

Treasury gold policy

On February 14 the Secretary of the Treasury, after conferring with the Board of Governors, announced a suspension of the operation of the procedure initiated in December 1936 of absorbing the effects of acquisitions of gold on bank reserves by placing newly acquired gold in an inactive account. The present policy will be to permit gold received at the mints and assay offices up to a maximum of \$100,000,000 in any one quarter to increase member bank reserves. Gold acquired in excess of this amount in any quarter will be added to the inactive account. Gold exports will not enter into this calculation and will continue to be met out of the inactive account. The policy was made retroactive to the first of this year and approximately \$30,000,000 of gold acquired since January 1 has been released. The Treasury announcement to the press follows:

"On December 22, 1936, the Secretary of the Treasury stated that, after conferring with the Board of Governors of the Federal Reserve System, he proposed to take appropriate action with respect to net additional acquisitions or releases of gold by the Treasury Department whenever it was deemed advisable and in the public interest to do so.

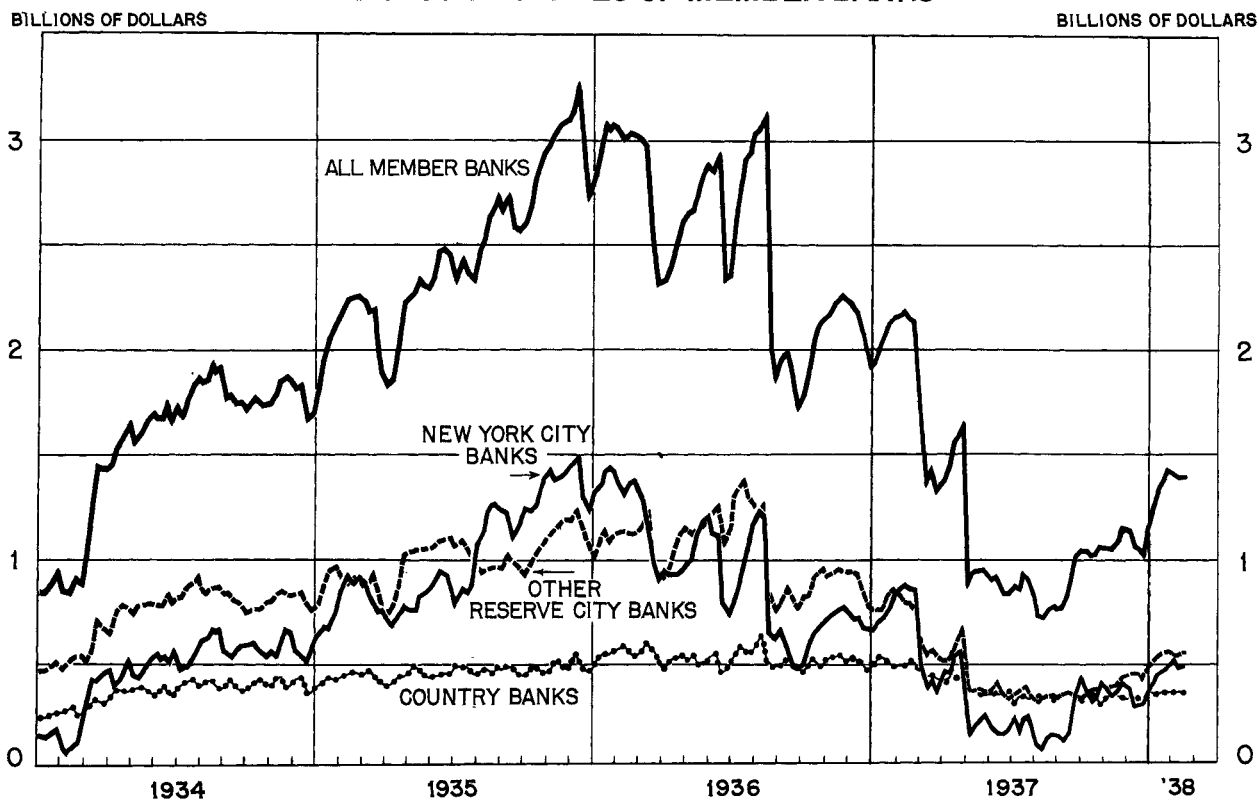
"In pursuance of that policy, the Secretary of the Treasury, after conferring with the Board of Governors of the Federal Reserve System, today announces that gold acquired by the mints and assay offices after January 1, 1938, will be included in the Inactive Gold Account only to the extent that such acquisitions in any one quarter exceed \$100,000,000. No change is being made in the procedure whereby any gold released by the mints and assay offices is taken from the Inactive Gold Account."

