

## ESTIMATES OF MEMBER BANK EARNINGS THROUGH 1945

The large increase in member bank holdings of Government securities has resulted in a substantial increase in their profits, and a further increase is likely in the current year and in 1945, as shown by the first of the attached tables. Earnings on securities, of which the bulk is on Government securities, increased from 431 million dollars in 1940 to 766 million in 1943 and are expected to reach a peak of 970 million in 1945. Net profits increased from 349 to 557 million dollars and are expected to reach a peak of 700 million in 1945. Except for their earnings on Government securities, member banks as a whole would have large net losses instead of net profits. Before taxes, the ratio of net profits to capital accounts increased from 8.0 per cent in 1940 to 12.0 per cent in 1943 and is expected to reach a peak of 13.1 per cent in 1944 and 1945. After taxes, the ratio increased from 6.2 to 8.8 per cent and is expected to reach a peak of 9.7 per cent in 1944 and 1945. At the same time, member banks have added substantially to their capital accounts through retained earnings. Otherwise, the ratio would have increased even more sharply. It is estimated that member bank capital accounts will increase from 5.6 billion dollars in 1940 to 7.2 billion in 1945, or an aggregate increase of 1.6 billion dollars. Another point that should be borne in mind in considering bank earnings is that a reduction in tax rates following the war will increase bank earnings, whereas in the case of war industries such a reduction in tax rates would not have that effect, since their earnings would have declined.

It is estimated that member bank holdings of Government securities will increase by 15 billion dollars between the end of 1943 and the end of 1944 and that average holdings in 1944 will be 11 billion larger than in 1943. A further increase of 5 billion in average holdings is estimated in 1945. Holdings of other securities, which have declined during recent years, are estimated to show little change. The average rate of interest earned on securities has declined rapidly during recent years, principally as a result of a rapid expansion in holdings of short-term, low-yielding Government securities. This rate is the most important figure in estimating future bank earnings, since a difference of 0.1 per cent in the rate results in a difference of between 65 and 70 million dollars in total earnings and consequently a difference of nearly 1 per cent in the ratio of net profits to capital accounts. After considerable study, it was decided to leave the estimated rate at the level of 1.4 per cent reached in 1943, on the grounds that the average length of the maturity of holdings will increase only slightly and that it will be offset by the redemption of old issues with high coupon rates. On this basis, it is estimated that earnings on securities will reach a peak of 970 million dollars in 1945, when they will be about half of total earnings, compared with a third in 1940.

Loans are estimated to be slightly higher than in 1943. Although the average rate of interest on loans declined between 1940 and 1943, it is assumed that the 1943 rate of 3.4 per cent will continue in 1944 and 1945. Earnings on loans, therefore, are estimated to be slightly higher than in 1943. Other earnings, which increased between 1940 and 1943, are estimated at slightly above the 1943 level. Total earnings, which increased from 1.3 to 1.7 billion dollars, are estimated, therefore, to reach a peak of 1.9 billion in 1945.

Member bank expenses increased from 921 million dollars in 1940 to 1.2 billion in 1943 and are estimated to increase slightly further to 1.3 billion in 1945. Between 1940 and 1943, interest on deposits declined, reflecting a reduction in the average rate paid, but taxes, salaries and wages, and other expenses increased. It is estimated that interest on time deposits will increase, on the assumptions that the amount of time deposits will continue to increase and that the rate will remain steady. Taxes, salaries and wages, and other expenses are estimated at a slightly higher level than was reached in 1943. Net current earnings are estimated consequently to increase to a peak of 640 million dollars in 1945. Recoveries and profits on securities are estimated to exceed charge-offs and losses on securities by 50 million dollars in 1944 and by 60 million in 1945. Dividends are expected to remain at about the 1943 level.

No estimate has been made of the future trend of earnings by classes of banks. The second of the attached tables, however, shows the actual results in 1940 and 1943. Net profits of New York City banks increased from 5.2 to 10.3 per cent of capital accounts, net profits of reserve city banks from 7.3 to 8.6 per cent, and net profits of country banks from 5.3 to 8.0 per cent, while net profits of Chicago banks declined. Most of the increase in holdings of Government securities is occurring at Reserve city and country banks, indicating that these banks will show large increases in profits in 1944 and 1945.

