for others. A functional analysis of the data shows the changing importance of different activities. The percentage distribution of general expenditures by major functions in 1950 and 1962 is given in the chart on this page.

For all States, education rose steadily and substantially in importance, moving from 26.6% to 34.3% of the total. Highway expenditures increased only moderately, from 22.3% to 25.5%. Surprisingly, the relative importance of public welfare fell significantly, from 20.4% to 13.7%. Expenditures for health and hospitals showed a somewhat smaller relative decline. Interest on debt, while not a major expenditure, increased two and a half times in relative importance, rising from 0.8% to 2.0%. Education, highways, and public welfare account for nearly three fourths of all general expenditures.

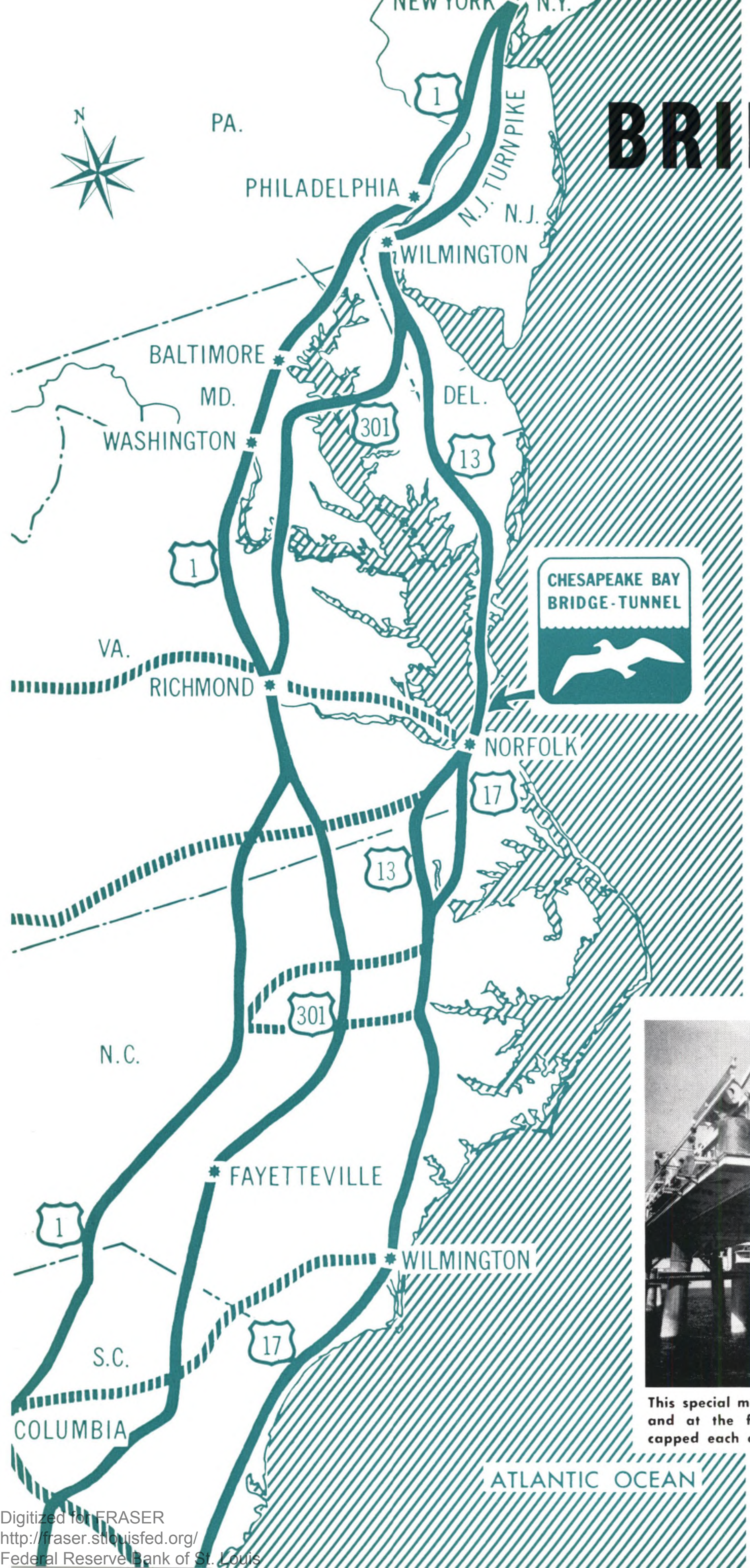
Trends in spending patterns in District States were somewhat different. In 1950 expenditures for education were relatively much more important in the District than in all States—34.6% compared with 26.6%. These rose only moderately but were still above the U. S. average in 1962. Highway expenditures in the District declined in relative importance, from 30.6% to 26.4%, while in the nation they increased moderately. This may have been because District States took an early lead in highway programs and also in recent years have placed less emphasis on expensive constructions necessary to relieve traffic congestion around large metropolitan areas. The relative importance of public welfare expenditures in the District was about the same at the end as at the beginning of the period.

