

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date March 7, 1947

To Chairman Eccles

Subject: Bank earnings in 1946

From Woodlief Thomas

The estimate of net profits of member banks for 1946, which we gave you the other day and which you quoted in your testimony, proved upon checking to be too large. In the absence of final reports, we estimated figures on the basis of the reported data for the first half of the year and the asset position of banks for the latter half, with some rather rough assumptions about recoveries and profits. The figure we came out with, as you will recall, was 860 million dollars. In order to get a better estimate for the final record we obtained preliminary tabulations from the Reserve Banks, and these gave instead a figure of 750 million dollars, compared with 788 in 1945.

The difference is due almost wholly to a much smaller excess of recoveries and profits on securities sold over losses and charge-offs (we have only the net of these items and not the details as yet) and to larger amounts set aside by banks for income taxes than we had estimated. Net operating earnings were larger than last year, while recoveries were smaller. This difference may account for the higher taxes, although it is possible that banks did some window dressing of their earnings reports by charging off rather large amounts, a part of which were not deductible for tax purposes.

Net profits of 750 million dollars in 1946 were 9.5 per cent of capital accounts, compared with the profits/capital ratio of 10.9 in 1945.

We have put the corrected figures in the transcript of your testimony.

W. T.