Reserve position of member banks

In recent weeks excess reserves of member banks have been approximately \$1,400,000,000, or nearly \$500,000,000 larger than they were last May after the Board's final increase in reserve requirements. Excess reserves now amount to about 24 percent of required reserves. The percentage is 15 at Chicago banks, 20 at New York City banks, 25 at reserve city banks, and 36 at country banks. Changes in excess reserves at the different classes of member banks are shown in the chart. Since last May excess reserves have increased at central reserve and reserve city banks but have shown little change at country banks.

In addition to required and excess reserves, country banks in the aggregate have balances of about \$1,600,000,000 with city correspondents. These balances are considerably larger than the customary amount in previous years and appear to be in excess of requirements for operating purposes. Since these balances can be withdrawn on demand, the part of them above current needs is in effect an addition to the excess reserves of country banks and a potential deduction from those of city banks. The fact that the recent additions to excess reserves have been at city banks, chiefly in New York City where most of the bankers' balances are held, represents a distribution of reserve funds more in accordance with the probable needs of the different classes of member banks.

EXCESS RESERVES OF MEMBER BANKS



On the basis of a recent survey of the reserve position of individual member banks made by the Board and from other information currently available, the present reserve position of member banks may be summarized as follows:

1. Excess reserves of member banks are better distributed now than last spring after the final increase in reserve requirements. The recent growth in excess reserves has been entirely at city banks, chiefly in New York City, where excess reserves were previously the lowest.
2. Although excess reserves of city banks have recently increased and those of country banks have shown little change, excess reserves are still relatively larger at country banks than at city banks.
3. Correspondent balances of country banks are as large as they were last March.
4. Relatively few member banks appear to be pressed for reserves.

Banks with limited free funds

According to the Board's recent survey, approximately a quarter of all member banks in the middle of January had excess reserves equal to less than 10 percent of required reserves. Most of the 1,639 banks in this position, however, had large balances with correspondents. Half of these banks had such balances larger than their required reserves, and three-fourths had balances amounting to at least 50 percent of required reserves. The group of member banks that would include all those whose free funds are limited is the group that has excess reserves of

less than 10 percent and at the same time balances due from domestic banks of less than 50 percent of required reserves. The following table gives the distribution of the 383 member banks in this group.

MEMBER BANKS WITH LIMITED RESERVE FUNDS ^{1/}
(Week ended January 14, 1938)

	All member banks, number	Banks with limited reserve funds ^{1/}	
		Number	Percentage of all banks in class
Central reserve city banks:			
New York	37	6	16%
Chicago	11	1	9
Reserve city banks	338	17	5
Country banks in places with population of:			
100,000 or more	188	8	4
15,000 - 100,000	896	57	6
Under 15,000	4,864	294	6
Total	6,334	383	6%

^{1/} Banks with excess reserves of less than 10 percent and balances due from domestic banks of less than 50 percent of required reserves.

Among the central reserve banks in New York City and Chicago, about 15 and 10 percent, respectively, had excess reserves of less than 10 percent and balances due from banks of less than 50 percent of required reserves. Among reserve city banks and country banks in larger cities about 5 percent were in this group, and at other country banks the proportion was 6 percent. The central reserve city banks in this group customarily carry only small balances with other banks but have substantial amounts of short-term open-market assets. For reserve city banks, and especially for country banks, these figures indicate that about 95 percent of the member banks appear to be adequately supplied with reserve funds, when account is taken both of excess reserves and of correspondent balances.