A few differences in trends in individual Fifth District States may be significant. In Maryland, interest rose eightfold, from 0.4% to 3.2%, and in Virginia more than tenfold, from 0.1% to 1.1%. In North Carolina, by contrast, it declined from 1.3% to 0.9% as that State reduced its debt. The share going to education was unusually high in North Carolina, where the State government carries the basic responsibility for public schools; the figure rose from

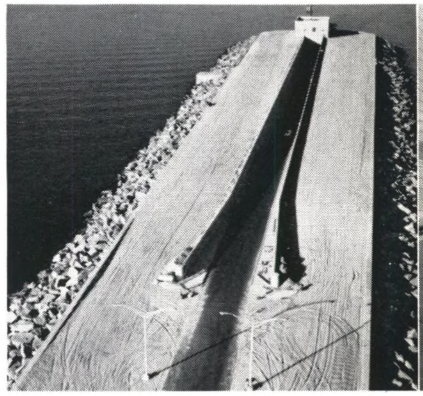


40.8% in 1950 to 45.2% in 1962. Because of widespread unemployment, West Virginia devoted a large and rising proportion of its expenditures to public welfare—14.8% in 1950 and 19.0% in 1962.

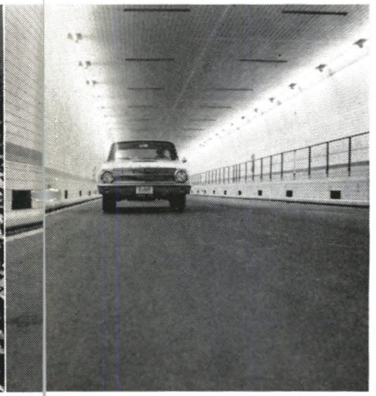
Conclusion General expenditures of the States have in recent years risen steadily and more rapidly than GNP, personal income, or expenditures of the Federal Government. On any basis of measurement, amounts of and changes in expenditures have varied widely between States. Both on a per capita basis and in relation to personal income the higher figures are often found in the relatively sparsely settled States. On a per capita basis, expenditures of Fifth District States are close to the national averages, but in relation to personal income they have consistently been above those averages. In almost all States education, highways, and public welfare account for a very large majority of State expenditures. Fifth District States consistently spend a larger part of their funds for education than do the other States as a group.



BRIDGE-TUNNL CROSSES CHESAPEAKE



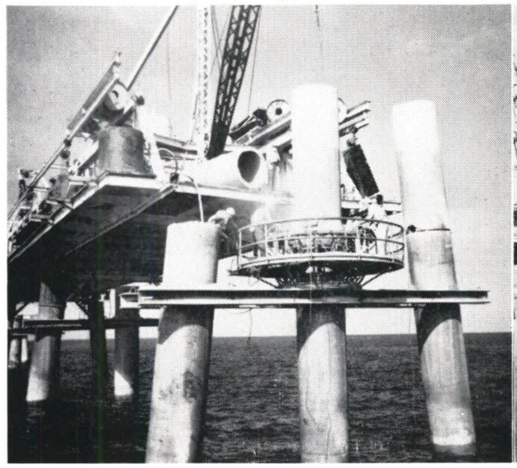
Nearing completion in February 1964, this man-made island, one of four in the project, marks the descent into a tunnel.



