

Member Bank Earnings, 1943

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Member bank earnings increased very substantially in 1943. Expenses also increased--principally the items of salaries and taxes. The resulting larger net current earnings plus a substantial increase in net recoveries, profits on securities sold, etc., brought net profits to the highest level in the history of the Federal Reserve System, slightly higher than in 1929.^{1/}

1943-1942 comparison (see attached table)

All classes of member banks reported much larger total earnings and earnings on securities, partially offset by reductions in earnings on loans. Holdings of securities increased at all classes of banks; the rates of return on these securities were, however, lower in 1943. Holdings of loans showed slight increases at central reserve city banks and substantial decreases at reserve city and country banks, together with lower rates of return at all classes of banks. Since expenses did not increase nearly as much as gross earnings, net current earnings at all classes of banks were considerably higher in 1943 than in 1942.

Net profits showed even a greater improvement than net current earnings at New York City and country banks, because of substantial increases in net recoveries, profits on securities sold, etc. At reserve city banks the increase in net profits was about the same as the increase in net current earnings. Central reserve city banks in Chicago reported somewhat lower net profits in 1943 than in 1942, as a result of considerably larger loss and depreciation charges.

Percentagewise, net profits to total capital accounts were 8.8 per cent at all member banks as compared with 6.4 in 1942. The largest increase was in New York, from 6.1 to 10.3, but country banks showed a sizeable increase from 5.5 to 8.0. The rates of total earnings on total assets, interest on securities, and interest on loans declined; and as in previous years, these rates were lowest at central reserve city banks and highest at country banks.

^{1/} The figures for 1929 and 1943 are not fully comparable, of course, due to changes in Federal Reserve membership.

MEMBER BANK EARNINGS, 1943 and 1942
(In millions of dollars)

Item	All		Central Reserve City Banks				Reserve City		Country	
	Member Banks		New York		Chicago		Banks		Banks	
	1943	1942	1943	1942	1943	1942	1943	1942	1943	1942
<u>Earnings--total</u>	1,650	1,487	343	303	90	76	618	551	598	557
On securities	766	540	185	138	52	38	283	189	246	175
On loans	552	640	88	94	22	23	212	249	231	274
All other earnings	332	307	70	70	16	16	123	113	122	108
<u>Expenses--total</u>	1,154	1,069	220	197	59	51	435	400	439	420
Salaries and wages	487	461	98	94	22	21	183	173	184	172
Interest on deposits	124	128	3	3	5	5	46	47	69	73
Taxes, including income	200	149	49	30	15	8	80	59	57	51
All other expenses	344	331	71	71	17	16	127	120	130	125
<u>Net current earnings</u>	496	418	123	106	32	25	183	151	159	137
Recoveries, profits on securities sold, etc.	312	188	127	41	16	11	81	71	87	66
Losses and depreciation	251	223	65	43	23	10	86	79	77	91
<u>Net profits</u>	557	383	185	102	25	27	179	143	169	112
<u>Ratios</u>										
To total capital accounts										
Net current earnings	7.9	7.0	6.8	6.2	10.0	8.8	8.8	7.6	7.5	6.8
Net profits	8.8	6.4	10.3	6.1	7.8	9.1	8.6	7.2	8.0	5.5
Total earnings to total assets	1.7	2.0	1.4	1.4	1.6	1.6	1.8	2.1	2.1	2.7
Interest on secs. to secs.	1.4	1.7	1.2	1.3	1.5	1.7	1.5	1.8	1.6	2.1
Interest on loans to loans	3.4	3.7	2.0	2.3	2.4	2.5	3.5	3.7	4.9	5.0

Years 1939-1943

Average rates of profits and earnings for the five-year period as a whole are shown below:

Class of Bank	To total capital accounts		Total Earnings to total Assets	Interest on securities to total securities	Interest on loans to total loans
	Net Profits	Net Current Earnings ^{1/}			
Central Reserve City					
New York	6.5	6.0	1.5	1.4	2.4
Chicago	10.1	8.6	1.7	1.7	2.7
Reserve City	7.5	8.1	2.2	2.0	3.9
Country	6.3	7.6	2.9	2.4	5.2
All member banks	6.9	7.4	2.1	1.9	3.9

The ratio of net profits to total capital accounts increased each year in New York City, from 4.7 per cent in 1939 to 10.3 per cent in 1943. At reserve city banks the ratio was fairly constant at a little over 7 per cent until the increase to 8.6 in 1943. At country banks the ratio fluctuated around 6 per cent in 1939-1942, declining in 1940 and 1942, and in 1943 it increased to 8 per cent. In Chicago this ratio was very high in 1939 and 1940 but has declined rapidly from 12.4 in 1940 to 7.8 in 1943. This apparently random fluctuation in net profits in Chicago has been the result of relatively high recoveries, profits, etc., in 1939-1941, and relatively high loss and depreciation charges in 1943.

The ratio of net current earnings^{1/} to total capital accounts increased slightly from year to year at all classes of banks except country. At country banks it has fluctuated irregularly with little net change.

The ratio of total earnings to total assets declined in all banks in 1940 and 1941. The decline halted at central reserve city banks in 1941 but has continued in the past two years at reserve city and country banks as the latter continued to lose loans bearing higher rates and to invest the proceeds and other available funds in lower rate Government securities. As a result, the spread in this ratio between the various classes of banks has narrowed considerably. In 1939 the ratio ranged from 1.7 at New York City banks up to 3.4 per cent at country banks. In 1943 the range was from 1.4 in New York to 2.1 per cent at country banks.

The rates of return on loans and on securities show steady declines during recent years. The range in 1943 was still considerable in loans, from 2 per cent in New York to 4.9 at country banks. The range in the return on securities has narrowed considerably; in 1943 it was 1.2 per cent at New York banks and 1.6 per cent at country banks, as compared with 1.7 and 2.9 per cents, respectively in 1939.

^{1/} Net current earnings in 1942 and 1943 have been computed with recurring depreciation included in expenses; this results in slightly lower amounts and ratios for net current earnings than if the 1939-1941 classification were followed, when recurring depreciation was included with losses and depreciation.