Distribution of excess reserves

In the middle of January about 4,695 member banks, or three quarters of the 6,334 member banks, had excess reserves amounting to 10 percent or more of required reserves. For half the banks the percentage was 25 percent or more, and approximately 10 percent of the banks had excess reserves as large as or larger than their required reserves. As indicated by the following table, a higher proportion of country banks than of city banks had high ratios of excess reserves. Among country banks 25 percent had excess reserves amounting to 50 percent or more of required reserves, while among city banks 14 percent were in that position.

MEMBER BANKS DISTRIBUTED ACCORDING TO PERCENTAGE
OF EXCESS TO REQUIRED RESERVES

(Week ended January 14, 1938)

Percentage of excess to required reserves	Number of banks			Percentage distribution		
	All member banks	Central reserve and reserve city banks	Country banks	All member banks	Central reserve and reserve city banks	Country banks
Under 10% <u>1/</u>	1,639	117	1,522	26%	30%	26%
10 - 25%	1,767	125	1,642	28	32	28
25 - 50%	1,366	91	1,275	22	24	21
50 - 100%	893	35	858	14	9	14
100% or more	669	18	651	10	5	11
Total	6,334	386	5,948	100%	100%	100%

1/ Includes banks with reserves temporarily below requirements.

Banking developments in 1937

During 1937 member banks showed a substantial increase in their loans and a decrease in their holdings of investments. Total deposits at all banks, excluding interbank balances, declined slightly in 1937 after increasing rapidly in the preceding three years. Interbank balances were reduced in the early part of the year but remained much larger than at any time prior to 1935. Other demand deposits also declined, as a result in large part of purchases by depositors of securities sold by banks, while time deposits continued to increase. Important developments during the year at the various classes of member banks are summarized in the following table:

CONDITION OF MEMBER BANKS ON DECEMBER 31, 1937,
AND CHANGES DURING YEAR

(In millions of dollars)

	Condition of all member banks Dec. 31, 1937	Changes during 1937			
		All member banks	New York central reserve city banks	Other reserve city banks 1/	Country banks
Loans	13,958	+598	-182	+411	+368
Investments	17,794	-1,846	-785	-990	-69
Total loans and investments	31,752	-1,248	-967	-580	+299
Required reserves	5,793	+1,161	+395	+492	+273
Excess reserves	1,212	-727	-315	-253	-159
Balances with domestic banks	3,414	-652	-13	-355	-284
Demand deposits -- adjusted 2/	20,387	-1,260	-818	-372	-71
Time deposits -- adjusted 3/	11,288	+562	+53	+202	+307
U.S. Government and Postal Savings deposits	876	-110	+157	-159	-108
Interbank deposits:					
Domestic banks	5,565	-990	-385	-538	-66
Foreign banks	463	+26	+26

1/ Including Chicago central reserve city banks.

2/ Demand deposits other than interbank and U. S. Government, less cash items reported as in process of collection.