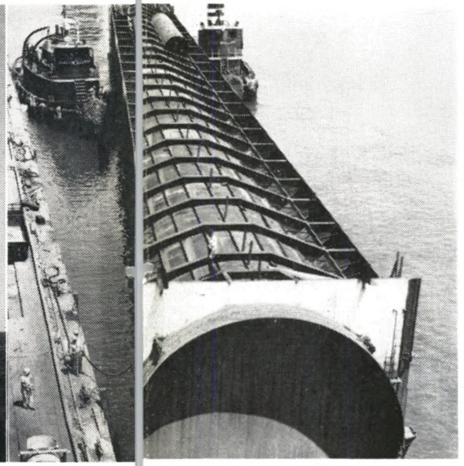
M of ceramic tiles cover the interiors o two one-mile tunnels. Overhead, s g traffic proceeds unhampered.

Bridges span Fisherman's Inlet and the North Channel. Pictured here, workers move one of the steel frames into place.

T bsetter," a specially designed ma- c ests on a moveable frame while r roadway sections into place.



This special machine leveled off the piles at this end and at the far end, out of the camera's range, capped each one.

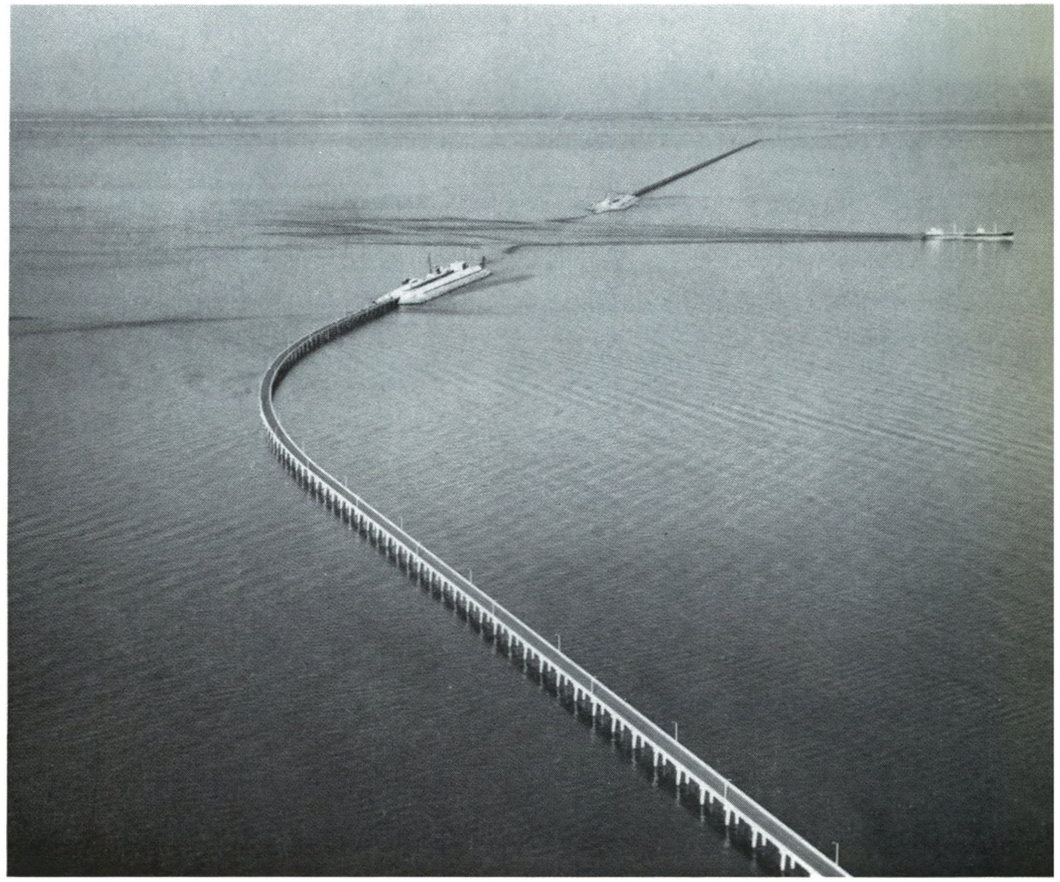


One of the nel sections prefabricated in Texas is towed i rfolk to be prepared for sinking at the tunn

The Chesapeake Bay bridge-tunnel system, long a dream of many Tidewater Virginians, became a reality last month. This engineering marvel connects Virginia's Tidewater area with the Delmarva peninsula and provides continuous roadway along U. S. Route 13.

The direct cost of the bridge-tunnel was approximately $140,000,000. Capitalization of interest and other related costs added substantial amounts, so that the total cost approximated $210,000,000. It was financed through revenue bonds which are expected to be serviced and retired from toll receipts.