MEMBER BANK EARNINGS  
(Amounts in millions of dollars)

Item	1940	1941	1942	1943	1944	1945
					Estimated 1/	
<u>Earnings -- Total</u>	1,323	1,417	1,487	1,650	1,830	1,900
On securities	431	445	540	766	900	970
On loans	595	665	640	552	580	580
Other	296	306	307	332	350	350
<u>Expenses -- Total</u>	921	988	1,069	1,154	1,230	1,260
Salaries and wages	400	426	461	487	500	500
Interest on deposits	147	140	128	124	150	170
Taxes	100	129	149	200	230	240
Other	273	293	331	344	350	350
<u>Net current earnings</u>	402	429	418	496	600	640
Recoveries, profits on securities sold, etc.	303	278	188	312	280	280
Charge-offs and losses on securities	356	318	223	251	230	220
<u>Net profits</u>	349	390	383	557	650	700
Dividends	210	211	203	208	210	210
<u>Ratios (per cent)</u>						
Net profits to capital accounts	6.2	6.7	6.4	8.8	9.7	9.7
Interest on secs. to secs.	2.1	1.9	1.7	1.4	1.4	1.4
Interest on loans to loans	4.2	4.0	3.7	3.4	3.4	3.4
Interest on secs. to total earnings	32.6	31.4	36.3	46.4	49.2	51.1
Interest on time deposits to time deposits	1.2	1.1	1.0	.9	.9	.9
<u>Assets and liabilities 2/</u>						
U. S. Government securities	14,823	17,753	25,408	48,182	59,500	64,500
Other securities	5,799	5,994	5,842	5,286	5,000	5,000
Loans	14,298	16,699	17,218	16,229	17,000	17,000
Time deposits	12,055	12,458	12,413	14,176	16,500	18,500
Capital accounts	5,597	5,798	5,977	6,304	6,700	7,200

1/ Estimates are based on assumption that war with Germany will be over at end of 1944.

2/ Average for year.

MEMBER BANK EARNINGS, BY CLASSES  
(Amounts in millions of dollars)

	New York City banks		Chicago banks		Reserve city banks		Country banks	
	1940	1943	1940	1943	1940	1943	1940	1943
<u>Earnings -- Total</u>	260	343	62	90	486	618	515	598
On securities	100	185	30	52	155	283	147	246
On loans	82	88	17	22	227	212	270	231
Other	78	71	16	16	105	123	98	122
<u>Expenses -- Total</u>	170	221	42	59	341	435	368	439
Salaries and wages	85	98	19	22	148	183	118	184
Interest on deposits	4	3	5	5	55	46	84	69
Taxes	18	49	5	15	40	80	38	57
Other	64	71	13	17	98	127	98	130
<u>Net current earnings</u>	89	123	21	32	146	183	147	159
Recoveries, profits on securities sold, etc.	74	127	24	16	108	81	96	87
Charge-offs and losses on securities	80	65	13	23	119	86	144	77
<u>Net profits</u>	83	185	32	25	135	179	99	169
Dividends	70	66	13	12	73	72	55	58
<u>Ratios (per cent)</u>								
Net profits to capital accounts	5.2	10.3	12.4	7.8	7.3	8.6	5.3	8.0
Interest on secs. to secs.	1.5	1.2	1.8	1.5	2.2	1.5	2.7	1.6
Interest on loans to loans	2.5	2.0	2.8	2.4	4.1	3.5	5.4	4.9
Interest on secs. to total earnings	38.4	53.9	47.3	58.0	31.9	45.7	28.6	41.0
Interest on time deposits to time deposits	.5	.4	1.0	1.1	1.1	.8	1.4	1.0
<u>Assets and liabilities</u>								
U. S. Government securities	5,319	14,183	1,272	3,222	5,104	17,688	3,130	13,090
Other securities	1,374	1,104	348	344	1,813	1,703	2,265	2,136
Loans	3,226	4,482	608	911	5,482	6,094	4,981	4,742
Time deposits	779	793	503	486	4,772	5,643	6,002	7,254
Capital accounts	1,602	1,793	258	315	1,860	2,087	1,878	2,110