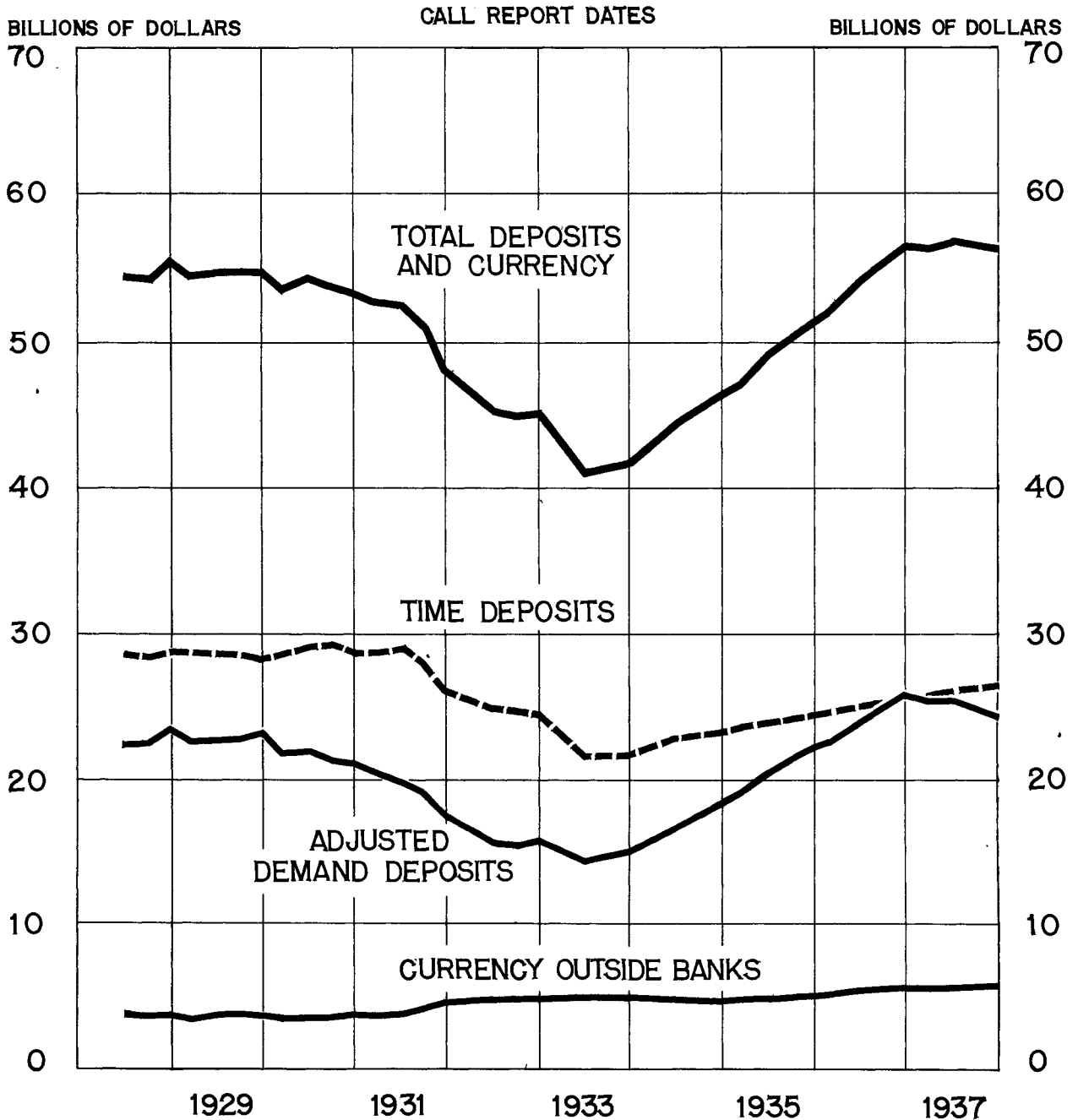
3/ Time deposits other than Postal Savings and interbank deposits.

Most of the decline in investments in the first half of 1937 was at New York City banks, which showed the largest reduction in excess reserves, resulting in part from withdrawals of balances by out-of-town banks. Toward the end of the year New York City banks gained reserves and increased their holdings of securities. Loans of these banks increased substantially until autumn, when brokers' loans declined sharply and commercial loans also decreased. About two-thirds of the year's decline in adjusted demand deposits ^{for} all member banks was in New York City. At reserve city banks security holdings declined throughout the year and loans increased until the final quarter. Demand deposits at these banks declined, principally in the latter part of the year, while time deposits increased. At country banks a substantial increase in loans and a slight increase in holdings of United States Government obligations more than offset a decline in holdings of other securities. Country banks continued to gain deposits, reflecting a growth in time deposits, while demand deposits showed little change. Country banks met a part of the increase in their required reserves in the first half of the year by drawing on balances with correspondents. These balances showed a slight increase in the latter part of the year.

Total volume of deposits and currency

The rapid expansion in the total volume of deposits at all commercial and savings banks and of currency outside banks that characterized the period 1933-1936 came to a halt at the beginning of 1937. As is shown by the chart on the following page, in the past year total deposits and currency continued at the exceptionally high level reached at the end

TOTAL BANK DEPOSITS AND CURRENCY



Note: Figures cover deposits in all banks in the United States and are partly estimated. Interbank and United States Government deposits are excluded and demand deposits are adjusted for "float." Deposits in Postal Savings System and in mutual savings banks are included in time deposits.

of 1936. Time deposits increased by an estimated \$850,000,000 during 1937, while adjusted demand deposits declined by about \$1,350,000,000. It appears that the volume of bank deposits remained substantially unchanged in the first two months of 1938. Demand deposits are now greater by about \$1,500,000,000, or 7 percent, than in 1928 and 1929. While the volume of deposits is above predepression levels, the turnover of deposits remains comparatively low, reflecting the large amount of deposits held idle by business enterprises and by institutional and individual investors.