Business observers in Eastern Virginia expect the new facility to prove a boon to the economic prospects of the Delmarva peninsula. The economy of this area, hitherto linked with the Virginia Tidewater section only by ferry, has long been primarily agricultural. The project has already led to the establishment of one industrial firm—a company set up to precast concrete products for the bridge-tunnel. This firm will continue in operation and will employ up to 200 persons in peak seasons. Increasing motor traffic through the peninsula is expected to stimulate development of the area's substantial tourist potential.



The completed two-lane bridge-tunnel, called one of the engineering wonders of the modern world, requires 20 to 30 minutes traveling time. Tolls are $4 for a car and driver and range from $7 to $16 for trucks. Fishing facilities will open on one island in June.

BANKERS' ACCEPTANCES

In recent years, most notably since 1955, there has been an impressive revival in the use of bankers' acceptances in financing foreign trade. This recent growth ends a long period, running from the early 1930's through World War II, during which the outstanding volume of acceptances denominated in dollars fell from $1.7 billion in 1929 to $110 million in 1944. In spite of their recent growth in this country, bankers' acceptances are still probably the least familiar of all money market instruments.

What is a Bankers' Acceptance? Bankers' acceptances represent one type of a broad class of credit instruments known as bills of exchange. Bills of exchange, in turn, are drafts, or orders to pay specified amounts at a specified time, drawn on individuals, business firms, or financial institutions. When the drawee formally acknowledges his obligation to honor such a draft—usually by writing "Accepted" or "I Accept" with the appropriate signature across the face of the draft—it becomes an "acceptance." An acceptance which represents the liability of a well-known bank is, for obvious reasons, a more reliable credit instrument than one drawn on a little-known firm or individual.

Acceptances have legal status as negotiable instruments which the payee or holder in due course may discount in the money market. Ordinarily banks "open acceptance credits," or accept drafts, on behalf of their customers, usually under letters of credit. A customer on whose behalf a draft is accepted is obligated to provide the bank with funds for payment on or before the maturity date. Legally, both the drawer, who endorses the acceptance when he sells it, and the accepting bank are obligors of the draft and this makes acceptances an example of what is known in money market parlance as "two-name paper." The resulting high degree of safety renders the acceptance an attractive short-term investment.

Acceptance Financing Bankers' acceptances typically arise from letters of credit in foreign trade transactions. For example, a domestic concern wishing to import goods from abroad may request its bank to issue a letter of credit on its behalf in favor of the foreign seller. If the bank finds the customer's credit standing satisfactory, it will issue such a letter, authorizing the foreign seller to draw a draft upon it in payment for the goods. Equipped with this authorization, the exporter, on shipping the goods, can discount the draft with his bank, thereby receiving payment immediately. The foreign bank, in turn, forwards the draft, with appropriate shipping documents, to its correspondent bank in this country with instructions respecting its disposition. Generally the U. S. correspondent bank will present the draft for acceptance at the drawee bank, which forwards the shipping documents to the importer, who now may claim the shipment. The correspondent bank may be instructed to hold the acceptance until maturity as an investment for the foreign bank. Or it may be instructed to offer the acceptance for sale in the market and credit the deposit account of the foreign bank. In any event, the ultimate holder of the acceptance is the party actually financing the transaction.

The accepting bank may, of course, buy the acceptance which it originated. In such a case, it earns the difference between the purchase price and the face amount which must be reimbursed by the customer in whose behalf the acceptance credit was opened. It also earns the commission charged for the letter of credit. When the bank follows such a course it is actually financing the transaction and its position is much the same as when it extends a loan directly to the customer. On the other hand, if some other party buys and holds the acceptance, the originating bank has tied up no funds. It has merely lent the prestige of its name, assuming a contingent liability, for which it collects a small fee.

While individual banks often acquire acceptances drawn on themselves, many prefer to hold instruments drawn on other banks. The latter instruments offer some advantages, especially with respect to marketability. When sold, under endorsement, they become three-name paper; that is, they carry the name of three obligors—the drawer and two banks. Three-name paper is especially attractive to foreign investors, some of whom purchase only this type. It is not uncommon for accepting banks to sell to dealers their acquisitions of acceptances drawn on themselves and to replace these in their portfolios with instruments drawn on other banks. Such a practice is known in market terminology as "swaps."

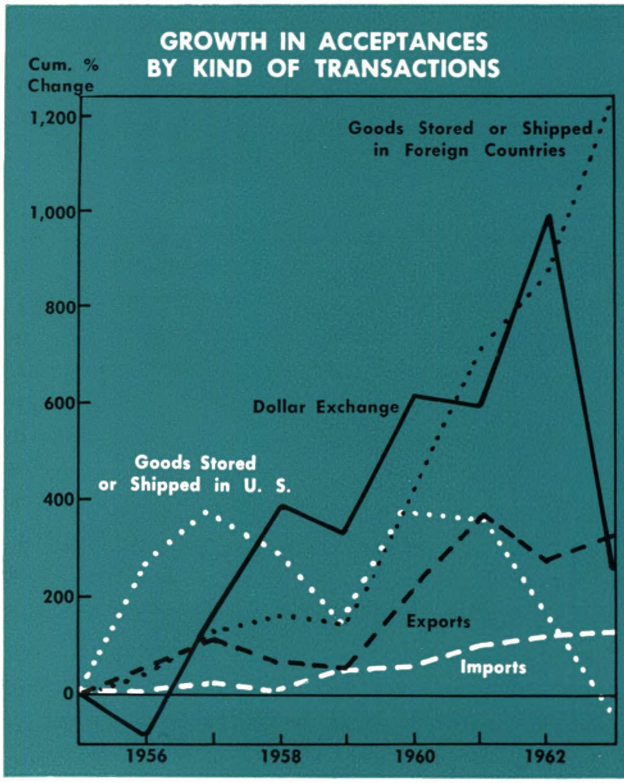
Acceptance Terms Maturities on bankers' acceptances range from 30 to 180 days, but 90 days is most common. Maturities can often be tailored to cover the entire period needed to ship and dispose of the goods financed. As regards both liquidity and safety, bankers' acceptances are almost as attractive as Treasury bills. This is reflected in the relatively low market yields on acceptances, which generally run only fractionally higher than Treasury bill yields.

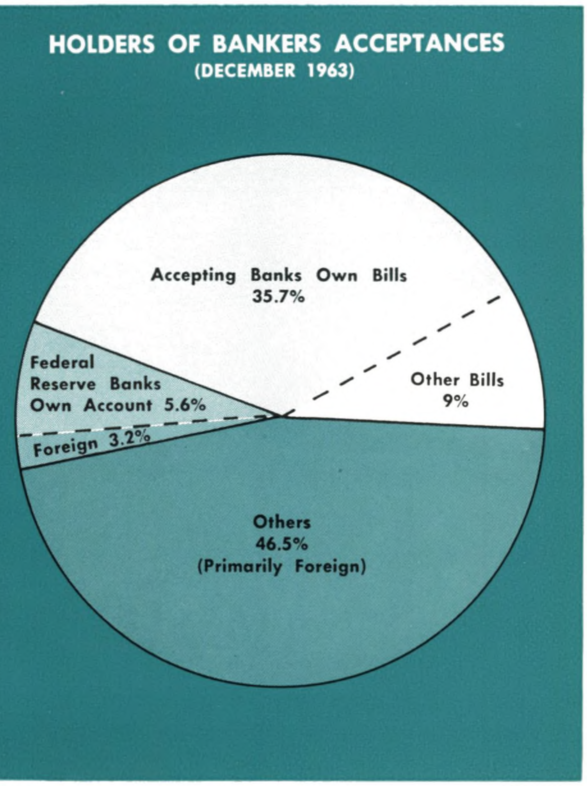
Market yields, however, do not present a true picture of the costs of acceptance financing to the borrower, since the accepting bank levies fees for this service. Banks customarily charge a minimum of 1½% per annum, or ⅛ of 1% per month, for accepting a draft on behalf of nonbank customers of the highest credit rating. Less creditworthy customers pay higher fees, while charges are somewhat lower when the acceptance is in behalf of a foreign bank. The cost to the borrower, therefore, is equal to the fee plus the discount on the acceptance. In some cases the discount is absorbed directly, as in the case of the foreign bank which draws a draft on a United States bank in order to create dollar exchange. In others, the discount is absorbed indirectly. For example, in a trade transaction the exporter ostensibly pays the discount, but this is generally passed on to the importer (borrower) in the form of a higher cost for the goods.