Discontinuance of the growth in bank deposits during 1937 was due largely to the fact that the purchase by banks of United States Government securities, the principal cause of the previous increase in deposits, did not continue during this period. After more than five years of growth, the volume of Government and other securities held by all banks in the United States decreased by about \$1,500,000,000 in 1937. The effect of sales of securities by banks in reducing deposits held by the general public, however, was in large part offset by a further growth in bank loans of \$700,000,000 and by the Treasury's release of \$300,000,000 of gold from the "inactive" account.

Withdrawals of bankers' balances

One of the principal banking developments in 1937 was the sharp decline in the volume of domestic bankers' balances during the first half of the year. This decline represented mainly the withdrawal by

country banks of substantial amounts of their balances from city banks, in part for the purpose of meeting higher reserve requirements prescribed by the Board of Governors and in larger part for use in expanding loans and investments.

Correspondent balances of domestic banks had expanded rapidly in 1934, 1935, and 1936. In the first half of 1937 they were reduced to the level of the latter part of 1935. During the remainder of 1937 they showed little change and at the beginning of 1938 they increased somewhat. Notwithstanding the withdrawals in 1937, which amounted to about \$1,100,000,000, the volume of member bank deposits due to domestic banks was still in excess of \$5,400,000,000 at the close of the year, compared with a level of about \$3,500,000,000 in 1928 and 1929.

The decrease in bankers' balances, like the previous increase, was to a large extent a cumulative process. A large part of these balances represent the redeposit by banks with their correspondents of balances placed with them by other banks. As a consequence, funds withdrawn by banks from their correspondents were to a great extent obtained by these correspondents by drawing upon their own balances at other banks. New York City banks do not maintain any considerable balances with correspondents, and when funds are withdrawn from these banks they have to use their reserves, liquidate assets, or borrow. During the first half of 1937 they resorted to all three of these courses of action. For the year as a whole, country banks reduced their balances with other banks by about \$280,000,000, New York City banks showed a decline in domestic bankers' deposits of nearly \$400,000,000, and banks in other