History The history of acceptances in Europe dates back to the pre-modern period. Europeans have confidently used these instruments for years and in many instances prefer them to other liquid investments. In this country, however, they have not been so popular, although they were widely used in the period before the Civil War. When the Federal Reserve System was established in 1914, only a few private banks and other nonbank institutions engaged in acceptance financing.

In its early years, the Federal Reserve undertook to promote the development of an acceptance market and to this end stood ready to buy bankers' acceptances at quoted prices. From 1915 through 1934 the Federal Reserve Banks were fairly active buyers, but from 1934 to 1955, purchases were made only occasionally. During the latter period their buying rates were set so high relative to market rates that they were offered few acceptances. Prior to 1955, the Federal Reserve Banks did not sell acceptances from their own account but held all they purchased to maturity. In their role as agents for foreign central banks, however, they operated on both sides of the market.

Partly in response to Federal Reserve efforts, the acceptance market grew steadily until 1929. Member banks and private concerns created an increasing number of acceptances, and except for a slight setbank in the 1920-21 recession, the volume soared to a peak of $1.7 billion in 1929. This auspicious beginning was swamped, however, in the depression of





the 1930's and the 1929 figure was not equaled again until late 1960.

In 1955 the Federal Reserve Banks were authorized to buy and sell acceptances for their own account in the hope that Reserve Banks' participation would strengthen and broaden the market. At the end of that year, the volume of acceptances outstanding was approximately $642 million. It has moved up rapidly since that time and in December 1963 stood at around $2.9 billion.

Recent Uses In this country, most acceptances have arisen in the import and export business. In recent years acceptances have found growing use in the financing of goods stored in or shipped between foreign countries. Between 1955 and the end of 1963, for example, acceptances arising from this source increased more than tenfold, and the total of these now outstanding almost equals the amount based on imports and exports. Acceptances arising from the extension of dollar credits to foreign banks account for only a small percentage of the total volume outstanding currently but, as the accompanying chart shows, the demand for such acceptance credit grew very substantially from 1955 through 1962. This type of financing is especially attractive to foreign central banks in countries whose exports to the U.S. are highly seasonal. Through the dollar exchange acceptance, those banks seek to provide themselves with dollars to finance their customers' imports during seasons when export earnings are low and dollars are in short supply. In later months, when exports expand, the acceptances are paid off.

The Acceptance Market Despite its recent growth, the market for bankers' acceptances remains far less extensive than that for Treasury bills or commercial paper. The most active institutions in the market are foreign banks and financial institutions, the Federal Reserve Banks (especially the New York Bank), a relatively small group of large city banks, and a small group of nonbank dealers. Recently, however, private domestic investors have become increasingly interested in acceptances.

There are only about five dealers in the bankers' acceptance market, and the majority of these deal primarily in United States Government securities and only incidentally in acceptances. Dealers make a market for acceptances by their willingness to buy and sell on a continuous basis at preannounced rates, which are adjusted frequently in response to money market forces. They earn their profits through the spread between buying and selling rates, currently 1/8 of 1% per year, and are consequently most interested in maximizing the volume handled. "Swaps" by accepting banks account for a large part of dealers' volume. Dealers inventories are usually held at low levels and in times of brisk demand only a small volume of acceptances is available to nonbank investors.

Acceptance Investors Foreign banking and nonbank institutions are the most important investor group in the market. These have traditionally regarded bankers' acceptances as highly safe and liquid short-term investments. Foreign holders' income from acceptances is not subject to the Federal income tax and because of this, foreign holders realize a higher net yield from acceptances than from Treasury bills, although in some countries this advantage is eliminated through reciprocal tax treaties with the United States.

The next most important investor group is the accepting banks themselves. In December 1963 these banks held 45% of the total outstanding, and about 80% of their holdings consisted of acceptances drawn on themselves.

From the standpoint of banks, acceptances have an important advantage over direct loans. Acceptance financing of customers' credit demands need not involve a charge on the bank's cash reserves, since the bank, as noted earlier, may only be lending its own credit. Moreover, bankers' acceptances are a better "secondary reserve" than customer loans. Bankers experiencing reserve losses can readily cover these through the sale of acceptances to dealers whereas liquidation or rediscounting of customer loans would probably involve greater inconvenience, higher costs, and poor customer relations. On the other hand, bankers' acceptances are complex, require more paper work, and only the larger banks have the name and foreign connections required for success in acceptance financing.

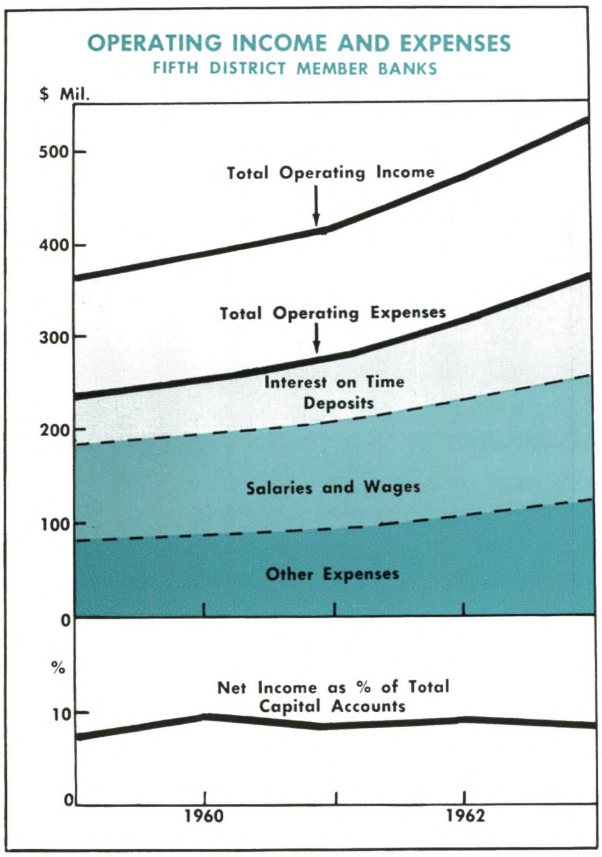
Other investors include nonbank corporations as well as commercial banks which are not engaged in acceptance financing as such. Activity by this group depends in large part upon the relationship of acceptance yields to those of other short-term investments. Lack of complete understanding of the market and the odd-lot denominations of acceptances, however, deter many nonbank investors. Moreover, this group frequently experiences difficulty in finding acceptances to purchase.

THE FIFTH DISTRICT

BANKING DEVELOPMENTS

Operating statements of Fifth District member banks for calendar year 1963 indicate a continuation of the trend toward higher costs and reflect efforts on the part of bankers to offset rising costs by shifting into higher-yield assets. These developments are reflected in significant shifts in the relative importance of various expense items as well as in sources of earnings. Ratios employed to detail these results in the paragraphs that follow are simple averages of individual bank ratios.

Total operating income of Fifth District member banks moved up in 1963, but total operating expenses increased at an even faster rate. As a result, net operating earnings before taxes declined from 28.1% of total operating income in 1962 to 27.6% in 1963. This ratio stood at 37.5% as recently as 1952 and has moved downward with few interruptions since that date.



OPERATING INCOME AND EXPENSES
FIFTH DISTRICT MEMBER BANKS

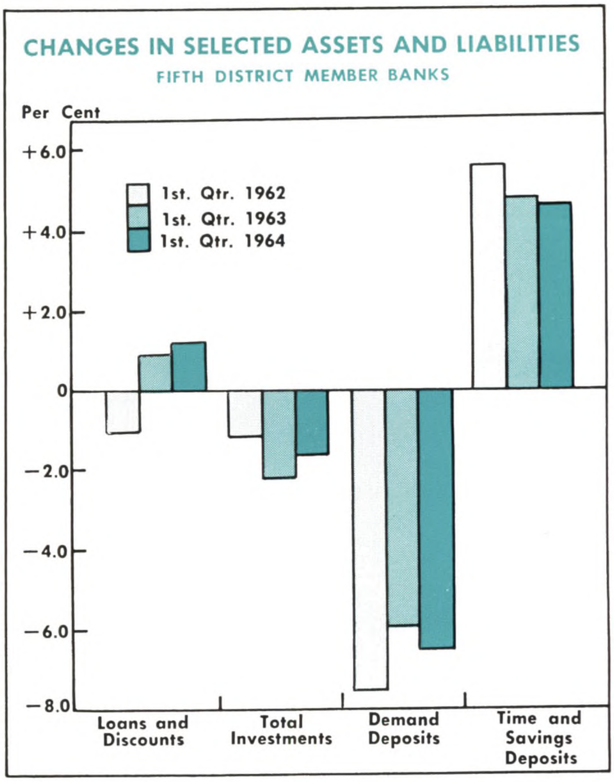
Sources of Earnings Interest on loans accounted for 65.5% of total operating income in 1963, a new high for the postwar period. The increased importance of loans as a source of income was partly the result of continued growth in loans relative to total assets. In addition, however, the average rate of return on loans was higher, as real estate and consumer loans gained in relative importance.