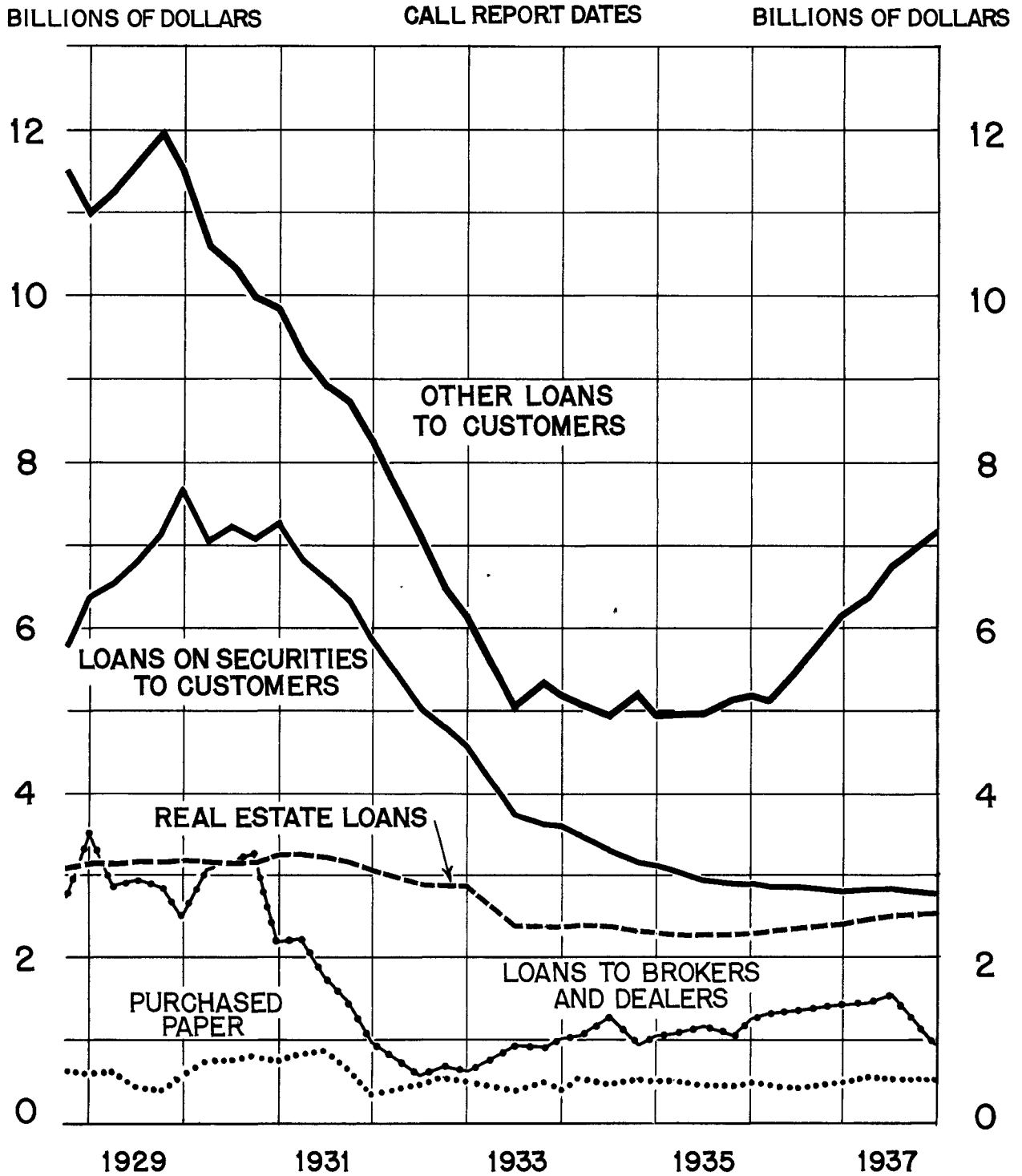
cities lost somewhat more in bankers' deposits than they withdrew from their own correspondents. Nonmember banks, which were not affected by the raising of reserve requirements, withdrew about \$350,000,000 of balances from member banks during the year.

Increase in loans at member banks

In 1937 there was a further marked increase in loans at member banks, as shown by the chart on the following page. The growth in the demand for bank accommodation on the part of commercial, industrial, and agricultural borrowers, which began in most of the larger cities early in 1936, became more general in the first half of 1937, when there was a larger demand for loans at country banks as well as at city banks. At both country and city banks the increase in such loans was larger in the first half than in the last half of the year. At city banks these loans declined in the final quarter, partly in response to seasonal influences, and they declined further in January of this year. In February they showed little change.

Taking 1937 as a whole, the growth in commercial, industrial, and agricultural loans at all member banks, as measured by so-called "other" loans, amounted to about \$950,000,000. The table shows that the growth was widespread; increases at reserve city banks and for country banks are shown for each of the 12 Federal Reserve districts. The increase amounted to \$285,000,000 at central reserve city banks in New York, \$400,000,000 at other reserve city banks (including Chicago), and \$265,000,000 at country banks. The total amount of such loans at member

MEMBER BANK LOANS



banks at the end of 1937 was at the highest level since the summer of 1932 and was about two-thirds of the level of the 1920's.

"OTHER" LOANS AT MEMBER BANKS, 1937 1/

(In millions of dollars)

Federal Reserve district	Reserve city banks <u>2/</u>		Country banks	
	Outstanding on Dec. 31, 1937	Increase during 1937	Outstanding on Dec. 31, 1937	Increase during 1937
Boston	240	27	195	22
New York <u>3/</u>	67	8	363	26
Philadelphia	206	34	231	6
Cleveland	253	32	167	17
Richmond	109	13	184	15
Atlanta	204	38	148	25
Chicago <u>2/</u>	607	36	190	38
St. Louis	179	35	111	20
Minneapolis	119	10	95	17
Kansas City	194	38	152	23
Dallas	179	30	162	37
San Francisco	674	101	146	19
Total	3,031	401	2,145	265

1/ Includes all loans other than loans to banks, loans on securities and on real estate, and holdings of acceptances and open-market commercial paper.