The proportion of total assets held in the form of municipal and corporate securities rose again last year, and the average yield on these assets was also somewhat higher. Although income from municipals and corporates accounted for only 5.8% of total current operating income, its importance in terms of net income after taxes was much greater than this ratio would indicate.

Income sources which declined in relative importance in 1963 included interest on U. S. Government securities and service charges on deposit accounts. Although the average yield on Government securities portfolios last year was 3.48%, compared with 3.33% in 1962, income from Governments comprised a smaller portion of total operating income as the ratio of Governments to total assets continued the decline that has been evident for some years. The ratio of service charges to total operating income has drifted slowly downward since 1958, and service charges contributed but 4.6% of current operating income last year.

Operating Expenses Interest on time and savings deposits has been the fastest growing category of operating expense in recent years. These payments, which increased 20.2% in dollar volume in 1963, absorbed 26.7% of current operating income in that year, compared with 25.8% in 1962. The increase resulted from a substantial growth in time and savings deposits and from a rise in average interest rates from 2.96% to 3.10%.

The share of current operating income needed to meet wage and salary payments was smaller than in 1962. Various officer and employee benefits, however, absorbed a slightly larger percentage of current income than in the preceding year.



Return to Owners The ultimate measure of operating performance is, of course, the return on owners' equity. In 1963, District member banks' net current operating earnings before income taxes amounted to 14.4% of total capital accounts, a modest improvement over the preceding year. After adjustments for profits on sales of securities, losses on loans, and increases in valuation reserves, net income before taxes was down fractionally from the 1962 level. Taxes on income were also somewhat lower, however, and net income after taxes was unchanged from the preceding year at 8.4% of total capital accounts. Although this return did not represent an improvement over the 1962 figure, it was exceeded in only two of the last ten years.

The average District member bank declared cash dividends equal to 41.2% of realized net income, down from 43.0% the year before. This ratio has displayed a considerable degree of instability in recent years, ranging, for example, from 48.3% in 1959 to 37.5% in 1960. In contrast, the ratio of cash dividends to total net worth has fluctuated between 2.9% and 3.2% over the last decade. The figure was 3.1% in 1963.

Banking in the First Quarter Total credit at District member banks registered a small increase in the first quarter of 1964 as compared with substantial seasonal reductions in comparable periods of the last two years. The 1.3% growth in loans was the largest first quarter expansion since 1959, and while the decline in total investments was greater than in 1961 and 1962, it was less than in similar periods of other years in the last decade.

Information is not yet available as to changes in individual loan categories for all District member banks, but data for those large banks which report such information weekly may indicate the general nature of the changes. For these banks, business loans and all other (primarily consumer) loans expanded at a faster rate than in any first quarter since 1961. Real estate loans grew at a record pace through the week ending March 11, but since that date have shown little increase. Nevertheless, their growth rate for the entire first quarter was greater than in the similar period of any recent year.

Total investments declined less than in the first quarter of 1963, mainly because of an unusually large expansion in holdings of securities other than U. S. Governments. Holdings of such securities, mainly obligations of states and political subdivisions, have grown steadily in recent years. As of April 1, 1964, they accounted for 32.5% of total investments of the weekly reporting member banks as compared with 22.5% two years earlier.

Holdings of U. S. Government securities by District weekly reporting banks dropped substantially in 1963 and declined further in the first quarter of 1964. The lengthening of the average maturity of Government portfolios, which has been evident for several years, appears to have slowed in the most recent quarter. Governments with less than one year to maturity accounted for a slightly larger percentage of total investments in the first quarter of 1964 than they did in the final quarter of 1963, while those with more than five years to maturity represented a smaller fraction of the investment portfolio.

Demand deposits, after falling sharply in January, recovered somewhat thereafter and the decline for the first quarter was about seasonal. In contrast, total time deposits grew at a record rate in January but increased at a slower pace in February and March. Consequently, growth in time and savings deposits for the first quarter was somewhat below that in similar periods of the last two years.

PHOTO CREDITS

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