2/ Central reserve city banks in Chicago included in table among reserve city banks.

3/ "Other" loans for New York central reserve city banks, not shown in this table, amounted to \$1,809,000,000 on December 31, 1937, showing an increase of \$284,000,000 for the year.

Loans by banks to customers in 1937 carried the lowest interest rates ever reported. Although open-market rates for money advanced somewhat in the first quarter of 1937 from the extreme low levels of 1936, this stiffening in open-market rates was not reflected in rates charged by banks to their customers. Rates on customer loans as reported by banks in 36 leading cities continued in 1937 near the low level reached in the previous year. In 1929 customer rates in leading cities were almost universally close to 6 percent. In 1937 rates in New York City averaged near $2\frac{1}{2}$ percent, in 8 other northern and eastern cities about $3\frac{3}{8}$ percent, and in 27 southern and western cities about $4\frac{1}{8}$ percent.

In addition to the expansion in loans to customers for business purposes, during 1937 there was an increase of \$150,000,000 in real estate loans of member banks, mostly at country banks. Holdings of open-market paper and loans to customers on securities showed little change. In the latter part of the year a large reduction at New York City banks in loans to brokers and dealers in securities more than wiped out a considerable growth in such loans in the first half of the year. Repayment of credit used for carrying securities in this period accompanied a sharp drop in stock prices. In the early weeks of 1938 there was some further liquidation of loans to security brokers and dealers by New York banks. At the end of 1937 total borrowings by New York Stock Exchange members from banks and from others amounted to about \$700,000,000 as compared with a maximum of about \$8,500,000,000 in 1929 and a low figure of about \$250,000,000 in 1932.

Decline in investments at member banks

In 1937 the investment portfolio of member banks declined by about \$1,900,000,000, or nearly 10 percent. This was the first reduction in total investments of member banks in any year since 1929 and followed a period of rapid increase to the largest amount ever held. At nonmember banks, including mutual savings banks, preliminary figures indicate that security holdings increased considerably in 1937.

Holdings of United States Government securities by member banks declined during the year by \$1,175,000,000 and holdings of other securities by \$675,000,000. The decline in holdings of United States Government securities at member banks in 1937 was entirely at city banks. The following table shows that most of it occurred in the first half of the year; in fact, the largest part of this decline was during the month of March.

UNITED STATES GOVERNMENT SECURITIES HELD BY MEMBER BANKS, 1937 ^{1/}

(In millions of dollars)

	Amount held Dec. 31, 1937	Change during	
		First half	Second half
All member banks	12,371	-856	-318
New York central reserve city banks	3,595	-579	-35
Other reserve city banks ^{2/}	5,607	-421	-294
Country banks	3,168	+142	+13

^{1/} Includes direct and fully guaranteed obligations.

^{2/} Includes Chicago central reserve city banks.

Holdings of securities other than obligations of the United States Government showed little change in the opening quarter, but in the last three quarters of the year there was a substantial reduction which affected all of the main classifications of securities at both city and country member banks. At New York and other reserve city banks, holdings of State and local government securities declined the most, as shown by the table, while at country banks the decline was chiefly in holdings of public utility securities.

MEMBER BANK HOLDINGS OF SECURITIES OTHER THAN UNITED STATES
GOVERNMENT OBLIGATIONS, 1937

(In millions of dollars)

	Amount held by all member banks Dec. 31, 1937	Change during 1937			
		All member banks	New York central reserve city banks	Other reserve city banks	Country banks
Domestic securities:					
State and local governments	2,032	-177	-83	-91	-3
Railroads	886	-107	-29	-42	-36
Public utilities	794	-207	-29	-71	-108
Other domestic securities	1,529	-128	-7	-51	-67
Foreign securities	181	-55	-25	-20	-9
Total	5,422	-674	-173	-275	-223